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May 1, 2019

Division of Research, Markets, and Regulations
Consumer Financial Protection Bureau
1700 G Street, NW
Washington, DC 20552

Re: Request for Information Regarding Consumer Credit Card Market, Docket No.
CFPB-2019-0002

Dear Sir or Madam:

The Credit Union National Association (CUNA) represents America's credit unions and their 115 million members. On behalf of our members, I am writing in response to the Request for Information (RFI) from the Consumer Financial Protection Bureau (CFPB or Bureau) concerning the consumer credit card market.

Background

The CFPB is seeking input on several aspects of the consumer credit card market. This review marks the fourth such review of the credit card market, as required by the Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act). While CUNA continues to support the stated intent of the CARD Act, which is to eliminate predatory credit card practices caused by irresponsible lenders, we remain concerned that regulatory requirements do not become more cumbersome than they currently are for member-owned credit unions. Therefore, our comments focus on ensuring consumers receive reasonable protections while minimizing regulatory burdens on credit unions that already offer fair and sound credit card services to their members.

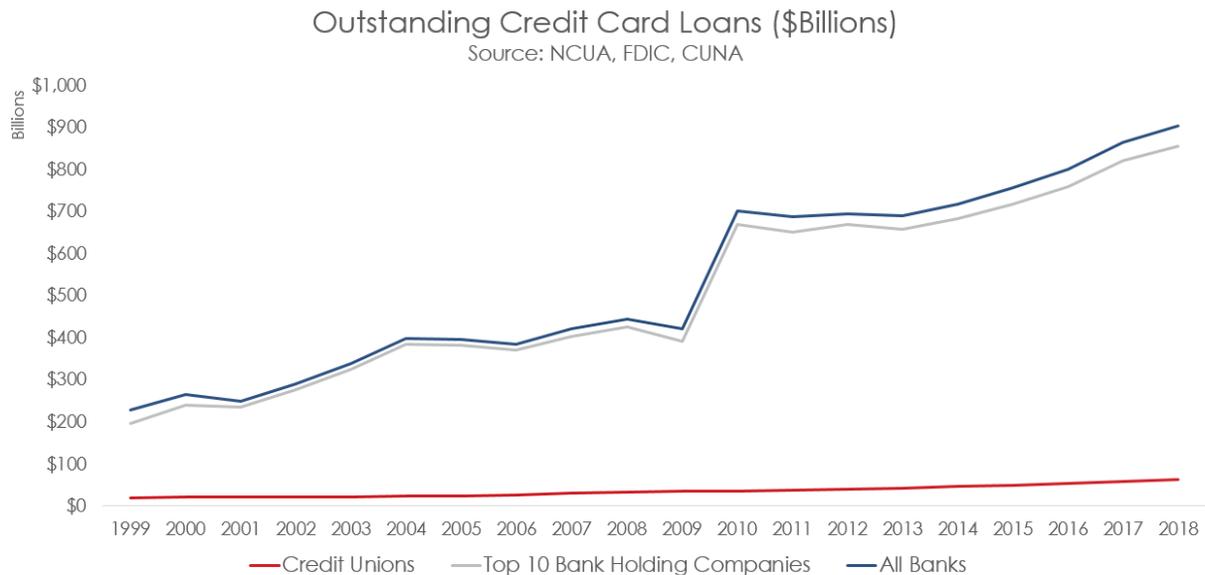
Credit Unions & the Credit Card Market

As the CFPB conducts its review of the credit card market, we urge it to be cognizant that excessive regulatory requirements have the potential to divert credit unions' resources and attention from meeting their members' needs. The credit unions that offer credit card programs do so as a service to their members. Credit unions are member-owned, not-for-profit financial cooperatives that operate for the purpose of promoting thrift, providing credit, and providing other financial services at competitive interest rates, which are regularly lower than those offered by banks. The data provided in this letter demonstrates

that credit unions are fulfilling this mission even though they face regulatory and business hurdles that make the credit card marketplace challenging.

Credit cards as a service offering (measured by if the bank or credit union reported any outstanding credit card loans) is more common at credit unions compared to banks. 60% of credit unions serving 92.7% of all credit union members offer consumer credit cards, but only 18.21% of Federal Deposit Insurance Corporation (FDIC) banks had outstanding credit card loans despite banks holding most of the market for revolving credit.

Additionally, if outstanding credit card debt is organized by a bank holding company, the top 10 bank holding companies (by outstanding credit card debt) control over 90% of the bank market, and have for most of the last two decades. As of 2018, the amount of credit card loans outstanding at credit unions stood at \$62 billion whereas banks and the top 10 bank holdings companies had \$903 billion and \$856 billion in outstanding loans, respectively.

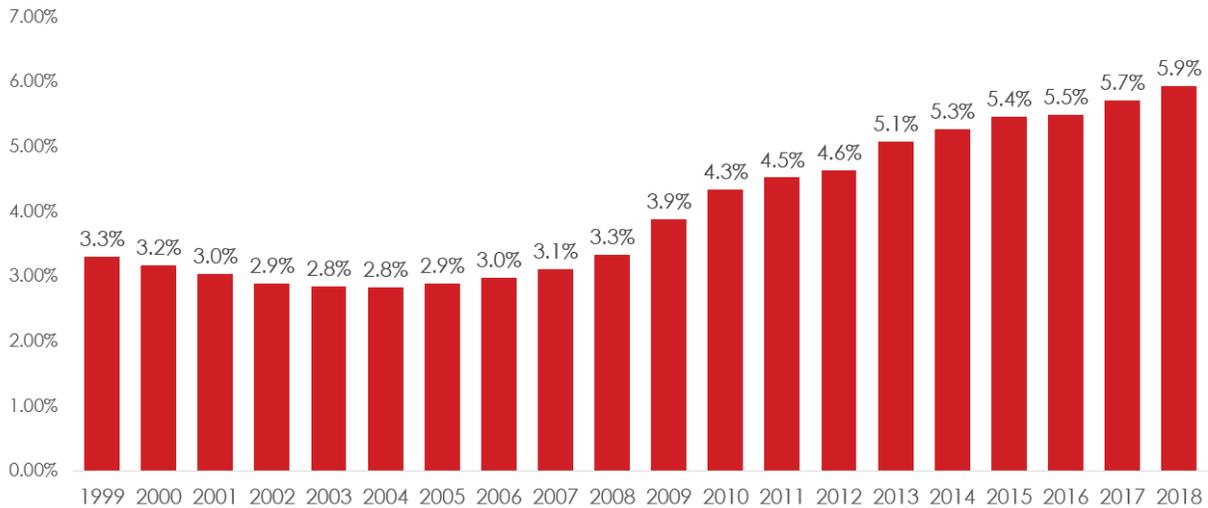


Although credit unions still have a relatively small share of the overall credit card market, the industry has nearly doubled its share of the market of revolving credit from ~3.29 to ~5.93 percent over the last decade according to the Federal Reserve’s G.19 Report.¹

¹ https://www.federalreserve.gov/releases/g19/HIST/cc_hist_r_levels.html

Credit Union Consumer Revolving Credit Market Share

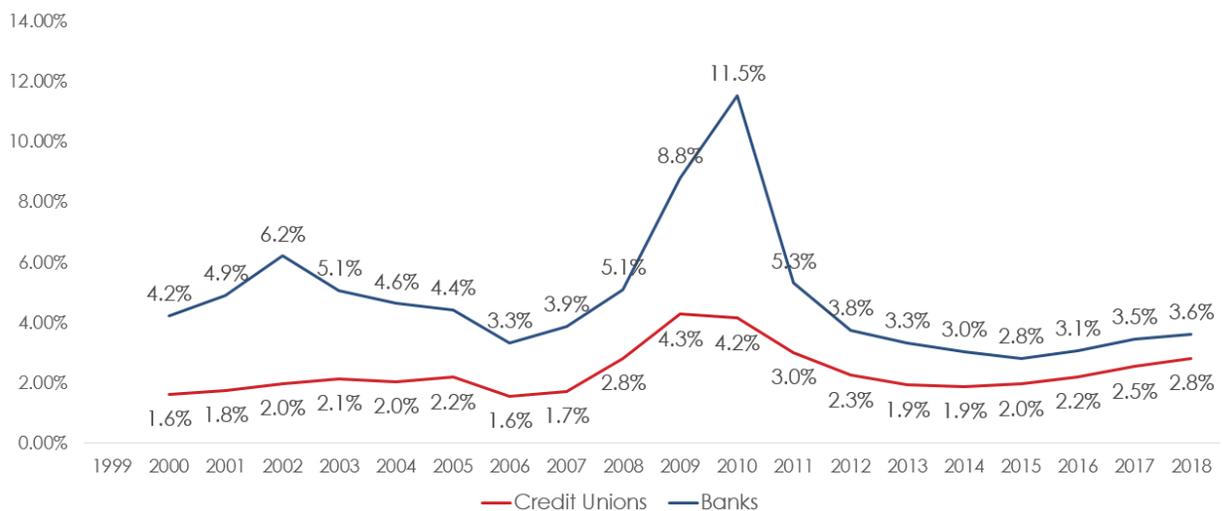
Source: Federal Reserve G.19, CUNA



Despite credit unions' continued growth in the credit card marketplace, credit unions remain responsible credit card providers as evidenced by the industry's low delinquency and charge-off rates. In fact, the delinquency and charge-off rates for credit unions' credit cards remain lower than those of their bank counterparts. This historic trend has remained true in both the 2008-2009 Recession, where banks saw a dramatic spike in credit card delinquencies, as well as in the more stable post-recession economy. Furthermore, the reporting of delinquent loans occurs at credit unions once an account is 60+ days past due, but for banks the reporting is only at 90+ days past due. Even with this difference in reporting, banks see higher delinquency rates.

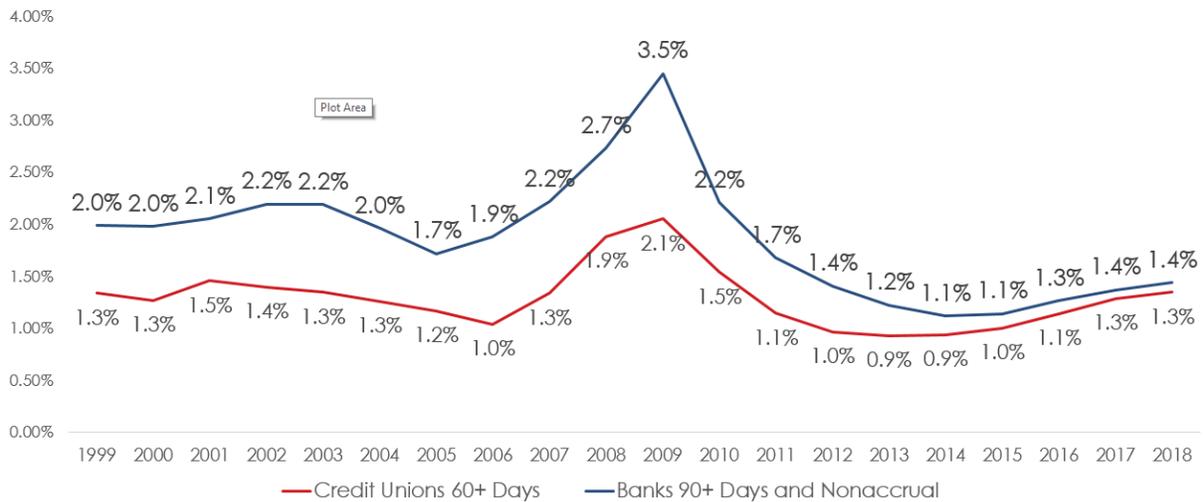
Net Credit Card Charge-offs / Average Credit Card Loans

Source: NCUA, FDIC, CUNA



Delinquent Credit Card Loans / Outstanding Credit Card Loans

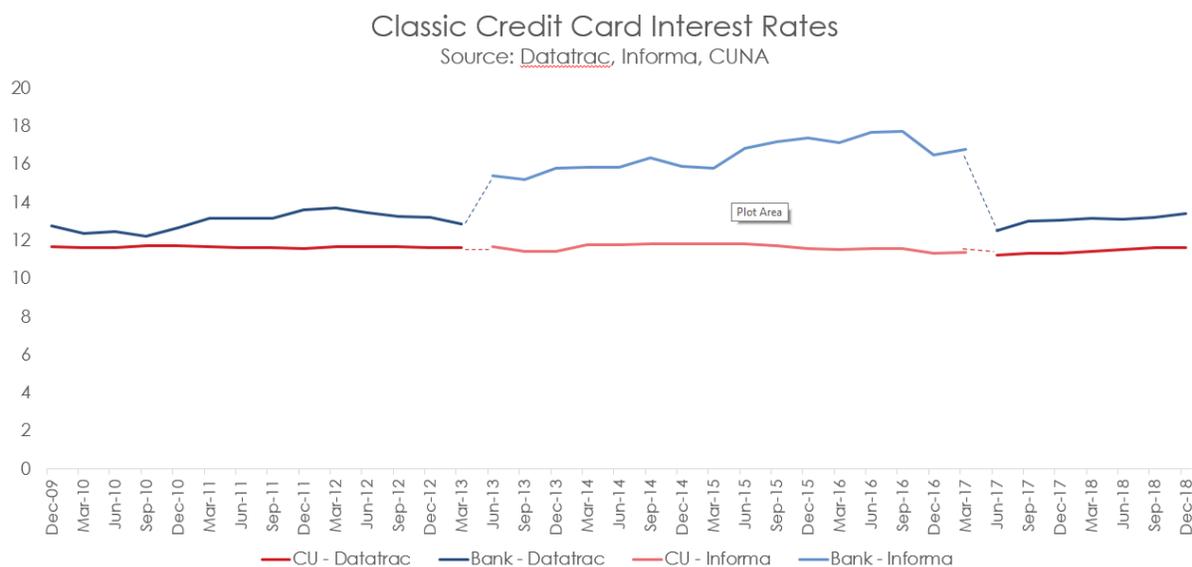
Source: NCUA, FDIC, CUNA



As member-owned financial cooperatives, credit unions have a vested interest in minimizing fees on products and services, including for credit card programs. Nevertheless, the services offered by credit unions, such as credit card programs, do have associated costs. It is reasonable for credit unions to assess appropriate fees and charge fair interest rates for such services, particularly because the costs of these features are borne by credit union members. Credit unions also face regulatory pressures to maintain net worth (capital) that often exceeds the well-capitalized level, and unlike publicly-traded banks, credit unions have limited sources from which they can build capital, which is from retained earnings such as fee income. Therefore, credit card fees or interest charges are necessary for credit unions to maintain these programs for their members.

Credit unions continue to face additional challenges, which might not impact other credit card issuers to the same degree. Unique among credit unions is the statutory interest rate cap that federally-chartered credit unions are subject to by law. The Federal Credit Union Act caps credit union interest rates at 15% but provides the National Credit Union Administration (NCUA) Board limited ability to increase the cap in certain instances. During its July 2018 meeting, the NCUA Board approved a continuation of an 18 percent maximum loan interest rate for federal credit unions, effective September 11th, 2018 through March 10, 2020. Federal credit unions are unable to provide interest rates on credit cards and most other loan products higher than this threshold.

Although the average credit union credit card interest rate is significantly below the statutory limit, the cap does potentially affect credit unions' ability to compete with other credit card issuers. For example, credit unions can struggle to match other issuers rewards and signing bonuses when consumers chase extras instead of focusing on interest rates alone. There are also challenges associated with supporting a credit card program during in an increasing interest rate environment.



As illustrated, credit unions offering credit cards do so at lower interest rates than banks. As of December 2018, credit unions’ average interest rate for classic credit cards stood at 11.61 percent compared to banks’ average interest rate of 13.47 percent. This trend holds true for most credit cards, including niche credit cards associated with special rewards programs. This difference serves as further evidence that credit unions are the best financial option for America’s consumers.

Credit Card Disclosures

As member-owned cooperatives, credit unions have a proven track record of protecting their members’ interests. CUNA has consistently been a proponent for tailored, appropriate consumer protections on regulated entities, including some of those implemented under the CARD Act. However, the CFPB has acknowledged, and credit unions agree, that complex disclosures are less effective at informing consumers about the terms of a financial product. To that end, CUNA recommends the CFPB study methods to improve and simplify disclosures as they relate not only to the consumer but also to affected financial institutions.

Credit Card Data Breaches

Data breaches at retailers and merchants are a problem impacting credit unions. Merchants are not subject to a federal data security standard and are not responsible to credit unions and other issuers for financial institutions for losses stemming from a breach or loss of credit card data maintained on their computer systems. The effect of breaches has an outsized impact on cost and staff hours for credit unions, where logistics of a breach pull staff from other credit union services, and losses from fraud and reissuance costs consume precious resources.

Innovation Initiatives

As part of the Bureau's statutory mission, it has taken steps to revitalize its approach to innovation as a key policy priority, including issuing a revised Trial Disclosure Program (TDP) Policy, participating in the Global Financial Innovation Network (GFIN), and issuing proposals related to No-Action Letters (NALs) and Sandbox Policy. Innovation, through technology and other creative solutions, can enhance the delivery and quality of consumer financial products and services – including those related to revolving credit. In recent years, credit unions have been at the vanguard of innovation as a byproduct of their cooperative nature, member-driven focus, and relatively small size. Consumers benefit when credit unions have more opportunities to pursue fresh answers to traditional questions, under the oversight of regulators. For this reason, as part of this credit card market review, CUNA would like to reiterate our support for the CFPB's effort to use its authority to encourage innovation through mechanisms like the TDP policy, NAL Policy, and Product Sandbox, if credit unions are given equal access to such programs and approved programs are limited in number and narrow in scope.

Conclusion

On behalf of America's credit unions and their 115 million members, thank you for the opportunity to share our thoughts on the consumer credit card market. If you have questions or require additional information related to our feedback, please do not hesitate to contact me at (202) 508-3629 or amonterrubio@cuna.coop.

Sincerely,



Alexander Monterrubio
Senior Director of Advocacy & Counsel