PAYMENT CARDS Center

FEDERAL RESERVE BANK OF PHILADELPHIA

Update

A newsletter published by the Payment Cards Center, providing meaningful insights into developments in consumer credit and payments

Summer 2006

From the Director

Peter Burns, Vice President & Director

Welcome to this edition of *Update*, a publication of the Payment Cards Center highlighting recent activities. Also available on our website, *Update* complements the more complete set of information available at www.philadelphiafed.org/pcc.

Throughout its five-year history, the Payment Cards Center has always placed special emphasis on building relationships across a broad spectrum of individuals and organizations with interests in consumer credit and payments. These partnerships include financial institutions, payment services providers, consumer advocacy groups, academic institutions, and regulatory agencies and other government entities. In many ways, these relationships have become our most valued asset, allowing us to learn from and leverage the knowledge of others.

Past issues of *Update* have highlighted the value of these relationships and the synergies that arise when various groups gather at PCC-sponsored conferences. In this issue, we focus primarily on the important relationship the PCC maintains with one of these groups: the research community. This diverse group includes economists, lawyers, statisticians, and public policy researchers whose interest in the field ranges from the theoretical to the practical.

Our relationship with the research community is perhaps our most natural. The Philadelphia Fed and the Federal Reserve System are well known for their economic research. Many of our Philadelphia Fed economists have an interest in the field of consumer credit and payments. Working with our colleagues in the Research Department, the Center co-sponsors a biannual conference highlighting new research in the field by scholars from academic institutions, the Federal Reserve, and other relevant entities.

In this issue, we highlight research being done by Robert Hunt, a senior economist at our Bank. Bob has recently been exploring issues associated with the options available to distressed borrowers. In a recent *Business Review* article, he examined the history and economics of the credit counseling industry and the changes the industry is currently undergoing. More recently, Bob's research interests have led him to examine the collection industry and its relationship to credit card markets.

Economist Wenli Li, another colleague in the Bank's Research Department, is also

Mission Statement

The mission of the Payment Cards Center is to provide meaningful insights into developments in consumer credit and payments that are of interest not only to the Federal Reserve but also to the industry, other businesses, academia, policymakers, and the public at large. The Center carries out its mission through an agenda of research and analysis as well as forums and conferences that encourage dialogue incorporating industry, academic, and public-sector perspectives.

In This Issue:

interested in distressed borrowers. In this issue, we describe her recent work testing the effects of different modifications to our bankruptcy system.

Finally, Federal Reserve Board economist Thomas A. Durkin visited the Center in May and shared his current research on the challenges to crafting minimum payment disclosure regulation as mandated by the new bankruptcy law.

Overall, the Center strives to leverage the Federal Reserve's reputation for academic research to support and promote specific research into areas relevant to consumer credit and payments. One way we accomplish this goal is by sponsoring a visiting scholar program that gives academic researchers an opportunity to visit the Center on a regular basis and interact with Research Department economists, Center staff, and other Bank professionals. Since 2001, the Center has invited five economists to participate in the program. This summer, two academic researchers joined the program: law professor Ronald Mann of the University of Texas and economist Jonathan Zinman of Dartmouth College. We are pleased that these two accomplished scholars are joining us, and, in this issue, we highlight some of their recent work.

In a further effort to support the research community, we have been developing tools to assist efforts to extend the literature. In an earlier issue of *Update*, we described our endeavors to maintain an up-to-date, searchable bibliography of relevant papers on consumer credit and payments. In this issue, we describe a series of papers by Center analysts Mark Furletti and Christopher Ody devoted to examining several sources of consumer credit data and macroeconomic indicators on which researchers in this field frequently rely. We hope that researchers contemplating work in this area will find these papers of value.

Our research partnerships extend beyond the Bank to include collaboration with other Federal Reserve colleagues. Later in this issue, we highlight one such collaboration between Industry Specialist Julia Cheney of the PCC and economist Sherrie L.W. Rhine of the Federal Reserve Bank of New York. Julia and Sherrie recently co-authored a paper on the role of electronic payments in delivering financial aid to victims of Hurricane Katrina. Following publication of this paper, the authors have been invited to discuss these issues in a variety of settings. As noted later in this issue, themes from the paper and the subsequent forums ultimately led to a major conference on the subject, held at the Bank in early May.

Overall, supporting research in the areas of consumer credit and payments is an essential element of our mission. Good research can lead to more productive discussion of important issues and can be a valuable guide to policymakers

We hope you enjoy reading this issue of *Update*, and I welcome your suggestions on how we can further add value by increasing understanding of the dynamics underlying this important sector of the financial services industry.

Center Examines How the Financial Services Sector Responded to Hurricane Katrina

Julia Cheney

Sherrie L.W. Rhine

In the days and months following Hurricane Katrina, Congress, policymakers, and the media spent considerable resources analyzing how the Federal Emergency Management Agency (FEMA) and local elected officials responded to the disaster. Much less attention was paid to how the financial sector, which includes banks, credit unions, payment networks, ATM operators, and various federal and state banking regulators, responded to and was affected by the hurricane. These entities ultimately provided victims with the cash and liquidity necessary to purchase fresh water, food, shelter, and other goods and services.

To better understand how the financial sector responded to the victims of Hurricane Katrina, particularly those without traditional banking relationships, the PCC's Julia Cheney collaborated with Sherrie L.W. Rhine of the Federal Reserve Bank of New York's Office of Regional and Community Affairs. The two wrote a report, "How Effective Were the Financial Safety Nets in the Aftermath of Katrina?," that analyzes how financial institutions and regulators responded to the disaster, the post-disaster vulnerabilities of families without formal banking relationships, and the efforts by relief agencies to provide financial assistance.

In their paper, Cheney and Rhine reach two key conclusions. First, they find that consumers without formal banking relationships were far more vulnerable to financial disruptions after the hurricane than consumers with traditional banking relationships. Consumers without banking relations — the so-called "unbanked" — experienced a variety of difficulties as a result of their reliance on nonelectronic payments. For example, unbanked victims were particularly affected by mail disruptions, which meant that important paper-based payments, such as payroll, Social Security, supplemental Social Security income, and child support checks, could not be delivered. In addition, the businesses on which the unbanked often relied for bank-type services, for example, check cashers and money services businesses, were severely damaged or destroyed, leaving victims with few options. In contrast, those with formal banking relationships were generally able to continue to receive direct deposits and to access their funds in the areas to which they evacuated. These consumers

Ronald Congemi, Judy Williams, and Jack Guynn at the PCC's conference on "The Role of Electronic Payments in Disaster Recovery."

were also able to reestablish contacts with their financial institutions and get much-needed financial help from relief agencies relatively quickly.

Second, Cheney and Rhine conclude that the relatively new introduction of branded prepaid cards served as a particularly useful vehicle for delivering financial relief to unbanked disaster victims. They find that branded prepaid cards, as compared with paper-based forms of payment, proved to be less expensive, easier to distribute, and safer for recipients to carry. Cheney and Rhine noted that, despite these advantages, agencies that relied on these payment cards must balance two competing considerations: the need to quickly and efficiently provide relief and the need to control fraud and other misuses of the cards. Overall, they conclude that prepaid cards provide more than just convenience for relief agencies and consumers, particularly when paper-based infrastructures are disrupted.

The report by Cheney and Rhine generated considerable press attention, and they were invited to present their paper to various groups focused on improving the financial services industry's ability to respond in the aftermath of such events. The response to their presentations and paper and suggestions from various industry and government contacts encouraged the Center to organize a conference to explore more deeply several of the themes developed in the paper. This conference, "The Role of Electronic Payments in Disaster Recovery: Providing More Than Convenience," was held on May 3 and 4 in Philadelphia. The event brought together a uniquely qualified group of professionals representing financial institutions, payment providers, federal agencies, state governments, and relief agencies. The day-and-a-half of presentations and discussion were structured to develop a road map to further improve delivery of disaster relief payments. A summary of this conference will soon be available on the Center's website.

Jack Guynn, president of the Federal Reserve Bank of Atlanta, gave the keynote address, which, among other topics, included observations as to how his Reserve Bank, with its branch office in New Orleans, responded to Hurricane Katrina. Guynn outlined several lessons learned after he reflected on his Bank's response to the disaster. A critical success factor for the Atlanta Fed and other financial institutions, Guynn explained, was a well-documented, well-practiced, and well-communicated contingency plan. The plan served to address issues such as employee safety, operational continuity, and customer support. Guynn also discussed the need to encourage those who presently receive their federal and state benefits by check to adopt direct deposit, noting that it was much easier to re-route undeliverable credits in the ACH system than it was to re-route undeliverable checks in the mail.

Jack Guynn, president of the Federal Reserve Bank of Atlanta, delivers the keynote address at the PCC's conference on the financial services industry's response to Hurricane Katrina.

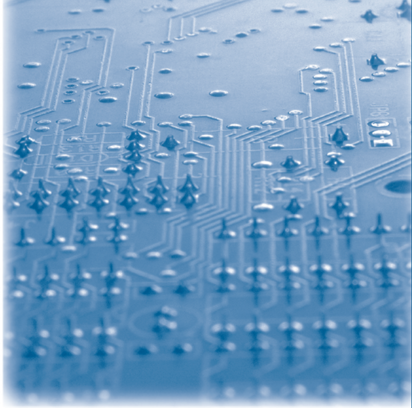
Sandra Braunstein, director of the Division of Consumer and Community Affairs at the Federal Reserve Board, opened the next day's proceedings, emphasizing the relevance of the conference topic to the Fed's mission of maintaining a safe and efficient payment system. She also noted the significance of an underlying theme in the conference: the need to include discussion of the plight of the unbanked as those most vulnerable to the kind of disruptions experienced in the aftermath of Hurricane Katrina.

Two panel discussions followed Braunstein's remarks. The first panel discussed electronic payment vehicles for delivering financial relief. Panelist Doug Perry, of the U.S. Department of Agriculture, the government agency that oversees the food stamp program, described how electronic benefit transfer (EBT) cards proved to be a highly reliable channel for relief distribution after the disaster. He noted that more than $500 million was distributed through EBT cards to the victims of hurricanes Katrina and Rita. These individuals had previously used these cards to receive food stamp assistance. EBT cards worked well, he argued, because the supporting infrastructure was already in place and recipients understood how to use them. Paul Simpson of JPMorgan Chase, the issuer of the EBT cards used by hurricane victims as well as other prepaid cards distributed to victims of the disaster, suggested that the success of EBT cards may illustrate an important lesson: If the

federal government could increase participation in electronically distributed benefit programs, it would significantly increase the ability to provide, with relative ease, assistance to a large portion of those affected by any potential disaster.

The second panel of the day focused on how financial educators, payment industry leaders, federal and state governments, and national relief agencies can strengthen the financial "safety net" that is in place to help victims of natural disasters, as well as similar disruptions that might accompany terrorist attacks and pandemics. Panelist Stephen Middlebrook, of the U.S. Department of the Treasury, proposed a process for strengthening the safety net. First, public- and private-sector entities must establish channels of communication, such that these entities can start working together to prepare contingency plans. Second, these organizations must, to the extent allowed by law, establish ways of sharing information and processes related to benefits registration, evacuees' contact information, and benefit payments. Finally, he argued that the involved entities should coordinate with one another on providing relief through a common electronic payment vehicle or set of vehicles. Panelists John Gruce, of Bank of America, and Jack Antonini, of Cardtronics, agreed on the need for more coordination and described ways by which the private sector can better prepare itself for a disaster by making products and processes scalable enough to withstand the strain of a catastrophe.

In sum, Cheney and Rhine's efforts appear to have helped stimulate a discussion among providers of financial and relief services. The conference concluded on a note of hope that these providers will begin coordinating their efforts and that federal and state policymakers will consider ways to make such coordination easier.



Center Names Two New Visiting Scholars

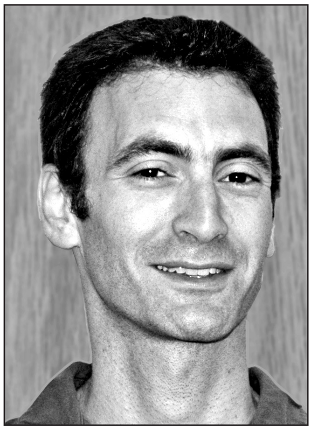
As part of its goal to support research on issues related to consumer payments and credit, the Payment Cards Center created a visiting scholar program in 2001. This program represents a collaborative effort with the Bank's Research Department and aims to establish supportive relationships with academic researchers whose interests advance the Center's mission.

The Center is pleased to announce the recent addition of two new researchers to the program: Ronald Mann, of the University of Texas School of Law, and Jonathan Zinman, of the Economics Department at Dartmouth College.

Mann holds the Ben H. & Kitty King Powell Chair in Business and Commercial Law at the University of Texas School of Law. He is a nationally recognized scholar and teacher who specializes in the fields of commercial law and electronic commerce. He has published extensively in law journals, and he is the author of *Payment Systems and Other Financial Transactions*, a textbook on commercial and consumer payment law. Mann's most recent work, a forthcoming book entitled *Charging Ahead: The Growth and Regulation of Payment Card Markets Around the World*, analyzes the policy implications of the rise in credit card usage around the world. Mann earned a B.A. from Rice University and a J.D. from the University of Texas School of Law.

Jonathan Zinman is an assistant professor of economics at Dartmouth College. His research interests include examining how the behavior of firms and consumers compare with those predicted by economic theory. Of particular interest to the Center is Zinman's work on consumer borrowing and payment decisions. His applied interests focus on working with financial institutions to develop strategies that expand access to financial services and testing whether such initiatives are effective at improving consumer decision-making. Zinman earned a B.A. in government from Harvard College and a Ph.D. in economics from the Massachusetts Institute of Technology.

Ronald Mann, University of Texas School of Law



Jonathan Zinman, Dartmouth College

Other Current and Past PCC Visiting Scholars

Paul Calem
Freddie Mac
formerly *Federal Reserve Board*
John P. Caskey
Swarthmore College
David Humphrey
Florida State University
Joseph R. Mason
Drexel University
Nicholas S. Souleles
University of Pennsylvania

Micropayments: The Final Frontier for Electronic Consumer Payments?

James McGrath

In a recent discussion paper "Micropayments: The Final Frontier for Electronic Consumer Payments?," Industry Specialist James McGrath examines the potential for electronic payments to replace small-dollar transactions in the U.S. Despite the growth of credit and debit card transactions, these "micropayments" have stubbornly remained the domain of cash and coin. In 2004, credit and debit networks processed a mere $13.5 billion of the $1 trillion worth of such point-of-sale transactions, leaving the bulk of transactions outside the electronic payments network. This suggests that the further electronification of micropayments could increase the efficiency of the payments system. At the same time, extending the electronic acceptance of payments may facilitate the creation of new markets in low-cost goods and services (particularly digital goods). Seeing this opportunity, payment card associations, banks, technology firms, and entrepreneurs are working to develop innovative solutions to spur the further adoption of electronic micropayments.

McGrath conducts a broad survey of micropayment innovations past and present from both the U.S. and around the world. By examining the business case for each of a variety of micropayment solutions, he identifies specific contributors to success. Interestingly, besides banks, many of the players that have driven innovations in micropayments are firms whose central business is not payments, including telecommunications, technology, and transportation firms. Despite much divergence in markets around the world, McGrath applies economic intuition to draw four central insights about how products are developed, marketed, and provided and by whom.

First, differences between laws and regulations across countries and industries matter greatly in explaining patterns in payments innovation. Worldwide, cell phones, smart cards, and credit card networks have all been vehicles for delivering micropayment solutions. The different regulatory environments faced by telecommunication firms, banks, and other innovators affect whether and how firms from different industries enter the micropayments market.

Second, industry structure affects whether a firm from a certain industry has enough market power to push bold innovations. McGrath argues that successfully launching a micropayments system is easier when there is one party that can dictate technological standards and push adoption.

Third, McGrath notes that consumers tend to be initially hesitant about adopting new payment mechanisms and that it takes time and experience for consumers to trust and value new payment vehicles. Drawing from an analysis of other payment innovations, McGrath suggests that payment vehicles reward reputation and familiar brands. The most successful innovations benefited from strong reputations.

Finally, McGrath draws on the principles of network economics in his analysis of micropayments. Innovators face a "chicken and egg" problem: No merchants will invest in a technology that consumers do not use, and consumers do not want a payment device unless it is widely accepted by merchants. McGrath sees this as yet another reason that micropayments tend to piggyback on existing technologies, such as the payment cards network in the U.S.

However, McGrath argues that the "chicken and egg" problem may prove less important with micropayments than in other nascent two-sided markets. He argues that it is not necessarily current adoption levels that merchants and consumers care about but the levels that they expect in the near future. The growing interest in micropayments in the industry and among merchants and consumers suggests that in the U.S., we may be nearing a "tipping point," where the requirements for development in these network businesses are coming together, suggesting more rapid innovation and consumer adoption in the future.

Overall, the paper concludes that the existing payment card infrastructure is likely to be the primary vehicle for electronifying micropayments in the U.S. for reasons similar to the ones that are likely to make smart cards and phone-based micropayments relatively more important in other global markets.

Bankruptcy Reform Legislation Spurs Research

Thomas A. Durkin, Federal Reserve Board of Governors

One downside of the increased availability of consumer credit is an increase in the number of people who do not repay their loans, many of whom end up formally declaring bankruptcy. In an effort to curb this increase in bankruptcy filings, Congress passed and the President signed the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005. Recently, two workshops and two papers at the Federal Reserve Bank of Philadelphia were motivated by this legislation and the problem it addresses.

Thomas Durkin, an economist at the Federal Reserve Board, presented a workshop on the minimum payment disclosure that Congress hopes will help consumers make more educated borrowing decisions. At an earlier workshop, PCC Visiting Scholar Ronald Mann spoke about his forthcoming book that, among other things, discusses the role of credit cards in bankruptcy. Additionally, economic research by Wenli Li and Pierre-Daniel Sarte and by Robert Hunt examines how the new bankruptcy law has changed the relative attractiveness of the alternatives available to distressed borrowers, including Chapter 7 or Chapter 13 filings, credit counseling, and informal bankruptcy (that is, simply not paying bills).

The new bankruptcy bill, among other things, requires credit card issuers to include on customers' statements a warning notice about making only minimum monthly payments. It also requires that issuers make available to consumers an estimate of how many months it would take to pay off certain credit card balances if only a minimum payment were made each month. Congress charged the Board of Governors with devising a methodology for making this payoff estimate and ensuring that the methodology is one that issuers can rely on to be in compliance with the law.

On May 22, 2006, the PCC hosted a workshop at which Durkin discussed his recent analysis of potential ways to make the payoff estimates required by the legislation. Durkin explained that creating a uniform methodology in an environment where issuers' pricing strategies vary substantially is challenging. He finds that for consumers with similar balances and APRs, estimates of payoff time can vary by more than a decade, depending on assumptions made about how monthly minimum payments are calculated, how payments are allocated by balance type, and how finance charges are calculated.

While Durkin did not advocate that the Board adopt any particular methodology, he did explain that as a result of variations in issuers' strategies, policymakers face a difficult task in implementing the statute in a way that provides consumers with accurate estimates.

A second workshop, led by Ronald Mann and based on a chapter in his forthcoming book on bankruptcy, examined the underlying causes of bankruptcy. However, Mann's conclusions about what the problem is and how to solve it differ from those underlying the new law. Mann employs a number of cross-country comparisons to highlight connections between credit cards, debt, and bankruptcy. He argues that the most feasible way to reduce consumer bankruptcy is by taxing charged-off debt in order to decrease the incentive to lend to distressed borrowers. In his opinion, the new law, by contrast, will not reduce bankruptcy filings but will instead slow down the bankruptcy process for consumers, giving issuers more time to receive debt-servicing payments. Therefore, while Mann agrees that the surge in consumer bankruptcy is a problem, he does not think that making it more difficult for consumers to declare bankruptcy represents the full extent of needed change.

Given the focus on bankruptcy system reform, Wenli Li and Pierre-Daniel Sarte's recent research emphasizes that how the law is "tightened" matters. Li and Sarte's paper "U.S. Consumer Bankruptcy Choice: The Importance of General Equilibrium Effects" focuses on the choice between Chapter 7 and Chapter 13 and the general equilibrium effects of different potential bankruptcy reforms. The authors developed a model to test three different policies: disallowing bankruptcy, tightening Chapter 7 through means testing, and tightening Chapter 7 by decreasing exemptions. Their model takes into account that changes to Chapter 7 will also affect the number of people filing for Chapter 13, and they note that wage garnishment under Chapter 13 can act as a disincentive to work. Li and Sarte's model suggests that rather than tightening Chapter 7 through means testing, as the 2005 law purported to do, it would be better to do so by lowering the level of allowed exemptions under Chapter 7. While an important economic contribution, their paper also has a simple lesson for noneconomists, too: When you change one option, you change the relative attractiveness of other options, as well.

In the same vein, Federal Reserve Bank of Philadelphia economist Robert Hunt has been researching industries tied to the alternatives to bankruptcy, which will also likely face change as a result of the legislation. Hunt identifies two possibilities for distressed borrowers outside of bankruptcy: ceasing to pay (informal bankruptcy), or attempting to renegotiate one's payments to creditors through a debt management plan. These two possibilities are of particular interest to the Payment Cards Center because only about one-half of credit card chargeoffs are the direct result of a bankruptcy filing. When people stop repaying unsecured loans without declaring bankruptcy, their accounts are often eventually sold out or outsourced to an agency specializing in collections.

Hunt's recent work on this industry builds on his *Business Review* article "Whither Consumer Credit Counseling?," which examines the function of the credit counseling industry, its history, recent concerns about consumer protection, and the resulting developments. Hunt argues that consumers do not make decisions about whether to seek credit counseling, stop paying a debt, or file for bankruptcy in a vacuum. The characteristics of each of these options influence the relative attractiveness of the others.

Overall, changes to the bankruptcy system could potentially influence consumer choices about debt, and these choices could, in turn, influence financial institutions, credit counseling agencies, debt collectors, and the macroeconomy. Hopefully, the work of researchers on consumer debt and bankruptcy will continue to improve our understanding of how best to address the costs associated with consumers who cannot repay their debts.

Recent Publications

All published papers are available in .pdf format on the Center's website and a reverse chronological listing of papers added to the series in 2006 follows.

06-08 Another Look at Credit Card Pricing and Its Disclosure: Is the Semi-Annual Pricing Data Reported by Credit Card Issuers to the Fed Helpful to Consumers or Researchers?

06-07 Prepaid Cards: An Important Innovation in Financial Services, originally published in *Consumer Interests Annual* (2006)

06-06 Changes in the Use of Electronic Means of Payment: 1995-2004

06-05 Perspectives on Recent Trends in Consumer Debt

06-04 Micropayments: The Final Frontier for Electronic Consumer Payments

06-03 Measuring U.S. Credit Card Borrowing: An Analysis of the G.19's Estimate of Consumer Revolving Credit

06-02 Recent Developments in Consumer Credit and Payments

06-01 How Effective Were the Financial Safety Nets in the Aftermath of Katrina?

PCC Papers Explore Topics of Interest to Researchers

In addition to providing its own analyses, the Payment Cards Center also wants to assist other researchers with an interest in payments and consumer credit. For example, the Center has developed reference tools for researchers (see box) to provide information on various data sources. Industry Specialist Mark Furletti and Research Assistant Christopher Ody have also produced a series of three papers that examine publicly available data on consumer credit. One paper analyzes the different sources of data on credit card chargeoffs, reviews the methodologies of each, and compares the resulting data series. Another analyzes the sources and methodologies used to compile the Federal Reserve Board's G.19 statistic on revolving consumer credit. Finally, they analyze the Federal Reserve Board's credit card comparison guide, documenting many of the changes in credit card pricing that have had an impact on the guide's usefulness to consumers and researchers.

Measuring Credit Card Industry Chargeoffs: A Review of Sources and Methods

Credit card chargeoffs are loans that are written off by card issuers as no longer collectible because they are in default. The percentage of credit card loans charged off by card issuers during a particular month or quarter is an important metric because it provides insights into the financial health of the credit card industry and the U.S. consumer. While this measure is commonly cited, few understand the nuances of how chargeoffs are calculated. In this paper, Mark Furletti examines the sampling techniques, frequency, availability, and calculation methods of five different publicly available measures of credit card chargeoffs.

While chargeoff statistics should be a measure of charged-off loans divided by all loans, a variety of nuances in the five measures can complicate analysis. Numerators differ as to whether they include or exclude recoveries on loans the bank has already charged off. Neither method is unequivocally superior. Including recoveries gives a better idea of how much banks are losing. However, losses and recoveries on one loan occur at different times, complicating the interpretation of net numbers. Denominators vary as to whether they use average daily balance, the balance on one day of the period, or an average of the bank's balance for multiple periods. Most measures weigh chargeoffs by the size of the balance charged off, but one takes a simple average for each bank in the sample. Other methodological issues include dealing with foreign versus domestic loans and adjusting chargeoffs for mergers between issuers.

While there are differences in the sampling techniques, frequency, availability, and calculation methods of the five chargeoff measures, Furletti determines that until 2000, they all tend to move together. However, between 2000 and the paper's publication date, the on-balance-sheet and off-balance-sheet chargeoff measures began to diverge. When these five measures moved together, understanding the detailed differences between them was less important than it is now that their movements have become less correlated.

Measuring U.S. Credit Card Borrowing: An Analysis of the G.19's Estimate of Consumer Revolving Credit

In this paper, Mark Furletti and Christopher Ody describe the source data, sampling methods, and calculations used to compile the Federal Reserve System's monthly estimate of revolving consumer credit as published in the G.19 statistical release. The G.19 is the most widely used and cited measure of nonmortgage consumer credit outstandings and the prevailing interest rates on certain loan types. Furletti and Ody's paper focuses on the G.19's measure of revolving consumer credit outstandings because of its importance to the credit card industry and credit card consumers.

One challenge the Federal Reserve System faces in compiling the G.19 is the wide variety of issuers of revolving credit. Banks, finance companies, thrifts, credit unions, and nonfinancial businesses (such as department stores) all issue credit cards. The paper catalogues the various regulatory reports that these different lenders file and how each is used for the G.19. Further complicating matters, many credit card loans are not held on an institution's balance sheet but are instead sold in the securitization market. Some off-balance-sheet loans are not captured on regulatory forms at all. Therefore, the Federal Reserve System uses a variety of alternative sources, catalogued in the paper, to collect supplemental information on securitized lending.

While the authors conclude that the current methodology nicely balances providing timely, accurate information with avoiding unnecessary burden on lenders, they also offer several suggestions for modifications to the report that they believe will be especially useful to research analysts.

Another Look at Credit Card Pricing and Its Disclosure: Is the Semi-Annual Pricing Data Reported by Credit Card Issuers to the Fed Helpful to Consumers or Researchers?

Every six months, about 150 U.S credit card issuers provide the Federal Reserve System with interest rate and fee data for their most popular credit card plan open to new customers. Pursuant to a 1988 amendment to the Truth in Lending Act (TILA), the Federal Reserve System uses these data, commonly known as the Terms of Credit Card Plan (TCCP) data, to compile a survey of credit card plans that is published on the Board's website. The underlying TCCP data are also made publicly available to researchers, and they have been used in a variety of papers. Furletti and Ody analyze how recent changes in industry pricing practices have affected the nature of the reported data.

The authors identify three industry developments that have made it more difficult to conclude that the most common plan will represent the actual product offer most applicants will receive. This, they find, is especially true for large issuers with a vast array of pricing and other product features. First, at the account level, a wide variety of new fees and differing APRs have become common since the TCCP was created. Second, large issuers charge their customers different prices, depending on their assessment of the relative riskiness of any borrowers. Third, credit cards, as products, have become highly differentiated – customized by color, reward type, co-brand partner, and affinity group – with differing implications for pricing.

These relatively recent industry developments make it harder to compile and simply report information about pricing practices. First, there are significantly more pricing terms and combinations of possible pricing elements that must be taken into account. Second, as a result of risk-based pricing and an increase in the number of card products, an issuer's most common plan becomes less and less common.

The authors conclude that these industry changes create new difficulties in designing an effective tool for consumers and good data for researchers. They argue that, in many ways, the data have remained more useful to researchers than to consumers. For consumers the authors note that the qualitative information included along with the statistical data can be a helpful guide to understanding many of the nuances inherent in contemporary credit card pricing practices.

Tools for Researchers

In addition to the data paper series, the Center has built other tools to aid researchers interested in consumer payments and credit.

Bibliography (www.philadelphiafed.org/pcc/bibliography.cfm)
The Payment Cards Center maintains an online searchable bibliography of academic articles, books, reports, and publications related to consumer credit and payments.

Data Dictionary (www.philadelphiafed.org/pcc/datadictionary.html)
Gathering data on the payment card industry can be difficult for researchers because there are often multiple sources for seemingly similar statistics. To address this problem, PCC staff developed a dictionary of industry statistics and, where necessary, worked with analysts at source institutions to confirm definitions and calculations.

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Update

Payment Cards Center Newsletter

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The Payment Cards Center was established to serve as a source of knowledge and expertise on consumer credit and payments; this includes the study of credit cards, debit cards, smart cards, prepaid cards, and similar payment vehicles. Consumers' and businesses' evolving use of electronic payments to effect transactions in the economy has potential implications for the structure of the financial system, for the way that monetary policy affects the economy, and for the efficiency of the payments system.