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WHO HAS CREDIT CARD DEBT?

Profitwise

News and Views

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April 2010 News and Views

The first 2010 edition of *Profitwise News and Views* features research on users of credit card debt in an article, by Chicago Fed business economist Robin Newberger, that takes a closer look at how widespread credit card debt has become, behavior across various demographic characteristics (income, race/ethnicity, years of education, among others), and changes in the amount of debt over time.

This topic takes on greater importance more recently given that an array of changes in regulations impacting credit card terms and conditions took effect (for the most part) in February of this year. These changes, mostly designed to make contract terms more understandable and transparent, but which also limit fees and circumstances under which rate changes and other terms can be modified, may have greater ramifications for some borrowers, such as subprime borrowers, people who are currently unemployed, and students, than others. Also in this edition is a brief overview of the regulatory changes affecting credit card terms.

Who has credit card debt?

by Robin Newberger

Introduction

For many households, the amount owed on their credit cards constitutes a large and growing share of their total debt. This article uses responses to the Consumer Finance Monthly (CFM) to examine credit card debt among households of varying incomes, educational attainment, and other characteristics. The CFM asks a different set of 150 to 300 households each month about their financial assets and debts, where they conduct their financial transactions, and what their expectations and attitudes are regarding their finances.

In this article, we focus on the responses related to credit card use: how widespread is credit card debt across different groups, how much credit card debt is owed, and whether the amount of this debt is changing over time. At various points in the analysis, we also compare this information to the results of the 2004-2007 Survey of Consumer Finances.

The CFM responses across 2006-2009 (3Q) indicate that among households with credit card debt, credit card debt has been climbing for above-median-income households more than for below-median-income households, although debt burdens (measured as credit-card-debt to total debt, and credit-card-debt to income) are still much greater for below-median households.¹

About the Data

The Consumer Finance Monthly data is a cross-sectional dataset compiled through phone interviews by Ohio State University's Center for Human Resource Research. From 2006 through third quarter 2009, the survey contains about 9,600 respondents. New respondents are sampled each round (quarter). Observations are weighted according to the Current Population Survey to resemble the adult population in the United States. (For more information on the CFM, see www.chrr.ohio-state.edu/cfm/cfm.html.)

By demographics, approximately 76 percent (N=7,352) of respondents are White, 12 percent (N=1,154) are Black, and about 6 percent (N=553) are Hispanic. (The remainder is either Native American, Hawaiian or Alaskan Native, Asian, Pacific Islander, or other). Seventy-one percent of respondents are home owners, 83 percent have a bank account, and 41 percent have a college degree or higher.

The percent of households (with debt) who have not paid their credit card bills also rose over the period, as has the proportion of households who have reached the credit limit on at least one card. A small share of households with credit card debt carry debt in excess of 30 percent of household income, but the proportion is higher among lower-income households. The cardholder groups with the greatest likelihood of having high credit card debt may also be the groups facing the highest credit card interest rates and fees in 2010.

Households with and without cards Credit card ownership and use varies with socioeconomic and demographic group

Three-quarters of households had at least one bank credit card during the 2006-2009 (3Q) period, although

ownership differed across income and other subgroups.² As Table 1 shows, a little more than half of households in the lowest income quartile had a credit card, compared with more than 90 percent of households in the highest-income quartile. (The percent of first-quartile households with a credit card was significantly lower in the SCF).³ Asians and Whites were more likely to have a credit card than Blacks or Hispanics; respondents who had a bank account were significantly more likely to have a credit card than respondents without an account (82 percent vs. 42 percent – not shown); and respondents with a college education were significantly more likely to have a card than respondents without a college education (88 percent vs. 66 percent –

not shown). On average, higher-income households also had more cards than lower-income households.

The overall rate of credit card ownership in the sample fell below 70 percent in 2009, reflecting a drop in card ownership among households in every quartile (see Chart 1). Credit card ownership fell most sharply – by 12 percentage points – among first-quartile households between 2008 and 3Q 2009.

Credit cards were most commonly used to buy clothes and gasoline, as well as to pay for car repairs (see Table 2). For example, about 45 percent of fourth-quartile households used a (bank) credit card to purchase gasoline. Lower-income households were less likely than higher-income households to make purchases with a bank card in any of these categories. This may have been because of lower card ownership rates among lower-income households, or because of preferences for other methods of making purchases. When households in lower-income quartiles used their credit cards, however, they were likely to use them for the same types of purchases as higher-income households.

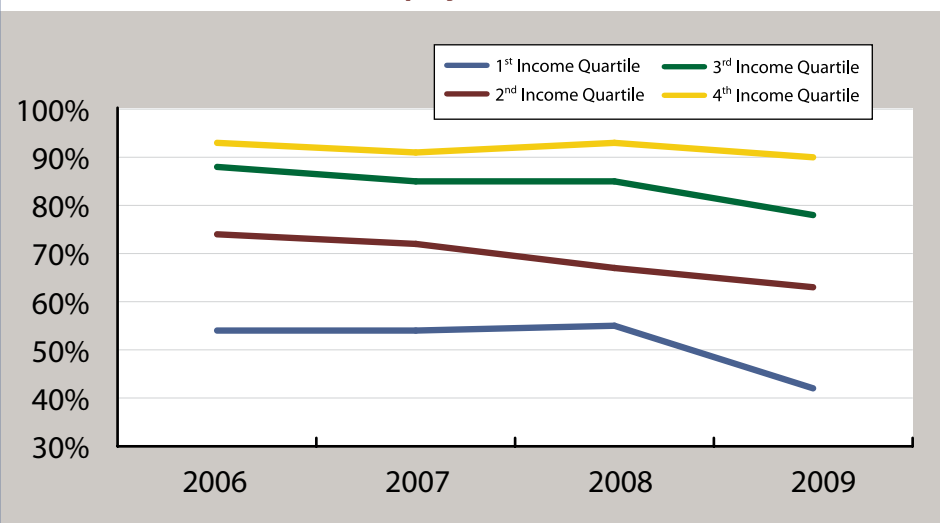
Households with cards Charges vary across subgroups

Households with cards had monthly charges of about \$300 (at the median) across the reporting period 2006-2009 (3Q).⁴ Respondents with lower incomes had lower charges. Respondents in the first income quartile had less than \$100 of monthly charges (at the median), while respondents in the highest income quartile had charges of \$500. Monthly charges remained between \$200 and \$300 from 3Q 2006 to 3Q 2009 (see Chart 2, page 4).⁵

Whether a household carries a credit card balance varies across subgroups

In contrast to the results of the Survey of Consumer Finances, the CFM shows that most households with cards

Chart 1: Credit Card Ownership by Income Quartile



SOURCE: CFM 2006-2009 (3Q).

Table 1: Credit Card Ownership by Income Quartile

	Has credit card (%)	More than one card (%)	Mean number of cards (all households)
1 st Quartile	52.5	31.7	1.3
2 nd Quartile	70.1	47.1	1.9
3 rd Quartile	84.6	63.0	2.5
4 th Quartile	92.0	74.4	3.1
Race/Ethnicity			
White	77.8	56.6	2.3
Black	56.7	35.7	1.5
Hispanic	69.7	52.7	2.1
Asian	87.4	71.1	2.8

SOURCE: CFM 2006-2009 (3Q).

did not have credit card debt.⁶ Between 2006 and 2009 (3Q), about 58 percent of households paid off their credit card bills each month. This was not a consistent trend through the study period, however. Between 2006 and 2007, the trend among CFM respondents was for an increasing number of households to pay off their credit card balances each year, while in 2008 and 2009 (3Q), the trend was for a decreasing number of households to pay off their balances, although most

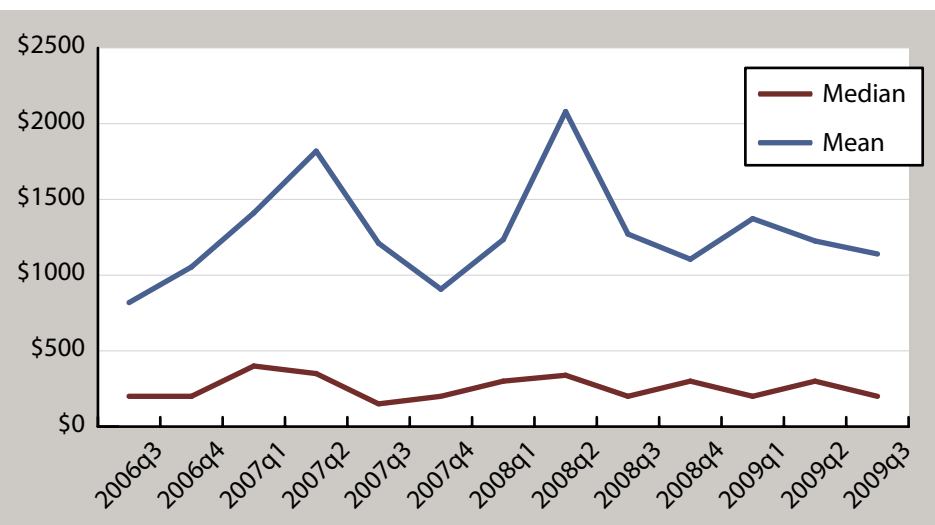
still did so (see Chart 3, page 5).

Different subgroups of respondents showed different tendencies to carry a credit card balance. For example, a majority of Black and Hispanic cardholders carried a balance, although the proportion was much lower when including cardholders and noncardholders alike (see Table 3, page 5). Younger cardholders were also more likely to carry a balance than pay off their credit card debt. More than half of

Table 2: Credit Card Expenditure Categories (in percentage)

	Furniture	Groceries	Apparel	Car payment (purchase, loan, lease)	Gasoline	Car Repair	Medical Services	Rx
1 st Quartile	10.0	11.4	21.3	1.2	17.8	17.0	7.7	12.0
2 nd Quartile	15.5	14.9	29.5	2.2	27.4	25.4	10.2	15.8
3 rd Quartile	23.0	21.4	39.9	2.2	34.6	33.6	15.5	21.5
4 th Quartile	30.0	28.3	50.8	2.2	44.7	47.7	20.0	30.8
Total	19.6	19.0	35.3	2.0	31.1	30.9	13.4	20.0

SOURCE: CFM 2007-2009 (3Q)

Chart 2: Credit Card Charges (all households with credit card)

SOURCE: CFM 2006-2009 (3Q)

renters with credit cards carried a balance, and a majority of cardholders without a bank account carried a balance as well.

Households with credit card debt

Households with credit card debt were disproportionately young, Black, or Hispanic.

Among all households with credit card debt, most were White, over 30 years old, owned a home, and had a bank account – largely mirroring these groups' dominant representation in the CFM dataset. However, households that were consistently over-represented in the subsample of households with credit

card debt were those under 50 years old, Black, and Hispanic. In addition, as Charts 4 and 5 show, over time, first-quartile households made up a declining share of all households with credit card debt. Households without a bank account or a college degree accounted for a rising share of households with credit card debt. (Note the CFM is a cross-sectional survey and does not track the same respondents throughout the period.)

The amount of credit card debt was highest and rising among higher-income households.

The median amount of debt was \$3,500 across the period among

households with credit card debt.⁷ The higher the income, the higher the amount of credit card debt across the period: households in the first income quartile had a median of \$2,300 of debt; second quartile households had median debt of \$3,000; third quartile households had median debt of \$3,600; and fourth quartile households had median debt of \$5,000. The median amount of debt ranged between \$3,000 and \$4,000 per household between 2008 and 2009, slightly higher than credit card debt levels in 2006 and 2007 (see Chart 6, page 6).

Dividing this group (with credit card debt) into households with incomes above and below the median, Chart 7 shows that in all periods, except for 4Q 2007, credit card debt was higher for above-median-income households than for below-median-income households. In addition, median card debt did not trend in any clear direction for households with incomes below the median. For households with incomes above the median, credit card debt jumped during the first quarter of 2008. By the third quarter of 2009, median credit card debt was \$7,000 for above-median-income households and \$2,500 for below-median-income households.

However, the proportion of credit card debt to total debt was higher among lower-income households.

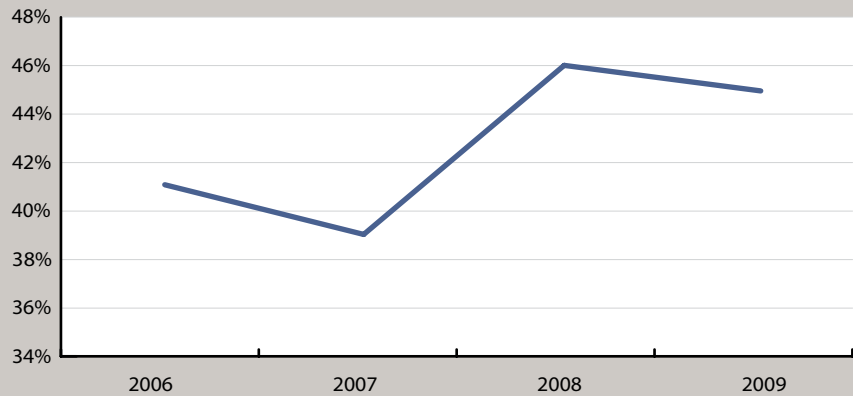
Credit card debt accounted for 8 percent of total debt (at the median) between 2006 and 2009 (3Q),

Table 3: Carry Credit Card Balance

	Carry a Balance (if have credit card) %	Carry a Balance (subgroup overall) %
1 credit card	37.8	–
>1 credit card	44.2	–
1st Income Quartile	41.7	21.3
2nd Income Quartile	46.4	32.2
3rd Income Quartile	44.9	37.8
4th Income Quartile	37.0	34.0
Age 18-30	51.6	33.7
Age 31-49	51.3	38.1
Age 50 +	33.8	25.9
College Educated	35.4	31.0
Not College Educated	48.7	31.6
White	39.5	30.5
Black	65.3	36.3
Hispanic	52.1	35.8
Asian	27.2	23.6
Has Bank Account	40.8	33.2
No Bank Account	58.6	23.9
Home owner	40.1	32.8
Not Home owner	50.2	27.6

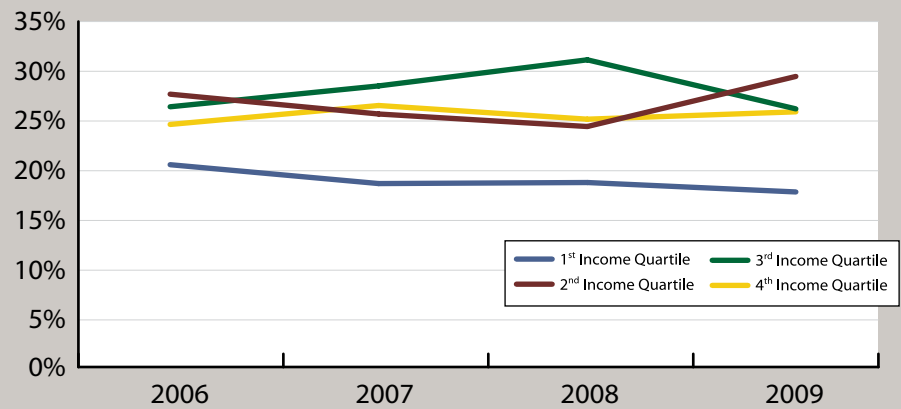
SOURCE: CFM 2007-2009 (3Q).

Chart 3: Household (with card) Carries Credit Card Balance



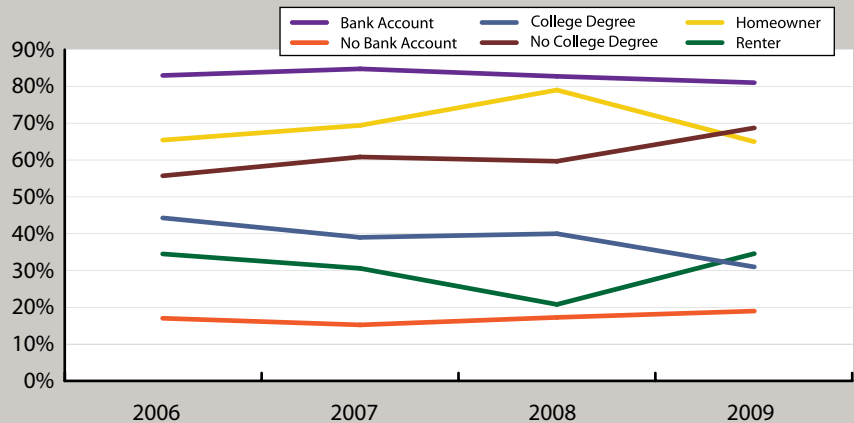
SOURCE: CFM 2006-2009 (3Q).

Chart 4: Percent of Households with Credit Card Debt



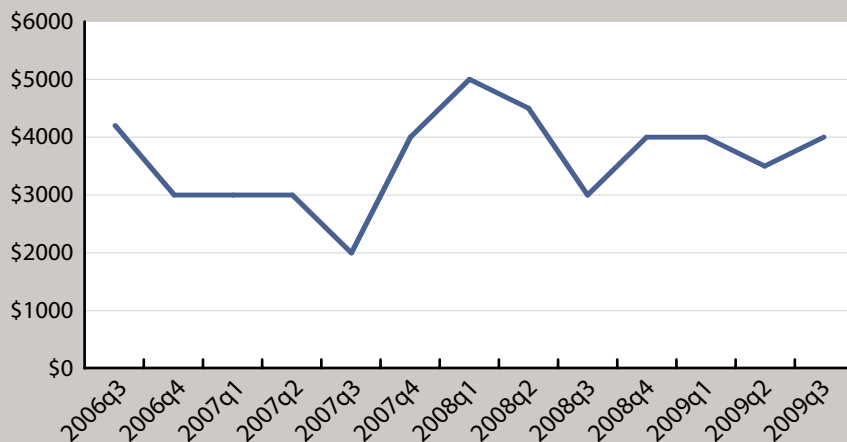
SOURCE: CFM 2006-2009 (3Q).

Chart 5: Percent of Households with Credit Card Debt



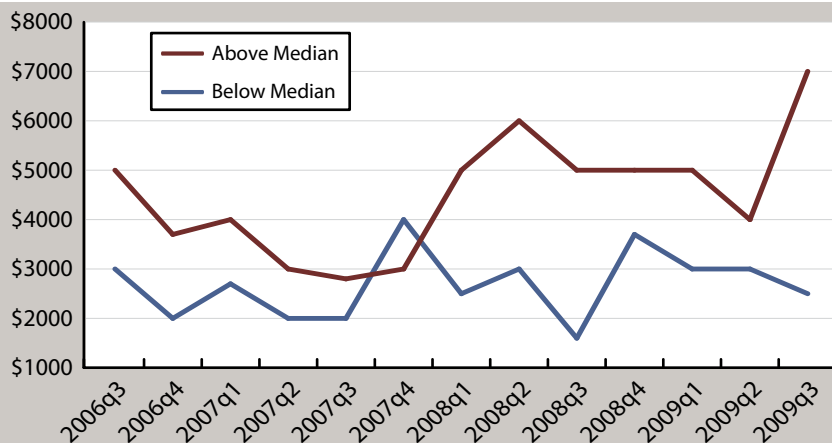
SOURCE: CFM 2006-2009 (3Q).

Chart 6: Median Credit Card Debt (if have credit card debt)



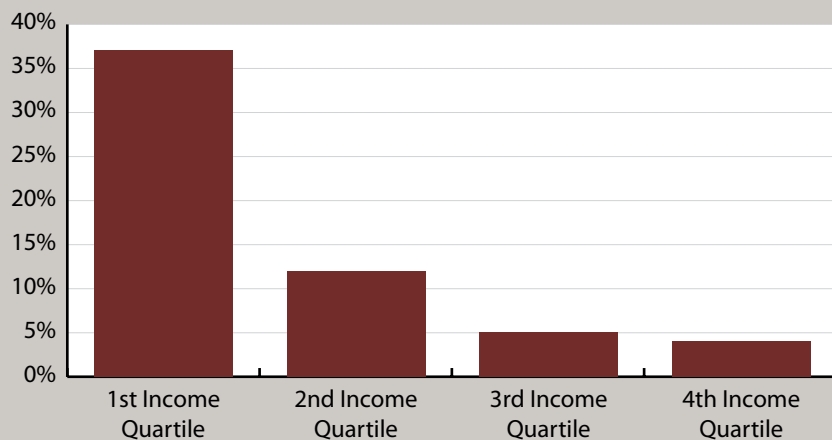
SOURCE: CFM 2006-2009 (3Q).

Chart 7: Median Credit Card Debt (by income group)



SOURCE: CFM 2006-2009 (3Q); conditioned on credit card debt ≠ 0.

Chart 8: Credit Card Debt/Total Debt



SOURCE: CFM 2006-2009 (3Q); conditioned on credit card debt ≠ 0.

considering just the households who had credit card debt.⁸ However, credit card debt represented a larger share of total debt among respondents (with credit card debt) with lower incomes, no college degree, and renters, largely because these groups tended to have lower amounts of other types of debt. For example, it was more than a third of all debt for the lowest-quartile households (see Chart 8).⁹ Not including mortgage debt in the calculation of total debt, credit card debt still represented the largest category of debt for households in the lowest-income quartile – almost 80 percent of all debt (see Chart 9).

Over the period, the ratio of credit card debt-to-total-debt did not trend in any particular direction among all households with credit card debt (see Chart 10). A spike is visible in 3Q 2009, which appears to be influenced by higher debt ratios from *below-median-income* households (see Charts 11, page 7, and 12, page 8). Among households with incomes at or below the median, the ratio of credit card debt to total debt climbed to 25 percent in 2009, after having fallen to 10 percent between 2007 and 2008.¹⁰ Among households with incomes above the median, the ratio of credit-card-debt-to-total-debt hovered between 4 and 6 percent from 2006 to 2009 (3Q). (Subsequent analysis is needed to determine whether the jump in credit card debt/total debt indicates a new trend going forward.)

The proportion of credit card debt to household income was also higher among lower-income households.

Another measure of debt concentration, card-debt-to-household-income, shows average credit card debt totaling 13 percent of household income from 2006 to 2009 (3Q) (among households with credit card debt). Credit card debt was less than this – under 10 percent of yearly income – for more than 60 percent of households (see Table 4). At the other extreme, about one in nine households with credit card

Table 4: Credit Card Debt as Percent of Income

Percent of Income	Percent of Households
Zero to 10%	62.1
11% to 20%	19.4
21% to 30%	6.9
31% to 100%	11.5

SOURCE: CFM 2006-2009 (3Q); conditioned on credit card debt ≠ 0.

debt had card debt equal to at least 30 percent of their incomes.¹¹

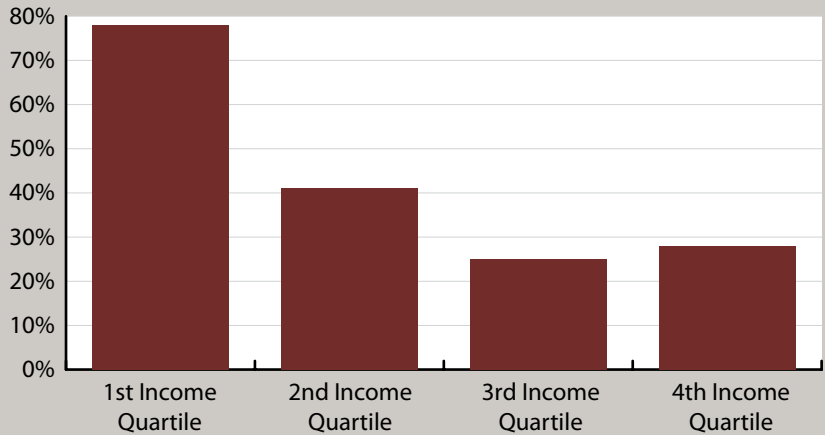
On the one hand, lower-income households were significantly more likely to be affected by high debt-to-income ratios than households with above-median incomes (see Table 5, page 8). Nearly one-third of households with incomes in the first quartile (who carried credit card debt) had debt surpassing 30 percent of their yearly income, compared to about three percent of households with incomes in the fourth quartile.

However, above-median-income households have seen a rise in debts-to-incomes over time. As Charts 13 and 14 show, fewer above-median-income households had credit card debt at 10 percent or lower in 2008 and 2009 compared to the previous two years; while more above-median-income households had credit card debt above 30 percent of income in 2008 and 2009 compared to 2006 and 2007.

Late payments among cardholders with debt have increased in recent years, and more cardholders with debt have reached credit limits on their cards.

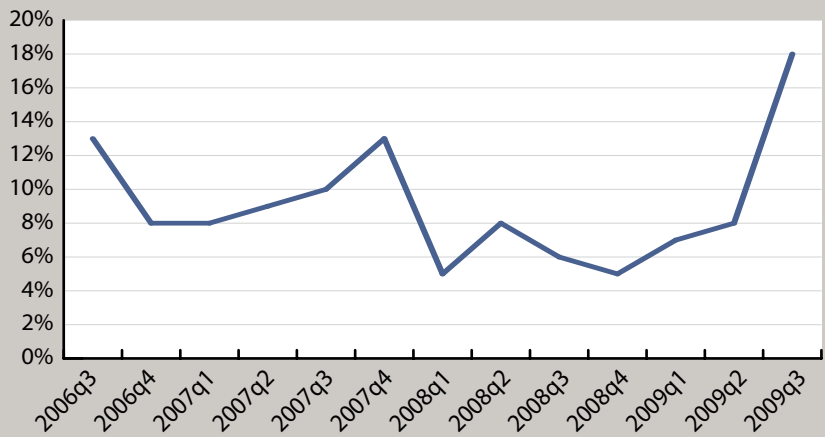
A little more than 6 percent of cardholders with credit card debt were more than 60 days late with their minimum payment in 2009 (3Q) (i.e.,

Chart 9: Credit Card Debt/Total Debt (no mortgage)



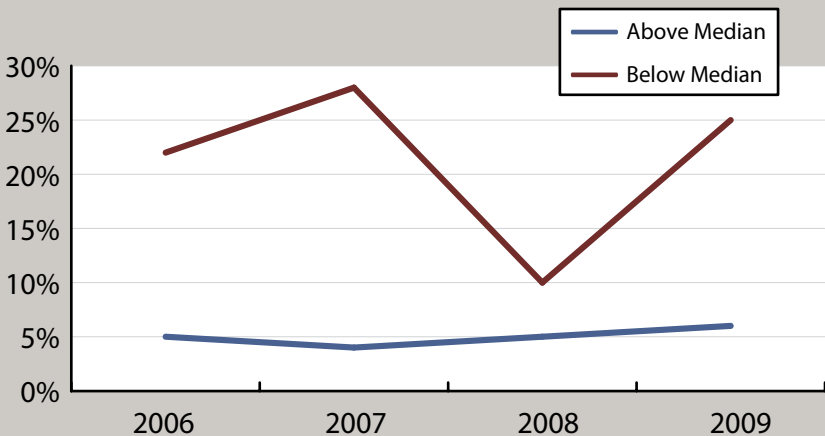
SOURCE: CFM 2006-2009 (3Q); conditioned on credit card debt ≠ 0.

Chart 10: Credit Card Debt/Total Debt

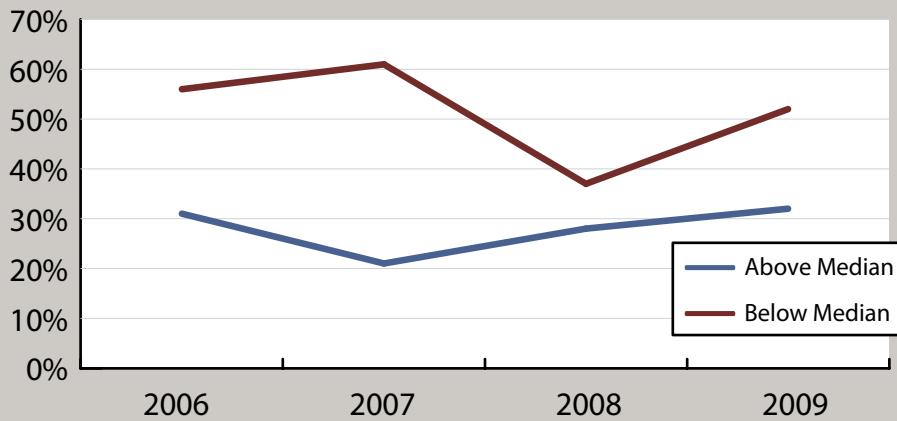


SOURCE: CFM 2006-2009 (3Q); conditioned on credit card debt ≠ 0.

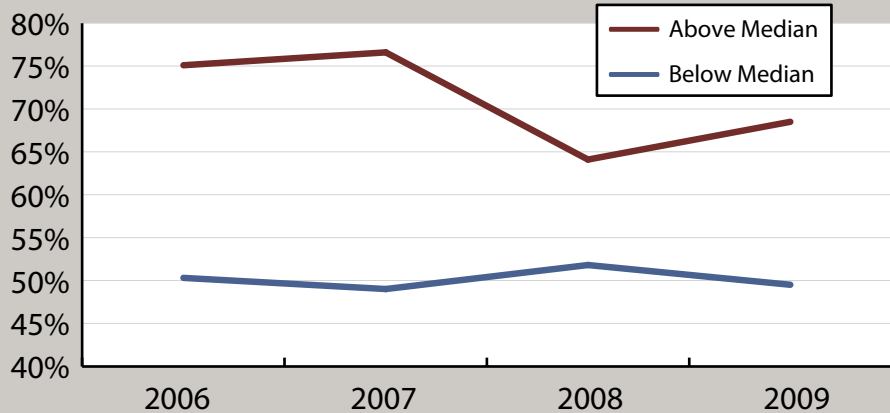
Chart 11: Credit Card Debt/Total Debt by Income



SOURCE: CFM 2006-2009 (3Q); conditioned on credit card debt ≠ 0.

Chart 12: Credit Card Debt/Total Debt (no mortgage) by Income

SOURCE: CFM 2006-2009 (3Q); conditioned on credit card debt \neq 0.

Chart 13: Credit Card Debt = 0 - 10% of Income

SOURCE: CFM 2006-2009 (3Q); conditioned on credit card debt \neq 0.

Table 5: Credit Card Debt as Percent of Income

	1 st Quartile	2 nd Quartile	3 rd Quartile	4 th Quartile	Total
Zero to 10%	41.5	55.7	69.0	74.1	62.1
11% to 20%	19.5	21.5	19.0	17.7	19.4
21% to 30%	9.7	9.3	5.1	4.9	6.9
31% to 100%	29.3	13.5	7.0	3.3	11.5

SOURCE: CFM 2006-2009 (3Q); conditioned on credit card debt \neq 0.

they had not paid the minimum due within a window of 60 days in the past six months) (see Chart 15). This compares to about 4.5 percent of cardholders with debt in 2006. (As a percent of the whole population with credit cards, however, this was 2.9 percent over the period.) In addition, an average of about 13 percent of households with debt had reached the credit limit on their credit cards as of 2009 (see Chart 16). This proportion has risen steadily since 2006.

Younger households (less than 30 years old), Hispanic households, below-medium-income households, households with no college education, and renters tended to be over-represented among the cardholders more than 60 days late with their payments. The over-represented households among those who reached their credit limits were households between 30- and 50-years old, Black, Hispanic, renter, and third-quartile-income households, as well as households with no college degree or bank account.

Conclusion

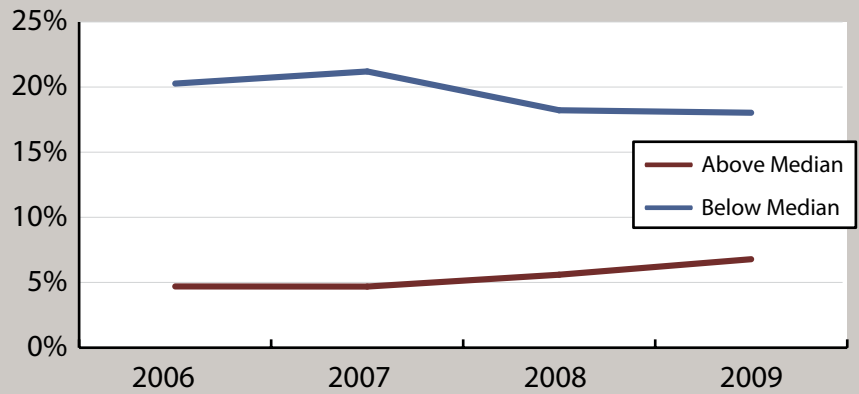
The Consumer Finance Monthly survey provides a timely description of credit card use across households with varying incomes and demographics. The picture that emerges from 2006 to 2009 (3Q) is that a minority of consumers carry a balance; but among these, there are particular cardholder groups for whom a credit card balance is more pervasive. In the 2006-2009 CFM data, these groups include Blacks, Hispanics, younger consumers, and households without a bank account. Importantly, these households are less likely, on average, to have a credit card in the first place, so card debt actually affects a smaller share of households in these subgroups. However, for those who carry debt, the CFM shows that credit-card-debt-to income is higher for below-median households (than above-median households), and younger,

lower-income households are disproportionately represented among those who are late on their credit card payments. Almost three-quarters of households with the highest debt-to-income ratios are also lower-income.

The survey results have implications for both the delivery of financial education and policies affecting access to credit. That a relatively small but identifiable set of households are more likely to carry credit card debt gives an idea about where to target debt prevention and counseling programs. For example, research by Lusardi and Tufano (2009) finds a strong relationship between debt literacy and debt loads, and estimates that as much as one-third of credit card charges and fees paid by less knowledgeable individuals can be attributed to their lack of financial knowledge.¹² This suggests that financial education provided to younger cardholders or cardholders with no college degree, may help lower the cost of this indebtedness to these consumers.

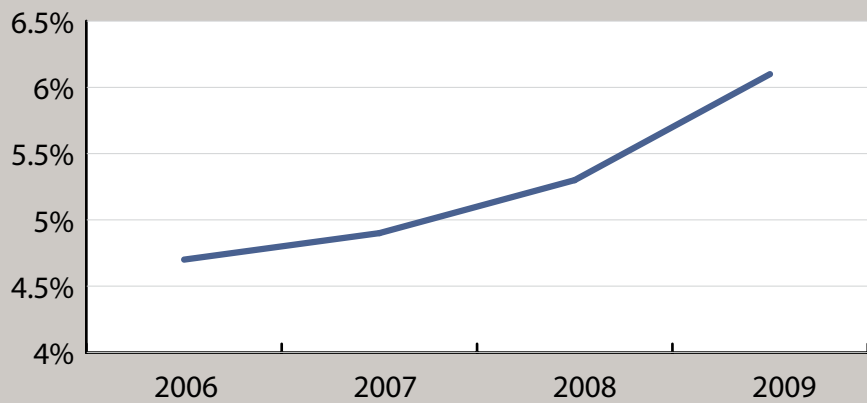
Conversely, the relatively low rates of card ownership among lower-income consumers, and the drop-off in ownership as of 3Q 2009, also show a certain segment of households uses consumer credit substantially less than households overall. For debt-carrying cardholders, credit card use may be further constrained by the implementation of new credit card legislation that went into effect in February 2010. According to industry executives, credit is likely to become less available to cardholders who in the past have been subject to late-payment fees, over-limit fees, and penalty re-pricing, as these fees and practices have been curtailed by the reforms. The Fed has recognized that the rules may also result in increased costs for most card users, particularly for consumers with lower credit scores or limited credit history. (See article beginning on page 11 for an overview of credit card regulations and their impacts.)

Chart 14: Credit Card Debt = >30 of Income



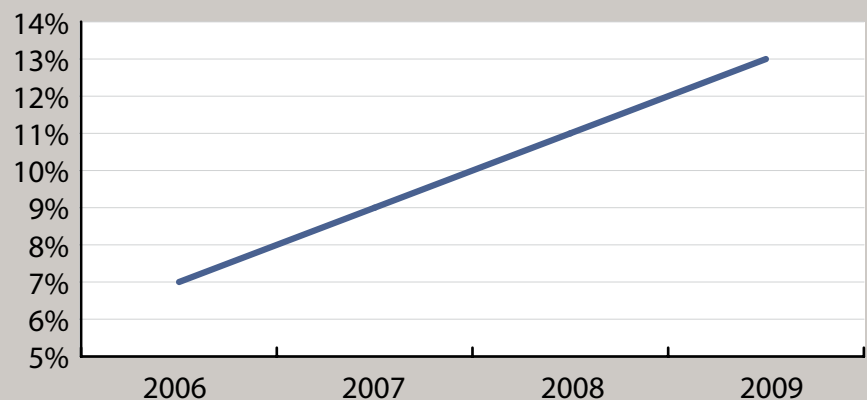
SOURCE: CFM 2006-2009 (3Q); conditioned on credit card debt \neq 0.

Chart 15: 60 Days Past Due Payment Date



SOURCE: CFM 2006-2009 (3Q); conditioned on credit card debt \neq 0.

Chart 16: Reached Credit Limit (if have credit card)



SOURCE: CFM 2006-2009 (3Q); conditioned on credit card debt \neq 0.

Notes

- 1 According to the December 7, 2009, Federal Reserve Statistical Release G19 Consumer Credit, total revolving credit was \$871 billion in 2006, \$940 billion in 2007, \$957 billion in 2008, and \$888 billion as of October 2009.
- 2 The analysis is based on bank credit cards, known as cards with logos. These include Mastercard, Visa, American Express, and Discover cards. The analysis does not include information about gasoline or store-branded credit cards.
- 3 Credit card ownership by income quartile in the 2004-2007 SCF was: 1st quartile – 39.2 percent; 2nd quartile – 65 percent; 3rd quartile – 84.2 percent; and 4th quartile – 93.4 percent, based on author's calculations.
- 4 The 2007 SCF shows bank cardholders with (weighted) median monthly charges of \$250; 1st quartile households had median charges of \$100; 2nd quartile households had median charges of \$100; 3rd quartile households had charges of \$200; and 4th quartile households had charges of \$800, based on author's calculations.
- 5 Monthly charges have fluctuated more widely among households who charge more on their card(s) per month. For households at the 75th percentile of the "monthly charge distribution," monthly charges ranged between \$750 and \$1,700 over the period.
- 6 The median debt among households with a (bank) credit card balance in the SCF was \$3,000.
- 7 Total debt includes mortgage, home equity, and other debt. Debts = Credit Card Debt + Mortgage Debt + Home Equity Debt + Student Loans + Installment Loans + Bank Loans + Pay Day Loans + Other Loans.
- 8 For first-quartile households, the remainder of the debt consisted mainly of student loans and installment loans (automobile loans and loans for furniture, appliances, and other durable goods). For fourth-quartile households, the remainder of the debt consisted mainly of home equity, student loans, and installment loans.
- 9 Conditioned on having credit card debt, total debt (at the median) was \$42,000 in 2006, \$60,000 in 2007, \$93,850 in 2008, and \$54,000 in 2009. (For all households, total debt (at the median) was \$12,100 in 2006, \$15,000 in 2007, \$35,425 in 2008, and \$16,046 in 2009.)
- 10 This was 3.5 percent of all card- and noncard-holding households.
- 11 Annamaria Lusardi and Peter Tufano Debt Literacy, Financial Experiences and Overindebtedness, National Bureau of Economic Research Working Paper 14808, March 2009, available at www.nber.org/papers/w14808.

Robin Newberger is a business economist in the Consumer Issues Research unit of the Federal Reserve Bank of Chicago.

An overview of changes to credit card regulations and discussion of potential impacts on card users

by Michael V. Berry

Significant regulatory changes affecting credit card terms and conditions were signed into law in May 2009, and took effect in February 2010. A number of these changes will affect lower-income consumers, ostensibly those with few options to “shop” contracts and features in ways that might not impact mainstream consumers. Most changes will affect the majority of consumers. This brief essay summarizes the overall changes, and provides some comments on the changes that may affect the subprime and/or lower-income subset of credit card users, as well as those impacted by job loss or business downturns in the recent recession, in more pronounced or differing ways.

Summary of rule changes:

- **Rate increases** – card issuers will be able to increase rates if the contract specifies a variable rate (and only at specified intervals), when a card holder makes a late payment, or after a promotional rate (period, a minimum of six months) ends. Major changes in terms require 45 days notice. Issuers are no longer permitted to raise rates due to a change in the card holder's payment status relating to other credit accounts (i.e., change in credit history/score). Issuers also may not raise rates on existing balances retroactively – rate increases apply only to new purchases, cash advances/withdrawals, and balance transfers. Notwithstanding any of the foregoing, interest rates on new purchases can only increase a year after inception of the credit contract.
 - **Application of payments** – often card holders have (had) differing rates applied to purchase, cash advance, and/or transfer balances. The new regulations require that payments in excess of minimum payments apply to the balances in descending order of applicable interest rate, meaning the balances with higher rates get paid down first.
 - **“Defined” minimum payments** – issuers must provide details on the upshot of making only minimum payments, such as how long it will take to retire the principal balance if only the minimum is paid, on alternative 12, 24, and 36 month payment plans, and on how much interest is paid in each scenario.
 - **Double billing cycles eliminated** – card issuers may no longer charge interest on the prior two billing cycles, as some issuers have in the past. This practice most notably impacted cardholders who paid their balance in full following a period where they carried over a balance, and were then charged interest on purchases from the previous cycle anyway.
 - **Over limit fees** – by the new rules, card holders must be offered the option to have over-limit purchases rejected at the point of sale, or to have a “reasonable” penalty fee apply in case they exceed their credit limit.
 - **Payment due dates** – in the past, consumers have complained about changing or irregular due dates for timely payment of credit card bills.
- The new regulations require at least 21 days to elapse between the date the bill is mailed until it is due, with payment due no earlier than 5:00 p.m. on the due date. If the due date falls on a weekend or holiday, the first business day following the (ostensible) due date becomes the due date.
- In essence, the new regulations require credit card terms to be more understandable and consumer-friendly, mostly by eliminating well established industry practices. Industry analysts hold that the changes will make it more difficult for low-income households to obtain credit cards, and more costly – even for users who do not carry balances – as annual fees and fewer reward perks become the new norm. Grace periods may also be a casualty of the new laws, as issuers look to make up lost interest and fee revenue.
- A variety of other new rules relate to age limits (no cards issued to consumers under 21 without income verification or co-signer); gift cards, which must maintain their full value for at least five years; and rate increases stemming from delinquency, which can only take place once the card holder is 60 days delinquent, and must be reversed if the cardholder becomes current on the account and remains current for six months.
- A critically important aspect of the new legislation, which has broad ramifications, particularly in the current economic and employment environment, is the requirement for issuers to verify

income or at least the ability to repay. One key purpose of this rule is to prevent issuers from saddling college students with credit card debt before they are (fully) employed.

However, many consumers consider a credit card effectively an emergency “fund” to use in case of a layoff, medical emergency, or other unforeseen circumstance.¹ Offers that allow card users to move balances to a new card (account) and pay no interest or fees for a specified period, will likely be curtailed. Certainly individuals whose financial issues stem from job loss will not have access to these offers, even if issuers continue to market in this way. Similarly, this aspect may also impact small business owners that rely on credit cards as opposed to formal business lines of credit for cash flow and operational needs.

Fees and practices not impacted by reforms

The Center for Responsible Lending, a North Carolina based nonprofit consumer advocacy organization, has published numerous articles on credit products, related policy, and their impacts on low- and moderate-income populations (in particular) and financial consumers broadly. A December 2009 article titled “Dodging Reform: As Some Credit Card Abuses Are Outlawed, Others Proliferate,” focuses on pricing strategies “designed to take advantage of inattention, lack of knowledge, and documented behavioral biases exhibited by consumers.”² The article identifies eight practices that the credit card reforms taking effect beginning in February 2010 do not address, some of which (discussed here) may impact lower income credit card users disproportionately.

A past standard practice among card issuers was to charge prime – the prime rate on the closing day of the statement – plus a predetermined margin. An increasingly common practice is to add the predetermined margin to the prime

rate at its highest point over the 90 days prior to the statement closing date. The impact of this shift adds an estimated 0.3 percent to the applicable interest rate. Another involves application of late fees, which in the past were more commonly tiered, where the highest tier (and applicable fee) began with a balance of \$1,000, based on the outstanding balance at the time of delinquency. Increasingly, issuers apply the highest possible fee to even relatively low balances by virtue of having reduced the balance (threshold) to which the maximum fee applies; with increasing frequency the highest penalty fees apply to balances of \$250 and above.

Still another (new) industry practice involves minimum rates in variable rate contracts (also recently more common), or interest rate floors. In short, though nominally the contract is marketed as a “variable rate” credit card, the rate can only vary up, never below the starting rate.

Conclusion

As with any major policy shift, the ultimate impacts of credit card rule reforms will not be understood immediately. However, given the extent and nature of reforms, and the current employment and economic climate, it seems probable that more vulnerable, lower wealth and income populations will see pronounced changes in credit card marketing practices and acceptance rates. The Chicago Fed's Consumer and Community Affairs division is committed to understanding and addressing issues that impact access to financial services among lower-income, protected class, or otherwise disadvantaged groups, and will provide periodic updates on this important set of regulatory changes.

Notes

- 1 See “The Plastic Safety Net” at: www.demos.org/pubs/PSN_low.pdf.
- 2 See the full text on the Center for Responsible Lending's Web site at: www.responsiblelending.org/credit-cards/research-analysis/Dodging-Reform-As-Some-Credit-Card-Abuses-Are-Outlawed-New-Ones-Proliferate.html.

Michael V. Berry is a team leader and researcher in the Chicago Fed's Consumer and Community Affairs division; he is also the managing editor of the Profitwise News and Views.



Around the District

INDIANA

Grant helps support home ownership and home ownership preservation efforts in Marion county

The Indianapolis Neighborhood Housing Partnership (INHP) has received a \$6 million grant from Lilly Endowment, Inc. INHP will use the funds to support its stated ongoing mission to increase safe, decent, affordable housing opportunities that foster healthy, viable neighborhoods in Marion County.

The Office of the Attorney General (OAG) has seen an explosion of consumer complaints concerning foreclosure consultants. In 2008, the OAG received 19 complaints about foreclosure consultants from consumers. As of September 29, 2009, consumers had filed 101 complaints against foreclosure consultants.

In a 2005 article titled "Foreclosure Alternatives – A Case for Preserving Homeownership," the Federal Reserve Bank of Chicago's Consumer and Community Affairs (CCA) division addressed the effectiveness of foreclosure counseling in helping to combat foreclosures. INHP offers home ownership services and foreclosure prevention services. Though demand for these services has increased in recent years, INHP customers continue to

experience lower delinquency rates than the Mortgage Bankers Association's delinquency benchmarks for similar mortgage products. In addition, INHP has been a frequent supporter in CCA events and efforts regarding home ownership preservation.

INHP also offers loans directly and through its lender partners. According to INHP's most recent annual report, in 2009, 96 percent of the families with a loan from INHP to purchase or repair their home had an income at or below 80 percent of Indianapolis' area median income.

For more information on Indianapolis Neighborhood Housing Partnership programs, go to www.inhp.org.

IOWA

Greater Quad Cities Hispanic Chamber of Commerce celebrates first year achievements

Just 15 months into its existence, the Greater Quad Cities Hispanic Chamber of Commerce (GQCHCC) has met all of its goals and expectations, including moving in February into its new quarters in Moline, Illinois, with a part-time manager and seeing positive results in the Latino business community on both sides of the river.

Established by founder Robert Ontivero, who is chairman and founder

of a successful business called Group O, in Milan, Illinois, the GQCHCC is an outgrowth of Mr. Ontiveros' positive experience as a member of the United States Hispanic Chamber of Commerce and the Illinois Hispanic Chamber of Commerce. Membership has grown to more than 100 organizations, including small business owners, corporations and municipal governments in the Quad Cities communities.

Important among the Chamber's goals are educational resources and opportunities including workshops, expert counseling on business planning, finance, management, marketing, and advertising. It has developed a partnership with Black Hawk College's Small Business Development Center, as well as other resources. The Federal Reserve Bank of Chicago has partnered numerous times with the founder, president of the Advisory Council of the Chamber, Nanci Perkins, and other members of its board on conferences and other meetings and seminars focusing on the Hispanic community of the Quad Cities — its banking and business opportunities, as well as social issues and needs.

For more information, see www.gqchcc.com or contact Nanci Perkins at (309) 764-8315.

MICHIGAN

New Web portal providing foreclosure assistance to Southeast Michigan

The Federal Reserve Bank of Chicago's Consumer and Community Affairs division was invited to the launching of a Web portal designed to provide a one-stop solution for those seeking help to avoid foreclosure. The meeting took place at the United Way for Southeastern Michigan Detroit Office. The Federal Reserve Bank of Chicago is a member of the Financial Stability Impact Council. The Council's focus is home ownership, wealth building, employment, foreclosure, etc. This effort was the result of the work of The Southeast Michigan Regional Foreclosure Intervention and Neighborhood Stabilization Collaborative, which United Way of Southeastern Michigan convened with over 60 private and public organizations in the region.

According to Robert Ficano, Wayne County chief executive, the efficient, online regional system, developed based on technology created by Wayne County, creates a simple process that will enable more home owners to be served in a shorter period of time. The system is designed to get troubled home owners the help they need with a detailed, step-by-step approach, and provides a 24/7 help line for questions and assistance. United Way also gives home owners the option to dial 2-1-1, a service available 24 hours a day. This service has been available for more than two years.

For more information, please visit www.fightmortgageforeclosurefinsc.com.

WISCONSIN

Housing counselors welcome M&I's Foreclosure Moratorium Extension

"The Milwaukee Homeownership Consortium works to identify ways to prevent foreclosures and to stabilize neighborhoods already impacted by vacant homes," said Bethany Sanchez, Director of Fair Lending at the Metropolitan Milwaukee Fair Housing Council. "We need more lenders to freeze foreclosure actions, work to better understand the problem, and collaborate with us on sustainable, long-term solutions."

Sanchez's comments came in response to M&I Bank's announcement that "it has extended its foreclosure moratorium an additional 90 days – through June 30, 2010." The bank's March 29 press release, www.micorp.com/mibank/toolframes.cfm?toolID=F3B6F489-8883-444A-935176835E52A838, puts the moratorium in the context of its Homeowner Assistance Program.

The Housing Council's Sanchez emphasized that, "The extension of M&I Bank's foreclosure moratorium can serve as an example to other lenders, helping them to see that stopping foreclosures is not only in the interest of the borrower, but also in the interest of the lender and the neighborhood."

The Milwaukee Homeownership Consortium works on foreclosure issues in Milwaukee through prevention, intervention and stabilization strategies. For more information on Milwaukee's foreclosure strategies visit www.milwaukeehousinghelp.org.

For more information on the Metropolitan Milwaukee Fair Housing Council, visit www.fairhousingwisconsin.com.

Save the Date

Reinventing Older Communities

Philadelphia, PA
May 12-14, 2010

The Federal Reserve Bank of Philadelphia will host this fourth national biennial conference to examine issues confronting older communities, including the impact of the credit crisis on home owners and communities, and the opportunities generated by economic stimulus funds.

For more information, contact Keith Rolland at (215) 574-6458, or go to www.philadelphiafed.org/ReinventingOlderCommunities.

Targeted Financial Education: Lessons Learned with Soldiers at Fort Bliss

Minneapolis, MN
May 13, 2010

Federal Reserve Bank of Minneapolis will host an online-only webinar featuring Jeanne M. Hogarth, manager of the Consumer Education and Research section of the Federal Reserve Board's Division of Consumer and Community Affairs. To register, please e-mail jacqueline.gausvik@mpls.frb.org or call (612) 204-5869.

2010 Cleveland Fed Policy Summit

Cleveland, OH
June 9-10, 2010

The 2010 Cleveland Fed Policy Summit will examine how national housing policy might be reshaped to help stabilize communities, particularly in weak-market states. The only event of its kind in the Midwest and one of the Federal Reserve System's hallmark conferences, the Policy Summit features both national and regional experts who spur dynamic discourse on relevant, timely research and policy perspectives.

Visit www.clevelandfed.org/Community_Development/events/PS2010/Index.cfm for more information, or call (216) 542-9200 to make reservations.

Reclaiming Vacant Properties

Cleveland, OH
October 13-15, 2010

National Vacant Properties Campaign with its principal planning partner, Neighborhood Progress, Inc., will be sponsoring this conference to teach policies, tools, and strategies to catalyze long-term, sustainable revitalization, and allow peers to share experiences and insights, and become a part of the only national network focused on building the knowledge, leadership, and momentum to reclaim vacant and abandoned properties to foster thriving neighborhoods.

Contact Jennifer Leonard with questions about the conference, including sponsorship opportunities via e-mail, jleonard@smartgrowthamerica.org, or call (202) 207-3355, extension 123.



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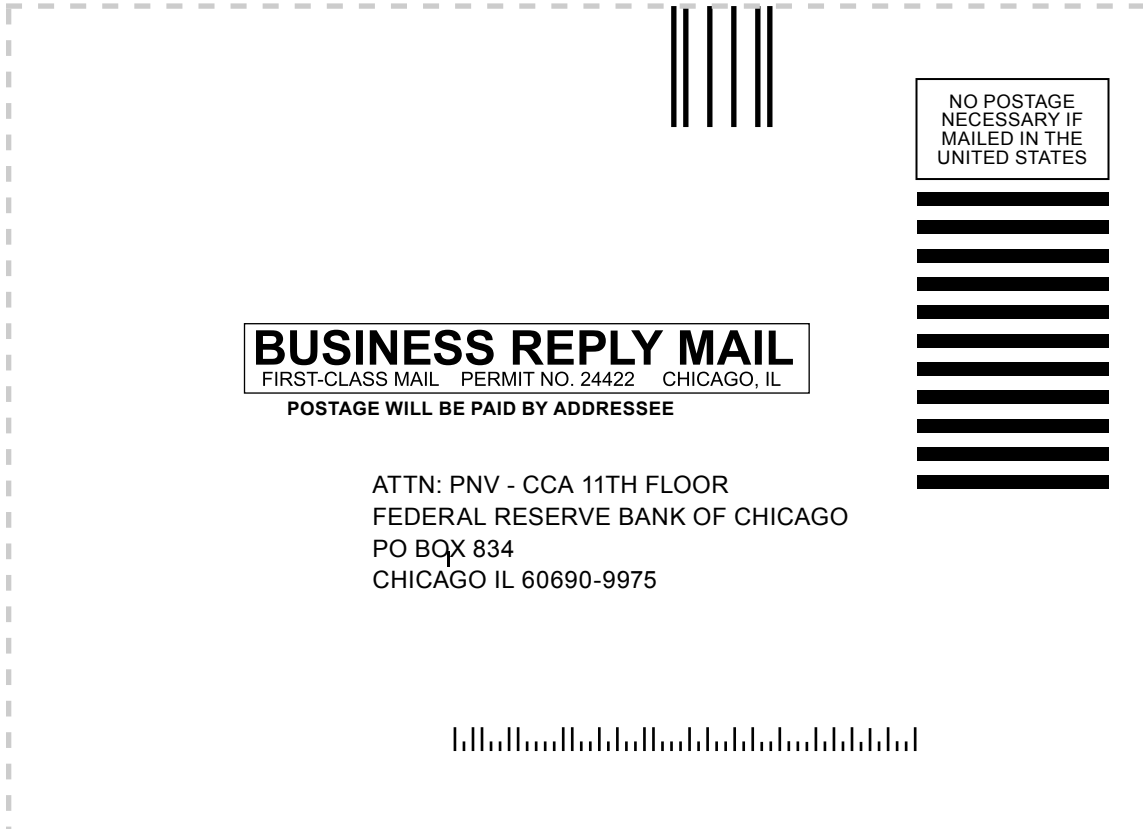
CEDRIC's principal mission is to foster research related to consumer and economic development issues such as consumer and small business financial behavior, access to credit, affordable housing, and community development and reinvestment.

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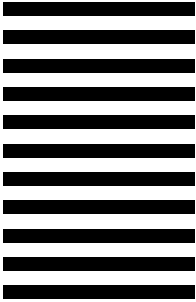
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- Financial Education Research Center, Household & Small Business Data,
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