Client Alert

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Consumer Advisory Board – CFPB Encourages Credit Card Companies to Consider Zero-Interest Promotions in Place of Deferred-Interest Programs

By Obrea O. Poindexter and Jeremy R. Mandell

On June 8, 2017, the Consumer Financial Protection Bureau (CFPB) held a Consumer Advisory Board (CAB) meeting, at which CFPB Director Richard Cordray discussed deferred-interest products. The CFPB also included in a press release a sample letter that Director Cordray sent to "top retail credit card companies" expressing concern about their use of deferred-interest programs and encouraging them to consider using more transparent promotions.

The Director's letter referred to 2015 CFPB research on deferred-interest programs. According to this research, "nearly 90% of deferred interest promotional spending is made by consumers with prime or superprime credit scores. Consumers with deep subprime scores and core subprime scores account for 3% and 8% of deferred interest promotional spending, respectively." Director Cordray said in the letter that while deferred-interest programs "offer substantial benefits to some consumers, [they] carry significant costs and risks to others." The Director added that deferred-interest programs "may lack transparency to consumers, as a consequence of the back-end pricing that can be a feature of these products."

Director Cordray's letter advocates for zero-percent-interest promotions. For some such promotions, consumers are not assessed retroactive interest if the promotional balance is not paid in full by the end of the promotional period. Rather, the interest rate changes to the regular rate, and interest only begins to accrue on remaining balances. Director Cordray said that this approach has more transparent costs and is easier for consumers to understand, as long as the end date of the promotion is clearly disclosed, while noting that altering promotional terms in this manner would only benefit those consumers who fail to pay their balances in full by the end of the promotional period.

In his comments to the CAB and in the sample letter, Director Cordray referenced one large retailer that, in partnership with a large credit card issuer, announced that it will no longer offer deferred-interest promotions on its store credit card, and, instead, it will offer a zero-percent-interest promotional program. According to the Director, this program does not assess interest retroactively if the full balance is not repaid at the end of the promotional period; instead, the interest rate converts to the regular rate, and interest begins to accrue only on remaining balances. The Director stated that the CFPB is "encouraging others to consider adopting this approach."

The CAB meeting was newsworthy for other reasons, including because the CFPB announced that

- with respect to the forthcoming third-party debt collection rulemaking, the CFPB has decided to consolidate issues relating to verifying the accuracy of the debt-related information (i.e., “right consumer, right amount”) into the separate first-party rulemaking process. It was previously expected that these issues would be addressed in the CFPB’s third-party rulemaking. A third-party rulemaking is expected by early 2018, while any potential first-party rulemaking is expected to be on a longer timeline.
- the agency has decided to grant a request for a 60-day extension for the comment period on the CFPB’s request for information regarding the small business lending market. The comment period was scheduled to close on July 14, 2017, and will now close in mid-September 2017.

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