

Supporting Statement B
Report of Terms of Credit Card Plans Supplemental Survey
(FR 2572S; OMB No. 7100-0239)
Attachment 2
Overview of Statistical Methods

Statistical Methods

Section 505 of Credit Card Accountability Responsibility and Disclosure Act of 2009 (Credit Card Act) directs the Federal Reserve to conduct a study of the extent to which credit card issuers reduce credit lines or raise interest rates on open-end credit accounts issued to consumers based on certain specific factors (such as type of merchant the consumer transacts with or the type or price of items purchased). The study calls for a review of practices that may have been in place over the past three years. The study is to include information on (1) the number of creditors that have considered such factors and (2) the extent to which the practices may have had an adverse effect on minority and low-income consumers. The report to Congress is due one year from enactment or May 22, 2010.

The Federal Reserve proposes to revise the FR 2572 information collection to include a supplemental survey (FR 2572S) on the number of creditors that have engaged in one or more of the practices identified in Section 505 of the Credit Card Act. Respondents would comprise 25 of the largest bank credit card issuers and a nationally representative random sample of 150 additional card issuers. Card issuers would be identified from the Call Reports for commercial banks, from the OTS Form 1313 for savings associations, and from the Form 5300 Call Report for credit unions (OMB No. 3133-0004) as of June 30, 2009, and include any commercial bank, savings institution, or credit union that has credit card outstandings and currently offers credit cards to consumers. The supplemental survey would be conducted one time and would be mandatory. The survey would address both current practices and practices that may have been in place over the past three years.

Section 505 of the Credit Card Act is quite specific with respect to the information that is to be collected. The Federal Reserve must gather information on the extent to which creditors have reduced credit limits or raised interest rates applicable to credit cards under open end consumer credit plans based on:

- geographic location where a credit transaction with the consumer took place;
- identity of the merchant involved in the transaction;
- credit transactions of the consumer, including the type of credit transaction, the type of items purchased in a transaction, the price of items purchased in a transaction, and other data about the use of the credit card by the consumer; and
- the identity of the mortgage creditor that extended or holds the mortgage loan secured by the primary residence of the consumer.

Questions would be asked on the number of each issuer's cardholders who could have potentially experienced a reduction in their credit lines, account closure, or an increase in the

interest rate on their account due to each of the practices cited in section 505.⁶ For the survey, institutions would be asked to only consider active credit card accounts. Active accounts are those that the consumer used to make purchases or take a cash advance at any time during the twelve months preceding the receipt of the survey.⁷ To determine the number of account holders actually experiencing a credit line reduction, account closure, or interest rate increase due to the factors cited in section 505, institutions would be asked to review the reasons provided to cardholders in adverse action notices both during the month before the survey is received and over the previous 25 months.⁸ If a cardholder has received multiple adverse action notices over the 25-month period they would be counted as having been affected by the policies if any of the adverse action notices they received identified the factor as a reason for the action.

The survey would not provide information on the extent of any adverse effects of these practices on low-income or minority cardholders. However, the Federal Reserve would use information gathered in the survey to facilitate an assessment of credit record data that can be used to provide such an analysis.

The survey would be conducted by mail and would be addressed to the Chief Executive Officer of each of the selected card issuers. The survey would be distributed as soon as possible and respondents would be given 60 days in which to respond. The survey would also be accompanied by a letter from Federal Reserve Chairman Ben Bernanke seeking cooperation in this survey. Survey responses would be sent to the Federal Reserve for analysis.

In addition to the survey, the Federal Reserve would gather information from the other banking agencies' supervisors on the extent to which the practices identified in Section 505 of the Credit Card Act have been used by the largest credit card issuers. Their feedback would provide independent validation of the survey responses of the larger card issuers. It is not possible to gather all the required information from the agencies within the time frame set by the Congress as the agencies do not have the detailed data and would need to collect it from their supervised entities as proposed in this survey.

⁶ Credit card accounts that are potentially affected by the policies are those where a factor identified in the Congressional legislation could have played a role in a line reduction, account closure, or increase in interest rate. Thus, if a policy was implemented as a factor in an automated model applied to all an issuer's customers, the potential number of cardholders affected would be all of the issuer's cardholders. If the policy was limited to a subset of customers by some screening criteria then the potential number of cardholders would only be a fraction of the total.

⁷ If the only activity on an account is a cash advance arising from a draw on the credit card line to cover an overdraft on a linked checking account that account would be treated as inactive for purposes of this survey.

⁸ The Equal Credit Opportunity Act (ECOA) requires that creditors provide adverse action notices to customers that identify as many as the four main reasons for an adverse action. These records must be maintained for 25 months. The regulation allows a card issuer to send a notice to the cardholder that does not include the specific reasons for the action. However, in the notice, cardholders are advised they may call the issuer for the specific reasons. The survey would include these types of adverse action notices as well.