June 8, 2017

Monica Jackson
Office of the Executive Secretary
Consumer Financial Protection Bureau
1275 First St. N.E.
Washington DC 20002

RE: CFPB-2017-0006, Request for Information Regarding Consumer Credit Card Market

Dear Ms. Jackson,

The Center for Financial Services Innovation (CFSI) is submitting this letter in response to your request for information on consumer credit card markets on March 10, 2017. Like you, we recognize the important role that access to high-quality financial products plays in helping consumers improve and maintain their financial health. We believe that finance can be a force for good in people's lives and that meeting consumers’ needs responsibly is ultimately good for both the consumer and the provider.

CFSI is a national authority on consumer financial health and we lead a network of financial services innovators – banks and credit unions, the fintech community, processors, servicers, nonprofits, and community-based organizations – all committed to building higher quality products and services. CFSI informs, advises, and connects our network to seed innovation that will transform the financial services landscape. Our vision is to see a strong, robust, and competitive financial services marketplace, where the diversity of consumer transaction, savings, and credit needs are met by a range of providers offering clear, transparent, and high-quality products and services at reasonable prices.

We see the pain points and the opportunities from both industry and consumer perspectives. Through our research and consulting work, our Financial Capability Innovation Funds, and our Financial Solutions Lab, we have fostered innovative products and technologies that improve the financial health of consumers.

Credit Cards and Consumer Liquidity Needs

Within CFSI, we are very concerned about consumers’ access to liquidity and tools to help households smooth volatile income and expenses. Although credit card rates can be viewed as “high” relative to some prime credit, they can also be considered “low” relative to other forms of alternative credit. In our Consumer Financial Health Study, 75% of households reported having a credit card. These households demonstrated smoother cash flows and less reliance on informal or
high-cost forms of small-dollar credit. We found that 31% of credit card holders ran out of money before the end of the month, compared with 50% of non-card holders.

Credit cards also play an important role in providing a buffer for emergencies. Of the 52% who pay their balances in full each month, the vast majority (82%) would use savings or a credit card they pay off in full to cover a $600 emergency. In contrast, those who carry a balance would be less likely to turn to savings. Instead, they would use their credit card to weather the shock and pay off the balance over time.

It is worth noting that of the 25% of households in CFSI’s Consumer Financial Health Study without cards, 41% of these were previous credit card holders. Of those that never had a card, more than one-third (34%) believed they would not qualify for a card.

Further, we found that cards can help consumers weather shocks and balance their borrowing and saving. In work on the U.S. Financial Diaries project (joint work with New York University’s Wagner School’s Financial Access Initiative), we found that credit cards were an important income-smoothing tool for many of the lower income families in the study. More than half -- 55% -- of households in the Diaries had credit cards, compared with 41% who had used loans from friends and family, 19% who had used consumer loans, 18% who used store credit, and 10% who had used payday loans. Diaries families often had multiple cards, but had unique uses for each one. For example, one household had a card for general spending, one for clothing purchases, and one for health-care costs. Some families used store-branded credit cards for big-ticket items such as appliances.

Credit cards can be an important tool for financial inclusion. However, banks often find that many consumers -- in some cases, nearly two-thirds -- who open transaction accounts are not eligible for the credit card products the bank offers. Credit building products, such as secured cards, can be an entre to additional consumers for banks and new liquidity tools for consumers. Interestingly, in our U.S. Financial Diaries study, we found that compared with US-born households, immigrant household were slightly more likely to have credit cards.

For both inclusion and liquidity reasons, access to credit is important for consumers. A recent study on the impact of the Military Lending Act by CUNA and the Defense Credit Union Council showed that between the 4th quarter of 2015 and the 4th quarter of 2016, 86% of military credit unions experienced decreases in their portfolios for payday alternative loans, compared with 47% of non-military credit unions. Credit cards can be a substitute for small-dollar, short term lending, but only if they are accessible to consumers.

CFSI’s Compass Principles encourage financial service providers to design and build products that embrace inclusion, build trust, promote success, and create opportunity. In our Compass Guide to Small-Dollar Credit, we articulate 7 guidelines that flesh out these principles into practices. Several of these guidelines are relevant to credit cards -- in particular, products should: 1) Be made with a high confidence in the borrower’s ability to repay, 2) Be structured to support repayment, 3) Be priced to align profitability for the provider with success for the borrower, 4) Create opportunities for upward mobility and greater financial health, 5) Have transparent marketing, communications and disclosures, and 6) Provide support and rights for borrowers.
Our comments focus on 10 areas the CFPB delineated in the request for information: Disclosures, terms and conditions; Risk-based pricing; Deferred interest products; Subprime specialist products; Third-party comparison sites; Innovation; Secured credit cards; Online and mobile account servicing; Rewards; and Debt collection.

**Disclosures, Terms & Conditions**

We believe there is significant opportunity for consumers to benefit from the use of alternative data in the credit process. At the same time, providers must take care to mitigate pitfalls of its use that may cause consumers harm, create disparate impact, or impede credit access. We believe the wide and growing use of alternative data in the credit process requires transparency for all parties in the transaction to support its use in high-quality, accessible credit products at scale.

We also believe that there are many opportunities for improved disclosures, both during the application process and through periodic statements. Given the widespread adoption of smartphones, the Bureau should work with their Project Catalyst office and their No Action Letter program to encourage card issuers to pilot interactive disclosures that allow consumers to construct “what if” scenarios or to customize the material currently disclosed. For example, the CARD Act provides for a static example of how long it will take you to pay off your balance making only minimum payments compared with a 3-year payoff timeframe. But consumers may want to know “How long will it take me if I make minimum payments plus an extra $100?” or “How much would I have to pay to pay off my balance in 2 years or 4 years?” Online calculators on credit card websites, linked directly from account statements and reminders, could provide much more dynamic disclosures than the static versions created in 2009, when the iPhone was only two years old and the Android operating system was only one year old.

These customized disclosures and payment planning tools can be good for both consumers and providers. For example, as part of CFSI’s Test & Learn initiative with providers of small dollar credit products, Enova (an online lender) launched a payment slider tool that allowed customers to choose the size of their payments and the length of their loan term. Those who used the slider tool were more likely to follow through with the loan application (a conversion rate of 87% compared with 71% of those who did not have the option to use the slider).

**Risk-based Pricing**

The advent of risk-based pricing has allowed lenders to provide access to credit to a broader and deeper pool of consumers. The question is no longer “do you qualify for credit?” but rather “at what price do you qualify for credit?” and “how much credit do you qualify for?” It remains important that lenders provide products that are fairly priced and that build trust, promote success, and create opportunity for consumers. That means lenders should have the ability to monitor consumer accounts in addition to monitoring their credit portfolios as a whole. Lenders should use the data gathered to establish criteria for graduating consumers who demonstrate lower risk to lower rates. For example, Filene’s LIFT (Lower Interest For Timeliness) program offered interest rate reductions to borrowers who made timely loan payments. Five credit unions enrolled over 1,000 subprime auto borrowers in the LIFT program, which rewarded
every three on-time auto loan payments with an APR reduction of 0.25%. Filene monitored the impact of this positive incentive on repayment behavior over the course of a year. Through LIFT, Filene also investigated the relationship between lower interest rates, reduced delinquency and customer relationships.

**Deferred Interest**

Deferred interest products can be an important tool to help consumers smooth income and expenses. But as noted by the National Consumer Law Center in their 2015 report on deferred interest credit cards, these products carry an inherent risk that consumers will not be able to pay off the balance by the end of the deferral period, and will be liable for the full amount of interest owed. The Bureau may want to consider several options for helping consumers successfully use deferred interest products:

- Encourage more frequent reminders across the deferral period and alerts toward the end of the deferral period.
- Require clear notices when the end of the deferral period does not align with the payment period (e.g. if the deferral is tied to the date of purchase rather than the payment due date, consumers need clear communications about this difference).
- Establish minimum payments sized to pay off the balance within the deferral period or create a “payoff fund” to allow for eventual repayment of the balance.
- Allow interest charges only on the unpaid balance at the end of the deferral period. For example, if a consumer charges $1,000 on a 6-month deferred interest program and has paid back $800 by the end of the 6 months, the deferred interest should only apply to the remaining $200 balance.
- Review the payment allocation rules within the CARD Act and apply payments to deferred interest items in addition to those balances carrying higher interest rates. Section 104 provides that payments for the 2 billing cycles preceding the end of the deferral period be applied to the deferred balance, yet this may not allow sufficient time to manage repayment of larger balances. Consumers should be allowed to designate payments to deferred interest balances or should be alerted earlier in the deferral period.

**Subprime Cards**

Credit cards can be an important liquidity tool, even at higher interest rates, for some consumers with subprime credit scores. At issue is whether a credit card can provide access at a fair rate that aligns with CFSI’s Compass Principles to embrace inclusion, build trust, promote success, and create opportunity. While the CARD Act rules go a long way in reducing the problems associated with “fee harvester” cards, there is an ongoing need for the Bureau to monitor fees, interest rates, and balance limits on subprime cards.

Furthermore, cards that promote credit building should also be transparent about reporting to credit bureaus and providing graduation options for consumers who are establishing or rebuilding their credit records. For example, FICO claims it can score a formerly “invisible” consumer with about 6 months of steady payment records. Card issuers working with these consumers should provide alerts that let consumers know when they are eligible for lower rates and better terms on their cards.
Third-Party Comparison Sites

We see tremendous value in third-party comparison sites and other resources that offer ways for consumers to distill information about credit card options. We acknowledge that the market for consumer credit options is broad, complex, and may be difficult to navigate. It is very important for consumers to be able to understand what they might qualify for, what is high-quality, and what their best options are. Consumers can certainly benefit from informed recommendations when making credit decisions. However, consumers also need transparency into the potential partiality of these recommendations, as that is part of making an informed decision. We believe that consumers should be able to easily identify how issuer interests may be tied to those tools, whether that’s through funding or some other form of compensation to these sites.

Albert, a member of our 2016 Financial Solutions Lab cohort, is an example of an innovative company that provides a resource to help consumers improve their financial health through actionable advice. Albert’s financial advice app looks at all of a user’s accounts and analyzes their balances and spending to make helpful recommendations such as taking advantage of rewards and avoiding fees. Particular to credit cards, Albert may recommend a credit card that is better suited to a consumer’s spending and payment patterns or recommend ways to repay debt with a low-interest loan. We believe that solutions like Albert have the potential to make a positive impact on the financial lives of many consumers.

Innovation

The Bureau should encourage beneficial and scalable innovations that can strengthen the financial health of consumers in the credit card marketplace. We would like to see more opportunities for pilots and in-market testing, and generally more engagement with innovators. From our vantage point, we continue to see promising solutions, and we’d like to see those developed in parallel with consumer interests and protections. Some examples include:

- **Debitize** functions like a debit card for consumers. It makes automatic deductions from the consumer’s linked checking account to pay for charges on a Debitize credit card. It also allows consumers to build credit and earn reward points. Solutions like Debitize have the power help consumers better manage their spending and payments.
- Another interesting innovation with a potential for consumer impact are credit cards that offer incentives for paying off balances early and online credit education. Applicants receive an instant decision, and payment is reported to all three major credit bureaus.
- **Albert** (mentioned above) offers consumers actionable financial health advice, including recommendations on how to save on credit card fees or repay credit debt with a low-interest loan. We believe similar artificial intelligence apps have the potential to play an increasingly important role in helping consumers monitor their financial circumstances and make effective improvements.

Other opportunities that we see for credit card innovation include:
- Blending overdraft functionality with credit cards to help consumers manage inadvertent overdrafts.
- Restructuring credit card debt into an installment loan designed for successful repayment over a shorter time span than minimum payments would provide (aligned with CFSI’s
Compass Guide to Small-Dollar Credit).

- Introducing interactive disclosures, smart account design (e.g. mobile app or interface), repayment calculators, and actionable alerts.
- Promoting secure transactions by enabling “Chip & PIN” and safe mobile technologies.
- Card and line of credit opportunities for “credit invisible” consumers, including immigrants and international students who have a hard time establishing a financial identity here in the U.S.

Secured cards

We strongly agree with the Bureau’s belief that “secured credit cards potentially offer consumers with limited or damaged credit history a beneficial way to both access credit and build or rebuild a positive credit record.” In 2016, CFSI began a partnership with Visa to research the secured card marketplace, learn more about consumers’ perspectives on the product, and assess the potential for secured credit cards to build credit. The initiative included industry research, interviews with secured card providers, consumer surveys, and online focus groups. Key learnings from our research to date are summarized below:

- **The current secured card market is small but evolving.** Using market data from 2013, we observed 5.8 million active secured cards, representing only 1% of the total number of credit cards in the United States.\(^1\) A Federal Reserve Bank of Philadelphia analysis of 2015 data from large banks and holding companies likewise found the proportion of secured cards near the 1% level while also noting an upward trend; the number of open secured cards increased at an annualized rate of 22% between 2012 and 2015.\(^2\) We believe the market has room for continued growth, considering the nearly 100 million American consumers with subprime credit scores or thin credit files. Providers are also innovating to improve the secured card experience and increase consumer accessibility. Examples include allowing for installment payments for security deposits, partial deposit requirements, offering rewards, giving cardholders free access to their credit scores, and supporting educational materials.

- **When used correctly, secured cards can improve consumers’ credit scores and access to credit.** The Federal Reserve Bank of Philadelphia analysis found that cardholders with an open account saw a median improvement of 24 points in their credit scores after two years of using the product.\(^3\) For thin and no file consumers, the product can help them establish a score for the first time. Encouraging customers to adhere to positive credit behaviors (e.g. making on-time payments, managing utilization) can improve prospects for success.

- **Consumers seek a clear value proposition, easy process, and pathway to graduation in choosing a secured card.** A key challenge for the growth of secured cards is building consumer awareness and understanding of the product. Secured card providers have a challenge in identifying potential customers, clearly explaining the terms of an unfamiliar

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1. CFSI, “Secured Credit Cards: Innovating at the Intersection of Savings and Credit”
3. Ibid.
product, and communicating the value proposition. Our online focus groups with potential secured card users indicated a preference for simple messaging about the functionality of the card over aspirational messages or abstract promises. Focus group participants also found the prospect of graduation to an unsecured card and earning interest on their security deposit to be particularly attractive features of the product.  

- **Adjusting ability-to-pay underwriting requirements for secured cards could help to make customer acquisition and graduation processes more efficient without sacrificing consumer protections.** Currently, secured card providers are required to adhere to the same ability-to-pay underwriting requirements established by the 2009 CARD Act for unsecured cards (i.e. conducting debt-to-income ratios, residual income analysis). However, a secured cardholder has guaranteed their ability to repay outstanding credit by making a deposit as collateral for the credit line. Reassessing the underwriting requirements for collateralized secured cards may uncover opportunities to streamline the acquisition and graduation processes for secured card providers, giving customers a better onboarding experience without the risk of incurring unaffordable debt. With respect to graduation to an unsecured card, the Bureau may want to test different models and modifications for graduation, including options for a more full assessment as consumers move towards unsecured products.

Later this year, CFSI will be going into the field with a Test & Learn project on secured credit cards. We look forward to being able to share our insights and results with Bureau staff in mid-2018.

**Online and Mobile Account Servicing**

Consumers appreciate being able to access account information in real time online and through their mobile devices. Our 2015 Consumer Financial Health Study found that nearly one-third (30%) of consumers had used mobile banking and three-fifths (61%) had used internet banking in the past 30 days; we expect those proportions to be higher in 2017. We found some differences in usage of online and mobile banking associated with differences in income and age. Those with incomes of $60,000 or greater were more likely to use online and mobile banking, as were those under age 50. When we looked at use of these technologies segmented by level of financial health, we found that financially unhealthy checking account holders used mobile banking more frequently than their healthy peers; moderately unhealthy individuals used internet banking more than their healthy and acutely unhealthy peers. This indicates that the consumers who can most benefit from these technologies are indeed using them.  

Consumers who use online and mobile account servicing can benefit from receiving account alerts, reminders, and updates, and issuers can use emails and text messages to verify purchases and control fraud. One issue the Bureau should explore is how the Telephone Consumer Protection Act either helps or hinders issuer-consumer communications. The TCPA was passed

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4 CFSI, “Straight Talk: Successful Messaging for Secured Credit Cards”
5 While these numbers are for checking account holders, we note that 80% of checking account holders also had a credit card.
in 1991 and could not have anticipated the advent of the smartphone and mobile apps that enable consumers to access information and pay bills. We encourage the CFPB to collaborate with the FCC to review and perhaps update regulations that will enable more seamless use of text messages to facilitate healthy consumer financial management practices.

We should also note the challenges and opportunities for credit card account opening and account management in the online and mobile environments. Smaller amounts of screen real estate for mobile devices and tablets may require different disclosure formats. The Bureau should consider the opportunities for issuers to be creative, perhaps providing video disclosures for key aspects of the product (e.g. a video Schumer Box), while still providing consumers with a more fulsome set of terms and conditions in other formats (e.g. web pages or PDF formats). The comments we provided regarding interactive disclosures, terms, and conditions are also apt here.

**Rewards**

CFSI believes that the success of financial providers should be aligned with the success of their consumers. Unfortunately, credit card rewards are typically structured to incentivize increased spending, rather than incentivize sound account management and payment behaviors. This may encourage excessive spending that increases the likelihood a consumer will carry an unmanageable balance or utilize an outsized percentage of their credit limit, practices which can negatively impact their credit score. And it is likely that higher levels of spending are associated with higher incomes, benefitting these household more that their low- to moderate-income counterparts. The Bureau should work with issuers to pilot a rewards program that targets LMI and underserved card holders. PayPerks has such a business model that works to align healthy account management and rewards in the prepaid and EBT space. It may be possible for the Bureau’s Project Catalyst or the Office of Financial Empowerment to work with providers to design a similar program in the credit card arena.

**Debt Collection**

The Bureau should encourage card issuers to do more to support repayment and avoid the need for collection. Issuers could promote repayment through well-designed alerts and reminders. For customers that may slip into delinquency, issuers should be encouraged to get them back on track. With advanced account monitoring techniques and machine learning, it should be possible to provide more coaching interventions at early signs of trouble. There should also be additional ways for consumers to resolve outstanding debt with issuers. For example, an issuer could convert a customer’s debt into an installment loan that is structured appropriately for that customer to make affordable payments (see CFSI’s [Compass Guide to Small-Dollar Credit](#)). When a repayment plan cannot be reasonably implemented, there should be measures to reduce a consumer’s debts. When collection is necessary, issuers should be responsible for clear and transparent communication and collectors should be responsible for verification and a clear chain of transfer to collection.

The Financial Conduct Authority in the United Kingdom has approached collection and persistent debt in an interesting way. They’ve proposed rules for early intervention, prompting faster payments, creating repayment plans, reducing interest and charges, and giving consumers...
greater control over increasing their credit limits. We would like to see the Bureau follow suit with similar principles that protect consumers from carrying long-term debt.

**Conclusion**

Credit cards can be a key means to achieve and maintain financial health. They are also an important tool for financial inclusion. They provide liquidity to help households smooth volatile income and expenses. They provide a buffer for emergencies and helps households weather financial shocks. They can also help build and maintain stronger credit scores.

The credit card market has improved considerably since the implementation of the 2009 CARD Act, but there continue to be further opportunities for improvements. Technology and innovations over the ensuing eight years have opened the door to better products and services for consumers and providers. We look forward to working with the Bureau to help realize the potential in the market for credit cards.

Sincerely,

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Center for Financial Services Innovation

Jeanne M. Hogarth  
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Center for Financial Services Innovation