



**CONGRESSIONAL BUDGET OFFICE
COST ESTIMATE**

April 27, 2009

**H.R. 627
Credit Cardholders' Bill of Rights Act of 2009**

*As ordered reported by the House Committee on Financial Services
on April 22, 2009*

SUMMARY

H.R. 627 would amend the Truth in Lending Act to restrict the use of 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. Finally, H.R. 627 would require the Federal Reserve to report to the Congress about certain practices of credit card issuers, the prevalence of those practices during the 3 years preceding enactment of the bill, and recommendations for regulations or statutes to prevent such practices.

CBO estimates that enacting H.R. 627 would have no significant impact on direct spending or revenues.

H.R. 627 contains no intergovernmental mandates as defined in the Unfunded Mandates Reform Act (UMRA) and would impose no costs on state, local, or tribal governments.

H.R. 627 would impose private-sector mandates, as defined in UMRA. The bill would require creditors to submit detailed information on a semiannual basis to the Federal Reserve and prohibit creditors from engaging in 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 (\$139 million in 2009, 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 the bill will be enacted near the end of fiscal year 2009. CBO estimates that enacting H.R. 627 would affect direct spending and revenues, but that those effects would not be significant.

According to the Federal Reserve and other federal financial regulatory agencies, the activities required by H.R. 627 would not have a significant effect on their workload or budgets. In May 2008, the Federal Reserve proposed a number of regulatory changes that covered some of the same issues addressed by H.R. 627, and issued those regulations in December 2008. The related changes are scheduled to take effect in July of 2010. CBO expects the additional requirements for the Federal Reserve to collect data and provide reports would not have a significant effect on its workload and we anticipate that existing resources would be used to comply with H.R. 627. 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 deposit insurance premiums. Thus, CBO estimates that enacting this bill would not significantly affect revenues, and would have a negligible net effect on direct spending.

ESTIMATED IMPACT ON STATE, LOCAL, AND TRIBAL GOVERNMENTS

H.R. 627 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

H.R. 627 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 engaging in 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 (\$139 million in 2009, adjusted annually for inflation) in at least one of the first five years the mandates are in effect.

The bill also would codify several requirements included in credit card regulations recently established by the Federal Reserve and other financial regulatory agencies. CBO believes that action would not constitute a new mandate.

Reporting Requirements

The bill would require the Federal Reserve to collect additional data from creditors on the profitability of their credit card operations, the percentages of income derived from different sources, the level of fees on cardholders and merchants, certain changes made to credit limits and interest rates, and any other specified material sources of income. Under current law, the Federal Reserve collects financial data semiannually from a large sample of creditors. Those data are readily compiled by creditors, and the cost of submitting the data is minimal. However, according to the Federal Reserve and industry sources, in order to comply with the new requirements creditors would need to develop and implement new software programs and systems to compile the necessary data. Information from the Federal Reserve and industry sources indicates that the mandate would affect a large number of creditors and the cost to set up the 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 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 only a small percentage of cardholders elected to use this option, creditors could lose a significant amount of fees.

Standards for Issuing Cards

The bill also would prohibit creditors from allowing individuals to pay any fees as part of the credit made available to them 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 they 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 because the industry currently collects billions of dollars annually in interest and fees from such cards.

The bill also would prohibit creditors from issuing credit cards to individuals under the age of 18, unless they meet the exceptions specified in the bill. According to industry representatives and the Federal Reserve, individuals under the age of 18 account for a very small percentage 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. 627 would impose several new requirements on creditors regarding account pricing, terms, and disclosures. The bill would prohibit creditors from charging interest on payments received between the end of the account period and the receipt of the payment. The bill also would impose new requirements on creditors regarding the disclosure of activation information and interest rate increases and would require creditors to provide a service through which cardholders can determine their payoff balance. Creditors would be prohibited from charging credit cardholders for making payments regardless of the manner in which the payment is made. Finally, the bill would prohibit creditors from using the term “prime rate” unless the term is based on the definition provided in the bill. The cost to creditors would likely be small because compliance would involve only a small adjustment in current procedures, because some of the fees prohibited do not generate much income for the industry, and because most creditors do not engage in the prohibited acts.

PREVIOUS CBO ESTIMATE

On April 24, 2009, CBO transmitted an estimate for S. 414, the Credit Card Accountability, Responsibility, and Disclosure Act of 2009, as ordered reported by the Senate Committee on Banking, Housing, and Urban Affairs on March 31, 2009. Both H.R. 627 and S. 414 would require the Federal Reserve to develop regulations that restrict the use of certain billing practices applied to consumer credit cards. S. 414 also contains provisions, not included in H.R. 627, that would make changes to the funds administered by the Federal Deposit Insurance Corporation and the National Credit Union Administration (NCUA) including an increase in the amounts they could borrow from the U.S. Treasury. S. 414 also would lengthen the amount of time the NCUA would have to replenish its insurance fund after experiencing losses. CBO’s cost estimates for the two bills reflect those differences.

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