International Regulatory Research

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EXECUTIVE SUMMARY

BACKGROUND

The purpose of this study is to provide the Department for Business, Innovation & Skills (BIS) with a 360-degree perspective on recent credit and store card industry regulation in the international markets (i.e. non-United Kingdom), paying special attention to the regulations currently being implemented in the United States (Credit CARD Act) and Canada (Credit Business Practices Regulation). This information will be used by the Government to further inform their response to the consultation on credit and store cards that recently concluded.

In the Consumer White Paper¹ ("A Better Deal for Consumers", published July 2009), an identified next step was to review the regulation of credit and store cards. Specifically, the objectives of this review were to examine whether future regulation should explicitly:

- require that repayments to a credit card account are allocated to debts attracting different interest rates on a fairer basis
- require higher minimum payments to enable full repayment of the debt within a reasonable period
- ban the practice of increasing borrowers’ credit limits without their consent
- place restrictions on card issuers' ability to raise interest rates on existing debts

As part of this review, BIS consulted stakeholders over a 3 month period; this consultation process began in late October. The stakeholders who have been asked to respond to the consultation include industry participants (i.e. issuers, networks, credit unions, consultants, etc.). At the same time, other countries have proposed and/or implemented new regulatory and legislative proposals that relate to credit and store cards – most notably the US and Canada.

This report was commissioned in December 2009, by the Consumer and Competition Policy (CCP) directorate at BIS. All research was conducted by Auriemma Consulting Group (ACG) using a combination of interviews, desktop research, consumer surveys and internal industry insight.

¹ http://www.berr.gov.uk/files/file52072.pdf
ACG conducted in-depth interviews with 25 individuals. Proprietary or competitive information was not discussed during these sessions, and the identities of these participants are not included in this study. Interviews were conducted using a guide developed jointly by ACG and BIS; a copy can be found in the appendix.

Additionally, ACG leveraged its proprietary market research platform, Cardbeat®, to obtain consumer perspective on the potential outcomes of card regulation. In partnership with BIS, ACG drafted a survey that was taken by US and UK consumers about the possible outcomes of the regulation, including changes to credit pricing, credit availability, and product offerings. This information provides additional perspective on the potential impact of the regulation.

Detailed descriptions of the research process can be found in the Objectives & Methodology section of this report.

Though ACG cannot publicly recognise the participants in this study, we extend our thanks to them for their willingness to participate, their expertise, and candour during the sessions.

**KEY OBSERVATIONS**

During the course of the study, ACG was struck by the consistency of the responses received, particularly during the interviews of US and Canadian credit card industry stakeholders. ACG found it especially notable that parties who typically do not agree with each other (e.g. regulators and industry associations) were relatively aligned in their perspectives on the CARD Act and the Canadian equivalent.

When we analysed the results of the interviews, five main themes emerged. These themes will be addressed in further detail in the Analysis & Observations section of this report.

1. Measuring the impact of the regulation will be difficult since it is also coinciding with unprecedented economic changes.
2. Limiting issuers’ ability to change terms in a reactive fashion impacts their ability to manage risk.
3. Having an open dialogue between politicians, regulators and industry participants will ensure that the impact and goals of the regulation are understood by all parties and that changes are made
in an organised and effective fashion.

4. Regardless of the scope of the regulation, it is critical that the industry is provided with enough time to implement and appropriately test any necessary changes.

5. The consumer credit industry is creative and innovative. The industry will adapt to the regulation and will develop products, services and strategies that appropriately reflect the new market constraints.

While all of these findings will have some significant impact on the global credit industry (including the UK market), the most impactful result is the limitations on the ability that credit issuers have to manage risk (i.e. change terms) reactively. This fundamental change to the industry’s long-standing business practices will result in less credit being available to consumers; the credit that is available will be more expensive.

Among study participants, there was consensus that the CARD Act and the Canadian equivalent will have great effect on the industry and the way consumers use credit cards. Additionally, research shows that regulations in other international markets outside of North America have also had an impact on consumer behaviour. The majority of these other international regulations are related to the fees merchants are charged by credit card companies to facilitate card payments; since the scope of most of the international credit card regulations have little overlap with BIS’ current endeavour these markets will not be the focus of this report. The relevant elements of these regulations are discussed in the section titled Regulatory Environment: Other Markets.

While different experts had differing opinions on what the future of the consumer credit industry would be, they all agree that the current model will undergo significant changes in the near future. Some of the potential changes to the US and Canadian consumer credit industry are listed below.² It is important to note that some of these scenarios are contradictory – which re-emphasises our earlier point that the impact of the regulation is not possible to quantify or estimate: the industry will be less able to issue credit. The credit that they do issue will be more

² These potential changes have all been identified by the industry experts we interviewed as possible outcomes from the regulation introduced in the US and Canadian markets. These are all forward-looking statements; none of these outcomes were introduced prior to the regulation’s introduction to the market.
expensive and more difficult for consumers to obtain.

- The industry will be less profitable as a result of the regulation due to increased pressures on revenue streams and the inability to manage portfolio risk in a reactive fashion.
- The industry will be more profitable as a result of the regulation if sub-prime and/or poor credit quality consumers cease using credit cards, causing loss and delinquency rates to fall.
  - It is expected that these two outcomes will occur simultaneously though it is unknown which opposing force will be stronger; how the new regulation will affect long-term profitability is still to be determined.
- New metrics for measuring the industry and new standards of success and failure will be developed.
- Pricing on credit and store cards will be converted to variable rate pricing (the equivalent of tracker-rate pricing in the UK). It is expected that all or nearly all of cards will feature this type of pricing (though it is of course possible that tests of products or offers with fixed rate pricing will occur going forward), particularly since the transition to this model has already begun with earnest.
- Risk models will be reviewed and revised to reflect new industry realities including new consumer behaviour, new constraints on pricing, and new economic standards.
- New credit industry regulation will be authored in reaction to the unintended consequences of the current regulation, though these reactionary rules are not expected to be introduced for 1-2 years.
- Some issuers, particularly those who are categorised as being small- or medium-sized lenders, may cease to issue credit and/or store cards, due to the high financial and human resources required to comply with the new rules.
- Industry relations with lobbyists, regulators and legislators will be improved. An industry spokesperson will be identified (formally or informally) to represent the wider group in public forums.
- Financial education efforts, particularly those focused on improving consumer financial literacy, will become more prevalent and focused.
- The set of products offered to consumers will continue to evolve post-implementation. It is expected that the benefits and features associated with these products will reflect the new requirements for increased transparency and/or be re-purposed versions of old best practices. Some examples of these old best practices include the re-
introduction of charge cards as a mainstream product, widespread annual fees on cards and rewards being only offered to the most affluent and/or profitable cardholders.

• As credit becomes more difficult to obtain, the migration of consumers to debit cards and prepaid cards will only accelerate. It also seems likely that short-term lending products like payday loans will gain interest among the mainstream public. In the US, it may be likely that consumers follow the Canadian lead and begin relying on personal lines of credit to finance larger purchases.

The end users of consumer credit – the consumers themselves – will also face new changes in the way they use credit, the availability of credit, and the services their credit providers offer.

• Many consumers will no longer use credit or store cards, finding them simply too expensive. The consumers who continue to use credit will find it less readily available, particularly if they are new to credit, recovering from hardship, or running a small business.

• The credit products that consumers have grown accustomed to (i.e. rich rewards, no annual fees, etc.) will become much less commonplace. New products will be developed, though it is expected that these will largely be fee-based and targeted at more affluent customers.

The consumer surveys that were conducted as part of this study give an interesting perspective on how credit card regulation will affect the common cardholder. Consumers may be unable to make informed decisions about credit (some of which can be quite complex) currently, and are in need of improvements in their financial literacy. Until there is thematically consistent consumer education readily available, consumers are unlikely to improve their ability to choose financial products and services that are the most beneficial for them.

OBJECTIVES & METHODOLOGY

OBJECTIVES

The goal of the research is to obtain a broad perspective on recent regulation (with special focus on the US and Canada), analyse any effects new industry regulations have had on the industry and consumer usage, and predict future trends and outcomes.
This research project was commissioned by the Department for Business, Innovation & Skills as part of the wider consultation on potential changes to the law covering credit and store cards. Specifically, this study will:

- Provide evidence to inform the review’s conclusions. The results will inform the Government’s responses to the consultation as well as final policy decisions.
- Provide insights into the market structure and consumer usage habits in other countries, with special focus on the 4 areas of focus in the consultation: payment allocation, minimum payments, unsolicited credit line increases and debt repricing.\(^3\)
- Provide an overview of current and past credit and store card regulation in other countries, as well as their impact on the industry and consumers. This review will also highlight any similarities and differences of the regulations in other countries versus the UK.
- Provide insight into how regulation in other countries affects broader economic trends, such as consumer indebtedness, credit availability and other types of unsecured loans.

**STUDY METHODOLOGY & SCOPE**

To generate the information required by the objectives outlined by BIS in its project specification, ACG relied on 4 different types of sources:

- **In-person/phone interviews**
- Consumer surveys: US & UK (Cardbeat)
- ACG internal insight
- Desktop research

**In-person/phone interviews**

ACG conducted a series of in-depth interviews with 25 compliance and regulatory experts in the US and Canada, using a pre-defined interview guide (approved by BIS). A copy of the interview guide can be found in the appendix of this report.

ACG sourced study participants by leveraging an internal network of contacts that participate in our card compliance and accounting forums, as well as other experts that ACG is networked with through our consulting practice. The in-person/phone interviews were conducted

\(^3\) [http://www.bis.gov.uk/creditconsultation](http://www.bis.gov.uk/creditconsultation)

during January 2010 with US and Canadian:

- Networks
- Issuers
- Servicers
- Other industry participants
  - Lawyers
  - Regulators
  - Industry representatives/associations
  - Industry analysts

All participants were from “brand-name” organisations. Conversations with these experts were on the understanding of anonymity. As such, the identities of specific interview subjects will not be disclosed in this report. Many of the participants expressed interest in receiving a copy of the final report, should it be released into the public domain.

Key questions asked during the interviews include:

- What do you think are the most critical aspects of the current regulation/legislation?
- How has/will your portfolio/the industry respond to the recent regulatory/legislative initiatives?
- What changes has your company/the industry made in preparation for the implementation of the more recent regulatory/legislative initiatives?
- What business challenges do you anticipate your company/the industry facing as result of these changes?
- Do you believe that your business is well-prepared for the recent regulatory/legislative initiatives? What aspects of this regulation/legislation give you the greatest concern?
- Do you believe that the regulator/industry authority should have acted differently during regulatory/legislative initiatives?
- How do you think the recent regulatory/legislative initiatives will affect the credit and store card industry in the next year? The next 5 years?

**Consumer Surveys**

For the past 15 years, ACG has published a unique, syndicated market research tracking study called Cardbeat that provides insights into how consumer perceptions impact credit card acquisition and usage. The Cardbeat reports feature ACG’s analysis of the data and incorporate
During this study, Cardbeat served as a source for consumer perspective on outcomes of card regulation. Jointly with BIS, ACG developed a brief survey that explored consumers’ attitudes about current credit and store card industry practices, their opinions on the potential changes to their credit and store card benefits should regulation be introduced.

The only criterion to participate in the study was that the respondent must be a credit card user. The 14-question survey was administered online, and only completed surveys were included in our results. This survey was conducted in early January 2010. 411 credit card users completed the US survey; 500 credit card users completed the UK survey.

A copy of the survey and the full results can be found in the appendix of this report. Key questions from the consumer survey include:

- In your opinion, which balance should your credit card company apply the payment to first?
- When the credit limit was increased on your credit or store card, which of the following best describes how you handled it?
- If credit and store card terms and conditions were easier to understand, would you be more or less likely to read them?
- Imagine that the minimum required payment on your credit or store card statements increased. How would that affect your ability to pay your bills?
- Credit and store card companies may need to change some of the terms and benefits typically associated with your cards. What kind of effect would these changes [described in full in the question] have on your likelihood to use your credit or store cards?

**ACG Internal Insight**

Having addressed many aspects of international card regulation through our other consulting experience, ACG is well-positioned to comment on these practices based on reliable data that has been obtained first-hand. ACG consultants are recognised industry experts on international card regulation and are frequently called upon by clients to provide advisory and research services during regulation consultation and transitional periods.
Desktop Research

To supplement the previously described data sources, ACG gathered quantitative and qualitative data using traditional desktop research methods to access public and non-confidential sources, including our proprietary internal database. ACG then evaluated that market intelligence in the context of how it best applies to the objectives of this engagement and included them in this report as appropriate.

OVERVIEW OF THE CURRENT INTERNATIONAL MARKET STATE & REGULATORY ENVIRONMENT

In this section of the report, ACG will review and discuss the current market state in the international markets. ACG will also provide readers with an overview of the most recent regulatory initiatives in those markets, with special focus on the US and Canadian markets as these are the two markets that are most similar to the UK.

CURRENT INTERNATIONAL MARKET STATE

The credit card market varies widely from country to country. Certainly, the US is the dominant credit card market, with more credit cards and credit card debt (i.e. outstandings) per capita than any other nation\(^5\). The United Kingdom is the second-largest credit card market, in terms of outstandings, but cards are more prevalent in Canada. Canadians are less dependent on the revolving capabilities of credit cards (i.e. the ability to carry a balance on the card) than British consumers.

The British, American and Canadian credit card markets share some similar characteristics:

- These 3 countries are the most mature among the other players in the global credit card market. Credit card portfolios are serviced by issuers using best-in-class management, sales, operations collections, and fraud techniques.
- There is significant competition between the issuers. Each market features at least 5 major issuers, each of whom offers numerous different products targeted at different demographic and preference categories.

\(^5\) All data reflects metrics on 31 December 2009, unless otherwise noted. Outstandings have been converted to pounds sterling for comparative purposes. Sources include PaymentsSource, US Federal Reserve, Bank of Canada, Bank for International Settlements, British Bankers Association, Banco de Mexico, Swiss National Bank, Denmark Nationalbank, European Central Bank, Cards International, Turkey Banking Regulation and Supervision Agency, Banque du France, Banco de España, Reserve Bank of Australia, Bank of Japan, Japan Consumer Credit Industry Association and ACG estimates.
Credit cards have been widely used and accepted for 30+ years; consumers are well aware of the product and its benefits and features.

Credit cards are actively and aggressively sold to and used by consumers, regardless of their credit quality. Credit cards are not solely used by the affluent as they are in less mature markets.

Some of the other most sizable credit card markets in the international market include Japan (which is a market that has widespread credit card usage, but consumers are extremely debt-averse due to cultural pressures). Japanese cardholders use their cards, but they tend to pay them off in full, as evidenced by their low outstandings to cards ratio (see table below). Credit cards have similar per capita penetration in European markets like France and Spain but the propensity to revolve varies significantly due to economic differences and a cultural acceptance of personal debt. For example, in the UK, the average outstandings (or balance) per credit card is £1,286, compared to £882 in France and £497 in Spain.

<table>
<thead>
<tr>
<th>Country</th>
<th># of Credit Card Accounts (mm)</th>
<th>Outstandings (£, billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>USA</td>
<td>474.7</td>
<td>£286.6</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>49.7</td>
<td>£63.9</td>
</tr>
<tr>
<td>Canada</td>
<td>71.6</td>
<td>£37.2</td>
</tr>
<tr>
<td>France</td>
<td>34.0</td>
<td>£30.0</td>
</tr>
<tr>
<td>Australia</td>
<td>14.4</td>
<td>£20.1</td>
</tr>
<tr>
<td>Mexico</td>
<td>13.4</td>
<td>£14.0</td>
</tr>
<tr>
<td>Spain</td>
<td>19.9</td>
<td>£9.9</td>
</tr>
<tr>
<td>Turkey</td>
<td>30.0</td>
<td>£9.4</td>
</tr>
<tr>
<td>Switzerland</td>
<td>7.6</td>
<td>£7.4</td>
</tr>
<tr>
<td>Japan</td>
<td>324.0</td>
<td>£1.8</td>
</tr>
<tr>
<td>Denmark</td>
<td>1.2</td>
<td>£0.8</td>
</tr>
</tbody>
</table>

REGULATORY ENVIRONMENT: UNITED STATES

The consumer credit industry in the US is highly regulated. The industry’s numerous regulatory authorities (outlined later in this report) have a history of responding aggressively to the domestic and global economy with stringent regulations.
Of late there have been several other contributing factors influencing the country’s regulatory environment. American politicians have recently taken direct interest in credit card regulation and have crafted new wide-reaching legislation (Credit CARD Act) that applies to the industry; regulators have responded to this legislation with a broad new set of rules. Historically, payments industry regulation has been the exclusive domain of regulators, who have reacted to changing consumer behaviours and market trends with iterative and evolutionary regulations. This latest set of regulation has a very broad scope, most likely due to the political influence.

In the US, the consumer credit card industry can be characterised as having multiple regulatory bodies. These regulatory bodies often have overlapping and occasionally conflicting responsibilities/priorities. Many of them have consumer protection as part of their remit, though the priority that consumer protection takes can vary. The key bodies that look after consumer protection in the US include:

- **Federal Trade Commission (FTC):** consumer protection & competition (anti-trust)
- **Office of the Comptroller of the Currency (OCC):** charters, regulates & supervises all national banks
- **Office of Thrift Supervision (OTS):** regulator of all federal and many state chartered thrift institutions
- **Federal Reserve Board (FRB or Fed):** conducts U.S. monetary policy, supervises & regulates banking institutions safety & soundness, protects credit rights of consumers, maintains stability of financial system, provides financial services to depository institutions
- **Federal Deposit Insurance Corporation (FDIC):** provides deposit insurance, examines and supervises certain financial institutions for safety and soundness, performs certain consumer-protection functions, and manages banks in receiverships (failed banks)
- **National Credit Union Administration (NCUA):** independent federal agency that charters and supervises federal credit unions throughout the United States and its territories
- **Securities and Exchange Commission (SEC):** holds primary responsibility for enforcing the federal securities laws and regulating the securities industry, the nation's stock and options exchanges, and other electronic securities markets. Includes establishing and auditing accounting policies (FASB (GAAP))
State Attorneys General: The Attorney General is concerned with legal affairs and is the chief law enforcement officer of that individual state.

In mid-2008 in the US, the Board of Governors of the Federal Reserve System, the OTS and the NCUA proposed new regulation that would prohibit unfair or deceptive acts and practices (UDAP, or Regulation AA) in credit card accounts. Through political involvement from legislators, this proposal evolved from proposed regulation to a law now known as the Credit CARD Act (or simply CARD Act). The CARD Act was signed into law on 22 May 2009; a final version of these rules published on 12 January 2010, with an effective date of 22 February 2010. The stated goal of the CARD Act is "to establish fair and transparent practices relating to the extension of credit under an open end consumer credit plan, and for other purposes." Key aspects of the regulation include:

- Restrictions on issuers ability to price for risk
  - Limits rate increases in first year
  - Limits rate or fee increases on existing balances
  - Prohibits the practice of using universal default in credit decisioning
- Advance notice of rate increases
  - 45-day advance written notice of a “significant change” (i.e. changes in the APR for purchases or cash advance, annual fee, finance charge, increase in the min pay, grace period, balance computation method) to the terms and conditions of the account, unless the change falls within an express exception.
  - Exceptions include changes in price that come as a result of the account being priced variably (i.e. with a rate index), completion or default of a workout or temporary hardship arrangement, expiration of a disclosed specific period of time (i.e. promotional rate)
  - Delinquent accounts can be re-priced if the increase is

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6 Universal default is a term that refers to the practice of making a credit decision (including account terms modification) using information from other credit accounts. For example, if a consumer became delinquent on one credit card, the price on a different credit card could be increased. The theory behind using universal default as a decisioning tool stems from the theory that behaviour on one credit account is indicative of behaviour on another. Under CARD Act, universal default practices are prohibited.
due solely to the fact that the issuer has not received a minimum payment within 60 days after the due date but only if the issuer has provided the 45-day notice. However the increase will terminate no later than 6 months after the date it is imposed if the issuer receives the required minimum payment on time from the consumer during that period.

- Minimum 21 day grace period
- Underwriting restrictions will prohibit an issuer from opening a credit card account for a consumer, or increasing the credit limit of a consumer’s account unless the issuer has considered the ability of the consumer to make the required payments.\(^7\)
- Requires consumers to specifically opt-in to have their over-limit transactions be authorised. Only if they choose to opt-in can consumers be charged and over-limit fee.
- Payments that are more than the minimum payment must be applied, with respect to accounts with more than one balance accruing interest at different rates, to the balance with the highest rate of interest.
- Young consumers (under 21) can only receive a credit card if the application is co-signed by a parent or spouse. Creditors may not offer tangible incentives to college students to induce the student to apply for a credit card.
- New clear and conspicuous disclosure requirements increasing transparency, including disclosures on statements about repayment periods, the cost of borrowing, and penalties for non-compliance with card terms and conditions.
- Other aspects of the regulation include restrictions on gift card expiration and overdraft protection.

There are many other regulatory acts that American financial institutions must adhere to, that were designed to protect the consumer. Many of these acts are trumped by the CARD Act, though some, like Regulation Z (also known as the Truth in Lending Act) and the Gramm-Leach-Bliley

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\(^7\) In the final version of the regulation, the Federal Reserve indicated that the use of income estimators to determine a consumer’s ability to pay their bills is acceptable. These estimators are currently being developed by 3rd party companies who use information in credit bureau reports and other publicly available information to fuel a model that estimates a consumer’s income. Income estimator development is a new business that has been created as a direct result of the CARD Act.
Act (governs the handling customer information) still clearly apply. It is expected that all industry-related regulations will be revised by the appropriate US authorities in the months and years following CARD Act implementation so as to prevent contradictory guidance from occurring. A summary\(^8\) of these key regulations can be found in the appendix of this report.

**REGULATORY ENVIRONMENT: CANADA**

The Canadian regulatory environment is much less interventionist than in the US. There are fewer regulatory bodies, and the regulators have a history of consulting with the industry prior to publishing new rules. This practice of industry consultation appears to lead to regulations that are balanced between benefiting consumer and business interests. When consultation occurs, the open lines of communication (or at least the disclosure of the true constraints of the proposed regulation) allow regulators and legislators to fully understand the impact of the proposed rules. Also, a consultation period gives the regulators and legislators the opportunity to consider the true cost-benefit prior to implementing them.

However, the Canadian lending environment is fundamentally different than the US, and some of the accepted business practices in the US are not standard practice in the Canadian market. For example, there are fewer credit issuers, leading to less aggressive competition and marketing strategies. Card products typically feature standard pricing structures and rewards offers and promotions are usually uncomplicated. As a result, there is less concern about consumers being taken advantage of, and the regulatory environment reflects that.

Some of the Canadian regulatory authorities tasked with looking after consumer interests include:

- **Financial Consumer Agency of Canada (FCAC):** ensures federally regulated financial institutions comply with consumer protection laws and regulations, monitors codes of conduct, informs consumers about their rights/responsibilities, provides timely and objective information/tools to help consumers understand, and shop around for financial products and services

- **Office of the Superintendent of Financial Institutions (OSFI):** concerned with the safety and soundness of the Canadian financial system, supervises/regulates federally registered

\(^8\) [http://www.dfi.wa.gov/cu/summary.htm](http://www.dfi.wa.gov/cu/summary.htm)
financial institutions subject to federal oversight, and ensures they are complying with their governing legislation

- **Department of Finance**: develops policies and provides advice to the Government with the goal of creating a healthy economy for all Canadians. It plans and prepares the federal budget, analyzes and designs tax policies, develops regulations for Canada’s banks and other financial institutions, administers the transfer of federal funds to the provinces/territories, develops policies on int’l finance and helps design the country’s tariff policies, monitors economic/financial developments in Canada and provides policy advice

- **Canada Deposit Insurance Corporation (CDIC)**: provides insurance for financial services provided by chartered Canadian banks and financial institutions

- **Bank of Canada**: the nation's central bank. Has responsibilities for Canada’s monetary policy bank notes, financial system, funds management. Principal role is "to promote the economic and financial welfare of Canada."

In Canada, the Credit Business Practices Regulations\(^9\) were amended on 30 September 2009, with an effective date of 1 January 2010. Changes that require significant IT or systems investment are required to be completed by 1 September 2010. This amendment mirrors several of the provisions in the US’ CARD Act, including:

- Increased transparency through greater disclosure on credit applications, marketing materials and credit statements.
- Minimum payment warnings and disclosures of the length of a repayment period will be included on statements.
- Minimum 21 day interest fee grace period
- When a payment is made on a credit card balance, the payment is first applied to the minimum payment; any additional funds will be applied to debts accruing interest at the highest rate first.
- Express consent must be given for consumers to be eligible for credit line increases
- Advance notice of rate increases must be given. Existing balances cannot be repriced as part of existing regulation.
- Limits the ability to use standard methods of risk management

Canada is a much less regulation-centric country than the US; the most important regulatory acts that applied to this industry prior to the implementation of the most recent regulation – the Bank Act\(^\text{10}\), the Cost of Borrowing Regulations\(^\text{11}\) and the Credit Business Practices Regulations – are summarised below. Some provinces have regulations that protect consumer rights with regards to credit cards (like British Columbia’s Business Practices and Consumer Protection Act\(^\text{12}\)) while others prefer to leave the consumer regulation to the federal government.

**Bank Act**

- Banks must provide clear information regarding the issuance and management of credit cards.
- Banks must disclose the costs of borrowing money using a credit card, including detailing any charges for which the person becomes responsible for by accepting or using the card, and any changes to the costs of borrowing the money using the card.
- The cardholder’s rights and obligations must be thoroughly disclosed, including any charges for which the person is responsible under the arrangement.
- Advertisements for credit cards must disclose the cost of borrowing, including fees.

**REGULATORY ENVIRONMENT: OTHER MARKETS**

During the course of our research, ACG looked into other international markets with recent or pending regulation affecting the credit and/or store card industry. Australia and New Zealand are perhaps the other markets most similar to the UK in terms of the scope of regulation and are addressed in this section of the report. ACG also researched numerous other countries regulatory environments, including Switzerland, Turkey, Denmark, Portugal, Spain, France and Ireland. While these countries have all made some regulatory advances in the credit card industry in the recent past, a majority of these initiatives are irrelevant to this study, due to the fact that the scope of the new rules do not overlap with the 4 areas covered by the UK government review. Relevant regulation from these other markets will also be outlined in this research.

\(^{10}\) [http://laws.justice.gc.ca/PDF/Statute/B/B-1.01.pdf](http://laws.justice.gc.ca/PDF/Statute/B/B-1.01.pdf)


In Australia, financial services regulation is vigorously enforced by the Australian Securities and Investments Commission (ASIC) and the Australian Prudential Regulation Authority (APRA). These agencies have current and pending legislation\(^{13}\) that were drafted with a goal of relieving consumer debt\(^{14}\) and supporting small businesses. Perhaps the most notable aspect of this regulation is the limit placed on interchange fees (capped at 0.50%). The Australian regulation was put in place with the goal of having at least part of the savings merchants realised passed on to customers; there have been no reports of consumer prices decreasing post-implementation of this regulation. As a result, consumer debt levels continued to rise and card issuers, facing decreased profitability levels, have introduced annual fees to a majority of cards while simultaneously reducing service levels and/or card benefits.

Similarly, in Switzerland, recent regulation from the Competition Commission (ComCo) has resulted in lower average interchange rates. The regulation, decreed in January 2010, will result in interchange fees falling from 1.282% to 1.058% - comparable to the European average interchange rate.\(^{16}\) While these changes are pending (and are not expected to be finalised until 2011), the stated goal of the decrease is to reduce the cost of credit for consumers. However, no evidence exists to support that consumer costs will decrease as a result of an interchange reduction. In fact, history shows us that the only parties that typically benefit from interchange reductions are large retailers (who have negotiating power over their interchange rates and classifications) and merchant acquirers. The savings that is expected to come from the Swiss regulation is estimated to total approximately 30 million francs annually (approximately £18 million). There is no mandate to pass

\(^{13}\) The unfair contract terms legislation (UCT) and the national credit protection legislation (Credit Law)

\(^{14}\) Australian consumers largely used government stimulus cheques issued in 2008 to pay down debts as opposed to making purchases (as the stimulus intended)

\(^{15}\) The fee paid by merchants to credit card providers (frequently through a 3rd party merchant acquirer business) to accept credit cards in their stores. Interchange fees are determined by the card networks (i.e. MasterCard, Visa, American Express, Discover)

\(^{16}\) 22-0264: Kreditkarten – Interchange Fee

http://www.weko.admin.ch/aktuell/00162/index.html?download=NHzLpZeg7tLnp6l0NTU042l2Z6ln1ad1lZn4Z2qZpnO2Yuq2Z6gpJCDdHx.fymy162epYbg2c_JkBNoKSn6A--&lang=en
savings into the consumer.

In New Zealand, the Commerce Commission introduced the Credit Contracts and Consumer Finance Act ("The Act") in 2003. This act features requirements that disclosures are enhanced to allow customers to be able to accurately and knowledgably make decisions about their personal credit preferences. Additionally, the rules require that credit card fees (i.e. for over-limit, late fees, etc.) reflect the true cost of the behaviour to the creditor as well as reasonable standards of commercial practice. As a result, credit costs have increased and issuers have introduced fees to consumers’ credit cards.

In 2001 and 2002, credit card loss rates in Turkey were very high and there was a trend of highly indebted consumers committing suicide due to cultural and familial pressures. As a result, in May 2006, the government passed the "Bank and Credit Cards Law"\(^\text{17}\), which is intended to "ensure efficient and effective functioning of the card payments system by setting down the principles and procedures applicable to the issuance, use, clearing and settlement of bank cards and credit cards." In addition to requiring some business practices that are standard in mature credit markets (e.g. limits placed on a consumer’s responsibility for fraudulent payments, respond to complaints within 20 days, mandatory statement issuing, etc.), the new Turkish regulations prohibit credit limit increases without customer opt-in. Additionally, in July 2006, the Turkish Central Bank established a limit on monthly interest rates on credit cards in good standing of 5.72%; the maximum monthly interest rate on accounts in default was 6.44%. These rates can change every 3 months, and are determined by the Central Bank.\(^\text{18}\) During the course of our research, ACG was unable to uncover evidence supporting how the introduction of these regulations has impacted the industry and consumer behaviours.

**CURRENT CONSUMER BEHAVIOURS**

Credit card users in both the US and Canada have difficulty understanding the credit card terms and conditions, but the more credit-dependent culture in the US combined with the lack of savviness results in American’s paying more (in absolute terms) than their Canadian

\(^{17}\) The Banks Association of Turkey, Bank Cards and Credits Cards Law, 2006, http://www.tbb.org.tr/english/Credit_Cards_Law.doc
\(^{18}\) Aysan, Lerzan, “The Regulation of the Credit Card Market in Turkey” http://mpra.ub.uni-muenchen.de/5490/1/MPRA_paper_5490.pdf
counterparts for similar behaviours (e.g. delinquency, revolving, etc.). Additionally, American consumers are accustomed to receiving promotional rate offers and rewards to encourage them to borrow money, whereas offers in Canada rarely feature aggressive rewards or teaser rates. When Canadians want to borrow money to make a sizeable purchase, they typically turn to a personal line of credit instead of a credit card\textsuperscript{19}.

Currently the global economy is facing unprecedented challenges. The editors of the latest Global Financial Stability Report\textsuperscript{20} published by the International Monetary Fund (IMF) summarised the current market state quite succinctly:

\begin{quote}
Systemic risks have been substantially reduced following unprecedented policy actions and nascent signs of improvement in the real economy. There is growing confidence that the global economy has turned the corner, underpinning the improvements in financial markets. Nonetheless, the risk of a re-intensification of the adverse feedback loop between the real and financial sectors remains significant as long as banks remain under strain and households and financial institutions need to reduce leverage.

The economic outlook has improved significantly over the past 6 months and extreme tail risks have been successfully mitigated. Financial markets have rebounded, emerging market risks have eased, banks have raised capital, and wholesale funding markets have reopened. Even so, credit channels are still impaired and the economic recovery is likely to be slow.
\end{quote}

In summary, the IMF believes that economy is on the path to recovery, led by unprecedented policy actions. However, a concern exists that these industries could respond to these new policies with new business practices that are in contradiction to the spirit of the new policy (i.e. “adverse feedback loop”).

\textsuperscript{19} A line of credit is typically offered in Canada as a ride-along product to a checking (current) account. Account holders have a line of credit (that is typically repaid at a fixed rate of interest) that they can access at any time.
\textsuperscript{20} Published semi-annually by the International Monetary Fund. Quote taken from the October 2009 report (http://www.imf.org/external/pubs/ft/gfsr/2009/02/pdf/text.pdf)
To further illustrate the rapid changes and volatility in the economy of late, ACG examined how inflation rates and unemployment rates\textsuperscript{21} have changed over the past 2 years in five key markets for the credit and store card industry.

<table>
<thead>
<tr>
<th>Inflation Rate</th>
<th>Jan-08</th>
<th>Dec-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>4.3%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Canada</td>
<td>2.2%</td>
<td>1.3%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>2.2%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Australia</td>
<td>4.2%</td>
<td>1.3%</td>
</tr>
<tr>
<td>Japan</td>
<td>0.7%</td>
<td>-1.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Unemployment</th>
<th>Jan-08</th>
<th>Dec-09</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>5.0%</td>
<td>9.7%</td>
</tr>
<tr>
<td>Canada</td>
<td>5.8%</td>
<td>8.5%</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5.2%</td>
<td>7.8%</td>
</tr>
<tr>
<td>Australia</td>
<td>4.2%</td>
<td>5.5%</td>
</tr>
<tr>
<td>Japan</td>
<td>3.8%</td>
<td>5.2%</td>
</tr>
</tbody>
</table>

Decreasing inflation rates and increasing unemployment rates are predictors of declining consumer credit quality and higher rates of credit delinquency, loss and bankruptcy – metrics which have all been measured at high levels in mature credit markets like the US, Canada and United Kingdom.

Consumers in the US and Canada use credit in fundamentally different ways. Americans historically have had a “buy now, pay later” mentality while Canadians subscribe to a “buy now, pay now” mentality. 60% of Americans carry a balance on their credit cards\textsuperscript{22} at least occasionally, while just 30% of Canadians carry a balance on their credit cards. Interestingly, Americans and Canadians have demonstrated little or no change in their likelihood to carry a balance as a result of the economic

\textsuperscript{21} Year-end statistics cited, except in the case of Japan and the UK where the most recently published unemployment rates reflect November 2009 levels. Australian inflation rates are published quarterly; the most recently published rate reflects Q3 2009 levels. Sources: US Bureau of Labor Statistics, Office for National Statistics (UK), Australian Bureau of Statistics, Statistics Canada, Statistics Bureau (Japan)

\textsuperscript{22} Cardbeat December 2009 (US edition), published by Auriemma Consulting Group
In the US and Canada since the introduction of the new credit card regulation, credit lines have dropped, while interest rates have increased. Consumers are no more or less likely to carry a balance and the balances that are carried are consistent with the levels that existed before the regulation.

In the US and any of the recent credit card regulations; the incidence of revolving behaviour has remained consistent since 2007. However, during the course of 2009, as credit card companies have worked to reduce their credit exposure (due to high levels of delinquency and loss, and in preparation for restrictions on repricing as a result of the new credit card regulation), the average credit line in the US has fallen from $9,883 to $8,775 – an unprecedented 11% drop in just 12 months. Over the same time period, the average balance carried by revolvers has remained steady at approximately $2,500. Interest rates have also increased, rising approximately 2-4 percentage points (varies by card, issuer, and consumer risk profile) during 2009; the average interest rate on a prime credit card (i.e. targeted at the mass market) as of Q1 2010 is approximately 17%. It should be noted that these changes in pricing happened gradually over the course of 2009, as opposed to as part of one finite initiative.

As a point of reference, 47% of British credit cardholders carry a balance on their credit cards at least occasionally. In the UK, consumers have demonstrated their desire to move away from using credit cards as a borrowing utility; the incidence of credit card holders that carry a balance on their cards at least occasionally has fallen from a high of 63% in Q1 2008. Credit lines have also fallen, from £5,440 to £4,924 during 2009. Similar to the US and Canadian markets, interest rates have increased by 2-3 percentage points from early 2009 levels. The current interest rate for a prime credit card issued in the UK is approximately 18%.

In Australia, the collective personal debt of the country is equal to its GDP. Australians are considered to be the most indebted (per capita) nation in the world but they are showing little ability to improve their indebtedness levels. Spending levels on credit cards have decreased slightly; the most recent statistics from the Reserve Bank of Australia indicate that in October 2009, Australians spent AUS$19.189 billion on their cards, compared to AUS$19.246 in the previous month. However, simultaneously, the amount of higher-rate cash advances that were funded by credit cards increased by 2%, from AUS$956 million to

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23 Cardbeat January 2010 (US edition), published by Auriemma Consulting Group
24 Cardbeat Q3 2009 (UK edition), published by Auriemma Consulting Group
AUS$977 million. The number of Australian credit cards remained consistent during the course of 2009 at approximately 14.4 million cards, but the value of credit card repayments fell by nearly 1%.

ACG attempted to find more consumer data for other significant and relevant international markets, but most public sources (e.g. national banks) do not break out credit card statistics from wider consumer debt statistics.

ANALYSIS & OBSERVATIONS

These findings are based exclusively on our research and focus primarily on the US and Canada. Recommendations on policy making for the UK are not included in this report.

A majority of the key observations outlined in this report were sourced from the interviews and consumer surveys. The analysis included in this section features a deep-dive examination and description of those observations, identification of the specific goals and challenges associated with these themes, specific insight obtained during the data collection process, and a forward-looking discussion of the associated potential outcomes.

CONSUMER REACTION TO THE REGULATION

The end users of consumer credit – the consumers themselves – will face new changes in the way they use credit, the availability of credit, and the services their credit providers offer as a result of the new regulation presented in the international markets. Regardless of the scope of the regulation, the typical reaction to new credit and/or store card regulation is to increase the cost of credit to the consumer. Frequently, this is also coupled with credit being less widely available, either because of more stringent lending criteria being introduced or by simply fewer issuers willing to extend credit.

Our research indicates that after new credit and store card regulation is introduced, many consumers will no longer use credit or store cards, finding them simply too expensive. The consumers who continue to use credit will find it less readily available, particularly if they are new to credit, recovering from hardship, or running a small business. Additionally, the credit products that consumers have grown

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accustomed to (i.e. rich rewards, no annual fees, etc.) are likely to become much less commonplace. New products will be developed, though it is expected that these will largely be fee-based and targeted at more affluent customers. While this transition has not begun yet, ACG is aware of numerous American and Canadian issuers who have begun conducting primary consumer research to determine which of these changes will be the most likely to be mutually beneficial to consumers and the credit industry. Gauging the impact of these changes and the size of the consumer population that will cease to use credit cards is not currently possible with the information that is publicly available.

In both the US and Canada, the industry has only just begun to implement the changes the regulation demands, and as such, the industry does not yet have a line of sight over the impact of the regulation. In an attempt to predict what this impact may be, ACG asked consumers to tell us how some of the changes in lending practice will affect them. The survey was designed to obtain consumer perspective, with particular respect to the 4 areas of focus identified in the BIS consultation. Responses from consumers in the UK and the US were very similar; this trend reinforces our belief that, in terms of consumer behaviour, the US is a good proxy for the UK market.\(^{27}\)

When examining how consumers in international markets responded to changes made in each of the 4 focus areas in the BIS consultation, the following attitudinal themes were identified:

1. **Payment allocation:** Consumers are split as to the most appropriate payment allocation method.
2. **Minimum payments:** Consumers choose to pay just the minimum payment because they cannot afford to pay more.
3. **Unsolicited credit line increases:** Credit line increases are infrequently increased without customer request, and when they are offered, they have very little impact on how consumers use cards.
4. **Debt re-pricing:** Consumers were generally averse to the potential changes to their accounts that may come as a result of restrictions on debt re-pricing, including the introduction of additional fees, increased interest rates and the reduction of rewards.

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\(^{27}\) The full results of the US and UK consumer surveys can be found in the appendix of this report.
The consumer surveys that were conducted as part of this study give an interesting perspective on how credit card regulation will affect the common cardholder. Consumers may be unable to make informed decisions about credit (some of which can be quite complex) currently, and are in need of improvements in their financial literacy. Until there is thematically consistent consumer education readily available, consumers are unlikely to improve their ability to choose financial products and services that are the most beneficial for them.

One of the most discussed aspects of the US and Canadian regulation is the requirement that debts that have the highest interest rates associated with them are paid off before debts that accrue interest at lower rates. To assess how consumers would react to this change, ACG asked American and British consumers to disclose what method of repayment (e.g. high rates first, low rates first, etc.) is most appropriate.²⁸

<table>
<thead>
<tr>
<th>Where should your credit card company apply your payment to first?</th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>411</td>
<td>500</td>
</tr>
<tr>
<td>The transferred balance with the lower interest rate</td>
<td>21%</td>
<td>27%</td>
</tr>
<tr>
<td>The balance from purchases with the higher interest rate</td>
<td>33%</td>
<td>39%</td>
</tr>
<tr>
<td>The payment would be equally split between the transferred balance and the purchases</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>The payment would be split proportionally to match the size of the transferred balance and the purchase amount (i.e. if the transferred balance is larger, more of the payment goes toward that balance)</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>To balances in the order in which they were charged. Purchases that were charged the longest time ago would be paid off first, followed by more recent purchases.</td>
<td>21%</td>
<td>19%</td>
</tr>
<tr>
<td>Some other method (specify)</td>
<td>3%</td>
<td>2%</td>
</tr>
</tbody>
</table>

The results of this survey question may indicate that the cost of credit is not fully understood by consumers, since a sizable portion of the respondent population believes that the optimal repayment hierarchy is actually the one that costs them the most money. In both the US and the UK, about ⅔ believe that the highest rate balances should be paid off first, while ⅓ believe that the lowest rate balances should be the first to be repaid. 20% of consumers believe that debts should be repaid in the order in which they were incurred. While the need for consumer education is clear, this mixed opinion further supports our observation that determining the impact of the regulation – at this point, or even in the short term following implementation – will be very difficult, if not impossible. In order to make informed decisions about credit (some of which can be quite complex), consumers need to increase their

²⁸ Question: In your opinion, which balance should your credit card company apply the payment to first?
financial literacy. Until there is thematically consistent consumer education readily available, consumers are unlikely to improve their ability to choose financial products and services that are the most beneficial for them.

In our consumer survey, ACG attempted to measure the consumer reaction to another one of the features of the potential British regulation: increasing minimum payments so that debts are paid off more quickly. However, the survey results show that consumers are already paying as much as they can on their credit card bills. 41% of British respondents that pay the minimum balance at least occasionally (which is about half of the population), said that they choose to make just the minimum payment on their credit card because they cannot afford to pay more. An additional 18% said that they had some other debt that took priority over their credit card.

The consumer credit industry has historically used credit line increases to reward a small number of customers for good behaviour, as well as to stimulate dormant accounts. Banning this practice is one other area that is currently being considered by BIS; in the US, Canada and

<table>
<thead>
<tr>
<th>Why do you choose to make just the minimum payment instead of a larger payment?</th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>197</td>
<td>256</td>
</tr>
<tr>
<td>I could not afford to pay more</td>
<td>42%</td>
<td>41%</td>
</tr>
<tr>
<td>My income decreased</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>I spent more on my card than I could afford to pay</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td>I was taking advantage of a 0% promotional offer</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>I needed to pay some other debt first</td>
<td>25%</td>
<td>18%</td>
</tr>
</tbody>
</table>

29 It should be noted that, in the US, the sized of minimum payments are actually being decreased. The hypothesis in that market is that by shrinking individual repayment requirements, consumers are less likely to become delinquent, have to declare bankruptcy, or enter hardship programmes. It is understood that this strategy will result in the lengthening of repayment periods (if only the minimum payment is made), but the priority of this regulation has been placed on relieving the financial pressures consumers feel. At the end of 2005, the OCC, in conjunction with the Federal Reserve, the FDIC and the OTS, established the rule that the minimum payment must be at least 1% of the balance plus finance charges and any incurred fees (some issuers required a higher minimum payment). Previously, the guideline was that the minimum payment was at least 2% of the outstanding balance which sometimes barely covered the finance charges or may have put customers into a negative amortisation situation. Adjusting the minimum payment is not part of the scope of the CARD Act or the Canadian equivalent.

30 Question: (if ever make just the minimum payment on credit or store cards) Think about the last time that you paid just the minimum required payment on your credit or store card. What was the primary reason that you chose to make the minimum payment instead of a larger payment? (select one)
Turkey, regulation has been introduced that prohibits consumers’ credit lines from being increased without the consumer’s prior consent.

20% of UK consumer survey respondents reported that they have had the credit limit increased on a credit or store card account within the past year, compared to 25% of US consumers (who were susceptible to this practice prior to the recent implementation of the regulation that prohibits unsolicited credit line increases without prior opt-in). A majority of consumers in both the US and the UK report that credit line increases have no effect on the way that they use their credit or store cards. In fact, the percentage of British consumers who report that a credit line increase causes them to increase their spending on their cards (one of the behaviours that the regulation seeks to limit) is just 3% of the overall population, or 15% of consumers who report that they have had their credit line increased. In the US, 2% of the overall population reported that they spent more on their credit cards after an unsolicited credit limit increase. This study did not include an inquiry about the effect of the credit limit increase on the respondent’s debt burden, or ability to meet their financial obligations.

Unsolicited credit line increases are not a widespread strategy in any of the markets evaluated in this study. Consumers that do receive credit line increases report that the increase has little or no effect on their purchase behaviour.

<table>
<thead>
<tr>
<th>How did you react to your credit limit increase?</th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>101</td>
<td>99</td>
</tr>
<tr>
<td>I continue to use the card in the same way as I did before the credit limit was increased</td>
<td>64%</td>
<td>76%</td>
</tr>
<tr>
<td>I spend more on the card than I did before the credit limit was increased</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td>I spend less on the card than I did before the credit limit was increased</td>
<td>15%</td>
<td>2%</td>
</tr>
<tr>
<td>I contacted my provider to ask for the limit to remain unchanged</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>I kept the card, but I do not use it</td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>I cancelled the card</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>I changed my card provider</td>
<td>0%</td>
<td>1%</td>
</tr>
</tbody>
</table>

In the consumer surveys, ACG presented respondents with several different potential scenarios for possible changes to their store or credit card benefits (all previously identified as possible outcomes to regulations on debt re-pricing – one of the 4 areas of regulation that BIS is currently considering). Consumers were generally averse to these changes.

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31 Question: (if have had credit limit increased recently) When the credit limit was increased on your credit or store card, which of the following best describes how you handled it? (select one)

32 Question: In the near future, new laws and regulations will change the way that credit and store card companies interact with their cardholders. As a result, credit and store card companies may need to change some of the terms and benefits typically associated with your card. Below are some possible changes. Please tell me what kind of effect each change would have on your likelihood to use your credit or store card if it was applied to your most frequently used credit card. (1=This change would make me less likely to use my credit or...
outcomes, particularly indicating an especially high aversion to the introduction of fee-based lending\textsuperscript{33}.

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|}
\hline
\textbf{Possible Changes to Credit and Store Card Terms and Benefits} & \textbf{US} & \textbf{UK} \\
\hline
Reducing or eliminating your grace period (amount of time you are permitted to carry a balance without incurring a finance charge) & 2.76 & 2.74 \\
Reducing your credit limit & 2.89 & 3.17 \\
Increasing the minimum payment due each month on your statement & 3.04 & 3.35 \\
Increasing interest rates on new purchases & 2.49 & 2.47 \\
Increasing interest rates on existing balances & 2.43 & 2.55 \\
Increasing interest rates on new balance transfers & 2.57 & 2.84 \\
Increasing fees on balance transfers & 2.56 & 2.81 \\
Adding an annual fee to use your credit card (or in the case where you already pay an annual fee, increasing your fee) & 2.00 & 2.13 \\
Increasing late fees and overlimit fees on your card & 2.43 & 2.69 \\
Eliminating promotional rate offers (e.g., 0% on purchases for 6 months and 1.9% on balance transfers for 15 months then 24.99%) & 2.70 & 3.06 \\
Reducing rewards (e.g., lower earning rate and higher thresholds required for redemption) & 2.49 & 2.80 \\
Receiving more information about how to pay off your debts faster & -- & 4.09 \\
Adding a fee to redeem rewards & 2.24 & 2.33 \\
Adding an inactivity fee & 2.29 & 2.46 \\
Reducing the number of hours and/or customer service agents available to you & 2.90 & 3.17 \\
Shifting all customer service resources to online only & 2.81 & 3.28 \\
Moving customer service resources from your home country to overseas & 2.38 & 2.53 \\
Receiving more information about how much it costs to borrow money & -- & 3.95 \\
\hline
\end{tabular}
\caption{Possible Changes to Credit and Store Card Terms and Benefits}
\end{table}

**Impact of Regulation on the Industry**

The US and Canadian credit card industries have responded to this far-reaching regulation by undergoing major systems, strategy and IT overhauls. All customer-facing collateral (e.g. marketing materials, statements, credit applications, letters, phone scripts, emails, websites, etc.) need to be evaluated, revised and approved to accurately reflect the constraints of the new regulation. Additionally, all product and business strategies are also being modified, particularly in areas where legacy risk measurement and/or management strategies and practices are involved (as the new regulation prohibits the future use of many accepted risk management practices). The challenge of making all of these changes is further compounded by the fact that this industry is highly automated and making even the simplest changes requires large

\textsuperscript{33} Fee-based lending includes the introduction of annual fees and other fees not typically seen currently (e.g. inactivity fees, fees to redeem rewards) and increasing fees that are already commonplace.
investments of capital, time and human resource.

Throughout the course of 2009, credit and store card issuers began being more stringent in their lending practices, making the criteria for credit approval more difficult to satisfy\(^34\). Additionally, credit lines on cards were less generous and interest rates increased. As the economic state continued to decline, the incidence of these tactics increased. For more information about these initiatives, please refer to *Current Consumer Behaviours* section of this report.

Simultaneously, many major markets in the credit card industry – particularly the US and Canada – introduced new regulations affecting the credit and store card industry\(^35\). The scope of these regulations is discussed at length in the section of the report titled *Overview of the Current International Market State & Regulatory Environment*. Particularly in the US, the scope of the industry regulations is extensive, and affects nearly every aspect of the credit issuing process.

**EXPERT OPINION:**

“ON ITS OWN, THE CHANGE IN DEBT REPAYMENT HIERARCHY WILL SEVERELY IMPACT THE PROFITABILITY OF CREDIT ISSUERS.” – A MAJOR US ISSUER

As the scope of the CARD Act and the Canadian equivalent became better-defined and it became clear that some of the risk mitigation tools that American and Canadian credit issuers have relied on historically would be restricted, (e.g. notification period before term modification, inability to re-price loans during the first year of the account, etc.) credit issuers accelerated their risk reduction initiatives, further restricting credit availability and increasing the cost of credit (e.g. interest rates and fees) in advance of the effective date. This is an international phenomenon. The Bank of England recently reported that credit card interest rates are at a 3-year high of 16.4%, despite the Bank rate

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\(^34\) Lending criteria that have been restricted as part of this increased stringency includes higher minimum income thresholds, lower balance-to-credit line ratios and longer credit history.

\(^35\) In the US, the new regulation is called the *Credit Card Accountability Responsibility and Disclosure Act of 2009* (CARD Act). In Canada, the regulation is simply referred to as the *Credit Business Practice Regulations*. 
remaining at just 0.5%. This increase was caused by issuers trying to mitigate the future risk of their customers being unable to pay their bills, though it should be noted that rates have been increasing slowly but steadily over the course of 2009, as opposed to jumping up to a record high.

**Expert Opinion:**

"OUR WHOLE BUSINESS HAS CHANGED AS A RESULT OF THIS REGULATION. IT’S EASIER FOR ME TO TELL YOU WHAT HASN’T CHANGED!"

– A MAJOR INTERNATIONAL CREDIT SERVICER

Throughout the course of our interviews, subjects consistently reported that the most critical aspect of the US and Canadian card regulation was the restriction placed on the industry's ability to price card accounts based on risk profiles. Key changes include the introduction of:

- A notification period before account terms (i.e. pricing, credit limits, fees, etc.) can be changed
- A restriction on re-pricing protected (i.e. existing) balances (US only)
- A ban on pricing floors (US only)
- Look back provision\(^\text{37}\) (US only)
- Banning the practice of universal default (US only)

These fundamental changes to the industry's business practices will have many effects. Most notably, the consumer credit industry will have fewer tools by which to manage risk, which will likely cause the cost of credit to increase. The previous risk management models were the foundation on which the credit issuing and account management process were built; quite simply, they are the foundation for the credit card industry's business practices. The new regulations' prohibition or restriction of these practices has caused most lenders to take a 360-

36 Bank of England (BankStats, Feb 2010)

37 The look-back provision requires that lenders re-evaluate re-priced customers every 6 months to determine if the reason that they were re-priced (e.g. delinquent repayment, indebtedness levels rise significantly, etc.) has been cured. If the consumer returns to their previous behaviour, the issuer is obligated to return the terms of the account to the previous levels. Under this provision, consumers are not penalised permanently for temporary bad behaviour.
degree assessment of their practices and revise the manner in which their business operates.

**EXPERT OPINION:**

"THESE CHANGES TO OUR BUSINESS MODEL HAVE CAUSED US TO FULLY ASSESS OUR BUSINESS AND RE-DEFINE OUR BEST PRACTICES. WE BELIEVE WE WILL BE A MORE NIMBLE AND EFFICIENT ORGANIZATION UPON COMPLETION OF THE IMPLEMENTATION."

-- A MAJOR US ISSUER

One example of how these restrictions will change fundamental business practices is evident in the inclusion of the look-back provision in the US regulation. This provision will require significant programming changes to track the necessary data (e.g. repricing reasons, history of the re-pricing activity, etc.), as well as additional people to evaluate, verify and/or audit the decisions to change or maintain the terms. There is a significant cost associated with the development of this new business function. There will also be additional costs associated with storing the data necessary to make these evaluations. These costs are over and above the cost of operating in the past, and will materially increase the cost of doing business\(^\text{38}\).

\(^{38}\) The data storage requirements for an individual account can easily reach 1TB (tera-byte), considering an average card tenure of 7 years, necessary back-up redundancies and compliance with standard encryption and security protocols. The total cost of the data storage would vary based on the size of the lender and their individual contracts, but for a top US issuer, data storage fees can easily top $2,000 per tera-byte per month, or more than $5 million per month.
EXAMPLES OF PRODUCT CHANGES AS A RESULT OF CREDIT RESTRICTIONS

Already, some major changes to the products offered by credit issuers have come to light, though a majority of these changes have been made in the name of cost savings. One notable example was the termination of the global Shell (petrol) and Citibank partnership. Citi had an exclusive contract to issue Shell co-branded credit cards in all markets, though after an evaluation of their card portfolio they chose to stop offering several of their legacy co-branded offerings, including the Shell product.1

Another type of change that has been widespread is the pattern of reducing rewards earning rates and restricting certain card features. For example, in 2009, American Express stopped offering its Platinum and Centurion cardmembers complimentary companion tickets when they used their card to purchase a full-fare domestic plane ticket.1

Additionally, rewards earnings rates have become much less aggressive. In late 2008, Chase was offering new Freedom cardholders 3% cash back on their top 3 “Everyday spending categories” (out of 15 possible categories). These categories could change every month, depending on your spending habits. The offer never expired, so people could get these rewards for as long as they held the account. Additionally, they received 1% cash back on everything else they bought, plus they also gave cardholders $100 cash back after their first purchase and an extra 25% bonus cash back every time they redeemed $200 in rewards. Currently, Chase’s standard Freedom card offer gives cardholders 3% bonus cash back on 1 category of purchases that Chase determines along with the standard 1% cash back on purchases. This change in the offer will result in higher card profitability, though it will certainly be less enticing to the mass market.1

Several new products have also been introduced to the market, many of which feature innovative new approaches to providing payment services to consumers. For example, American Express recently introduced the Zync card, a charge card targeted at young adults. Charge cards have historically been positioned as products for older and/or more affluent customers; the Zync product is positioned as a rewards-rich card with spend control features. Another new card in the market is Chase’s Blueprint feature. Many of Chase’s cards feature Blueprint functionality; enrollees can choose if they want to pay off or revolve balances at a transaction level (e.g. they can revolve larger purchases but pay off smaller ones).
Additionally, the introduction of a 45-day notification period to consumers on the change of terms (as well as the restriction on repricing during the account’s first year) places increased emphasis on the importance of making initial credit decisions right at the time of account acquisition. Under the new regulations, if a new account is not priced appropriately for the customer’s risk profile there will be little opportunity to adjust the pricing to reflect risk in the future. History shows us that once an account goes 60 days delinquent, there is less than a 20% chance\textsuperscript{39} that the account will ever return to current status.

**EXPERT OPINION:**
“TAKING AWAY RISK-BASED PRICING PRESENTS A HUGE RISK FOR BANKS WHO ARE ALREADY STRESSED.” – SPOKESPERSON FOR AN INDUSTRY ASSOCIATION

Unfortunately, the introduction of these restrictions occurs at a time when measuring a portfolio’s risk is more difficult than ever. This is a particularly significant challenge due to the fact that the industry is currently developing new models for predicting risk and profitability. Typically, these models are built based on historical performance data and market behaviours. This information simply does not exist currently.

The new models are based on assumptions and guesses; time will need to pass to see how consumers and the economy react to the new market realities. It is expected that at least 2 years\textsuperscript{40} will pass before the industry regains confidence in its predictive models. In the meantime, credit strategies (e.g. approval requirements, credit line assignments, account pricing, etc.) will be very stringent and the credit industry will significantly restrict credit accessibility as a result. ACG expects that, in the short-term, it will be difficult for any consumers to obtain credit, particularly those who are not affluent or who have demonstrated that they are even a moderate credit risk. To illustrate this, the approval rate in 2007 for a credit card targeted at the mass market was approximately

\textsuperscript{39} Based on information gathered during ACG’s collection roundtables.

\textsuperscript{40} This estimate was crafted based on the accepted assumption that at least 2 years of historical data is required to accurately build a predictive model. Extra time may be required due to fact that consumer behaviours are fundamentally different post-credit crunch and some trial-and-error may be necessary before the models accurately reflect them.
25%; today the average approval rate is closer to 15\%. Issuers will be the most hesitant to issue credit cards to consumers that are reformed debtors and the new-to-credit population (e.g. young credit users, students, consumers who have historically used debit products but now seek credit, consumers who have formerly had bankruptcy or delinquency, etc.).

**Expert Opinion:**

“A RESTRICTION ON RISK-BASED PRICING CLOSES THE DOOR TO THE NEW-TO-CREDIT POPULATION. AS A RESULT, THERE WILL BE MORE COMPETITION FOR [EXISTING] GOOD CUSTOMERS.” – INTERNATIONAL SERVICER

It is expected that all credit card accounts will be converted to variable rate pricing, which allows issuers to adjust an account’s interest rate to reflect increases and decreases in the cost of funds without needing to notify the consumer.\(^4\) While most accounts have already undergone this transition in anticipation of CARD Act, many issuers in the US had implemented price floors\(^5\) to ensure that rates never fell below a certain level. However, in the final version of the CARD Act, the Fed concluded that having these floors resulted in the rate not being truly variable and as such, all changes (including when the base rate changed) could only be made if appropriate notification was given to the cardholder.

In the US and Canada, the introduction of the CARD Act and the Canadian equivalent (and the affected parties reactions to it) has received significant interest from politicians, regulators, issuers, the press and consumers. All of these parties, though they have different priorities, are eager to understand what the impact of the new industry regulation will be on consumer behaviour, accessibility to credit, credit costs and industry performance.

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\(^{41}\) Auriemma Consulting Group proprietary data

\(^{42}\) Variable rate pricing is the equivalent of tracker rate pricing. In the US and Canada, the variable rate is typically a function of the prime or LIBOR rates (i.e. base rates). As these rates rise and fall, the cardholder’s interest rate also changes.

\(^{43}\) Price floors are set so that the interest rate does not fall below a certain rate, regardless of where the variable rate lies.
However, since the reactions to economic volatility and rising credit card bad debt, and the introduction of new regulation are similar (e.g. credit line decreases, rate increases, etc.), it is impossible to discern which drivers are responsible for shifts in market metrics (e.g. delinquency rates, indebtedness levels, revolving behaviour, etc.). This challenge will be further compounded by the fact that the number of people who use card-based credit will decrease as a result of the higher cost of credit and less credit accessibility. From Q2 2009 to Q3 2009, the available credit extended to consumers on their credit cards (known as “open-to-buy”, calculated as total credit lines less balances held) decreased by nearly $200 billion.  

**EXPERT OPINION:**

“THE CREDIT INDUSTRY WILL NATURALLY SHRINK AS A RESULT OF THE NEW BUSINESS PRACTICES THE INDUSTRY WILL IMPLEMENT AS A RESULT OF THE REGULATION AND ECONOMIC PRESSURE. FEWER CONSUMERS WILL WANT OR BE ABLE TO AFFORD CREDIT.” – A CARD NETWORK

ACG expects that there will be a significant change in the metrics by which this industry is measured though there are conflicting perspectives on what the effect of the changes will be. For example, if credit or store-cards are more difficult for sub-prime consumers to obtain (due to more stringent lending criteria), it is likely that delinquency rates will decrease. However, since unemployment (and underemployment) is at or near peak levels, household incomes are down and consumers who have been historically able to pay their bills (and still may have credit reports that reflect that they are able to pay their bills) may no longer have the same ability to do so. Further, job regeneration is a slow process. According to a report published by Credit Suisse, 7.3 million net jobs were shed in the US during the recession, and given a best-case scenario it is not expected that these will be regenerated until mid-2011. Since 2007, credit card loss rates have corresponded directly with the unemployment rate in the US market, as illustrated by the chart below. Analysts predict that in 2010, the unemployment rate will begin to plateau and slowly decline; history

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indicates that loss rates will decline at a similar rate of change. Until the unemployment rate stabilises, it can be expected that credit losses and delinquencies will continue to be high.

![Graph showing credit card loss rate and unemployment rate over time.](image)

Source: FDIC, Credit Suisse (US Credit Card Sector Review, November 2009)

Though the economic shifts and the scope of the credit card industry regulation in the US/Canada and the UK are different, the fact that both types of changes are happening simultaneously will mean that it will be impossible to attribute market changes to any particular activity or driver in either market.

**EXPERT OPINION:**

“2009 WAS A GAME-CHANGER FOR THE CARDS INDUSTRY. GOING FORWARD, WE WILL MEASURE OUR SUCCESS IN TERMS OF PRE- AND POST-2009 RESULTS”

– A MAJOR US CREDIT CARD ISSUER

During the course of our interviews and other research, all of our subjects stated that they believe that the latest regulation in the US and Canada is just the first (albeit big) step in a regulatory overhaul. Participants in the US believe that new rules will be presented in the
next 1–2 years, in reaction to unintended consequences of the CARD Act. In Canada, the second phase of regulation is expected to arrive on a slightly longer timeline, mostly due to the smaller scope of the new regulation. The effects of the recent regulation are expected to be felt over the next 2+ years as consumer behaviours evolve and the industry reacts. However, the introduction of numerous regulations simultaneously, or in relatively short sequence will make the ability to measure the impact of the changes all the more difficult.

**EXPERT OPINION:**


One of the more costly and onerous aspects of introducing new industry regulations is the information technology (IT) and programming resources required to comply with the new constraints. Though ACG was unable to obtain a specific financial cost of the changes from our interview subjects, the human resource required by one US issuer to implement the changes was estimated to necessitate 100,000 man hours of time. One issuer disclosed that 80% of their IT capacity was dedicated exclusively to executing the system changes required by the regulation.

The final published versions of the CARD Act and the Canadian equivalent do not acknowledge the difficulty and intricacy of changing some of the fundamental aspects of the consumer credit industry. For example, one of the requirements of CARD Act and the Canadian equivalent is that credit card billing periods and payment delivery dates are required to be the same day each month. While this is a simple concept to describe and understand, changing this one feature represents a massive undertaking from a systems perspective. Interest rate calculations, billing statements, letters, customer service scripts, training materials, financial reports, revenue plans and provisioning

In particular, the regulators and legislators are concerned about business practices arising that are outside of the spirit of the new regulation, especially those practices that prohibit the transparent issuance and management of credit card accounts.
strategies are just some of the internal processes that are affected by increasing the billing cycle’s length.

The change management process is being championed by dedicated and experienced change management professionals working in concert with compliance managers and legal managers. These matrix change management organisations are then responsible for working with the various business lines, centres of excellence and 3rd party vendors to ensure that the changes reach all areas of the business.

**EXPERT OPINION:**
“**THERE ARE SIGNIFICANT COSTS ASSOCIATED WITH COMPLYING WITH THESE NEW RULES IN SUCH A SHORT PERIOD OF TIME. THESE COSTS INCLUDE FINANCIAL OUTLAY, BUT ALSO THE DEDICATION OF HUMAN CAPITAL WHO HAVE BEEN REPRIORITIZED TO FOCUS EXCLUSIVELY ON THE CHANGES INSTEAD OF MANAGING THE DAY-TO-DAY ASPECTS OF A CREDIT BUSINESS.**” – **MAJOR US ISSUER**

While change managers are fairly confident that they will be able to disseminate this information through the organisation, the biggest risk lies in the revision of collateral (e.g. marketing pieces, letters to customers, credit applications, etc.). There are a lot of details in these pieces, all of which need to be revised and/or re-drafted entirely. To illustrate the scope of this process, a typical top issuer will have a minimum of 15-20 marketing packs (i.e. credit solicitations) per product and in the market at any given time. If each of these pieces for each of the issuer’s products needs to be changed or re-drafted, it could easily require changing over 100 packs. Additionally, all customer service and collections letters, emails, phone scripts and credit applications will also all need to be reviewed, modified and approved; at a top issuer, there will easily be several hundred pieces of customer-facing collateral that will be affected. The scope of these changes is so wide-reaching that it is easy to see how mistakes could be made, causing inconsistencies, and non-compliance. If more time was given to the industry to execute these changes, accepted testing procedures are likely to have caught a majority of these.
Many of the American subjects ACG interviewed believed that the industry did not do a good job of informing the legislators and regulators about the industry’s business practices and the impact of changing some of these practices, and the legislators did not solicit detailed feedback or commentary from the industry on what that impact might be. However, there was also consensus that the industry was not as aggressive as they should have been in educating the legislative stakeholders on these impacts. There has been no consistent response from the US credit card industry regarding the CARD Act.

In Canada, the situation is very different. Lenders were given a chance to have dialogue with legislators and regulators after initial rules were published. The industry voiced concern over implementation deadlines (particularly where there were significant systems implications). The regulators responded by extending the compliance deadline by a further 9 months for systems-related changes to allow sufficient time to implement the changes in a responsible and consistent manner.

Particularly in the case of the US, the industry was given a very short period of time to respond to the new regulation. Initial regulatory guides were released more than a year ago (i.e. UDAP) but numerous revisions and changes to scope have been made to that regulation in the subsequent period. Due to the broad scope of the regulation, the industry was forced to begin the change process before final rules had been received. Changes to the regulation were being released up to 6 weeks before the compliance date, causing the industry to make final changes on the fly without appropriate testing, strategic evaluation or resource management. All of the parties ACG spoke to felt confident that the necessary changes to strategies, procedures and policies will be made in advance of the compliance deadlines, though they also

**EXPERT OPINION:**

“PRESSURE FROM POLITICIANS HAS RESULTED IN BROAD-BASED RULES THAT ARE HURTING BUSINESSES WHO WERE LENDING RESPONSIBLY AND CONSUMERS WHO ARE BORROWING RESPONSIBLY WE ARE NOT SURE HOW THESE NEW REGULATIONS HELP OR PROTECT CONSUMERS.” – A MAJOR US ISSUER

An active dialogue between the regulation’s stakeholders in the spirit of partnership will result in a more seamless and smooth transition process.

There will be significant impact to customer service as a result of the introduction of these new changes. It is expected that call volumes alone will increase by a minimum of 20% post-transition. The appropriate training of customer service representatives is a key element of a successful transition.
expect that staff will be working on the changes right up to that deadline with little or no time will be allowed for appropriate or typical testing procedures.

Due to the speedy transition the industry was forced to accommodate, errors and inconsistencies appear to be inevitable – particularly on customer-facing collateral. As a result, the industry is expecting a significant impact on customer service. Several major issuers have sent out preliminary letters and emails to customers with information about the new business practices (e.g. new statement features, notification of change of terms, etc.). These letters, which were purely informational, caused a spike in call volumes at customer service centres; interview subjects reported that these letters caused a 15-20% increase in call volume in the days following letter delivery.

To cope with these calls, which are expected to continue at high levels for at least 3 months following regulation implementation, the industry has delivered new and intensive training modules to their operations personnel (particularly customer service, but also including collections and fraud representatives) to ensure that these inquiries are handled in a customer-centric and compliant manner.

**IMPACT OF REGULATION ON BROADER ECONOMIC TRENDS**

Due to the expected restricted access to card-based credit in the short-term, consumers could move away from reliance on card-based financing and toward alternative methods of borrowing. These new borrowing methods could include hybrid debit/credit products, virtual or electronic borrowing, or use of a personal line of credit.

Some regulations will have unintended consequences, most notably, that consumers will have less access to credit. Typically, corrective regulation (or revisions and/or clarifications to existing regulation) is drafted by regulators to honour the spirit of the regulation. It is unknown what these corrective actions will be, but it is expected that future amendments to the US and Canadian regulation will not be introduced for at least one year following the implementation of the first round of regulation. It seems clear that, in the case of the US and Canada, rushed regulation leads to more legislation.

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47 An example of one of these letters is included in Appendix C of this report.
Some issuers, particularly small- or mid-sized lenders, have indicated that they will cease to offer credit and/or store cards to their customers due to the challenges and costs associated with regulatory compliance. The economic changes have left them unable to invest the capital necessary to finance the changes. Further, they have low confidence in their ability to manage their risk going forward. Currently, in both the US and Canada, the 6 largest issuers are responsible for more than 90% of the credit outstandings in the respective markets. If small and medium sized businesses stop offering credit, it is unlikely to drastically affect credit accessibility, but it will reduce competition in the market particularly among lenders who historically have been among the most innovative and consumer-friendly.

For the past half-century, the global consumer has had steadily increasing opportunity to utilise credit and financial services. For the first time in the modern history of the consumer credit industry, it appears that credit is likely to become less available. This shift will certainly have an impact on our economy, particularly as the consumer adapts to the reality that they have less credit available. During this transition period, which we believe will last a minimum of 5 years, we expect economic metrics like bankruptcy and consumer indebtedness to remain high, and for metrics like disposable income and bank profitability to remain low.

As credit becomes less available and/or more expensive for consumers, particularly the new-to-credit population, it is likely that the many will choose to no longer use credit cards, opt instead to use other forms of payment, particularly debit cards. Already, debit cards represent a majority of transactions globally, but we expect that if credit cards become less available to consumers, the transition toward debit will only accelerate. This could have an adverse effect on the economy, particularly in those countries where consumers have historically been dependent on credit cards to finance day-to-day purchases. If consumers do not have a readily available credit line, when they face financial difficulties, or need funds in the case of an emergency, they could become more likely to liquidate their existing assets and/or declare bankruptcy.
During the course of our research, ACG identified several potential outcomes that may come as the result of the uncertainty of the impact of the CARD Act and the Canadian equivalent.

Due to the difficulty lenders have (and will continue to have) predicting future consumer behaviour and the restrictions they now face when changing the terms of a consumer’s credit card, it is expected that interest rates will continue to be increased as a way to mitigate potential risk in the future. Also, interest rates may continue to be increased as a way to compensate for the declining consumer creditworthiness that is caused by high rates of unemployment and less disposable income.

Should credit cards become less accessible to the public, it is possible that card-based credit becomes a tool primarily for affluent consumers. If that happens, interest income will be reduced, challenging issuer profitability and potentially causing interest rates to rise. It is unlikely that, even with a more affluent, lower-risk population using credit cards, that interest rates would decline, due to the high costs associated with implementing any new regulatory requirements, economic uncertainty, and the fact that the most reliable customers are frequently not the most profitable. As an example, we look at Ireland: in 2005, the Irish government began assessing a €30 annual tax on each credit card account and a €2.50 annual tax on each debit card. Naturally, consumers cancelled credit cards in droves (unconfirmed reports indicated that the credit card market shrunk by more than 50%), leaving only those consumers who were compelled to use their cards, presumably a more affluent population due to the premium required to hold the card. However, interest rates in Ireland have remained relatively consistent around 14% since the introduction of the fee.

Additionally, it is unlikely that the economy will improve overnight. Macroeconomic factors like the slow recovery of the job market and low levels of disposable income will likely affect the ability of the consumer to repay their debts for some time. Certainly high charge-off and delinquency levels will affect profitability, though it is expected that due to the fact that many of the riskiest customers do not have credit cards any more, these rates will not be as high as they have been in the recent past.

During the face-to-face interviews ACG conducted, our subjects repeatedly cited the restrictions on risk-based pricing as the single most challenging aspect of the CARD Act or the Canadian equivalent. There are a wide variety of outcomes expected as a result of this change in the fundamental business practice of consumer credit issuance, including the conversion to variable rate pricing (without price floors). Further, as has been noted earlier in this report, many consumers will have less access to credit, and the credit that is available will come at a higher cost (e.g. increased fees and interest rates). Having less knowledge of a consumers risk profile (due to the end of universal default practices – see footnote #3) and less ability to react to behaviours that indicate account risk (due to longer notification periods) will result in lower credit lines. The restrictions placed on increasing credit lines (i.e. they may not be increased unless a cardholder opts in to being eligible for these increases) may result in consumers being underserved in terms of credit available. It may also not allow consumers to have access to revolving credit when they require it.

Another possible outcome is the conversion to a pricing structure called “flat pricing”, or the similar pricing of accounts regardless of behaviour or credit profile. Under this scenario, cards will typically not feature promotional offers (e.g. balance transfer offers, 0% initial rates) and consumers, regardless of their past behaviours or creditworthiness, will receive similar pricing. Portfolios that feature flat pricing have one rate that applies to all behaviours performed on the card – balance transfers, purchases and cash advances. The advantage of this structure is that revenue streams are fairly predictable for issuers, and the simplified structure requires less management and back office support. However, many of the features and benefits that consumers have become accustomed to receiving along with their credit cards may only be received as a reward for good behaviour (if at all).

It is inevitable that risk models will be revised as a result of this potential regulation. With less historic data on which to base models, lenders will effectively be starting from scratch and will err on the side of caution. ACG expects that the credit issuing process will be very restrictive going forward. How consumers react to this change is still to be determined. Certainly, consumers are less reliant on credit today than they have been in the past. ACG expects that as credit becomes more
difficult to obtain, the migration of consumers to debit cards and prepaid cards will only accelerate. It also seems likely that short-term lending products like payday loans will gain interest among the mainstream public. In the US, it may be likely that consumers follow the Canadian lead and begin relying on personal lines of credit to finance larger purchases.

Interview subjects, regardless of the role they played in the industry (e.g. regulator, issuer, 3rd party industry participant) agreed that particularly in the US, the lines of communication between the vested parties during the development of the new credit card regulation could have been more open. Going forward, it is expected that the payments industry will have a stronger relationship with lobbyists, legislators and industry advocates to ensure that there is greater understanding of the impact of the changes and the change process.

One way to ensure that all parties are aware of the constraints, priorities, and limitations of future regulation, is to elect an industry spokesperson (either formally or informally). This person (or party) would be responsible for developing and delivering a unified response to future regulation to regulators and legislators, and would act as a conduit to ensure that the industry’s perspective is truly heard and understood by the parties that author the regulation. Another way this could be facilitated in the US and Canada is to conduct a formal consultation (similar to what the British government is currently sponsoring) to obtain a 360-degree view on the potential regulation.

It is also expected that there will be increased efforts to educate consumers about the cost of credit. Adding information about repayment terms, pricing, and repayment duration to the statement is part of that education, but individual awareness of financial capabilities is necessary to prevent future over-indebtedness. This can only occur if there is a widespread initiative to increase financial literacy among consumers.

Regardless of the scope of the regulation, it is critical that the industry is provided with enough time to implement and appropriately test any necessary changes. As ACG has outlined, the tight timing associated with the implementation of any new regulatory rules will likely result in errors being made during the credit issuance and management processes. Additionally, the lack of time for testing these changes will
likely result in some of the messages delivered to consumers being difficult for them to understand and/or interpret. ACG expects that adjustments to collateral will continue to be made for the year following regulation implementation; the customer service impact will continue for as long as these adjustments are being made.

As ACG has highlighted throughout this report, adjusting strategies and procedures to ensure regulatory compliance is top-of-mind for the payments industry currently. Other business plans and initiatives (particularly those requiring systems and/or IT support) have been deprioritised. It is expected that these initiatives will be reprioritised after implementation of the regulatory-related changes are complete.

ACG also expects that the forthcoming period of innovation features many re-purposed old ideas, including the re-positioning of charge cards as a cost-conscious payment method targeted at the mass market instead of at a niche affluent population. Additionally, the market may see traditional rewards cards become less prevalent, and instead see the rise of products that offer incentives (e.g. discounts, fee waivers, statement credits, etc.) for desired behaviours.

During our interviews, ACG was impressed that the subjects expressed certainty that the industry would adapt to the new market reality post-regulation, predicting that the industry would react and adapt to the new regulation and continue to deliver high-quality, low-cost payments products to its customers. Many analysts have been saying that the new credit card regulation in the US and Canada will “kill” the respective industries, and that it is likely that many consumers will cut up their credit cards in search of lower cost, higher utility payment tools.

Most of our subjects cited the industry's 50+ year history of demonstrating its ability to change and acclimatise to new market constraints as a proxy for future adaptation. Some examples of other “game-changing” circumstances that the industry has weathered in the past include the introduction of revolving credit, the transition from store- to general-purpose cards, increased card acceptance and reliance, and the introduction of co-branding and partnerships.

Industry participants agree that the industry will adapt and product structures will change as a result of the introduction of new industry
regulation, though how it will change specifically is still to be
determined. Consumer behaviour post-regulation will be a major driver
of the changes the industry will make and the new products they will
offer. Customer confusion about the new credit card regulation in the
US and Canada is already high, so it seems unlikely that radically new
products will be introduced in the next 6 months. However, all of the
issuers that ACG spoke with acknowledged that they were currently in
the process of developing new products and card features that will be
both compelling to consumers and profitable in the new regulatory
environment.

**EXPERT OPINION:**

"**THERE WILL BE SIGNIFICANT CHANGES TO THE WAY WE DO BUSINESS, BUT WE NEED**
**TO SEE HOW THE CONSUMER REACTS FIRST.**” – **MAJOR US ISSUER**

"**WE ARE GOING TO HAVE TO WIN BACK OUR CUSTOMERS.**” – **MAJOR US ISSUER**

"**WE ARE NOT SURE HOW EXACTLY THE PRODUCTS WILL CHANGE, BUT THE MODEL**
**HAS TO CHANGE. THESE NEW REGULATIONS WILL SPUR INNOVATION AROUND THE**
**INDUSTRY.**” – **MAJOR US ISSUER**
CONCLUSIONS

The introduction of new credit and store card regulation will result in the credit and store card industries in those countries being smaller. Consumers are (or want to be) less reliant on credit. Simultaneously, issuers will have higher costs and will therefore have to be more stringent about issuing credit.

Consumers’ expectations for credit and store cards (e.g. no annual fee, promotional pricing, valuable rewards, etc.) will need to be reset, a process that will certainly take time. Many consumers will walk away from the less rich offers, making the size of the credit industry shrink as a result.

ACG predicts that, as a result of the constraints of the regulation (most notably the restrictions placed on managing portfolio risk), issuers will adapt and develop new strategies and models to allow them to continue to provide credit and payments products to their customers in this new era.

BEST PRACTICES IDENTIFIED

US/CANADIAN INDUSTRY PARTICIPANTS

During our interviews, our subjects frequently gave unsolicited advice to BIS. Some of the key themes in their responses are captured here.

- Ensure that the industry has the opportunity to respond to proposed regulatory changes.
- Ensure that regulators/legislators understand the implications and impact of the changes on consumers, the industry and the economy.
- Testing changes is a critical part of any project management process. Ample time to comply with new regulations must be provided in order to ensure seamless transition and adoption of the new rules.
- A willingness to adapt business practices and regulations to adjust for unforeseen reactions to the new rules will result in a final set of rules that are fair for all parties involved.
- A close relationship between the legislators, regulators and the industry will help to facilitate the change process in an effective manner. The regulation will be most effective when the needs and requirements of the economy, the industry and the consumer are all balanced.
Imagine that you have transferred a balance to your credit card to take advantage of a low promotional interest rate. On that same credit card, you have a balance from making purchases with the card. This portion of your balance accrues interest at a higher rate than your transferred balance. If you made a payment on this card that did not cover the full amount due, which of your balances do you think your credit card company would apply your payment to first?

<table>
<thead>
<tr>
<th>Base</th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>The transferred balance with the lower interest rate</td>
<td>411</td>
<td>500</td>
</tr>
<tr>
<td>The balance from purchases with the higher interest rate</td>
<td>42%</td>
<td>48%</td>
</tr>
<tr>
<td>The payment would be equally split between the transferred balance and the purchases</td>
<td>9%</td>
<td>9%</td>
</tr>
<tr>
<td>The payment would be split proportionally to match the size of the transferred balance and the purchase amount (i.e., if the transferred balance is larger, more of the payment goes toward that balance)</td>
<td>7%</td>
<td>4%</td>
</tr>
<tr>
<td>To balances in the order in which they were charged. Purchases that were charged the longest time ago would be paid off first, followed by more recent purchases.</td>
<td>18%</td>
<td>11%</td>
</tr>
<tr>
<td>Some other method (specify)</td>
<td>4%</td>
<td>2%</td>
</tr>
</tbody>
</table>

In your opinion, which balance should your credit card company apply the payment to first?

<table>
<thead>
<tr>
<th>Base</th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>The transferred balance with the lower interest rate</td>
<td>411</td>
<td>500</td>
</tr>
<tr>
<td>The balance from purchases with the higher interest rate</td>
<td>33%</td>
<td>39%</td>
</tr>
<tr>
<td>The payment would be equally split between the transferred balance and the purchases</td>
<td>12%</td>
<td>11%</td>
</tr>
<tr>
<td>The payment would be split proportionally to match the size of the transferred balance and the purchase amount (i.e., if the transferred balance is larger, more of the payment goes toward that balance)</td>
<td>10%</td>
<td>5%</td>
</tr>
<tr>
<td>To balances in the order in which they were charged. Purchases that were charged the longest time ago would be paid off first, followed by more recent purchases.</td>
<td>21%</td>
<td>19%</td>
</tr>
<tr>
<td>Some other method (specify)</td>
<td>3%</td>
<td>2%</td>
</tr>
</tbody>
</table>
Has the credit limit on one of your existing active credit or store cards been increased by the credit issuer within the past year?

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>411</td>
<td>500</td>
</tr>
<tr>
<td>Yes</td>
<td>25%</td>
<td>20%</td>
</tr>
<tr>
<td>No</td>
<td>59%</td>
<td>64%</td>
</tr>
<tr>
<td>I’m not sure</td>
<td>17%</td>
<td>16%</td>
</tr>
</tbody>
</table>

(if have had credit limit increased recently) When the credit limit was increased on your credit or store card, which of the following best describes how you handled it? (select one)

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>101</td>
<td>99</td>
</tr>
<tr>
<td>I continue to use the card in the same way as I did before the credit limit was increased</td>
<td>64%</td>
<td>76%</td>
</tr>
<tr>
<td>I spend more on the card than I did before the credit limit was increased</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td>I spend less on the card than I did before the credit limit was increased</td>
<td>15%</td>
<td>2%</td>
</tr>
<tr>
<td>I contacted my provider to ask for the limit to remain unchanged</td>
<td>1%</td>
<td>2%</td>
</tr>
<tr>
<td>I kept the card, but I do not use it</td>
<td>8%</td>
<td>3%</td>
</tr>
<tr>
<td>I cancelled the card</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>I changed my card provider</td>
<td>0%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Think about your credit and store card terms and conditions. Do you read them when they are sent to you?

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>411</td>
<td>500</td>
</tr>
<tr>
<td>Yes, I read them in full</td>
<td>23%</td>
<td>15%</td>
</tr>
<tr>
<td>Yes, I read them in part</td>
<td>42%</td>
<td>44%</td>
</tr>
<tr>
<td>No, I do not read them</td>
<td>23%</td>
<td>33%</td>
</tr>
<tr>
<td>It varies</td>
<td>12%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Do you think that credit and store card terms and conditions are difficult to understand?

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>411</td>
<td>500</td>
</tr>
<tr>
<td>Yes</td>
<td>65%</td>
<td>66%</td>
</tr>
<tr>
<td>No</td>
<td>25%</td>
<td>23%</td>
</tr>
<tr>
<td>I’m not sure</td>
<td>10%</td>
<td>11%</td>
</tr>
</tbody>
</table>
If credit and store card terms and conditions were easier to understand, would you be more or less likely to read them?

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base</strong></td>
<td>411</td>
<td>500</td>
</tr>
<tr>
<td>I would be more likely to read them</td>
<td>59%</td>
<td>58%</td>
</tr>
<tr>
<td>I would be equally likely to read them</td>
<td>39%</td>
<td>39%</td>
</tr>
<tr>
<td>I would be less likely to read them</td>
<td>2%</td>
<td>3%</td>
</tr>
</tbody>
</table>

If all credit and store card companies were to make the format of the terms and conditions the same (i.e., so that you know where to locate information easily), how helpful would it be for you to have similar formats to compare interest rates among different credit or store cards? (1=not at all helpful, 10=extremely helpful)

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base</strong></td>
<td>411</td>
<td>500</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>7.90</td>
<td>7.91</td>
</tr>
<tr>
<td>Unhelpful (1-3)</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Neither helpful nor unhelpful (4-7)</td>
<td>33%</td>
<td>35%</td>
</tr>
<tr>
<td>Helpful (8-10)</td>
<td>64%</td>
<td>62%</td>
</tr>
</tbody>
</table>

If a credit and store card company were to provide you with a year-to-date summary of the fees and finance charges you have been charged (and paid) throughout the year for each credit or store card, how helpful would this be for you? (1=not at all helpful, 10=extremely helpful)

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base</strong></td>
<td>411</td>
<td>500</td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td>7.79</td>
<td>7.28</td>
</tr>
<tr>
<td>Unhelpful (1-3)</td>
<td>5%</td>
<td>9%</td>
</tr>
<tr>
<td>Neither helpful nor unhelpful (4-7)</td>
<td>33%</td>
<td>40%</td>
</tr>
<tr>
<td>Helpful (8-10)</td>
<td>62%</td>
<td>52%</td>
</tr>
</tbody>
</table>

By having this information summarized for you, would it have any effect on the way you use this card in the future? (select one)

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Base</strong></td>
<td>411</td>
<td>500</td>
</tr>
<tr>
<td>Yes</td>
<td>48%</td>
<td>36%</td>
</tr>
<tr>
<td>No</td>
<td>29%</td>
<td>41%</td>
</tr>
<tr>
<td>Don’t know</td>
<td>23%</td>
<td>23%</td>
</tr>
</tbody>
</table>
How frequently do you pay just the minimum required payment on your credit or store card statements?

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>411</td>
<td>500</td>
</tr>
<tr>
<td>Frequently</td>
<td>15%</td>
<td>21%</td>
</tr>
<tr>
<td>Occasionally</td>
<td>23%</td>
<td>24%</td>
</tr>
<tr>
<td>Never</td>
<td>52%</td>
<td>49%</td>
</tr>
<tr>
<td>It varies</td>
<td>10%</td>
<td>6%</td>
</tr>
</tbody>
</table>

(If ever make just the minimum payment on credit or store cards) Imagine that the minimum required payment on your credit or store card statements increased. How would that affect your ability to pay your bills?

<table>
<thead>
<tr>
<th></th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>197</td>
<td>256</td>
</tr>
<tr>
<td>It would not affect my ability to pay my bills</td>
<td>22%</td>
<td>42%</td>
</tr>
<tr>
<td>It would slightly affect my ability to pay my bills</td>
<td>51%</td>
<td>46%</td>
</tr>
<tr>
<td>It would severely affect my ability to pay my bills</td>
<td>27%</td>
<td>13%</td>
</tr>
</tbody>
</table>

(If ever make just the minimum payment on credit or store cards) Think about the last time that you paid just the minimum required payment on your credit or store card. What was the primary reason that you chose to make the minimum payment instead of a larger payment? (select one)

<table>
<thead>
<tr>
<th>Why do you choose to make just the minimum payment instead of a larger payment?</th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Base</td>
<td>197</td>
<td>256</td>
</tr>
<tr>
<td>I could not afford to pay more</td>
<td>42%</td>
<td>41%</td>
</tr>
<tr>
<td>My income decreased</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>I spent more on my card than I could afford to pay</td>
<td>8%</td>
<td>10%</td>
</tr>
<tr>
<td>I was taking advantage of a 0% promotional offer</td>
<td>10%</td>
<td>15%</td>
</tr>
<tr>
<td>I needed to pay some other debt first</td>
<td>25%</td>
<td>18%</td>
</tr>
</tbody>
</table>
In the near future, new laws and regulations will change the way that credit and store card companies interact with their cardholders. As a result, credit and store card companies may need to change some of the terms and benefits typically associated with your card. Below are some possible changes. Please tell me what kind of effect each change would have on your likelihood to use your credit or store card if it was applied to your most frequently used credit card. (1=This change would make me less likely to use my credit or store card, 4=This change would have no effect on my likelihood to use my credit or store card, 7=This change would make me more likely to use my credit or store card)

<table>
<thead>
<tr>
<th>Change</th>
<th>US</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reducing or eliminating your grace period (amount of time you are permitted to carry a balance without incurring a finance charge)</td>
<td>2.76</td>
<td>2.74</td>
</tr>
<tr>
<td>Reducing your credit limit</td>
<td>2.89</td>
<td>3.17</td>
</tr>
<tr>
<td>Increasing the minimum payment due each month on your statement</td>
<td>3.04</td>
<td>3.35</td>
</tr>
<tr>
<td>Increasing interest rates on new purchases</td>
<td>2.49</td>
<td>2.47</td>
</tr>
<tr>
<td>Increasing interest rates on existing balances</td>
<td>2.43</td>
<td>2.55</td>
</tr>
<tr>
<td>Increasing interest rates on new balance transfers</td>
<td>2.57</td>
<td>2.84</td>
</tr>
<tr>
<td>Increasing fees on balance transfers</td>
<td>2.56</td>
<td>2.81</td>
</tr>
<tr>
<td>Adding an annual fee to use your credit card (or in the case where you already pay an annual fee, increasing your fee)</td>
<td>2.00</td>
<td>2.13</td>
</tr>
<tr>
<td>Increasing late fees and overlimit fees on your card</td>
<td>2.43</td>
<td>2.69</td>
</tr>
<tr>
<td>Eliminating promotional rate offers (e.g., 0% on purchases for 6 months and 1.9% on balance transfers for 15 months then 24.99%)</td>
<td>2.70</td>
<td>3.06</td>
</tr>
<tr>
<td>Reducing rewards (e.g., lower earning rate and higher thresholds required for redemption)</td>
<td>2.49</td>
<td>2.80</td>
</tr>
<tr>
<td>Receiving more information about how to pay off your debts faster</td>
<td>--</td>
<td>4.09</td>
</tr>
<tr>
<td>Adding a fee to redeem rewards</td>
<td>2.24</td>
<td>2.33</td>
</tr>
<tr>
<td>Adding an inactivity fee</td>
<td>2.29</td>
<td>2.46</td>
</tr>
<tr>
<td>Reducing the number of hours and/or customer service agents available to you</td>
<td>2.90</td>
<td>3.17</td>
</tr>
<tr>
<td>Shifting all customer service resources to online only</td>
<td>2.81</td>
<td>3.28</td>
</tr>
<tr>
<td>Moving customer service resources from your home country to overseas</td>
<td>2.38</td>
<td>2.53</td>
</tr>
<tr>
<td>Receiving more information about how much it costs to borrow money</td>
<td>--</td>
<td>3.95</td>
</tr>
</tbody>
</table>
APPENDIX B: INTERVIEW GUIDE

Notes

• The final version of this document was converted into a form, which was used by the interviewer to record answers. These completed forms will be retained by ACG for use during the analysis process.
• This document is meant to be a guide for the interviewer; it is likely that additional questions will be asked during the course of the interview, the answers to which will be recorded as well. The form will have sufficient room to record open-ended responses.
• Not all of these questions will be appropriate for all interview subjects. For example, industry analysts and industry servicers will be asked these questions in a more generic/industry observer perspective than card issuers. Due to regulation/legislative implementation timing, some questions may not be applicable for both Canadian and US interview subjects.
• This guide does not refer to specific regulatory/legislative initiatives, though it is expected that during the course of the interviews, specific aspects of these initiatives will be discussed. Also, an introduction to the country-specific regulation/legislation will be provided at the beginning of the interview.

Part 1: Interviewer to describe project, objectives and the role the interview subject will play in the research.

• Describe BIS. ACG is working on behalf of BIS.
• Confirm NDAs in place and that interview subjects will be referenced anonymously in the final report.
• Describe evolution of the Consumer White Paper, consultation process, scope of consultation, etc.
• Research being conducted as part of the consultation process, describe how consultation results will inform policy.

Part 2: Interview Subject Background

• What is your name?
• Confirm contact information (phone and email address)
• What company do you work for?
• What is your title?
• What are your job responsibilities?
• What role does regulatory and legislative compliance play in your job function?
Part 3: Perspective on Current Market State (CARD Act or Canadian equivalent as appropriate)

- Introduce legislation/regulation at a high level, confirm interview subject knowledge of the subject. Define key areas/aspects of the legislation/regulation addresses.
- What do you think are the most critical aspects of the current regulation/legislation?
  o How has/will your portfolio responded to the recent regulatory/legislative initiatives?
  o Do you anticipate a customer service impact?
  o How will consumers use credit and/or store cards differently? How will their propensity for credit change over time?
  o How will consumers’ likelihood to revolve change over the short- or long-term?
  o How else will consumer behaviour change?
  o Will different products be offered?
  o Will pricing structures change?
  o Will risk management practices be more stringent?
  o How will consumers’ accessibility to credit change and why?
- What changes has your company made in preparation for the implementation of the more recent regulatory/legislative initiatives?
  o How have day-to-day business practices (i.e. policies, procedures, etc.) changed?
  o What organizational changes have been made?
  o What changes have been made to marketing and new product development strategies?
  o What preparations have been made in operational areas like collections, customer service, fraud, payment processing, statementing, etc.?
  o How have risk management tools been leveraged? (i.e. credit line management, pricing changes, acquisition/authorization strategies, etc.)
  o What other changes have been made in preparation for these initiatives?
  o How have these changes been facilitated? What has the change management process been?
- What business challenges do you anticipate your company facing as result of these changes?
  o How will portfolio profitability be impacted?
  o Do you anticipate organizational challenges? (i.e. retention, communication, etc.)
  o How will business development initiatives be impacted?
Which aspects of the regulation/legislation have been (or will be) the most difficult to comply with? Is there any portion of these proposals that are more or less difficult to deal with?

What other challenges will be realized?

Part 4: Best Practices
Developed by Interview Subjects during Past and Current Regulatory/Legislative Initiatives

- What best practices have you developed during your dealings with past regulatory/legislative-related initiatives? These could include process improvements, creation of centers of excellence, engaging 3rd party involvement, etc.
- How have you incorporated those best practices into the changes that have been made for the current regulatory/legislative initiatives?
- Do you believe that your business is well-prepared for the recent regulatory/legislative initiatives? What aspects of this regulation/legislation give you the greatest concern?
- With hindsight, what should your business have done differently when implementing its past regulatory/legislative initiatives?
- Do you believe that the regulator/industry authority should have acted differently during your past regulatory/legislative initiatives? If so, how? Please describe what they did and how you would have changed it.

Part 5: Thoughts on the Future

- How do you think the recent regulatory/legislative initiatives will affect the credit and store card industry in the next year?
- How do you think the recent regulatory/legislative initiatives will affect the credit and store card industry in the next 5 years?
- Do you expect more regulation/legislation to impact the credit and store card industry? If so, what will these initiatives entail?
- How will the credit and store card industry change in the short- and long-term future?
- What role do you think regulation/legislation will play in the credit and store card industry going forward?
- Do you believe the credit and store card industry could be self regulated? If so, how should this be addressed?
APPENDIX C: EXAMPLE OF LETTER NOTIFYING CUSTOMERS OF FUTURE CHANGES TO THEIR ACCOUNT AS RESULT OF CREDIT REGULATION

December 2009
RE: Your account ending in 3880

We want you to know how the new legislation may affect you beginning in 2010.

Dear [Customer Name],

As our customer, we want you to know how you may be affected by the Credit Card Accountability, Responsibility and Disclosure (CARD) Act, which goes into effect in February 2010. Changes resulting from the Act are intended to make it easier for you to manage your account.

Below, we have provided a brief summary of some of the changes we are making to your account. Please refer to the enclosed page-titled Amendments to Your Credit Card Agreement for complete details and effective dates.

1. Your rate for existing balances will no longer be raised for being a few days late with your payment. If your payment is received after your due date, you will still be charged a late payment fee.

2. Beginning February 13, 2010, your Annual Percentage Rates (APRs) on existing balances can only be raised if you do not make your minimum monthly payment within 60 days of the payment due date. In that instance, we can amend your agreement in order to raise your Annual Percentage Rates for all existing balances and future transactions. If your Annual Percentage Rates are increased because of this reason, your existing balances can return, to the original Annual Percentage Rate if, for the next 6 months following the increase, you make your required payments by the due date. To help you remember your payment due date, you can use Online Banking at bankofamerica.com to set up payment alerts.

We can also increase your Annual Percentage Rates for future transactions even if you are not 60 days late. We will always provide you with at least 45 days prior notice of any rate increase by sending you an amendment to your Account Agreement.

3. You will not be charged a fee for going over your credit limit. Remember, any transaction that would cause you to exceed your credit limit may be declined. To avoid inconvenience when using your card, it is more important than ever to know how close you are to your limit. You can easily find out your available credit any time of day or night by visiting bankofamerica.com or by calling the number on the back of your card. In addition, Online Banking and mobile banking can be used to set up automatic alerts that let you know when you are approaching your limit.

4. Any amount you pay over the minimum payment will now be used to pay down balances with the highest Annual Percentage Rate. Here's how it works. Let's say you have a credit card account with two balances. The first balance has a promotional Annual Percentage Rate of 4.99%. The second balance has an Annual Percentage Rate of 14.99%. If your minimum payment is $500 and you pay $25, the extra $25 is applied to the higher rate balance.

5. For your convenience, your payment date will always fall on the same date each month and will be at least 25 days from the closing date printed on your statement.

We appreciate your business and look forward to continuing to meet your credit card needs. If you have any questions or need assistance with your account, please contact us by calling the toll-free number on the back of your credit card. Our experienced associates are ready to assist you 24 hours a day, seven days a week. To access your account online, please visit bankofamerica.com and click on the Online Banking button. We encourage you to read the enclosed Customer Commitment(1), our clean and straightforward summary of your credit card rates and fees.

For information, videos and demonstrations on avoiding fees and interest expense please visit bankofamerica.com/feeoverview.

Sincerely,

Richard K. Stransky
President, Global Card Services

Also for your protection, in March 2009 we added an expiration date to the Access Checks we periodically send to our customers. Any checks with no expiration date will not be honored after January 15, 2010. Please destroy all old or expired Access Checks.

Customer Commitment is a trademark and Bank of America and the Bank of America logo are registered trademarks of Bank of America Corporation. B-2009 Bank of America Corporation

4100387-E04-A05-123-119-A-3-E-Z-J-O-039-3-22-3-5-1-3-1-6-8-3-4-9-5-3-9-0-5-0-7-1-2-1-7-6-5-4-4-4-7-0-8-4-0-5-8-0-8-0-3-9-2-3-3-3-8-34-34-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-5-
We are changing the terms of your Credit Card Agreement ("Agreement") as described below.

**Terminology Change:**
Throughout your Agreement where we use the term "finance charge" to refer to interest based on the application of a periodic rate, we will now just use the word "interest" or "interest charge(s)." You will see this change in future correspondence you receive from us.

**AMENDMENTS TO YOUR CREDIT CARD AGREEMENT**

Please read this document carefully and keep it with your Credit Card Agreement. Except as amended below, the terms of your Credit Card Agreement remain in effect. If there is a conflict, the terms in this Amendment will prevail.

**ELIMINATION OF DEFAULT PRICING**

**What is Happening:**
We are deleting the Default Pricing section of your Agreement. This means that your rate for existing balances will no longer be raised for being a few days late with your payment.

This action will not result in a change to your current Annual Percentage Rate (APR). If any of your current APRs are Default Rates, those APRs will remain eligible for a potential APR decrease unless at some point you fail to make a payment within 60 days of the payment due date. Additionally, if, as of the effective date, any Default Rates are in effect on your account we are changing all "Default Pricing" references in your Agreement to "Penalty Pricing." In the future, if we change your APRs, we will do so pursuant to the section of your Agreement titled "WE MAY AMEND THIS AGREEMENT." That section is also included in this notice.

**Amendment to Your Credit Card Agreement:**
Effective as of February 13, 2010, we are amending your Agreement to remove the section titled Default Pricing and the definition of Default Rate in the section titled Words Used Often in This Agreement. However, if as of the effective date, your current APR is a Default Rate, the following will apply:

Penalty Pricing: If, as of the effective date, any of your current APRs are at a Penalty Rate, those rates will remain in effect until you make each Total Minimum Payment Due by its Payment Due Date and do not exceed your credit limit for 6 consecutive billing cycles starting with the first billing cycle after the Penalty Rate is in effect. At that time we will lower the margin for each of those variable APRs by at least two percentage points. These will be your new Standard Rates. Notwithstanding this provision, we reserve the right to increase your APRs pursuant to the section of your Agreement titled We May Amend This Agreement. "Penalty Rate" means the APRs which may be applied to Purchases, Balance Transfers, and Cash Advances in certain instances of your default.

**ELIMINATION OF OVERLIMIT FEE**

**What is Happening:**
As of the effective date, we will no longer assess an Overlimit Fee on this account. However, keep in mind that we may decline any transaction that would cause you to exceed your credit limit.

**Amendment to Your Credit Card Agreement:**
Effective as of February 13, 2010, we are amending the section of your Agreement titled Account Fees to remove references to Overlimit Fees.

**ADDITIONAL GRACE PERIOD FOR PURCHASES**

**What is Happening:**
In addition to your existing Grace Period, which is not changing, we are adding a provision that provides for an additional interest-free period for portions of your Purchase balance, based on timely payments in a billing cycle in which you transition from having paid in full in the previous billing cycle to a billing cycle in which you do not pay in full. Those portions of your Purchase balance eligible for this Grace Period will be excluded from the Balance Subject to Finance Charges.

**Amendment to Your Credit Card Agreement:**
Effective as of February 13, 2010, we are amending your Agreement to add the following paragraph at the end of the section titled Grace Period:

If during the previous billing cycle you Paid in Full by the Payment Due Date, then in the current billing cycle you will have a Grace Period on the amount of the Purchase balance remaining from the previous billing cycle that is paid by the Payment Due Date, based on our payment allocation method.

**PAYMENT DUE DATES**

**What is Happening:**
We have changed our billing practices to ensure that you will always have at least 25 days from your statement Closing Date until the next payment due date.

**Amendment to Your Credit Card Agreement:**
We have amended the last sentence of the section of your Agreement titled When Finance Charges Begin To Accrue as follows:

Over, please.

Page 1
Your Payment Due Date will be at least 25 days from your statement Closing Date.

OUR RIGHTS TO AMEND YOUR AGREEMENT

What is Happening:
In accordance with changes in federal law, we are restating this section of your Agreement to more clearly reflect the circumstances under which we may amend your Agreement including raising Annual Percentage Rates (APRs) on existing balances.

Amendment to Your Credit Card Agreement:
Effective as of February 13, 2010, we are amending your Agreement to replace the section titled We May Amend This Agreement with the following:

WE MAY AMEND THIS AGREEMENT
We may amend this Agreement at any time. We may amend it by adding, deleting, or changing provisions of this Agreement. We may increase or decrease any or all of your APRs, including any promotional APRs. When we amend this Agreement we will comply with the applicable notice requirements of federal and Delaware law that are in effect at that time.

The reasons we may change the terms of this Agreement include the following: your risk profile based on your payment patterns, transaction patterns, balance patterns, and utilization levels of this and other accounts, credit bureau information including the age, history and type of other accounts, and relationships between each and all of these measures of risk. We may also change terms for reasons not related to your individual credit history, such as overall economic and market trends, product design, and business needs. APR increases will not impact existing balances unless you are more than 60 days late with a payment.

If an amendment gives you the opportunity to reject the change, and if you reject the change in the manner provided in such amendment, we may terminate your right to receive credit and may ask you to return all credit devices as a condition of your rejection. We may replace your card with another card at any time.

HOW WE WILL ALLOCATE PAYMENTS

What is Happening:
We are changing how we apply payments made on your account. Payments in excess of the Total Minimum Payment Due will be applied to balances with higher APRs before balances with lower APRs.

Amendment to Your Credit Card Agreement:
Effective as of February 13, 2010, we are amending your Agreement to replace the section titled How We Allocate Your Payments with the following:

HOW WE ALLOCATE YOUR PAYMENTS
If your account has balances with different APRs, we will allocate the amount of your payment equal to the Total Minimum Payment Due to the lowest APR balances first. Payment amounts in excess of your Total Minimum Payment Due will be applied to balances with higher APRs before balances with lower APRs.
PAYMENT CUTOFF TIME

What is Happening:
We are changing our payment cutoff times for mailed payments from 5 p.m. Eastern to be 5 p.m. local time at the address shown on the remittance slip attached to your statement.

Amendment to Your Credit Card Agreement:
Effective as of February 13, 2010, we are amending your Agreement to replace the section titled When Your Payment Will Be Credited To Your Account with the following:

WHEN YOUR PAYMENT WILL BE CREDITED TO YOUR ACCOUNT
We credit mailed payments as of the date received, if the payment is: (1) received by 5 p.m. local time at the address shown on the remittance slip on the front of your monthly statement; (2) paid with a check drawn in U.S. dollars on a U.S. financial institution or a U.S. dollar money order; and (3) sent in the return envelope with only the remittance portion of your statement accompanying it. Payments received by mail after 5 p.m. local time at the remittance address on any day including the Payment Due Date, but that otherwise meet the above requirements, will be credited as of the next day. Credit for any other payments may be delayed up to five days.

Important Notice Regarding Access Checks: From time to time we may provide you with access checks that you may use to access your available credit on this account. All access checks include an expiration date printed at the top. We will honor access checks received for payment before the expiration date printed on the check, provided your account is open and in good standing, with available credit. Beginning on January 15, 2010, all old access checks without a printed expiration date will not be honored.

EQUAL CREDIT OPPORTUNITY ACT NOTICE

The federal Equal Credit Opportunity Act prohibits creditors from discriminating against credit applicants on the basis of race, color, religion, national origin, sex, marital status, age (provided the applicant has the capacity to enter into a binding contract); because all or part of the applicant’s income derives from any public assistance program; or because the applicant has in good faith exercised any right under the Consumer Credit Protection Act. The federal agency that administers compliance with this law concerning this bank is the Office of the Comptroller of the Currency. Customer Assistance Group, 1301 McKinney Street, Suite 3450, Houston, TX 77010-9050.
Account Owner: [Redacted]
RE: Account ending in: 3880
The information below related to current Annual Percentage Rates (APRs) and Fees is accurate as of 11/4/09.

CLARITY COMMITMENT™
CREDIT CARD

Bank of America is providing you with this Clarity Commitment™ Credit Card Account Summary. It is intended to provide you with a clear and straightforward description of your Bank of America credit card rates and fees. This summary does not take the place of your Credit Card Agreement. We encourage you to read your Agreement for a more detailed explanation of your account terms and pricing.

Your balances, listed by transaction type (Purchases, Balance Transfers, Cash Advances), your Credit Line and available credit can be viewed on your monthly billing statement or through Online Banking at bankofamerica.com.

SUMMARY OF INTEREST RATES AND PAYMENT INFORMATION

Your monthly statement will show your account balance, minimum payment and payment due date. To keep your account in good standing and avoid late payment fees you are required to make the minimum monthly payment by the due date.

When you carry a balance on your account or take a Cash Advance (Check, Direct Deposit and ATM) or transfer a balance from another creditor (Balance Transfer) you will be charged interest at your Annual Percentage Rate (APR). This rate varies with increases or decreases in the U.S. Prime Rate. This is called a variable rate. The following are your variable rates: for Purchases, 9.90%; for Balance Transfers, 9.90%; and for Cash Advances, 24.99%. If your account has balances at a promotional rate, the promotional Annual Percentage Rates will be identified on your monthly statement.

If you can't pay your balance in full each month, paying more than the monthly minimum can reduce your interest costs. As long as you pay the minimum payment by the due date, your Annual Percentage Rate for existing balances will not be affected.

Beginning February 13, 2010, your Annual Percentage Rates on existing balances can only be raised if you do not make your minimum monthly payment within 60 days of the payment due date. In that instance, we can amend your agreement in order to raise your Annual Percentage Rate for all existing balances and future transactions. If your Annual Percentage Rates are increased because of this reason, your existing balances can return to the original Annual Percentage Rates if, for the next 6 months following the increase, you make your required payments by the due date.

We can also increase your Annual Percentage Rates for future transactions even if you are not 60 days late. We will always provide you with at least 45 days prior notice of any rate increase by sending you an amendment to your Credit Card Agreement.

To help you remember your payment due date, you can use Online Banking at bankofamerica.com to set up payment alerts.

SUMMARY OF FEES

Annual Fee: There is no annual fee for having this account.

Transaction Fees: Some transactions will cause fees depending on how you use your account. These transactions include Balance Transfers, Cash Advances, and all Foreign Transactions. Foreign Transactions are transactions made in foreign currency or charged to your account from outside of the United States. There are no transaction fees for Purchases, other than Foreign Transaction fees. For a complete list of fees that may be applied to your account, please refer to your Agreement.

Late Payment Fee: You have at least 25 days from your statement Closing Date to make your payment. If your payment is received after your due date, you will be charged a Late Payment Fee. This fee is calculated based on your account balance as of your payment due date and will not exceed $39.

Returned Payment Fee: If your payment is returned for any reason, you will be charged a fee of $35.

FOR MORE INFORMATION

We're here to answer your questions—day and night. If you have any questions or need assistance with your account, please contact us by calling the toll-free number on the back of your credit card. Our experienced associates are ready to assist you 24 hours a day, seven days a week. For information, videos and demonstrations on avoiding fees and interest expense please visit bankofamerica.com/factsaboutfees.

Thank you for being a valued Bank of America customer.

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APPENDIX D: SUMMARY OF KEY CREDIT CARD INDUSTRY REGULATIONS IN THE UNITED STATES

Regulation B - Equal Credit Opportunity
Prohibits discrimination in the extension of credit on the basis of sex, marital status, age, race, color, religion, national origin, receipt of public assistance income, and the good faith exercise of rights under the Consumer Credit Protection Act. Requires lenders to notify applicants of decisions, explain why credit is denied, retain records for set periods after an adverse credit decision, and provide for penalties for failure to comply with the regulation.

Regulation E - Electronic Funds Transfer Act
Establishes the rights, liabilities and responsibilities of consumers and financial institutions with regard to electronic funds transfers (EFT) and protects consumers using EFT systems. Regulation E applies to any transaction initiated through an electronic terminal, telephone, computer, or magnetic tape that tells a financial institution to either deposit or withdraw from a member's account at a financial institution. Prescribes rules for the solicitation and issuance of EFT cards; governs consumer's liability for lost or stolen cards; sets up resolution procedures for errors on EFT accounts; covers the notice of crediting and stoppage of preauthorized payments to and from a customer's account; requires institutions to disclose certain terms and conditions of EFT services; and provides for documentation of electronic transfers.

FCPR - Fair Credit Practice Rule
Is designed to assure fairness of consumer credit, late charge accounting, and cosigner practices of financial institutions. Under the Fair Credit Practice Rule, loan contracts are prohibited from containing confessions of judgment, certain waivers of exemption, assignment of wages, and nonpossessory security interest in household goods unless the goods are purchased with the credit that is extended. This Rule prohibits pyramiding of late charges and the misrepresentation of a cosigner's liability.

FCRA - Fair Credit Reporting Act
Protects information collected by consumer reporting agencies such as credit bureaus. Information in a consumer report cannot be provided to anyone who does not have a purpose specified in the Act. Companies that provide information to consumer reporting agencies have specific legal obligations, including the duty to investigate disputed information. User of this information for credit must notify the consumer when an adverse action is taken on the basis of such reports.

FDCPA - Fair Debt Collection Practices Act
Prohibits third-party debt collectors from employing deceptive or abusive conduct in the collection of consumer debts incurred for personal, family or household purposes. This Act does not pertain to financial institutions that collect debt that they originated. Such collectors may not contact debtors at
odd hours, subject them to repeated telephone calls, threaten legal action that is not actually contemplated, or reveal to other persons the existence of debts.

**Gramm-Leach-Bliley Act – Privacy of Consumer Financial Information**
Governs the handling of consumer financial information. Under the Gramm-Leach-Bliley Act (GLB Act), financial institutions have restrictions on when they may disclose a consumer’s personal financial information to nonaffiliated third parties. The GLB Act grants consumers the ability to opt-out of the disclosure of their financial information to most nonaffiliated third parties. The ability to opt-out is subject to certain exceptions. In addition, the GLB Act requires financial institutions to provide notices to customers about its privacy practices and policies.

**HIDC - Holder in Due Course**
Protects consumers who purchase goods or services on credit. The rule only applies to consumer credit and is intended to prevent sellers who deliver poor goods or services from limiting a consumer’s remedies by selling the consumer’s note or other debt obligation to a creditor.

**Regulation Z - Truth in Lending Act**
Prescribes uniform methods of computing the cost of credit, disclosure of credit terms, and procedures for resolving billing errors on certain credit accounts. Regulation Z was written to promote the informed use of consumer credit by consumers, and applies to loans for personal, family or household purposes. The major provisions of the regulation require lenders to:

- Provide borrowers with meaningful, written information on the cost of credit (including financial charges and the annual percentage rate (APR)).
- Respond to consumer complaints of billing errors on certain credit accounts within a specific period.
- Identify credit transactions on periodic statements of open-end credit accounts.
- Provide certain rights regarding credit cards.
- Inform customers of the right to rescind certain real property transactions with a specific period of time.
- Comply with special requirements when advertising credit.

Regulation Z was recently modified to adhere to be consistent with key elements of the CARD Act; key changes include:

- **Applications and Solicitations:** The final rule contains format and content changes to make the credit and charge card application and solicitation disclosures more meaningful and easier for consumers to use. These disclosures are provided in the form of a table that summarizes the key account terms. The changes include:
  - **Format Revisions:** New format requirements for the summary table include rules regarding type size, the use of boldface type for certain key terms, and the placement of information.
- **Content Revisions**: Creditors must disclose the duration that penalty rates may be in effect, simplify disclosures about variable rates and revise disclosures regarding when a grace period is offered on purchases or when no grace period is offered.

- **Account-opening Disclosures**: The final rule enhances the cost disclosures provided at account opening to make the information more conspicuous and easier to read. Certain key terms must be disclosed in a summary table at account opening, which is substantially similar to the table required for credit and charge card applications and solicitations.

- **Periodic Statement Disclosures**: The final rule contains revisions to make disclosures on periodic statements more understandable, primarily by making changes to the format requirements, such as by grouping fees and interest charges together. The changes include:
  - **Interest Charges and Fees**: Interest charges and fees must be grouped separately, with a monthly total for each. Interest charges must be itemized according to the type of transaction (such as interest charged on purchases, and interest charged on cash advances). Separate year-to-date totals for fees and interest charges are also required.
  - **Effective APR**: The requirement to disclose an “effective annual percentage rate” is eliminated due to the lack of consumer understanding of this term. New requirements to disclose interest and fee totals for the month and year-to-date should more effectively inform consumers of the total cost of credit.
  - **Minimum Payment Disclosure**: The effect of making only the minimum required payment on the time to repay balances must be disclosed, as required by the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005.

- **Changes in consumer’s interest rate and other account terms**: The final rule expands the circumstances under which consumers receive written notice of changes in the account terms (such as, an increase in the interest rate), and increases the amount of time these notices must be sent before the change becomes effective. The changes include:
  - **Increase in Advance Notice for Changes in Terms**: The final rule increases the amount of advance notice before a changed term can be imposed from 15 to 45 days to better allow consumers to obtain alternative financing or change their account usage.
  - **Requiring Prior Notice for Penalty Rate Increases**: Creditors must provide 45 days’ prior notice before the creditor increases a rate due to the consumer’s delinquency or default or as a penalty.
  - **Summary Table**: When a change-in-terms or penalty-rate notice accompanies a periodic statement, the final rule requires creditors to provide a tabular disclosure on the front side of the periodic statement showing the key terms being changed.

- **Additional protections**: The final rule includes the following additional protections for consumers:
  - **“Fixed” Rates**: Advertisements may refer to a rate as “fixed” only if a time period is specified for which the rate is fixed and the rate will not increase for any reason during
that time, or if a time period is not specified, if the rate will not increase for any reason while the plan is open.

- **Cut-off Times and Due Dates for Mailed Payments:** Creditors must set reasonable cut-off hours for mailed payments to be considered timely on the due date. The final rule deems 5 p.m. to be a reasonable time. When mailed payments are not accepted on the due date, such as on weekends or holidays, creditors must consider a payment received on the next business day as timely.