CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE

September 8, 2008

H.R. 5244
Credit Cardholders' Bill of Rights Act of 2008

As ordered reported by the House Committee on Financial Services on July 31, 2008

SUMMARY

H.R. 5244 would amend the Truth in Lending Act to restrict a number of billing practices applied to consumer credit cards, including those related to changes in interest rates and calculations of balances to which interest rates are applied. It would direct the Board of Governors of the Federal Reserve System (Federal Reserve), in consultation with other financial regulatory agencies, to issue regulations implementing the new standards. It also would increase the information that the Federal Reserve is required to collect on the financial activities of credit card issuers, and would require the Federal Reserve to report to the Congress on the sources of industry income from such operations.

Provisions in the legislation affecting the workload of the Federal Reserve and financial regulatory agencies would affect revenues and direct spending, respectively, but CBO estimates that those effects would not be significant.

H.R. 5244 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments. The bill would impose private-sector mandates, as defined in UMRA, on issuers of credit cards. The bill would require creditors to submit detailed information on a semiannual basis to the Board of Governors of the Federal Reserve and prohibit creditors from performing certain credit card billing and issuing practices. Based on information from the Federal Reserve and industry sources, CBO estimates that the aggregate cost of those requirements would likely exceed the annual threshold established in UMRA for private-sector mandates ($136 million in 2008, adjusted annually for inflation) in at least one of the first five years the mandates are in effect.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

For this estimate, CBO assumes that this legislation will be enacted early in fiscal year 2009. CBO estimates that enacting H.R. 5244 would affect direct spending and revenues, but that those effects would not be significant.

Under this legislation, the Board of Governors of the Federal Reserve, in consultation with other financial regulatory agencies, would be required to issue regulations implementing the new credit card billing standards specified by the bill. In May 2008, the Federal Reserve (for banks), the Office of Thrift Supervision (for savings associations), and the National Credit Union Administration (for credit unions) proposed regulations covering some of the same practices addressed by H.R. 5244. The agencies proposed those regulations under authority granted by the Federal Trade Commission Act to prohibit unfair or deceptive practices. If finalized, such regulations would be enforced by those agencies along with the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation.

According to the Federal Reserve and other agencies, the regulatory activities required by H.R. 5244 would have no significant effect on their workload or budgets. In addition, the additional data collection and reporting requirements on the Federal Reserve are not anticipated to have a significant effect on its workload. The budgetary effects on the Federal Reserve are recorded as changes in revenues (governmental receipts). Costs incurred by the other financial regulatory agencies affect direct spending, but most of those expenses are offset by fees or income from insurance premiums. Thus, CBO estimates that enacting this bill would reduce revenues by less than $500,000 over the 2009-2018 period and would have a negligible net effect on direct spending.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 5244 contains no intergovernmental mandates as defined in UMRA and would impose no costs on state, local, or tribal governments.

ESTIMATED IMPACT ON THE PRIVATE SECTOR

The bill contains several private-sector mandates as defined in UMRA because it would require creditors to submit detailed information to the Federal Reserve on a semiannual basis and prohibit creditors from performing certain billing and issuing practices. The aggregate cost for creditors to comply with those mandates would likely exceed the annual threshold established in UMRA for private-sector mandates ($136 million in 2008, adjusted annually for inflation) in at least one of the first five years the mandates are in effect. The bill also includes several requirements that are contained in rules proposed by the Federal Reserve. The Federal Reserve expects that rulemaking process to be completed by the end of 2008.

Information Collection Requirements

Under current law, the Federal Reserve collects data semiannually from a large sample of creditors. Those data are readily compiled by creditors and the cost of submitting the data is minimal. The bill would require the Federal Reserve to collect additional data from the sample creditors on various transactions, fees imposed, finance charges, repayments of balances, and on the number of accounts affected by certain transactions. To comply with the mandate, creditors would need to start to compile data on individual accounts based on the categories defined in the bill. According to the Federal Reserve and industry representatives, creditors would need to develop and implement new software programs and systems to compile the required data. Based on information from the Federal Reserve and industry sources, the mandate would affect a large number of creditors and the cost to set up those systems could be significant.

Over-the-Limit Fees

The bill would require creditors to allow cardholders to establish a credit limit that cannot be exceeded. As such, creditors would be prevented from completing any transaction that would put the cardholder in excess of their credit limit. Under current practice, most cardholders are allowed to exceed their credit limit and are charged a fee for doing so. Under the bill, creditors would be prohibited from charging over-the-limit fees on accounts for which the cardholder has requested a credit limit that cannot be exceeded. Because the bill also would require creditors to notify their cardholders of the option to establish a credit limit and provide the necessary tools for cardholders to do so, the Federal Reserve and industry representatives believe that many cardholders would elect to use the option. According to the Federal Reserve and industry sources, this requirement could significantly affect the amount that creditors collect in fees each year. The industry currently collects billions of dollars in such fees annually. Even if a small percentage of cardholders elected to use this option, creditors could lose a significant amount of fees.

Standards for Issuing Cards

In addition, the bill would prohibit creditors from allowing individuals to pay any fees through the credit made available to them by the credit card when the terms of the credit card include fees in the first year totaling more than 25 percent of the credit limit. According to the Federal Reserve and industry experts, credit cards with such fees are typically issued to individuals who have low credit scores, and thus, those credit cards typically carry a higher-than-average interest rate. The Federal Reserve believes that demand for such cards would fall under the bill because some customers in this market would no longer be able to pay the fees. The loss in net income to creditors could be substantial inasmuch as the industry currently collects billions of dollars in interest and fees from such cards.

The bill also would prohibit creditors from issuing credit cards to individuals less than 18 years of age unless they are an emancipated minor. According to industry representatives and the Federal Reserve, individuals under 18 years old account for only a minuscule amount of credit cardholders. Therefore, CBO estimates that the cost to creditors to comply with this mandate would be small relative to the annual threshold established in UMRA.

Credit Account Features

H.R. 5244 would impose several new requirements on creditors regarding account pricing, terms, and disclosures. The bill would prohibit creditors from imposing a fee on credit cardholders that do not pay their trailing interest balance. In addition, the bill would require creditors to provide a service through which a cardholder can determine their payoff balance. The bill also would prohibit creditors from informing credit bureaus of a cardholder's line of credit until the cardholder has activated his or her card. Finally, the bill would prohibit creditors from using the term "prime rate" unless its use is based on the definition provided in the bill. The cost for creditors to comply with those mandates would likely be minimal because compliance would involve only a small adjustment in current procedures, because certain fees prohibited generate a small portion of fee-income for the industry, and because creditors are unlikely to engage in the prohibited acts.

Proposed Regulations

In addition to the mandates on creditors that would be imposed by the bill, H.R. 5244 includes several requirements that the Federal Reserve has already included in proposed regulations. According to the Federal Reserve, the agency plans to finalize those regulations by the end of 2008. In general, those regulations would impose requirements on how creditors collect interest charges and fees. The mandates contained in the bill that are not included in the Federal Reserve's regulations would become effective one year after the date of enactment of H.R. 5244. Because the Federal Reserve would likely issue final regulations before that date, CBO has not identified those provisions as new mandates.

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