U.S. DEPARTMENT OF THE TREASURY

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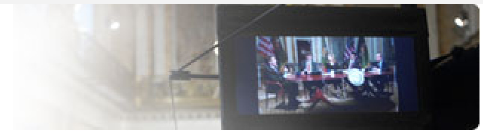

Remarks by Elizabeth Warren on The CARD Act

2/22/2011
"The CARD Act: One Year Later"
As Prepared for Delivery

Welcome, everyone, and thank you for joining us this morning for our conference on the CARD Act.

One year ago today, many provisions of the Credit Card Accountability, Responsibility, and Disclosure Act – the CARD Act – took effect. We come together to mark this anniversary, but our primary goal is to analyze and discuss its impact.

At the new Consumer Financial Protection Bureau, we are determined that any actions we take will be grounded in a deep understanding of the market we are overseeing. Our organization reflects this commitment. Research and rule writing are brought together in a single division, comprising five expert teams specializing in specific markets. The Card Markets team was one of the first to get underway, and this conference represents the kind of work we plan to do on an ongoing basis.

One year after the CARD Act took effect, we think it is appropriate to ask whether it has had its intended effects and how the credit card marketplace has changed. Where there are clear causal links, we need to draw them out. And where the connections are more tenuous, we need to keep asking questions and analyzing data. Of course, we must recognize the limits of this approach. Public policy formulation cannot be put on hold until every question has a definitive answer. The data will always be limited and the answers will never be definitive. Even so, we will work to formulate policy based on evidence and rigorous analysis.

This conference is important to the agency. Our work with you today can help inform the way the new consumer bureau will approach the credit card market. We hope to leave here today with a better sense of the policy implications of what the data show and how to frame the research questions that remain to be answered.

When the Act was signed into law in May 2009, it was clear that the credit card market was in need of serious reform. Congress concluded that certain practices in the credit card industry were not fair and transparent to consumers, and the CARD Act passed with very strong bipartisan support in both the House and the Senate. As President Obama said when he signed the CARD Act into law, the Act was intended to uphold "basic standards of fairness, transparency, and accountability."

The concerns that gave rise to the Act were not about the profitability of the credit card industry, but rather the methods used to generate some of those profits. Pricing had become too opaque. Some issuers advertised an understated price up front, counting on interest rate re-pricing, fees, penalties, and other often-unexpected charges to let them impose a much higher total cost for the card than implied by the price advertised. The result was a total cost of credit far more expensive than many consumers had anticipated. The harm to customers was significant, but the harm to competition was also substantial. Some issuers explained that when they made improvements in cards, potential customers could not tell. So, for example, when one of the largest issuers in the market dropped universal default clauses amid much fanfare, the cards were still so complex that customers could not tell. Within a few months, the company reversed course, re-instituting universal default.

The CARD Act was designed to reduce surprises in re-pricing of accounts and to take a major step in improving the overall transparency of credit card costs. As a result of the CARD Act, consumers now have better information about how much they are paying for credit and how much they might save on interest if they pay down their balances more quickly than they might otherwise have planned. Thanks to the CARD Act, there are no more shifting due dates, and consumers must have at least 21 days to make their payment, both of which should make it less likely that they will be hit with unexpected late fees.

A year later, the CARD Act has brought about major changes in the way the industry operates. In part, this is attributable to the protections Congress enacted. But the data we have assembled indicate that much of the industry has gone further than the law requires in curbing re-pricing and overlimit fees. A number of issuers have eliminated some of the practices that can confuse customers and cost them money they reasonably did not expect to pay. Leaders in the industry deserve credit for moving in the right direction.

Of course, not everyone has embraced this approach. As soon as the CARD Act became law, it seems that some industry lawyers were asked to find slightly different ways to accomplish that which the legislation was intended to outlaw. To its credit, the Federal Reserve Board responded with a rulemaking proceeding designed to close the loopholes. While I doubt that anyone thinks this is the last time such a rulemaking proceeding will be required, we can probably agree that this approach – write a rule, avoid a rule, write another rule – is costly for consumers and for the industry. Because it multiplies the number and complexity of rules, this approach creates special challenges for those smaller banks and credit issuers that still offer credit cards to their customers.

I believe the CARD Act has pushed in the right direction. It has brought about significant reforms in both the pricing practices of card issuers and the information provided to consumers. Even so, substantial challenges remain. Thinking about the approach to regulation, and how to improve markets without an overreliance on rules, will be the next challenge.

We all believe in – we all have experienced – the benefits of competition. When markets work well, inefficient producers and shoddy products are more likely to fall of their own weight. With competition, consumers tend to get improved product choices and lower prices. Competition may also increase the rewards to firms that innovate in ways that consumers value.

But for a market system to serve fully the interests of consumers, consumers need to be able to understand the costs, benefits, and risks of alternative products, and to be able to compare those products straight up. By this standard, in the credit card market, we have more work to do and the task is formidable. Even with the improvements brought about by the CARD Act, there are a lot of moving parts in a credit card price. Despite the important progress made in improving the Schumer box disclosure and monthly statement disclosures, it is still difficult for many consumers to understand the costs and risks of each individual credit card or to compare cards directly. Our next challenges will be about further clarifying price and risk and making it easier for consumers to make direct product comparisons.

The new consumer bureau will make clarity a top priority. Industry representatives have expressed their willingness to help, and many consumer groups and academics are committed to helping as well. We want to work collaboratively with all parties. As part of that collaboration, we want to be sure that we understand the consequences of the CARD Act, both intended and unintended. This conference is a first step in that direction.

I anticipate that today's event will provoke some thoughtful and informed discussions about what has changed since the CARD Act took effect, what those changes mean for consumers, issuers, and the market, and what remains to be done. That is the most fitting way to commemorate this one-year anniversary. It is also the right way to launch a new conversation that uses our collective brainpower to advance a fairer and more efficient market.

Thank you again for your time and your energy. We need you.