Consumer Credit Will Not Be Reduced and Consumer Fees Will Not Rise Under the Credit Card Competition Act

- The credit card industry strenuously argues that if anything at all happens to reform the anti-competitive credit card system, it will force mega-banks to raise other fees paid by consumers or they will extend less credit.
- This is false.
- The first clue that this isn't true comes from comparing profits across industries. Banks make higher profits than any other industry (30.89%) and they have been at or near the top consistently for many years.
- The European Commission's Directorates for Competition and Financial Services jointly conducted a comprehensive study on this argument and found no evidence to support the card industry's claims. The Commission rejected arguments that lower interchange fees to merchants would result in higher fees to consumers:
  - "There is no economic evidence for such a claim. Firstly, the inquiry's data suggests that in most cases card issuers would remain profitable with very low levels of interchange fees or even without any interchange fees at all. Secondly, the international card networks have failed to substantiate the argument that lower interchange fee would have to be compensated with higher cardholder fees. The evidence gathered during the inquiry rather suggests that the pass-through of higher interchange fees to lower cardholder fees is small. Consumers already pay the cost of the interchange fee without knowing it. This cost is now hidden in the final retail price and is therefore non-transparent."[1]
- University of Utah economist Hal Singer has written that this argument stems from a fallacy put forth by the financial services industry.[2] He notes that there is no economic basis for this industry-backed myth. Instead, the myth exists as a shield against any type of reform. Essentially, the financial services industry claims that, should any legislation pass that it does not like, the industry will hurt consumers – and that therefore it is futile to try to do anything to deal with problems in the industry.
- Federal Reserve economists found that in fact banks collect higher interest and fee payments from people who use cards with higher swipe fees rates.[3] The opposite would be true if there was any merit to the credit card industry's claims.
- Federal Reserve economists have also found that banks earn so much from interest payments that there is an economic rationale for banks to offer credit cards to people at every income level.[4]

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[1] European Commission, Directorates on Competition and Financial Services, *Competition: Final report on retail banking inquiry – frequently asked questions*, Jan. 31, 2007, *available at* http://europa.eu/rapid/pressReleasesAction.do?reference=MEMO/07/40&format=HTML&aged=0&language=EN&guiLanguage=en.

[2] "The Lie Banks Use To Protect Their Late-Fee Profits," by Hal Singer, The Lever (March 20, 2024) (available at The Lie Banks Use To Protect Their Late-Fee Profits).

[3] Sumit Agarwal, Andrea Presbitero, Andre Silva, and Carlo Wix, "Who Pays For Your Rewards? Redistribution in the Credit Card Market," Federal Reserve Board, Finance and Economics Discussion Series (Dec. 2022) at 11, 16-17 (available at Who Pays For Your Rewards? Redistribution in the Credit Card Market)

[4] Sumit Agarwal, Andrea Presbitero, Andre Silva, and Carlo Wix, "Who Pays For Your Rewards? Redistribution in the Credit Card Market," Federal Reserve Board, Finance and Economics Discussion Series (Dec. 2022) at 9 (available at Who Pays For Your Rewards? Redistribution in the Credit Card Market)