Did the Credit CARD Act Lead to Higher Interest Rates or Just More Honest Rates?

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While new credit card rules mandated by the Credit CARD Act of 2009 may have resulted in greater price transparency for consumers, there have been claims recently that the Act may have caused prices to rise or credit to constrict. To study the impact of the Credit CARD Act on prices, credit availability, and transparency five sets of data were examined. The first two, from the Federal Reserve Board, track credit card rates, both as stated on solicitations and as actually paid by consumers. The discrepancy between the two measurements narrowed after the CARD Act passed, with stated rates moving closer to actual rates paid. The third source of information came from "Call Reports," which are statements of income and financial condition that commercial banks file quarterly with bank regulators. Analysis of this data provided further evidence that prices have become more transparent. The fourth set, a private data base from Mintel Comperemedia, tracked the number of mail solicitations over time. It showed that, once adjusted for the downturn, the number of solicitations has held steady or even risen. The fifth, from the website CreditCards.com, compared rates offered on all credit cards to those offered on business credit cards, which are not subject to the CARD Act. The effective rate on business cards increased relative to consumer cards, further evidence that reform did not cause price increases. Key conclusions from the study include: 1) New rules have reduced the difference between stated rates and actual rates paid on credit cards, resulting in more transparent pricing. An estimated $12.1 billion in previously obscure yearly charges are now stated more clearly in credit card offers; 2) Once the economic downturn is taken into account, the actual rate consumers have paid on credit card debt has remained level; 3) Direct-mail offers have been extended at a volume and pace consistent with economic conditions. Contrary to credit card industry claims, the new rules have not caused prices to increase or access to credit to fall. Instead, they have benefitted the public by making credit card pricing significantly more transparent. In the long run, price transparency is likely to lower costs long term by spurring competition and making it harder for issuers to manipulate or arbitrarily raise prices.