

# MYTH VS. FACT: Fact-Checking the CFPB's Claims on Credit Card Rewards

**CLAIM: “In 2023, the CFPB received over 1,200 complaints involving credit card rewards, a more than 70 percent increase over pre-pandemic levels.” (Pg. 2)**

## THE FACTS:

- The 1,200 complaints referenced represent 0.11% of the nearly 1.3 million complaints logged in CFPB’s database in 2023.<sup>1</sup>
- Indeed, compared to the roughly 143 million U.S. consumers who own a rewards credit card,<sup>2</sup> the share who filed a complaint with CFPB about rewards in 2023 is 0.0008%. For context, the probability of being struck by lightning in one’s lifetime is roughly 8 times greater than the probability a rewards cardholder selected at random filed a complaint to the CFPB pertaining to rewards in 2023.<sup>3</sup>
- While CFPB may prefer to focus on a tiny fraction of cardholder complaints because doing so aligns with its preferred narrative on the credit card market, consumer surveys consistently demonstrate that the vast majority of credit cardholders value the rewards they receive from their cards.<sup>4</sup>

**CLAIM: “Prior CFPB research has shown that, for many borrowers, the benefits of rewards programs fail to exceed the costs of credit cards.” (Pg. 2)**

## THE FACTS:

- In reality, consumers across the income distribution greatly benefit from credit card rewards programs. A recent EPC study showed that different income segments redeemed credit card rewards at nearly identical rates, demonstrating that each group values and utilizes earned rewards at equal levels.<sup>5</sup> Further, the study showed that earned rewards provide an important supplement to household income, specifically for low-to-moderate income households.
- Moreover, credit card rewards are not intended to offset the cost of credit, nor are they marketed in this fashion to consumers. In fact, CFPB recognizes this distinction later in its report, asserting that *“the offering of rewards is a feature added on to credit cards and is not necessary for the underlying extension of credit or the processing of transactions and payments.”*<sup>6</sup> Rewards programs are an added benefit to customers for their everyday spending and help issuers generate customer loyalty.

<sup>1</sup>CFPB Complaints Database

<sup>2</sup>CFPB (2023). “The Consumer Credit Card Market.” CFPB reports that 190 million U.S. consumers own a credit card and roughly 75% of accounts offer rewards.

<sup>3</sup>National Weather Service. “How Dangerous Is Lightning?”

<sup>4</sup>Phoenix Marketing International (2016), “2016 Credit Card Monitor Report: Credit Card Rewards, Redemption & Merchant Loyalty Programs.”

<sup>5</sup>EPC (2024). “New Study Shows LMI Households Rely on Credit Card Rewards.”

<sup>6</sup>CFPB (2024). “Credit Card Rewards,” Pg. 4

**CLAIM: “We analyzed several hundred consumer complaints relating to the administration of credit card rewards programs and identified four recurring themes that resulted in consumers not receiving the rewards they were promised.” (Pg. 2)**

### **THE FACTS:**

- This single sentence captures the entirety of CFPB’s description of the methodology it used to generate its findings. CFPB does not indicate how many of the 1200 complaints it reviewed, how it selected them, or what share of the reviewed complaints fell into each of the four “recurring themes.” As a result, CFPB’s analysis is impossible to verify or replicate — one simply has to take their word for it.
- In one instance, CFPB alludes to the prevalence of “bait-and-switch” offers but only lists two complaints of this nature, both of which were “closed with explanation.”
- In other cases, CFPB cites complaints that were addressed by issuers through “monetary or non-monetary compensation,” indicating that the issuer offered voluntary redress to the consumer in response to the complaint (and a fact CFPB curiously omits from its report).

**CLAIM: “[R]eward programs distort the true costs of credit cards, create a barrier to entry for would-be competitors, and make it harder for smaller issuers with often lower pricing to compete with sizeable rewards offerings by the largest banks.” (Pg. 4)**

### **THE FACTS:**

- Despite CFPB’s continued attacks on larger financial institutions,<sup>7</sup> the fact that some issuers offer more lucrative rewards to their customers than others is not a market failure, nor does it suggest that the credit card rewards market is not competitive. Indeed, according to a separate CFPB report published in February, there were 643 credit cards offered by 156 issuers (including 84 banks) during the first half of 2023.<sup>8</sup>
- Rewards are just one of many components of the credit card market on which issuers compete with one another for customers. Some larger issuers offer more lucrative rewards cards, while many smaller issuers tout their close relationships with the communities they serve, their personalized customer service, their ability to offer competitive pricing on certain products, and a variety of other benefits associated with the relationship banking model.

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<sup>7</sup>CFPB (2024). “Small issuers offer lower rates.”

<sup>8</sup>ibid.

**CLAIM: “Finally, consumers with revolving debts on average pay far more in interest and fees than they get back in rewards: CFPB research has found that cardholders who revolve debt from one cycle to the next pay 94 percent of total interest and fees, but gain less than 30 percent of rewards benefits.” (Pg. 5)**

### THE FACTS:

- While it is true that interest rates paid by consumers who revolve credit typically exceed what they earn in rewards, this does not mean that rewards programs are regressive, and CFPB offers no evidence that consumers would be less inclined to revolve credit if rewards programs were pared back or eliminated.
- Further, CFPB’s assertion that revolvers pay most of the interest and fees but earn a lower share of rewards is not at all surprising, as half of all cardholders do not revolve credit and thus pay no interest at all. In effect, credit cards offer these tens of millions of cardholders a short-term interest-free loan that, according to a recent EPC study, generates a roughly 1.75% return in rewards earned, regardless of income.<sup>9</sup>

**CLAIM: “Smaller banks and credit unions have struggled to gain market share against larger issuers that dominate the market — rewards programs may help explain some of this discrepancy.” (Pg. 5)**

### THE FACTS:

- CFPB’s claim echoes a separate analysis published in February on small vs. large issuers,<sup>10</sup> which suffers from myriad methodological oversights (explained in detail in a rebuttal penned by the American Bankers Association).<sup>11</sup>
- CFPB uses an apples-to-oranges approach that seems to be intentionally designed to find a discrepancy between large and small issuers — even including credit unions in its analysis despite the fact that they are tax-exempt and have a fundamentally different system of rules and guardrails than banks. As the ABA analysis correctly noted, when the study’s methodological flaws are corrected, the CFPB’s conclusion that the credit card market is anti-competitive is groundless.<sup>12</sup>
- Despite CFPB’s claims, the truth is that the credit card market is highly competitive. Consumers can compare issuers across interest rate offerings, fees, branch locations, mobile banking, and customer service, in addition to rewards. Indeed, according to the Department of Justice’s preferred measure of market concentration, the credit card issuing industry is not a concentrated market, or even a moderately concentrated market.<sup>13</sup>

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<sup>9</sup>EPC (2024), “New Study Shows LMI Households Rely on Credit Card Rewards.”

<sup>10</sup>CFPB (2024), “Small issuers offer lower rates.”

<sup>11</sup>ABA (2024), “CFPB analysis obscures truth on credit card market.”

<sup>12</sup>ibid.

<sup>13</sup>ibid.

**CLAIM: “Credit card rewards programs are increasingly complex, as issuers have introduced both additional incentives beyond rewards earned as a flat rate of total spending and the possibility of redemption through a greater number of channels.” (Pg. 6)**

### **THE FACTS:**

- Rewards cards are popular and well-understood by consumers. A Phoenix Marketing study from 2016 found that the majority of rewards cardholders (71%) find their rewards program easy to understand, and 61% reported that rewards programs have gotten easier to understand.<sup>14</sup>

**CLAIM: “Especially for credit cards with high annual fees, a key part of the value proposition comes from affiliated benefits like access to exclusive events or locations and status that affords premium service or additional perks.” (Pg. 7)**

### **THE FACTS:**

- In reality, credit card issuers offer myriad types of rewards programs to consumers across the income spectrum, including cash rewards, travel rewards, and rewards that can be redeemed through gift cards or through third-party platforms.
- Moreover, rewards programs are not exclusive to wealthy credit card holders. As documented in a recent EPC study, cardholders across the income distribution greatly benefit from rewards programs. The study demonstrates that low-to-moderate income accounts earn and redeem rewards at a nearly identical rate as middle-income and upper-income accounts.<sup>15</sup>
- Indeed, the study finds that the boost in income from rewards redeemed is three to four times larger for low-to-moderate income cardholders than for upper-income cardholders. Further, the study showed that earned rewards provide an important supplement to household income, specifically for low-to-moderate income households.

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<sup>14</sup>Phoenix Marketing International (2016), “2016 Credit Card Monitor Report: Credit Card Rewards, Redemption & Merchant Loyalty Programs.”

<sup>15</sup>EPC (2024), “New Study Shows LMI Households Rely on Credit Card Rewards.”