FEB 02
Adriana Nunez

CFPB could put issuer revenues at risk with credit card late fees proposal

Article

The news: The **Consumer Financial Protection Bureau** (CFPB) proposed lowering the amount credit card issuers can charge for late payments—a rule change it said could help save consumers $9 billion a year, per a press release.

Digging deeper: The CFPB wants to change the immunity provision in the Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act), which requires fees to be "reasonable and proportional" to the costs issuers incur for handling late payments. Issuers can currently charge up to $30 for an initial late payment and $41 for subsequent missed payments.

Here's what the CFPB proposed:

- **Lowering the immunity provision amount to $8.** While late fees should only be enough to cover the cost of handling missed payments, the CFPB estimates that the income issuers currently earn from these fees tends to be about **five times higher** than that. Credit card issuers charged about **$12 billion in late fees** in 2020.
- **Ending automatic inflation adjustments on late fees.** The CFPB says they don't reflect how costs have changed over time. The bureau instead wants to monitor market conditions and make adjustments as necessary.
- **Capping late fees to 25% of the required minimum payment.** Under the current rule, issuers can charge late fees that are equal to the payment due. The CFPB argues that doesn't satisfy the requirement for being reasonable.

Our take: The proposed rules support our 2023 prediction that the CFPB would go after late fee revenues this year—which we estimate will reach **$15.9 billion in 2023 for all commercial banks, savings institutions, and credit unions**.

Late fees accounted for about **10% of total interest and fees charged to consumers** in 2020, according to a report by the CFPB. This means that a big source of revenues for issuers would be dampened if the rules go into effect—which may be one reason the **American Bankers Association** (ABA) condemned the proposal, calling it "extreme" and arguing it could harm consumers.

But the changes could also help support financial inclusion in the US credit card market—which we forecast will reach **$3.152 trillion in volume this year**.

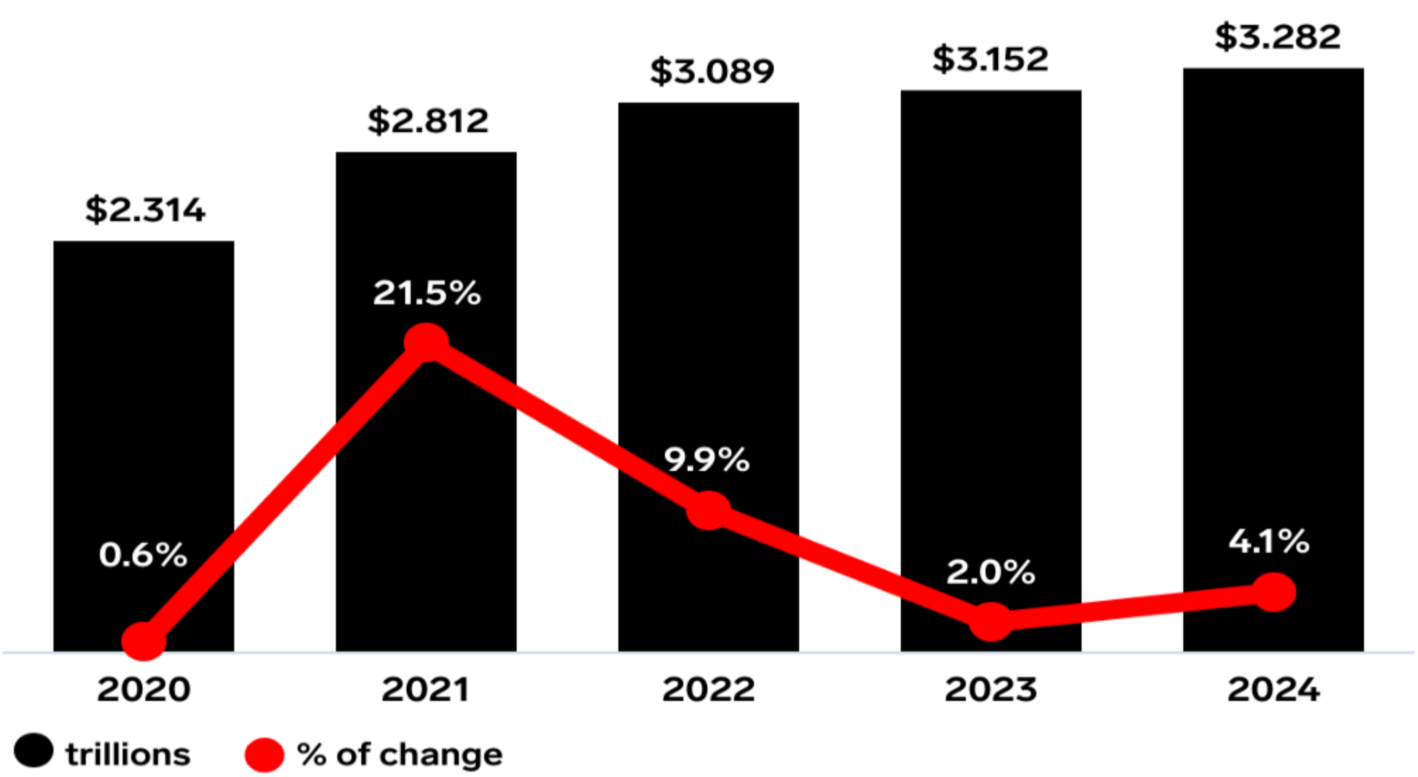
- Subprime consumers tend to pay more in late fees and interest than consumers with prime credit scores.

- And credit card late fees disproportionately hurt consumers in low-income and majority-Black communities, per CFPB data.

The bottom line: Growing credit card fee tension—on both the consumer and merchant sides—is fueling regulatory action against a backdrop of economic uncertainty. While curbing fees would be a source of relief for consumers, it would be a financial setback for issuers, which are already watching for signs of weaker credit card spending in 2023.

Total Credit Card Transaction Value

US, 2020-2024



Note: includes point-of-sale (POS) transactions made in-store and over the internet using credit cards; includes food services and drinking places sales; includes sales tax; excludes travel and event tickets, payments (such as bill pay, taxes, or money transfers), mail orders, gambling, and other vice goods sales; includes desktop/laptop, mobile and tablet purchases
Source: eMarketer, August 2022

InsiderIntelligence.com

*This article originally appeared in **Insider Intelligence's Payments Innovation Briefing**—a daily recap of top stories reshaping the payments industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.*

- *Are you a client? Click here to subscribe.*
- *Want to learn more about how you can benefit from our expert analysis? Click here.*