

SUPPORT THE CFPB'S RULE TO REDUCE CREDIT CARD LATE FEES



Virtual
Consumer
Advocacy Week
2024



WE URGE MEMBERS OF CONGRESS TO SPEAK UP LOUDLY IN SUPPORT OF THE RULE, TO ENSURE THAT IT GOES INTO FULL EFFECT AS INTENDED. PLEASE PUBLICLY COMMIT TO SUPPORTING THE RULE, AND OPPOSING ANY WEAKENING LEGISLATION, INCLUDING A POSSIBLE CONGRESSIONAL REVIEW ACT RESOLUTION TO OVERTURN IT.

In March 2024 the Consumer Financial Protection Bureau (CFPB) announced the finalization of an urgently needed rule to limit costly credit card late fees that will save consumers an estimated \$9 billion annually.

BY THE NUMBERS

Of the \$23.6 billion fees charged by card issuers in 2019, \$14 billion came from late fees alone.

The CFPB estimates that the income generated by the largest issuers from late fees is approximately five times greater than the collection costs that the companies incur for late payments.

Currently, credit card late fees average \$30 for the first offense and \$41 for subsequent ones.

Credit card late fees are a type of “financial junk fee” that needlessly raise the price of credit cards for consumers. It's simply unfair to impose a steep late fee penalty that far exceeds the credit card company's costs when someone is just a few hours or a couple of days late making a payment.

Over the last decade, banks and other credit card issuers have made a huge windfall by charging steep penalty fees for late payments, even if the payment was only late by a day or even a few minutes.

UNDER THE CFPB'S NEW RULE:

✦ Credit card late fees must be more in line with the true costs for the issuer. **The rule caps fees at no more than \$8** or the issuer's costs, whichever is higher.

✦ **The permissible late fee will not be automatically increased by the amount of inflation, as in the past.**

The steep late fees function as a **back-end profit center for the banks**, and **distort fair pricing and competition** when consumers are first comparing their choices and selecting a card. To address this problem, **the Credit Card Accountability and Disclosure Act of 2009 (CARD Act)** required that credit card late fees should be **“reasonable and proportional”** to the costs incurred by credit card issuers to handle late payments.

But **over time, fees have been raised by the card issuers to keep pace with inflation**, even if they have no additional costs for servicing the late payment.

CFPB's new rule will make a real difference for millions of Americans who are living paycheck to paycheck and working hard to keep up with their payments and other household expenses.

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How often do Americans pay credit card late fees?

One in five adult Americans – **an estimated 52 million people** – paid a credit card late fee in the last 12 months, according to a September 2023 Consumer Reports nationally representative survey of 2,089 adults.

The financial burden of late fees falls most heavily on people living paycheck-to-paycheck, low- and moderate-income consumers, and people of color.

CFPB research has found that people with low incomes pay proportionately bigger fees because they tend to have smaller credit card balances. **Borrowers who make \$150,000 a year paid an average \$15 when charged a late fee, compared to borrowers who make \$32,000 who paid twice that amount**, around \$32, according to a CFPB analysis. The CFPB also found that in ZIP codes where 90 percent of people are Black, the burden of late fees is felt hardest.

Example: Credit card late fees may be charged even if the payment is just an hour late. A woman in Eureka, Calif., another in Milo, Maine, and a man in Summerlin, Nev., told Consumer Reports they were hit with late fees of \$41, \$32, and \$35, respectively, after paying their bill at 6 p.m. instead of 5 p.m.

Example: The highest fees are charged even for very small balances. Even if you owe a small balance of \$5, you can be charged a late fee of \$30 or more under the current system.

Example: Credit card late fees make it harder for consumers who are living paycheck to paycheck to afford basic necessities. According to a survey by Consumer Reports, 19% percent of consumers who got a late fee said that they needed to pay other essentials first, such as rent or utilities; and 17 percent said they had an emergency that resulted in their inability to pay.

“I’ve been charged credit card late fees several times, and every time it’s not because I haven’t wanted to pay on time, but because I simply didn’t have the funds, hence needing credit cards to pay for basic needs like food and medical care,” said Desirae Golis, from Anacortes, Washington. “Late fees are essentially a penalty for the poor, as of course the wealthy can set automatic payments and pay on time without fear of overdrafting.”