An Overview of Consumer Finance Products and Related Policy Issues

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An Overview of Consumer Finance Products and Related Policy Issues

SUMMARY

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Consumer finance refers to the saving, borrowing, and investment choices that households make over time. These financial decisions can be complex and can affect households' financial well-being both now and in the future. Safe and affordable financial services are an important tool for most American households as they avoid financial hardship, build assets, and work to achieve financial security over the course of their lives. Understanding why and how consumers make financial decisions is important when considering policy issues in consumer financial markets.

Households borrow money for the following common reasons: investments—such as a home or education—to build future wealth, consumption smoothing (i.e., paying later to consume things now), and emergency expenses. Consumer financial markets generally share similar market dynamics. In all of these markets, consumers often act in similar ways when making financial decisions, and firms tend to act in comparable ways to attract consumers. Therefore, the government tends to consider similar policy interventions when regulating in these markets, including fair lending, disclosures, and prohibitions on unfair, deceptive, or abusive practices. There are also certain market-specific protections—for example, limits on liability for unauthorized use of credit cards and accuracy protections in credit reporting.

Most households rely on credit or other closely associated financial products to finance some of these expenses, because these households often do not have enough money saved to pay for them up front. According to the Federal Reserve Bank of New York, mortgage debt is by far the largest type of debt for households, accounting for approximately 70% of household debt. Auto loans are the second-largest household debt, followed by student loans and credit cards. The major consumer financial markets can be broadly divided into two categories, one defined by financing a larger item using longer-term payments that potentially lead to the purchase of a larger item or investment and the other by facilitating day-to-day purchases and ensuring that consumers have adequate liquidity. While, broadly, many consumer financial products are fungible, the *primary* stated purposes for these products are different. The first product group includes mortgages, student loans, and automobile loans. The second product group is more varied in its functions and design, including credit cards, payday loans, personal loans, earned wage access (EWA), "buy now, pay later" (BNPL), and checking accounts or their close substitutes. This report discusses each product, including the pricing and origination structure, the market, and consumers' uses for the product.

In addition, two important market structures complement many of these consumer financial products: (1) the consumer credit reporting system and (2) the debt collection market. These aspects of the consumer credit system facilitate the pricing of credit offers and the resolution of delinquent consumer credit products for most consumer credit markets, reducing risks to financial service providers.

Other current policy issues cut across these major consumer financial markets. The growth of financial scams and fraud affects consumers' finances and can erode consumer confidence in the greater financial system. The powers, structure, and budget of the Consumer Financial Protection Bureau (CFPB) and its effectiveness in helping consumers is an area of active debate. The growing role of machine learning and artificial intelligence in financial services—including in credit underwriting, customer service functions, and fraud detection—is a rapidly evolving change in consumer finances.

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Introduction

Consumer finance encompasses the financial lives of individuals and households. Safe and affordable financial services are an important tool for most American households to avoid financial hardship, build assets, and work to achieve financial security over the course of their lives. Households use three types of financial products regularly: credit, insurance, and financial investments. This report focuses on the first and third categories—credit and other closely related financial products and deposit-taking financial products for personal, family, or household purposes.[1]

In general, this report focuses on the consumer and household perspective and some of the consumer-specific policy issues in each market. Major consumer finance markets are discussed in more detail in this report under "Financial Products for Smoothing Everyday Household Consumption" and "Consumer Credit Markets Supporting Major Expenditures," which provide a brief overview of each financial product, recent market developments, and related policy issues. Most forms of credit and financial products are fungible—for example, a consumer could use funds from a private student loan to cover living expenses in the same way as a credit card. However, the underlying purposes for such products at origination are distinctly different—student loans are meant to facilitate students' educational achievement as a major investment, whereas credit cards assist in facilitating purchases across the consumption cycle. As a result, consumer financial products are split up into those supporting major expenditures—such as a house, college education, or car—and those that focus on smoothing everyday household consumption, such as credit cards. Major consumer finance markets examined in this report include mortgage lending, student loans, automobile loans, credit cards and payments, payday loans and other credit alternative financial products, personal loans, "buy now, pay later," earned wage access, and checking accounts and substitutes.

In addition, two important market structures complement many of these consumer financial products: (1) the consumer credit reporting system and (2) the debt collection market. These aspects of the consumer credit system facilitate the pricing of credit offers and the resolution of delinquent consumer financial products for most consumer credit markets, reducing risks to consumer credit providers. In the final section, this report discusses some of the cross-cutting issues for these markets and consumer finances more generally, including the Consumer Financial Protection Bureau (CFPB), financial scams and fraud, the role of nonbanks in these markets, and artificial intelligence.

Background and Measurements

Most households rely on credit to finance some expenses because they do not have enough savings to pay for them outright. Some may rely on credit or other associated financial products to smooth consumption over time or in response to financial shocks or emergency spending. The total debt held by households has increased from $14.3 trillion in first quarter 2020 to $18.6 trillion in third quarter 2025. Mortgage debt is by far the largest type of household debt, driven by the importance of housing as a share of consumption and homes as a source of net worth.[2]

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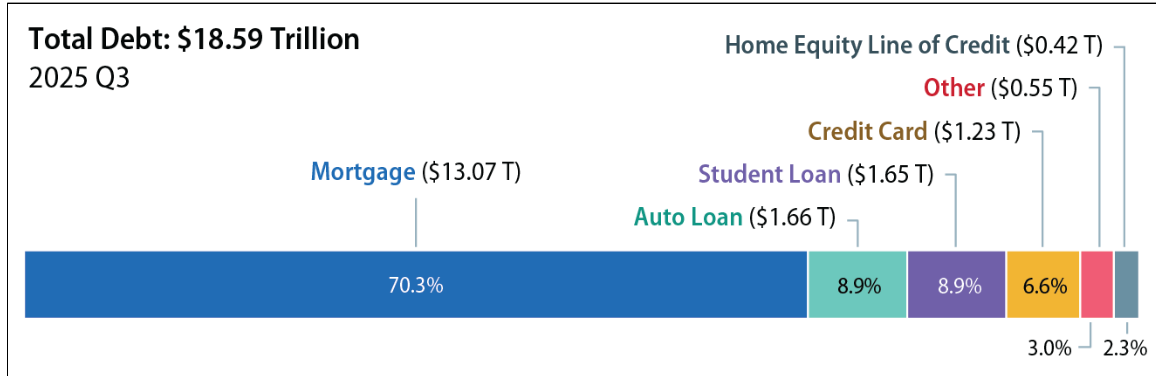
[1] For a briefer introduction on this topic, see CRS In Focus IF11682, *Introduction to Financial Services: Consumer Finance*, by Karl E. Schneider.

[2] According to the Federal Reserve, for the bottom 50% of households by total assets, roughly 48% of total assets are in the value of their real estate, largely owner-occupied homes. This percentage is slightly lower (39%) for households in the 50%-90% group and even smaller for households in the 90%-99.9% group (23%). Board of Governors of the (continued...)

According to data from the Federal Reserve Bank of New York, as shown in **Figure 1**, mortgages account for approximately 70% of household debt. Auto loans are the second-largest type of household debt, followed by student loans and credit cards.

Figure 1. Household Debt Breakdown in Q3 2025

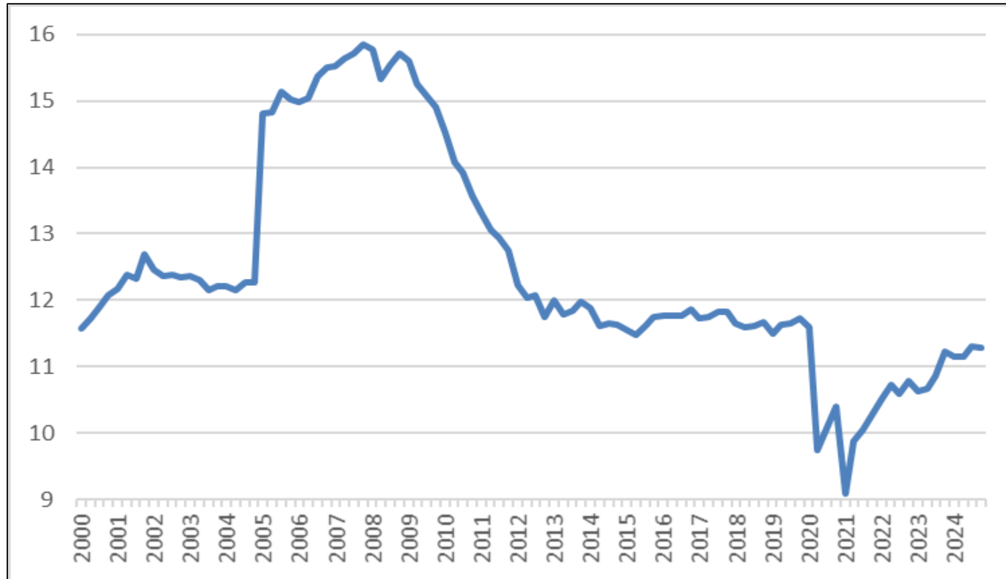


Source: Federal Reserve Bank of New York, Center for Microeconomic Data, *Quarterly Report on Household Debt and Credit*, https://www.newyorkfed.org/microeconomics/databank.html.

Household debt is broken up in the form of repayments at a particular tenor, typically on a monthly basis. **Figure 2** shows the required total household debt service payments as a percentage of total disposable personal income. The payments consumers make on certain kinds of debt can be in excess of the minimum payment required. However, payments still depict a measure of the overall debt burden on consumers. Overall, these payments as a share of disposable personal income have been increasing since the COVID-19 pandemic, standing at 11.3% in fourth quarter 2024, but remain below the pre-pandemic level in fourth quarter 2019 of 11.7%. These levels were more elevated from 2005 to 2009 in the lead-up to and during the peak of the global financial crisis.

Federal Reserve System, "DFA: Distributional Financial Accounts, Compare Wealth Components Across Groups," 2025, https://www.federalreserve.gov/releases/z1/dataviz/dfa/compare/chart/#quarter:142;series:Assets;demographic:networth;population:all;units:shares.

Figure 2. Household Debt Service Payments as a Percentage of Disposable Personal Income



Source: Board of Governors of the Federal Reserve System, "Household Debt Service Payments as a Percent of Disposable Personal Income," June 23, 2025, https://fred.stlouisfed.org/series/TDSP.

Table 1 gives some key statistics on current consumer financial health across the country. The median family has a net worth of $193,000, with $8,000 in transaction accounts such as savings and checking, while the median household makes $80,600 a year.[3] These statistics give broader context on how consumer finances look in the macroeconomic level than does individually examining the financial products that consumers use to facilitate such finances.

Almost two-thirds (65%) of American households own their homes, with a median home value of $340,000. A little over half (54%) of American families currently hold retirement accounts, with a median value of $87,000. To illustrate how Americans may handle financial stress, 54% of adults can cover three months of expenses using emergency savings, while 17% of all adults did not pay bills in full in the previous month.

[3] There is an important definitional difference between *family* and *household*. *Household* includes everybody living in a particular housing unit, whether they are related or not, and includes individuals living by themselves. A family includes two or more people related by birth, marriage, or adoption who live in the same household.

Table 1. Key Statistics: Consumer Finance

Statistic	Amount	Year
Median family net worth	$193,000	2022
Median household income	$80,600	2023
Median amount in families' transaction accounts	$8,000	2022
Homeownership rate	65%	2023
Percentage of families holding retirement accounts	54%	2022
Percentage of adults who did not pay bills in full in previous month	17%	2023
Percentage of adults who could cover 3 months of expenses from savings	54%	2023

Source: Federal Reserve, Survey of Consumer Finances; U.S. Census Bureau, Current Population Survey, Annual Social and Economic Supplements; U.S. Census Bureau, American Community Survey; and Federal Reserve, Survey of Household Economics and Decisionmaking.

While this table deals with median values and an overall picture of consumer finances, different households have significantly different levels of household income, net worth, and ability to respond to shocks. According to the Survey of Consumer Finances, conducted by the Federal Reserve Board (Fed), as of 2019, the bottom 20% of U.S. households ranked by income have incomes below $28,400, whereas the top 10% have incomes above $188,400.[4] Likewise, the bottom 25% of U.S. households ranked by net worth have net worths below $12,400, whereas the top 10% have net worths above $1,220,200.[5]

[4] Neil Bhutta et al., "Changes in U.S. Family Finances from 2016 to 2019: Evidence from the Survey of Consumer Finances," Federal Reserve, September 2020, p. 37, https://www.federalreserve.gov/publications/files/scf20.pdf.

[5] Bhutta et al., "Changes in U.S. Family Finances from 2016 to 2019."

Consumer Responses to High Inflation

The prices of goods and services underpin consumer finance. Consumers earn money from their jobs and other sources and save or spend that money on goods and services. If the prices of goods and services appreciate faster than incomes, consumers may need to do something to adjust to those increases.[6] These responses can potentially worsen consumer financial health in various ways. Inflation will more significantly impact consumers with incomes that do not keep pace with inflation. Lower income households may be less able to protect themselves against inflation. The implications of inflation are felt not only as prices increase but also if, following an increase, prices remain elevated relative to incomes. As a result, consumers respond to a decrease in real earnings using a few different methods:

- Decrease consumption. This could mean consumers consume less overall, substitute for inferior goods (such as trading a sit-down dinner for fast food), or defer consumption to the future (for example, delaying buying a new car and continuing to drive an older car).[7] These changes can potentially impact economic growth. However, if consumers expect future inflation, they may increase spending on certain goods in the interim in anticipation of future price increases.[8]
- Save less or draw down prior savings to maintain current consumption. If consumers have to (or choose to) consume the same amount of goods and services, as those prices increase, consumers might decrease savings or rely on previous savings to smooth consumption. This type of response can have adverse effects on consumer health insofar as less savings leads to lower emergency funds to respond to shocks, and lower savings reduces future purchasing power or restrains other long-term financial goals (such as buying a house).
- Rely on credit to smooth consumption. As prices go up and consumers do not or cannot reduce consumption, they may increasingly rely on credit to smooth consumption not only in between paychecks but also across time more generally. For example, roughly a fourth of U.S. adults used credit cards, loans, or pawnshops to cope with inflation in October 2023. An even higher percentage relied on these sources in response to inflation among adults who recently lost their jobs and lower-income Americans.[9]
- Consumers may work additional hours or second jobs to increase their income in response to inflation.

Consumer Finance Regulation

The CFPB is the primary consumer compliance regulator with regulatory jurisdiction over many of the products and certain financial service providers discussed in this report, holding a variety of rulemaking, supervisory, and enforcement powers. The CFPB was established in response to what certain policymakers perceived as failures in consumer protections in credit markets preceding and during the global financial crisis. The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) created the CFPB to implement and enforce federal consumer financial laws.[10] The Dodd-Frank Act consolidated certain consumer-finance-related responsibilities in the CFPB previously held by other regulators and established new authorities unique to the CFPB.[11]

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[6] For a more general explainer on inflation, see CRS In Focus IF10477, *Introduction to U.S. Economy: Inflation*, by Lida R. Weinstock.

[7] Joanne Hsu, "Five Patterns in Consumer Responses to Inflation," University of Michigan, November 18, 2022, https://www.sca.isr.umich.edu/files/inflationresponse202211.pdf; Ravi Dhar, "How Does Inflation Change Consumer Behavior?," Yale School of Management, August 22, 2022, https://insights.som.yale.edu/insights/how-does-inflation-change-consumer-behavior.

[8] Mary A. Burke and Ali Ozdagli, "Household Inflation Expectations and Consumer Spending," Federal Reserve Bank of Dallas, August 2021.

[9] Michael Evangelist and Amy Higgins, "Household Perceptions of Price Changes and Coping Strategies," Federal Reserve Bank of Boston, August 2024, https://www.bostonfed.org/publications/community-development-field-notes/2024/household-perceptions-of-price-changes-and-coping-strategies.aspx.

[10] Title X of P.L. 111-203.

[11] For more information on the CFPB, see CRS In Focus IF10031, *Introduction to Financial Services: The Consumer Financial Protection Bureau (CFPB)*, by Karl E. Schneider and David H. Carpenter.

Congress structured the CFPB as an independent bureau within the Fed. The CFPB is headed by a single director who, in accordance with a 2020 Supreme Court decision, can be fired at will by the President.[12] Rather than being funded through regular appropriations, the CFPB funds its operations through monetary transfers from the Fed. The ongoing debate over the CFPB's budget and structure is discussed in greater detail later in this report.

The CFPB generally has regulatory authority over providers of an array of consumer financial products and services, including many of the products that are discussed in this report, such as deposit taking, mortgages, credit cards and other extensions of credit, loan servicing, consumer reporting data collection, and consumer debt collection. The CFPB's authorities fall into three broad categories: *rulemaking* (writing regulations to implement laws under its jurisdiction), *supervision* (the power to examine and impose reporting requirements on financial institutions), and *enforcement* of various consumer protection laws and regulations.

While the CFPB retains rulemaking authorities for a variety of consumer financial laws, it supervises only certain financial institutions. The CFPB holds primary consumer compliance regulatory authority over larger banks—those with more than $10 billion in assets. Banks with $10 billion or less in assets must comply with the CFPB's rules implementing various consumer laws, but the bank regulators, rather than the CFPB, hold primary consumer compliance supervisory and enforcement authority over these smaller institutions. Section 1042 of the Dodd-Frank Act also enables state regulators and attorneys general to enforce statutes and regulations under the CFPB's jurisdiction.

The Dodd-Frank Act expressly authorizes the CFPB to supervise three categories of nonbank financial institutions regardless of size—mortgage companies, including lenders, brokers, and servicers; payday lenders; and private education lenders. Second, the CFPB may supervise nonbank institutions the CFPB determines are "larger participants" in a consumer financial market, which the CFPB has exercised to supervise debt collectors and credit reporting agencies, among others. Third, the CFPB may supervise a nonbank that, based on consumer complaints or other sources, the CFPB "has reasonable cause to determine … is engaging, or has engaged in, conduct that poses risks to consumers."

The CFPB is authorized to prescribe regulations to implement 19 federal consumer protection laws (often referred to as the *enumerated consumer laws*) that largely predated the Dodd-Frank Act.[13] These enumerated consumer laws govern a broad and diverse set of consumer financial services and generally apply to any entity offering those services.

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[12] Dodd-Frank protected the CFPB director from presidential removal, except for cause, providing a five-year term for the CFPB director. However, the Supreme Court in *Seila Law v. CFPB* held this statutory removal protection unconstitutional. As a result of *Seila Law*, the CFPB director now serves at the pleasure of—and may be removed at will by—the President.

[13] The enumerated consumer laws are the Alternative Mortgage Transaction Parity Act, 12 U.S.C. §§3801 et seq.; the Consumer Leasing Act of 1976, 15 U.S.C. §§1667 et seq.; the Electronic Funds Transfer Act, 15 U.S.C. §§1693 et seq., except with respect to Section 920; the Equal Credit Opportunity Act, 15 U.S.C. §§1691 et seq.; the Fair Credit Billing Act, 15 U.S.C. §§1666 et seq.; the Fair Credit Reporting Act, 15 U.S.C. §§1681 et seq., except with respect to Sections 1681m(e) and 1681w; the Homeowners Protection Act of 1998, 12 U.S.C. §§4901 et seq.; the Fair Debt Collection Practices Act, 15 U.S.C. §§1692 et seq.; subsections (b) through (f) of Section 43 of the Federal Deposit Insurance Act, 12 U.S.C. §§ 1831t(c)-(f); Sections 502-509 of the Gramm-Leach-Bliley Act, 15 U.S.C. §§6802-6809, except for Section 6805 as it applies to Section 6801(b); the Home Mortgage Disclosure Act of 1975, 12 U.S.C. §§2801 et seq.; the Home Ownership and Equity Protection Act of 1994, 15 U.S.C. §1639; the Real Estate Settlement Procedures Act of 1974, 12 U.S.C. §§2601 et seq.; the S.A.F.E. Mortgage Licensing Act of 2008, 12 U.S.C. §§5101 et seq.; the Truth in Lending Act, 15 U.S.C. §§1601 et seq.; the Truth in Savings Act, 12 U.S.C. §§4301 et seq.; Section 626 of the Omnibus Appropriations Act, 2009, P.L. 111-8 §626; the Interstate Land Sales Full Disclosure Act, 15 U.S.C. §§1701 (continued...)

There are a few forms of regulation that government has traditionally used across consumer finance products:

- **Mandated standardized consumer disclosures** are a common policy intervention in consumer financial markets that are generally intended to give consumers more information about the costs and terms before they take out new financial products and enable them to make more informed decisions and shop for the best terms possible. This is because financial products can be complex and difficult for consumers to fully understand. Laws that mandate consumer disclosures include the Truth in Lending Act (TILA, P.L. 90-321) and the Truth in Savings Act (TISA, P.L. 102-242) for certain credit products and savings accounts respectively.
- Prohibitions against **unfair, deceptive, or abusive acts or practices** to potentially protect consumers against adverse product features or firm conduct. These acts and practices potentially protect consumers who may be at an information disadvantage relative to the firms that are involved in the transactions.
- **Fair lending** laws prohibit discrimination in credit transactions based upon certain borrower characteristics, such as sex, race, religion, and age. Federal fair lending laws in consumer financial markets include the Equal Credit Opportunity Act (ECOA, P.L. 93-495), the Fair Housing Act (FHA, P.L. 90-284), and the Home Mortgage Disclosure Act (HMDA, P.L. 94-200).

In addition to these broader themes of regulation, this report also discusses certain product-specific approaches that may provide different protections for those particular products. For example, the Fair Credit Reporting Act provides consumers with certain rights—including to dispute information and for one free credit report a year—while requiring certain responsibilities, including for the accuracy of the data to firms that furnish, compile, and use the information across the underwriting process.

Consumer Credit Markets Supporting Major Expenditures

The following sections examine specific issues within major consumer debt markets that focus specifically on financing a large payment to spread payments across time. The debt markets covered by this section are the largest ones as a share of consumer finances and include mortgage lending, student loans, and automobile loans. While these loan types are different in many ways, such a loan can facilitate an investment in a particular asset that a consumer might not be able to pay for up front by enabling the consumer to spread payments over the life cycle of the loan.

The markets discussed are under the jurisdiction of the CFPB and sometimes other regulators as well. Each section briefly describes the financial product, recent market developments, and selected policy issues that may lead each market away from its efficient price or outcomes. These sections focus on the consumer and household perspective as well as consumer protection policy issues in each market.

et seq.; and many provisions of the Mortgage Reform and Anti-Predatory Lending Act, Dodd-Frank Act Title XIV, Subtitles A, B, C, and E, and §§1471, 1472, 1475, and 1476.

Mortgage Lending

A mortgage loan is a loan collateralized by a house and its land.[14] Generally, consumers use these loans to purchase homes or refinance existing mortgages. In the case of new mortgages, these loans are offered because consumers oftentimes cannot pay the full cost of the home up front and the mortgage enables them to pay off that cost over time. These types of mortgages are often called first liens, because if a consumer defaults on the loan, the lender is typically the first in line to be compensated through the proceeds of a home foreclosure. A first-lien mortgage loan is usually an installment loan in which the consumer pays off the loan in monthly installments over most commonly 30 years. Most mortgage loans in the United States have fixed interest rates and fixed installment amounts that are affected by consumers' credit scores and market conditions.[15]

Mortgage loans are by far the largest consumer credit market in the United States, and homes are a large part of most households' wealth. According to the Fed, more than $13 trillion of mortgage debt is currently outstanding,[16] and more than $36 trillion in real estate equity is owned by households.[17] As of the second quarter of 2025, 65.0% of U.S. households owned their homes.[18] Many people view homeownership as an important way to build wealth over time through both home price appreciation and equity by paying down their mortgages. Nevertheless, because home prices can fluctuate over time, this investment can be risky, especially if the homeowner stays in the home for only a short time or if a homeowner experiences negative economic shocks, such as losing one's job. Although homeownership has certain benefits, such as tax benefits including the mortgage interest tax deduction, it also imposes costs on the household, such as mortgage loan closing costs and home maintenance.[19]

To limit the risk to the lender, a borrower is typically required to make a down payment—the difference between the house's value and the mortgage loan. If the down payment is less than 20% of the home's value, the borrower is often required to pay for mortgage insurance.

A consumer may also choose to take out a second-lien mortgage, which often is a home equity line of credit (HELOC) or a smaller installment mortgage loan. A second lien means that the lender is second in line, after the first lien holder, to be compensated if the consumer defaults and the home is foreclosed upon. Such a loan is underwritten using the value of the home but can be used for a variety of different purposes either related to the home or not. For example, consumers often use HELOCs for debt consolidation, home remodeling, or major repairs or to increase

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[14] For more information on the U.S. mortgage market, see CRS Report R42995, *An Overview of the Housing Finance System in the United States*, by N. Eric Weiss and Katie Jones; and CRS Report R47628, *Housing Issues in the 118th Congress*, coordinated by Katie Jones.

[15] Some mortgages have variable interest rates and installments that are not fixed, such as balloon payments.

[16] Federal Reserve Bank of New York, Center for Microeconomic Data, *Quarterly Report on Household Debt and Credit*, https://www.newyorkfed.org/microeconomics/databank.html.

[17] Federal Reserve Board, "B.101: Balance Sheet of Households and Nonprofit Organizations," Households, Owners' Equity in Real Estate, Q2 2025, https://www.federalreserve.gov/apps/fof/DisplayTable.aspx?t=b.101.

[18] U.S. Census Bureau, "Quarterly Residential Vacancies and Homeownership, Second Quarter 2025," CB20-153, July 28, 2025 p. 1, https://www.census.gov/housing/hvs/files/currenthvspress.pdf.

[19] For more information, see CRS Report R46429, *An Economic Analysis of the Mortgage Interest Deduction*, by Mark P. Keightley.

consumption.[20] From 2022 to 2024, the number of HELOC tradelines and total balances increased consistently, as home price appreciation more rapidly built new equity for borrowers.[21]

Nonbank financial firms predominate the mortgage origination (64%) and servicing (54%) markets.[22] This is, arguably in part, due to *regulatory arbitrage*, where nonbanks are not subject to certain regulations, such as capital requirements, and may be subject to less supervisory scrutiny.[23] In addition, nonbanks may possess certain advantages in their adoption and use of information technology—particularly financial technology firms (or “fintechs”)—relative to depository institutions (commercial banks, credit unions, and savings associations). These advantages may have declined over time, as banks have increasingly leveraged fintech partnerships and invested in technology to close this gap.

Mortgages are often sold and securitized after they are originated.[24] The current role of government-backed mortgage securitization may also play a role in the relative dominance of nonbanks, which “would otherwise have a much higher cost of funds than banks” absent this securitization and generally have higher securitization rates than banks do.[25] Through securitization, mortgage risk is shifted from the financial institution to the holding entity, oftentimes *government-sponsored enterprises* (GSEs) in the form of Fannie Mae and Freddie Mac. These GSEs “collectively guarantee $6.6 trillion in Agency Mortgage-Backed Securities (MBS), or 50% of all outstanding U.S. mortgage debt,” while Ginnie Mae guarantees another $2.5 trillion or 20% of mortgage debt.[26] Ginnie Mae guarantees MBSs backed by mortgages that are insured or guaranteed by government agencies, such as the Federal Housing Administration.

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[20] Research from the Federal Reserve Bank of Kansas City documented a decrease in personal, credit card, and other balances of roughly $2,500 following a HELOC. These decreases in balances persisted and deepened in the following three years of the study since the initial HELOC draw. This was not the primary reason for most HELOCs, as the average total draw was $40,000. Nicholas Sly, “More Households Are Tapping into Their Home Equity After Rapid Home Value Appreciation,” Federal Reserve Bank of Kansas City, July 18, 2024, https://www.kansascityfed.org/denver/rocky-mountain-economist/more-households-are-tapping-into-their-home-equity-after-rapid-home-value-appreciation/; Diana Farrell et al., “Tapping Home Equity: Income and Spending Trends Around Cash-Out Refinances and HELOCs,” *SSRN*, December 3, 2020, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3742341; Eileen St. Pierre, “Reverse Mortgages and Other Uses of Home Equity,” Oklahoma Cooperative Extension Service, 2014, p. 3, https://openresearch.okstate.edu/server/api/core/bitstreams/3888c7ce-6fd1-4076-8b57-69a5fc8969e6/content.

[21] Sly, “More Households Are Tapping into Their Home Equity.”

[22] See the section below entitled “Nonbanks and Their Role in Consumer Finance” for a broader discussion of this topic. See also Financial Stability Oversight Council, *Report on Nonbank Mortgage Servicing: 2024*, May 10, 2024, p. 3, https://home.treasury.gov/system/files/261/FSOC-2024-Nonbank-Mortgage-Servicing-Report.pdf.

[23] Greg Buchak et al., “Fintech, Regulatory Arbitrage, and the Rise of Shadow Banks,” *Journal of Financial Economics*, vol. 130, no. 3 (December 2018), pp. 453-483, https://www.sciencedirect.com/science/article/abs/pii/S0304405X1830237X. *Regulatory arbitrage* refers the design of financial products or financial institutions to reduce the amount of regulation that a given transaction or firm would experience to ultimately reduce the costs of such regulation or provide another benefit.

[24] As stated in CRS Report R42995, *An Overview of the Housing Finance System in the United States*, by Katie Jones, Darryl E. Getter, and Andrew P. Scott:

> When a mortgage is securitized, it is pooled into a security with other mortgages, and the payment streams associated with the mortgages are sold to investors. Fannie Mae and Freddie Mac securitize mortgages that conform to their standards, known as conforming mortgages.

[25] You Suk Kim et al., “Non-Banks and Mortgage Securitization,” *Annual Review of Financial Economics*, vol. 14, no. 1 (2022), https://www.annualreviews.org/content/journals/10.1146/annurev-financial-111620-025204.

[26] Andrew Kazior and Sajjad Hussain, “GSE Reform Resurfaces: Challenges and Implications,” *Fixed Income Blog*, JP Morgan Asset Management, January 27, 2025, https://am.jpmorgan.com/us/en/asset-management/institutional/insights/portfolio-insights/fixed-income/fixed-income-perspectives/gse-reform-resurfaces-challenges-and-implications/.

Policy Issues

A major cause of the global financial crisis in 2008 was financial losses associated with the mortgage market and the subsequent collapse of the broader housing market in the United States. The root causes of these issues are disputed, with some pointing to the role of government-driven housing policy promoting unsustainable, risky mortgages and others blaming a failure in financial regulation and supervision to properly constrain private actors.[27] The Dodd-Frank Act was created in response to perceived failures in consumer protections in credit markets during the global financial crisis. Among other things, it reformed the mortgage market by attempting to strengthen mortgage underwriting standards, providing increased disclosures and modifying mortgage servicing standards.[28] It tasked the newly created CFPB in implementing many of these regulations in the mortgage space. Outside of the scope of this report, during the crisis, the Federal Housing Finance Agency put Fannie Mae and Freddie Mac into federal conservatorship.[29] The degree to which the Dodd-Frank Act benefited consumers and the economy writ large is an area of debate and policymaking.[30]

In response to the mispricing of risk preceding the crisis, the Dodd-Frank Act mandated certain standards that would tighten mortgage underwriting. Chiefly, this included the Ability-to-Repay/Qualified Mortgage rule. In response to these new regulations and in response to the housing bust, mortgage lenders tightened their underwriting standards.[31] These changes reduced lending to borrowers in weaker financial situations but improved the overall risk profiles of mortgages originated by financial institutions and securitized by the GSEs.[32]

To be more specific, the rule mandated that lenders "make a reasonable good faith determination of the consumer's ability to repay the loan according to its terms."[33] The most straightforward method of complying with this regulation is by originating a "qualified mortgage" as defined by the CFPB to receive legal safe harbor from this rule. Currently, a QM must fulfil certain "product features, underwriting requirements, and limits in fees," namely, that for first lien mortgages "the difference between the annual percentage rate (APR) and the average prime offer rate (APOR) must not exceed 1.5 percentage points."[34] This tension in weighing the strictness of underwriting

[27] Edward J. Pinto, "Government Housing Policies in the Lead-up to the Financial Crisis: A Forensic Study," discussion draft, August 14, 2010, https://fcic-static.law.stanford.edu/cdn_media/fcic-docs/2010-08-14%20Pinto%20Government%20Policies.pdf; Financial Crisis Inquiry Commission, *Final Report of the National Commission on the Causes of the Financial and Economic Crisis in the United States*, January 2011, https://www.govinfo.gov/content/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf.

[28] For more on Dodd-Frank, see CRS Report R41350, *The Dodd-Frank Wall Street Reform and Consumer Protection Act: Background and Summary*, coordinated by Baird Webel.

[29] For more on this issue, see CRS Report R44525, *Fannie Mae and Freddie Mac in Conservatorship: Frequently Asked Questions*, by Darryl E. Getter.

[30] For more on this debate, see U.S. Congress, House Committee on Financial Services, *Dodd-Frank Turns 15: Lessons Learned and the Road Ahead*, 119th Cong., July 15, 2025, https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=410788.

[31] Morris A. Davis et al., "A Quarter Century of Mortgage Risk," *Review of Finance*, vol. 27, no. 2 (May 17, 2022), pp. 581-618, https://academic.oup.com/rof/article-abstract/27/2/581/6586810.

[32] See for example Davis et al., "A Quarter Century of Mortgage Risk"; Bing Bai et al., "Housing and Housing Finance," Urban Wire (Urban Institute), January 27, 2016, https://www.urban.org/urban-wire/tight-credit-standards-prevented-52-million-mortgages-between-2009-and-2014.

[33] CRS In Focus IF11761, *The Qualified Mortgage (QM) Rule and Recent Revisions*, by Darryl E. Getter.

[34] For more on this rule more specifically, see CRS In Focus IF11761, *The Qualified Mortgage (QM) Rule and Recent Revisions*, by Darryl E. Getter. APOR refers to an APR that would be offered to a highly qualified borrower.

standards that best facilitates a healthy mortgage market remains a policy issue for Congress and regulators today.[35]

Mortgage shopping is another policy issue in this market. Many consumers do not tend to shop among lenders for more advantageous mortgage interest rates, even though large price differences exist in the market, particularly when rates are higher. This limited shopping behavior may be driven by search costs and consumer preference for a particular lender.[36] According to the CFPB, nearly half of all borrowers seriously consider only one lender or broker before taking out a mortgage.[37] Recent research finds that borrowers who shop for mortgages ended up saving 11 basis points (or 0.11%).[38] This translates to savings of more than $7,600 on a 30-year fixed rate mortgage for a $340,000 home (the median value home according to the 1-Year American Community Survey in 2023) assuming a base interest rate of 7%.[39]

More recently, the COVID-19 pandemic has impacted the mortgage market. Section 4022 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act, P.L. 116-136) established consumer rights to be granted forbearance for federally backed mortgages for up to a year.[40] The CARES Act allowed borrowers to claim hardship first while mortgage services determine eligibility later. Roughly 16% of individuals with mortgages received loan forbearance at some point between April 2020 and December 2021.[41] These loans were largely taken up by borrowers who were delinquent as of April 2020, and over half of consumers in forbearance used the program for three months or less.[42]

Loan forbearance plans can prevent consumers from becoming delinquent, giving them time to repay the debts owed rather than potentially experiencing adverse consequences, such as credit

[35] Testimony of Tobias J. Peter in U.S. Congress, Senate Committee on Banking, Housing, and Urban Affairs, *Separate and Unequal: The Legacy of Racial Discrimination in Housing*, 117th Cong., April 13, 2021; Cindy M. Vojtech et al., "The Real Consequences of Bank Mortgage Lending Standards," *Journal of Financial Intermediation*, vol. 44 (October 2020), https://www.sciencedirect.com/science/article/abs/pii/S1042957319300622; CFPB, *Ability-to-Repay and Qualified Mortgage Rule Assessment Report*, January 2019, p. 9, https://files.consumerfinance.gov/f/documents/cfpb_ability-to-repay-qualified-mortgage_assessment-report.pdf.

[36] Alexei Alexandrov and Sergei Koulayev, "No Shopping in the U.S. Mortgage Market: Direct and Strategic Effects of Providing Information," CFPB, May 11, 2018, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2948491.

[37] CFPB, *Consumers' Mortgage Shopping Experience: A First Look at Results from the National Survey of Mortgage Borrowers*, January 2015, p. 10, https://files.consumerfinance.gov/f/201501_cfpb_consumers-mortgage-shopping-experience.pdf; Kristoffer Jackson and Garrett T. Senney, "Shopping Around: Empirical Analysis of Borrower Comparison Shopping and Mortgage Prices," *Real Estate Economics*, vol. 53, no. 1 (October 16, 2024), https://onlinelibrary.wiley.com/doi/abs/10.1111/1540-6229.12512.

[38] Jackson and Senney, "Shopping Around."

[39] U.S. Census Bureau, "DP04, Selected Housing Characteristics," 2023, American Community Survey 1-Year Estimates, https://data.census.gov/table/ACSDP1Y2023.DP04?q=median+home+value.

[40] For more information on Title IV of the CARES Act, which contains a number of provisions aimed broadly at stabilizing the economy and helping affected households and businesses, see CRS Report R46301, *Title IV Provisions of the CARES Act (P.L. 116-136)*, coordinated by Andrew P. Scott.

[41] For more information on consumer loan forbearance during the COVID-19 pandemic, including CARES Act rights to forbearance, regulatory guidance, and impacts on consumers and financial institutions, see CRS Report R46356, *COVID-19: Consumer Loan Forbearance and Other Relief Options*, coordinated by Cheryl R. Cooper. For information on the level of participation in mortgage relief forbearance, see Juan M. Sánchez and Olivia Wilkinson, "Forbearance During COVID-19: How Many Borrowers Used It, and for How Long?," *On the Economy Blog*, Federal Reserve Bank of St. Louis, May 31, 2022, https://www.stlouisfed.org/on-the-economy/2022/may/forbearance-covid19-how-many-borrowers-how-long.

[42] Sánchez and Wilkinson, "Forbearance During COVID-19"; Mark A. Calabria, "Pandemic Mortgage Forbearance Design: A Practitioner's Perspective," Cato Institute, 2023, https://www.cato.org/regulation/spring-2023/pandemic-mortgage-forbearance-design-practitioners-perspective.

score declines or foreclosure.[43] They can help to stabilize individual consumers' financial health, prevent delinquencies or foreclosures, and may have served as a broader macroeconomic stabilizer.[44] There are potential downsides of expansions of forbearance—namely, that they can potentially distort the housing market and decrease available housing supply by advantaging current homeowners, and some argue that these programs are fraught with fraud and abuse.[45]

Student Loans

Student loans allow students and their families to pay for postsecondary education expenses while they are enrolled in school.[46] Students may choose between federal and private student loans. As of the 2022-2023 school year, 29% of undergraduate students took out federal student loans.[47] In general, the percentage of students taking out federal student loans has gradually declined from 41.5% in 2011-2012. Unlike other consumer financial markets, most student loans are originated and owned by the federal government, and about 8% of student loan debt is private.[48] In academic year 2022-2023, the average amount of total student loan debt for bachelor's degree recipients from nonprofit public or private universities who borrowed funds to complete their degrees was $29,300, with roughly 50% of students graduating with debt.[49]

Education is, in part, an investment intended to allow students to earn higher incomes after they complete school and throughout the rest of their careers. Recent research from the New York Federal Reserve found that the return from college graduation was 12.5% overall, translating to an annual wage premium of $30,000 per year.[50] The level to which this investment pays off over time varies based on the major a student studies, the college attended, the associated tuition, the counterfactual career pursued, and if a student successfully graduates.[51]

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[43] Loans in forbearance are not classified as delinquent, although they may be driven by similar underlying circumstances for the borrowers.

[44] Sean Chanwook Lee and Omeed Maghzian, "Household Liquidity and Macroeconomic Stabilization: Evidence from Mortgage Forbearance," Federal Reserve Bank of Boston, September 2023, https://www.brookings.edu/wp-content/uploads/2021/09/15985-BPEA-BPEA-FA21_WEB_Cherry-et-al.pdf; Susan Cherry et al., "Government and Private Household Debt Relief During COVID-19," Brookings Institution, 2021, pp. 141-199; Laurie Goodman and Jun Zhu, "Preventing Foreclosures: What Has Been Done? What Is to Come?," Urban Institute, July 2024, https://www.urban.org/sites/default/files/2024-07/Preventing%20Foreclosures_0.pdf.

[45] Edward Pinto and Tobias Peter, "AEI Housing Market Indicators (HMI)," American Enterprise Institute Housing Center, July 2, 2024, p. 24, https://www.aei.org/wp-content/uploads/2024/07/HMI-Briefing-Presentation-7.2.24-Final-2.pdf.

[46] For more information on federal student loan debt, see CRS In Focus IF10158, *A Snapshot of Federal Student Loan Debt*, by Rita R. Zota.

[47] Department of Education, National Center for Education Statistics, "Financial Aid: What Is the Percent of Undergraduate Students Awarded Federal Student Loans?," https://nces.ed.gov/ipeds/trendgenerator/app/answer/8/37.

[48] Enterval Analytics, "Enterval Private Student Loan Semi Annual Report Ending Q1 2025," July 10, 2025, p. 3, https://www.enterval.com/media/files/enterval/psl/enterval-private-student-loan-semi-annual-report-q1-2025.pdf.

[49] College Board, "Trends in College Pricing and Student Aid 2024," 2024, p. 4, https://research.collegeboard.org/media/pdf/Trends-in-College-Pricing-and-Student-Aid-2024-ADA.pdf.

[50] Jaison R. Abel and Richard Deitz, "Is College Still Worth It?," *Liberty Street Economics*, Federal Reserve Bank of New York, April 16, 2025, https://libertystreeteconomics.newyorkfed.org/2025/04/is-college-still-worth-it/.

[51] Liang Zhang et al., "Degrees of Return: Estimating Internal Rates of Return for College Majors Using Quantile Regression," *American Educational Research Journal*, March 11, 2024, https://journals.sagepub.com/stoken/default+domain/W9MBX7ZGK8FKK86JZ3Z9/full; Preston Cooper, "Does College Pay Off? A Comprehensive Return on Investment Analysis," Foundation for Research on Equal Opportunity, May 8, 2024, https://freopp.org/whitepapers/does-college-pay-off-a-comprehensive-return-on-investment-analysis/; Jaison R. Abel and Richard Deitz, "When College Might Not Be Worth It," *Liberty Street Economics*, Federal Reserve Bank of New York, April 16, 2025, https://libertystreeteconomics.newyorkfed.org/2025/04/when-college-might-not-be-worth-it/.

Prior to the coronavirus pandemic, student loan debt was the second-largest category of consumer debt, following mortgage debt. However, in 2023, auto loans ($1.66 trillion in fourth quarter 2024) overtook student loans ($1.61 trillion in fourth quarter 2024), driven by the lack of growth in student loan interest during the coronavirus pandemic (discussed below).

More recently, the policy response to the COVID-19 pandemic impacted the student loan market.[52] Section 3513 of the CARES Act initially suspended all payments due and interest accrual for all loans made under the Direct Loan program and the Federal Family Education Loan program held by the Department of Education through September 2020. This congressional action was extended through executive actions through September 2023, with further protections also through executive actions for an "on-ramp" to payments.[53]

In general, these federal loans are accessible to large portions of the postsecondary student population and their families with limited underwriting of their creditworthiness, estimated future income, or other estimates of their ability to repay the loan. Currently, the Department of Education manages most of the federal student loan programs.[54] The Department of Education's Direct Loan program is the largest source of federal financial assistance to support postsecondary education.

Interest rates and other loan terms and conditions are established in the Higher Education Act of 1965, as amended, and through federal regulations.[55] Generally, these public student loans have a fixed rate and interest begins accruing six months after a student leaves school.[56] As of July 2025, new Direct Subsidized and Unsubsidized loans for undergraduate students had an interest rate of 6.4%, while new graduate, parent, or professional student loans had a higher rate of interest of 7.9% or 8.9%.[57] Prior to recent changes in P.L. 119-21 (the FY2025 reconciliation act sometimes called the One Big Beautiful Bill Act, or OBBBA), the Congressional Budget Office (CBO) had estimated that, using a policy baseline as of June 2024, the federal government would have lent roughly a trillion dollars in new loans over the next decade, with estimated losses of 25% totaling a $250 billion.[58]

The FY2025 reconciliation act made certain changes to the student lending marketplace that reduces the total amount that a student can borrow from the federal government over time. Specifically, this law amends certain yearly, aggregate, and lifetime lending limits under the Direct Loan program, reducing such limits particularly for graduate degrees. For more on these changes, see CRS Insight IN12585, *Student Loan Types and Limits in the FY2025 Budget Reconciliation Act*, by Alexandra Hegji.

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[52] For more information about federal student loan debt relief in the context of COVID-19, see CRS Report R46314, *Federal Student Loan Debt Relief in the Context of COVID-19*, by Alexandra Hegji.

[53] Department of Education, Federal Student Aid, "COVID-19 Emergency Relief and Federal Student Aid," https://studentaid.gov/announcements-events/covid-19. See also CRS In Focus IF12472, *Federal Student Loans: Return to Repayment*, by Alexandra Hegji.

[54] For more information on federal student loan programs, see CRS Report R44845, *Administration of the William D. Ford Federal Direct Loan Program*, by Alexandra Hegji.

[55] For more information, see CRS Report R45931, *Federal Student Loans Made Through the William D. Ford Federal Direct Loan Program: Terms and Conditions for Borrowers*, by Alexandra Hegji.

[56] Department of Education, Federal Student Aid, "Student Loan Repayment," https://studentaid.gov/manage-loans/repayment.

[57] Department of Education, Federal Student Aid, "Interest Rates and Fees for Federal Student Loans," July 22, 2025, https://studentaid.gov/understand-aid/types/loans/interest-rates.

[58] CBO, "Federal Student Loan Programs," June 2024, https://www.cbo.gov/system/files/2024-06/51310-2024-06-studentloan.pdf.

The Department of Education contracts out student loan servicing to the private sector, sets servicing standards in these contracts, and enforces these servicing standards. The CFPB is the primary regulator for private student loan lending and servicing and has also asserted a role in ensuring compliance with consumer protection laws related to the servicing of federal student loans.[59]

According to the Department of Education, as of April 2025, more than 5 million borrowers were in default and had not made monthly payments in a year.[60] The Department of Education announced that it would begin collection on student loans in default in May 2025. However, current information on collections in process is not yet available. Options for collecting defaulted loans could include garnishing wages, reporting such defaults to credit bureaus, withholding tax refunds or other federal benefits, and informing a borrower that the total unpaid balance could be due immediately.[61]

In the third quarter of 2025, the New York Federal Reserve found that 9.3% of total student debt was at least 90 days delinquent.[62] Research from the New York Federal Reserve found that a majority of these newly delinquent loans were for borrowers with existing subprime credit scores and that, by region, the highest share of delinquency was in the South.[63] These new delinquencies have decreased delinquent borrowers' credit scores and may impact their future access to credit, particularly for the previously near-prime or prime borrowers.

Policy Issues

Policymakers continue to debate the role of different government agencies in issuing student loans and regulating the broader industry, including a recent executive order by President Trump that proposed eliminating the Department of Education and recent changes to student loans to decrease total federal borrowing in the FY2025 reconciliation act.[64]

Some researchers argue that the prior funding level and structure of the federal student loan program precluded private industry's robust involvement in student loan origination and argue for an increased role for private industry in this marketplace, particularly for graduate students.[65] Unlike public student loans, these loans are not guaranteed by the federal government. The

[59] 12 C.F.R. §1090.106.

[60] Department of Education, "U.S. Department of Education to Begin Federal Student Loan Collections, Other Actions to Help Borrowers Get Back into Repayment, Collections to Restart May 5th, Struggling Borrowers Urged to Act Now," press release, April 21, 2025, https://www.ed.gov/about/news/press-release/us-department-of-education-begin-federal-student-loan-collections-other-actions-help-borrowers-get-back-repayment.

[61] Department of Education, Federal Student Aid, "Student Loan Delinquency and Default," https://studentaid.gov/manage-loans/default.

[62] Federal Reserve Bank of New York, Center for Microeconomic Data, *Quarterly Report on Household Debt and Credit*, https://www.newyorkfed.org/microeconomics/databank.html.

[63] Andrew F. Haughwout et al., "Student Loan Delinquencies Are Back, and Credit Scores Take a Tumble," *Liberty Street Economics*, Federal Reserve Bank of New York, May 13, 2025, https://libertystreeteconomics.newyorkfed.org/2025/05/student-loan-delinquencies-are-back-and-credit-scores-take-a-tumble/.

[64] A recent executive order by President Trump proposes eliminating the Department of Education, and associated public statements have advocated for moving student loan administration to the Small Business Administration. Executive Order 14242, "Improving Education Outcomes by Empowering Parents, States, and Communities," 13679-13680, March 20, 2025, https://www.whitehouse.gov/presidential-actions/2025/03/improving-education-outcomes-by-empowering-parents-states-and-communities/.

[65] Beth Akers et al., "How Private Student Lending Can Repair Higher Education," American Enterprise Institute, April 1, 2024, https://www.aei.org/research-products/report/how-private-student-lending-can-repair-higher-education/.

decreases in certain lending limits for public loans from OBBBA may increase private loan activity to make up the difference in decreased public loan borrowing limits.

Unlike public loans, which have uniform pricing across the marketplace, private student loans are underwritten at an individual level based on a borrower's and any cosigners' risk characteristics. This is similar to most other financial products discussed in this report. Because college students tend to be younger and often have little credit history, pricing these loans based on their individual characteristics is more difficult, meaning private loan companies often rely on their cosigners' guarantees of the loan and the creditworthiness of their cosigners to underwrite the loan.[66] Under the Dodd-Frank Act, the CFPB has exercised supervisory powers over the private student loan market and has in the past brought enforcement actions against private student loan originators and servicers for alleged violations of law.[67]

A major concern in the student loan market is whether students are able to manage their debt after graduation. Some evidence from academic research finds that increased student debt may cause reduction in access to mortgage debt or other adverse consumer finance outcomes.[68] In addition, unlike other consumer debts, student loans are not dischargeable during a bankruptcy proceeding except in limited circumstances.[69] These concerns have led to efforts to make loan repayment terms more flexible. For example, some federal student loan borrowers now have the option to choose income-driven repayment plans, under which a borrower's monthly loan payments are based on a percentage of the borrower's discretionary income.[70] According to CBO, 27% of borrowers in 2017 used income-based repayment plans, and those borrowers are much less likely to default than are borrowers using standard payment plans.[71] These plans also have greater lifetime costs to the federal government than standard repayment plans do. Reports suggest that issues in the implementation of these programs make it difficult for borrowers to know their options, understand the process, and qualify for forgiveness or repayment loan programs.[72]

How student loans impact consumers' long-term financial health and their ability to obtain other credit products is another policy question. Research from the Federal Reserve finds that increased

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[66] See for example Akers et al., "How Private Student Lending Can Repair Higher Education"; Sallie Mae, "7 Things to Consider When Cosigning a Student Loan," February 20, 2025, https://www.salliemae.com/blog/things-you-should-know-about-cosigning-student-loans/.

[67] See for example CFPB, "Discover Bank, the Student Loan Corporation, and Discover Products, Inc.," December 22, 2020, https://www.consumerfinance.gov/enforcement/actions/discover-bank-the-student-loan-corporation-and-discover-products-inc/; CFPB, "Climb Credit, Inc.; Climb Investco, LLC; Climb GS Loan Fund 2018-1, LLC; 1/0 Holdco LLC; and 1/0 Capital LLC," October 17, 2024, https://www.consumerfinance.gov/enforcement/actions/climb-credit-inc-et-al/.

[68] Alvaro Mezza et al., "Student Loans and Homeownership," *Journal of Labor Economics*, vol. 38, no. 1 (January 2020), https://www.journals.uchicago.edu/doi/10.1086/704609; William Elliott and Melinda Lewis, "Student Debt Effects on Financial Well-Being: Research and Policy Implications," in *A Collection of Reviews on Savings and Wealth Accumulation*, ed. Edda Claus and Iris Claus (John Wiley and Sons, 2016), https://onlinelibrary.wiley.com/doi/abs/10.1002/9781119158424.ch3.

[69] For more information on student loans and bankruptcy, see CRS Report R45113, *Bankruptcy and Student Loans*, by Kevin M. Lewis; and CRS Legal Sidebar LSB10192, *How Hard Should it be to Discharge a Student Loan in Bankruptcy?* by Kevin M. Lewis.

[70] For a broader background on income-driven repayment plans, see CRS Report R47418, *The Department of Education's Notice of Proposed Rulemaking on Improving Income-Driven Repayment for the Direct Loan Program: Frequently Asked Questions*, coordinated by Rita R. Zota.

[71] Nadia Karamcheva et al., "Income-Driven Repayment Plans for Student Loans: Budgetary Costs and Policy Options," CBO, February 2020, https://www.cbo.gov/publication/56277.

[72] For more information, see Government Accountability Office (GAO), *Federal Student Aid: Education Needs to Take Steps to Ensure Eligible Loans Receive Income-Driven Repayment Forgiveness*, GAO-22-103720, April 20, 2022, https://www.gao.gov/products/gao-22-103720.

student loan debts increase consumers' demand for certain additional credit while decreasing their ability to access certain credit products, particularly those with stricter underwriting standards.[73] According to this research, the existence and growth of student loan debt hampers young consumers' ability to buy homes. These student loans drive additional demand for credit among borrowers, because consumers respond to these payments by obtaining other products, such as auto loans, to fulfil their desired consumption levels.

The amount of student loan debt consumers borrow is related to college tuition, with a dynamic relationship between the two.[74] For example, if access to student loans makes it easier for schools to raise tuition, then it might lead to some students being worse off, driven by higher tuition and associated student loan payments.[75] Prior research shows that as student loan limits increase—which enables more borrowing—tuition increases by roughly 60 cents for each dollar for subsidized loans and 15 cents for unsubsidized loans.[76] Higher tuition leads to increased need for students to borrow money from loans. This dynamic may bring about a cycle of rising tuition coupled with rising student loans. Adjusted for inflation, students' net tuition (which excludes institutional and external grants) has increased 93% in real terms, from $4,851 in 1990 to $9,377 in 2020.[77] The increase in sticker price for tuition increased 175% during this same time period.[78]

Some have also raised questions regarding whether loans should be limited to certain types of educational programs that enable their students to gain quality employment and successfully pay back their loans.[79] Many students make school choice and curriculum decisions at a young age, when they might not have much experience making financial decisions.[80] Information asymmetry problems can make it difficult for students to make good financial decisions for their future careers.[81] Some question whether the availability of student loans might harm the larger economy. For example, researchers debate the effects of student loan debt on future macroeconomic

[73] Alvaro Mezza et al., *Student Loans, Access to Credit and Consumer Financial Behavior*, Federal Reserve Board, June 2021, https://www.federalreserve.gov/econres/feds/files/2021050pap.pdf.

[74] CRS Video WVB00543, *Student Loan Debt: Borrowing to Finance College Expenses*, by Alexandra Hegji and Kyle D. Shohfi.

[75] David O. Lucca et al., *Credit Supply and the Rise in College Tuition: Evidence from the Expansion in Federal Student Aid Programs*, Federal Reserve Bank of New York, February 2017, https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr733.p; Stephanie Riegg Cellini and Claudia Goldin, "Does Federal Student Aid Raise Tuition? New Evidence on For-Profit Colleges," *American Economic Journal: Economic Policy*, vol. 6, no. 4 (November 2014), pp. 174-206, https://www.aeaweb.org/articles?id=10.1257/pol.6.4.174.

[76] Lucca et al., *Credit Supply and the Rise in College Tuition*.

[77] Preston Cooper, "Trends in Net College Tuition and Financial Aid, 1990-2020," American Enterprise Institute, March 13, 2025, https://www.aei.org/research-products/report/trends-in-net-college-tuition-and-financial-aid-1990-2020/; Bureau of Economic Analysis, "Personal Consumption Expenditures: Chain-Type Price Index," https://fred.stlouisfed.org/series/PCEPI.

[78] Cooper, "Trends in Net College Tuition and Financial Aid."

[79] Stephanie Riegg Cellini and Nicholas Turner, "Gainfully Employed? Assessing the Employment and Earnings of For-Profit College Students Using Administrative Data," *Journal of Human Resources*, vol. 54, no. 2 (Spring 2019), pp. 342-370, https://jhr.uwpress.org/content/54/2/342; Tiffany Chou et al., *Measuring Loan Outcomes at Postsecondary Institutions: Cohort Repayment Rates as an Indicator of Student Success and Institutional Accountability*, National Bureau of Economic Research (NBER), February 2017, https://www.nber.org/papers/w23118.

[80] Student loan borrowers may face difficulties in understanding their loan terms and conditions. For more information see U.S. Financial Literacy and Education Commission, *Best Practices for Financial Literacy and Education at Institutions of Higher Education*, 2019, https://home.treasury.gov/system/files/136/Best-Practices-for-Financial-Literacy-and-Education-at-Institutions-of-Higher-Education2019.pdf.

[81] Justine Hastings et al., *The Effects of Earnings Disclosure on College Enrollment Decisions*, NBER, February 2018, https://www.nber.org/system/files/working_papers/w21300/w21300.pdf.

performance, including effects on career choice, family formation, home ownership, and retirement savings.[82]

Policymakers have debated the degree to which the previously discussed student loan payment and interest pause was beneficial. These provisions may have benefited certain student loan borrowers, as these loans were no longer accruing interest or required payments. Economic research indicates that in response to this pause borrowers increased their purchases, decreased their working hours, and chose to prepay student debt in lieu of decreasing other high-interest debt.[83]

The Fiscal Responsibility Act of 2023 (P.L. 118-5) formally concluded this payment pause. Overall, researchers have estimated that this forbearance came at a taxpayer cost of at least $5 billion a month or around $200 billion total.[84] Additionally, according to the Department of Education, the department cancelled over $180 billion in federal student loan debt during the Biden Administration, while courts overturned attempts to provide an additional $400 billion in forgiveness.[85] Policymakers debated the efficacy of these programs in terms of the relevant costs and benefits. Some policymakers suggested that these policies may have helped borrowers who might have otherwise struggled to make payments, particularly during the height of the pandemic, while others argued they were too costly, distortionary, lengthy, and/or regressive in nature.[86]

Automobile Loans

An automobile loan allows a consumer to finance the purchase of a new or used car.[87] Auto loans are usually structured as closed-end installment loans, in which a consumer pays an amount of money each month for a predetermined time period, frequently three to seven years. Lenders often require consumers to make down payments to obtain the loans. An auto loan is secured by

[82] Some examples of this literature include Marco Di Maggio et al., *Second Chance: Life without Student Debt*, NBER, May 2019, https://www.nber.org/papers/w25810; Katharine G. Abraham et al., *Behavioral Effects of Student Loan Repayment Plan Options on Borrowers' Career Decisions: Theory and Experimental Evidence*, NBER, July 2018, https://www.nber.org/papers/w24804; and Holger M. Mueller and Constantine Yannelis, *Students in Distress: Labor Market Shocks, Student Loan Default, and Federal Insurance Programs*, NBER, March 2017, https://www.nber.org/papers/w23284.

[83] Diego A. Briones and Sarah Turner, *Labor, Loans and Leisure: The Impact of the Student Loan Payment Pause*, NBER, March 2025, https://www.nber.org/papers/w33553; Daniel H. Cooper and Maddie Haddix, "How the Student Loan Payment Pause Affected Borrowers' Credit Access and Credit Use," Federal Reserve Bank of Boston, January 13, 2025, https://www.bostonfed.org/publications/current-policy-perspectives/2025/how-the-student-loan-payment-pause-affected-borrowers-credit-access-and-credit-use.aspx; Justin Katz, "Saving and Consumption Responses to Student Loan Forbearance," *SSRN*, May 20, 2024, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4344262.

[84] Diego Briones et al., "The Nine (or More?) Lives of the Student Loan Payment Pause," EdPolicyWorks, University of Virginia, January 2023, https://education.virginia.edu/sites/default/files/2023-01/epw_turner_working-paper_the-nine-or-more-lives-of-the-student-loan-payment-pause_2023-01-12.pdf.

[85] CRS Legal Sidebar LSB10997, *Supreme Court Invalidates Student Loan Cancellation Policy Under the HEROES Act*, by Edward C. Liu and Sean Stiff; Department of Education, "Approved Debt Relief by State," January 16, 2025, https://web.archive.org/web/20250119062313/https://data.ed.gov/dataset/approved-debt-relief-by-state/resources.

[86] For a broad perspective on this debate, please see relevant hearings from recent Congresses: U.S. Congress, House Committee on Education and the Workforce, Subcommittee on Higher Education and Workforce Development, *Breaking the System: Examining the Implications of Biden's Student Loan Policies for Students and Taxpayers*, 118th Cong., 2nd sess., March 23, 2023, https://democrats-edworkforce.house.gov/hearings/breaking-the-system-examining-the-implications-of-bidens-student-loan-policies-for-students-and-taxpayers; U.S. Congress, Senate Committee on Banking, Housing, and Urban Affairs, *Examining Student Loan Servicers and Their Impact on Workers*, 117th Cong., May 5, 2022, https://www.banking.senate.gov/hearings/examining-student-loan-servicers-and-their-impact-on-workers.

[87] For more information on the auto lending market, see CRS In Focus IF11192, *The Automobile Lending Market and Policy Issues*, by Cheryl R. Cooper.

the automobile, so if a consumer cannot pay the loan, the lender can repossess the car to recoup the loan's cost.

Auto loans are the second-largest consumer credit market. At the end of 2024, there were 109 million open auto loans, and auto loan debt outstanding totaled almost $1.7 trillion.[88] In 2024, the average loan term for both new and used cars was about five and a half years, and there has been an increasing trend toward longer automobile loan terms.[89] This trend may be due in part to rising vehicle costs[90] and consumers keeping their cars longer.[91] A longer loan term in general decreases the monthly cost of a loan but increases the total cost of the loan. Some evidence has indicated that longer auto loan terms (terms longer than five years) have higher delinquency rates than shorter loans, even after controlling for creditworthiness and macroeconomic characteristics.[92]

Demand for auto loans is related to the price of the car, meaning as affordability decreases, consumers may use financing to make up the difference or take out larger loans. There was a rise in auto loans from 2021 to 2022, attributed to increasing car prices and thus the associated car loan size. These price increases were the result of supply constraints including supply chain disruptions, decreasing the total number of new cars manufactured during and following the pandemic.[93] In total, the average monthly payment for car loans increased from $470 in January 2020 to $600 in January 2023.[94]

The percentage of auto loan balances that are 90 or more days delinquent has increased from a recent trough of 3.7% in fourth quarter 2022 to 5.0% in fourth quarter 2024, although such levels are consistent with those immediately before the pandemic, as fourth quarter 2019 delinquency was 5.1%.[95] This rising delinquency rate was accelerated by auto loans originated to subprime and near-prime borrowers in 2022 and 2023.[96] The cost of an auto loan in terms of interest rate is related to the creditworthiness of the individual, the financial institution that originates the loan, and the macroeconomic conditions driving the overall cost of credit. The average interest rate in 2024 for auto loans to prime credit score (661-780) borrowers was 6.4% for new cars and 9.9% for used cars.[97]

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[88] Federal Reserve Bank of New York, *Quarterly Report on Household Debt and Credit*.

[89] Kenneth P. Brevoort et al., "Growth in Longer-Term Auto," CFPB, November 2017, p. 4, https://s3.amazonaws.com/files.consumerfinance.gov/f/documents/cfpb_consumer-credit-trends_longer-term-auto-loans_2017Q2.pdf.

[90] Federal Reserve Bank of St. Louis, "Consumer Price Index for All Urban Consumers: New Vehicles in U.S. City Average," August 12, 2025, https://fred.stlouisfed.org/series/CUSR0000SETA01.

[91] Department of Transportation, Bureau of Transportation Statistics, "Average Age of Automobiles and Trucks in Operation in the United States," https://www.bts.gov/content/average-age-automobiles-and-trucks-operation-united-states.

[92] Zhengfeng Guo et al., "A Puzzle in the Relation Between Risk and Pricing of Long-Term Auto Loans," June 2020, https://www.occ.gov/publications-and-resources/publications/economics/working-papers-banking-perf-reg/pub-econ-working-paper-puzzle-long-term-auto-loans.pdf.

[93] David Coffin et al., *The Roadblocks of the COVID-19 Pandemic in the U.S. Automotive Industry*, International Trade Commission, June 2022, https://www.usitc.gov/publications/332/working_papers/the_roadblocks_of_the_covid-19_pandemic_in_the_automotive_industry_final.pdf.

[94] Robert Adams et al., "Rising Auto Loan Delinquencies and High Monthly Payments," Federal Reserve, September 26, 2024, https://www.federalreserve.gov/econres/notes/feds-notes/rising-auto-loan-delinquencies-and-high-monthly-payments-20240926.html.

[95] This measure captures the percentage of total dollar amount of auto loans left to pay that is more than 90 days late on payments. Federal Reserve Bank of New York, "Household Debt and Credit Report (Q3 2025)," https://www.newyorkfed.org/microeconomics/hhdc.

[96] See Adams et al., "Rising Auto Loan Delinquencies and High Monthly Payments," Figure 2.

[97] Melinda Zabritski, "State of the Automotive Finance Market," Experian, 2025, https://www.experian.com/content/ (continued...)

More than half of auto loans are originated by depository institutions, although they tend to serve prime borrowers with lower delinquency rates. A majority of remaining loans are originated by nonbank indirect auto lenders of different varieties.[98] Indirect auto financing involves the auto dealer forwarding information about the prospective borrower to one or more lenders—sometimes directly affiliated with the car manufacturer—to solicit potential financing offers.[99]

In non-captive arrangements with outside (generally nonbank) lenders, the dealer is often compensated for originating the loan through a discretionary markup, which is the difference between the lender's interest rate and the rate a consumer is charged.[100] Driven by the differences in borrower creditworthiness and dealer markup, these non-captive loans tend to have the highest loan rate among different options.[101] In general, within these non-captive arrangements, consumers are less responsive to increasing financing prices relative to increasing vehicle prices.[102] The CFPB oversees consumer protection compliance for auto lenders under its supervisory jurisdiction, including banks above $10 billion in assets, but not for auto dealers' activities in assisting in loan originations. The CFPB's previous work on indirect auto lenders and the resulting enforcement actions were the subject of significant attention and debate.[103]

Section 70203 of the FY2025 reconciliation act provides an auto loan interest deduction that could defray some of the interest costs associated with vehicle purchases.[104] Specifically, it provides an above-the-line deduction for up to $10,000 of interest paid for tax years 2025-2028. This deduction applies only to vehicles or motorcycles with final assembly in the United States and phases out for higher-income taxpayers.

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dam/noindex/na/us/automotive/finance-trends/2024/experian-safm-q4-2024.pdf. This difference may be driven by the composition of borrowers in each of these groups and the types of financial institutions that originate auto loans for new and used cars.

[98] Kim Wilson and Thomas Popeck Spiller, "Nuts and Bolts of Today's Auto Finance Market," Board of Governors of the Federal Reserve System, November 2023, Table 2, https://www.federalreserve.gov/publications/2023-november-consumer-community-context.htm.

[99] CFPB, "What Is the Difference Between Dealer-Arranged and Bank Financing?," November 16, 2016, https://www.consumerfinance.gov/ask-cfpb/what-is-the-difference-between-dealer-arranged-and-bank-financing-en-759/.

[100] A non-captive arrangement is one in which the finance company or bank is not directly affiliated with the manufacturer or dealership that sells the automobile.

[101] Wilson and Spiller, "Nuts and Bolts of Today's Auto Finance Market," Figure 1.

[102] Andreas Grunewald et al., *Auto Dealer Loan Intermediation: Consumer Behavior and Competitive Effects*, NBER, November 2020, https://www.nber.org/system/files/working_papers/w28136/w28136.pdf.

[103] In 2013, the CFPB issued a bulletin to indirect auto lenders on how to comply with the Equal Credit Opportunity Act (ECOA). This guidance generally stated that indirect auto lenders should impose controls on or revise and monitor dealer markups to prevent disparate impact based on race or other protected classes. From 2013 to 2016, the CFPB, in coordination with the Department of Justice, issued consent orders to settle enforcement actions against American Honda Finance Corporation, Toyota Motor Credit Corporation, Fifth Third Bank, and Ally Financial and Ally Bank for alleged ECOA violations in indirect auto lending markets. For more, see CFPB, "Indirect Auto Lending and Compliance with the Equal Credit Opportunity Act," March 21, 2013, https://files.consumerfinance.gov/f/201303_cfpb_march_-Auto-Finance-Bulletin.pdf.

The bulletin was controversial—some expressed the view that the guidance went beyond what ECOA and the Dodd-Frank Act require of auto lenders, while others considered it an important step toward addressing discrimination. In 2018, Congress rescinded the guidance using the Congressional Review Act (P.L. 115-172). Some observers argue that discrimination in auto lending markups continues to be an area of concern.

[104] For more on this provision, see Table 2 of CRS Report R48611, *Tax Provisions in P.L. 119-21, the FY2025 Reconciliation Law*, coordinated by Anthony A. Cilluffo.

Financial Products for Smoothing Everyday Household Consumption

In contrast to the products in the last section, which are aimed at financing large purchases, those in this section are aimed at facilitating day-to-day consumption. This can mean by providing additional liquidity in the short or medium term, offering a payment mechanism to make purchases, or storing assets to hold value in the case of checking accounts. This section includes discussion of credit cards and payments, payday loans and other closely related products, personal loans, earned wage access, "buy now, pay later," and checking account and substitutes.

Credit Cards and Payments

Retail payment services allow consumers to pay merchants for goods and services without cash, sometimes called payment *transactions*.[105] Consumers can use these services to pay bills, make person-to-person payments, or withdraw cash. These services can be found in many consumer financial products, including credit, debit, and prepaid cards and checking accounts. Given the rise of internet shopping, retail payment services have become especially critical for consumers to be able to make daily purchases. The most common methods of payment are debit cards, credit cards, and cash.[106] Debit and prepaid cards are generally associated with funded accounts (such as bank checking accounts) from which consumers draw money to pay for transactions. In contrast, a credit card allows a consumer to pay for transactions using credit.

According to the CFPB, at the end of 2022, there were 754 million credit card accounts, translating to roughly three credit card accounts per adult on average.[107] A majority of these cards (548 million) were general purpose, while 206 million were private label that could be used only in specific stores. At the end of 2021, 190 million consumers—roughly three-fourths of the U.S. adult population—had credit cards.[108]

A credit card provides a consumer with unsecured revolving credit. *Unsecured credit* means the loan is not secured with any collateral (and thus, the lender has no recourse to seize any property connected to the loan in case of consumer default). Revolving credit enables consumers to borrower up to a limit, repay the funds, and then use the credit again. Generally, unlike installment credit, there is no end date associated with the product.

Credit cards can be a convenient payment option that consumers value to facilitate transactions, particularly relative to cash or check. According to the Federal Reserve, credit cards are used for more than one-third of all payments, up from 18% in 2016, making them the most common payment method.[109] Higher-income households with more emergency savings are more likely to

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[105] For more information on consumer payment services, see CRS Report R43364, *Recent Trends in Consumer Retail Payment Services Delivered by Depository Institutions*, by Darryl E. Getter; and CRS Report R45927, *U.S. Payment System Policy Issues: Faster Payments and Innovation*, by Cheryl R. Cooper, Marc Labonte, and David W. Perkins.

[106] Kevin Foster et al., *The 2019 Survey of Consumer Payment Choice: Summary Results*, Federal Reserve Bank of Atlanta, 2020, p. 12, https://www.atlantafed.org/-/media/documents/banking/consumer-payments/survey-of-consumer-payment-choice/2019/2019-survey-of-consumer-payment-choice.pdf.

[107] CFPB, *The Consumer Credit Card Market*, October 2023, p. 87, https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2023.pdf.

[108] CFPB, *The Consumer Credit Card Market*, October 2023, p. 15.

[109] Berhan Bayeh et al., *2025 Findings from the Diary of Consumer Payment Choice*, Federal Reserve Financial Services, May 2025, p. 5, https://www.frbservices.org/binaries/content/assets/crsocms/news/research/2025-diary-of-consumer-payment-choice.pdf.

use credit cards as their primary payment method and in general have lower fees than total rewards from credit cards.[110] Lower-income households are more likely to transact using debit cards or cash and tend to have higher fees than total rewards from credit cards.[111]

Credit cards are valuable to consumers, in part, because they are flexible: Both the amount borrowed and the amount paid can vary each month according to the consumer's needs. For example, if a household experiences a financial shock, such as unemployment or a car or house repair, the household can use credit cards to borrow money quickly and easily, which the household can then pay back when it is able. Credit cards can also be used to smooth consumption over time, which may be particularly valuable to households with tight budgets.[112]

However, credit cards may be structured in a way that can take advantage of many consumer decisionmaking biases, which can result in households carrying balances and incurring debt. For example, mental accounting biases can lead to overspending, and credit cards allow households to overspend easily, perhaps without even realizing it until their monthly bills are due. Research suggests that the half of credit card holders who are persistently in credit card debt are likely to be present biased and have little liquid savings to pay off such balances.[113]

Credit card users may be separated into two different groups based on the way consumers utilize their credit cards: *transactors* and *revolvers*. Some consumers use credit cards for payment transaction convenience and in some cases pay the balance in full each month without incurring interest. These types of users are sometimes called *transactors*. In other cases, a credit card user borrows money potentially up to a *credit limit* and sometimes makes only a *minimum payment* on the debt each month, ultimately carrying a balance on the credit card and incurring interest on the unpaid balance. These types of credit card users are called *revolvers*. Although consumers can move between transacting and revolving (known as *transitioners*), they tend to show persistent payment behavior.[114] Consumers who revolve on their credit cards and incur additional interest can harm their financial health. In total, consumers pay roughly $120 billion in aggregate credit card interest and fees each year.[115]

The type of information disclosed in a typical credit card statement may play an important role in how revolving consumers repay credit card debt. Research suggests that many people are anchored by the minimum payment amounts included in each statement, which bias their decisions about how much to pay each month.[116] As a result, consumers may first pay off lower-

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[110] Alexei Alexandrov, "Americans' Use of Payment Methods: Data, Economics, and Policy. You Pay to Pay If You Are Poor, but You Get Paid to Pay If You Are Rich," *SSRN*, July 2025, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5311370.

[111] Bayeh et al., *2025 Findings from the Diary of Consumer Payment Choice*; Alexandrov, "Americans' Use of Payment Methods."

[112] Daryl Collins et al., *Portfolios of the Poor: How the World's Poor Live on $2 a Day* (Princeton University Press, 2009), chaps. 3 and 7.

[113] Scott Fulford and Scott Schuh, *Credit Card Utilization and Consumption Over the Life Cycle and Business Cycle*, Federal Reserve Bank of Boston, 2017, pp. 4-5.

[114] Benjamin J. Keys and Jialan Wang, "Minimum Payments and Debt Paydown in Consumer Credit Cards," *Journal of Financial Economics*, vol. 131, no. 3 (March 2019), pp. 528-548, https://www.sciencedirect.com/science/article/abs/pii/S0304405X18302721; and Daniel Grodzicki and Sergei Kulaev, *Data Point: Credit Card Revolvers*, CFPB, Office of Research, July 2019, pp. 8-10, https://files.consumerfinance.gov/f/documents/bcfp_data-point_credit-card-revolvers.pdf.

[115] Ashwin Vasan and Wei Zhang, "Americans Pay $120 Billion in Credit Card Interest and Fees Each Year," CFPB, January 19, 2022, https://www.consumerfinance.gov/about-us/blog/americans-pay-120-billion-in-credit-card-interest-and-fees-each-year/.

[116] Keys and Wang, "Minimum Payments and Debt Paydown in Consumer Credit Cards."

interest-rate debt, increasing the quantity of total debt and overall probability of default.[117] For these reasons, the Credit Card Accountability Responsibility and Disclosure Act of 2009 (CARD Act), as implemented by the CFPB, established new disclosure requirements for credit cards and a requirement to assess an ability to repay. Research debates the degree to which the CARD Act was effective.[118] In general, the CFPB regulates the credit card marketplace, overseeing certain consumer protection statutes directly relevant to this marketplace such as TILA and supervising financial institutions through examinations.

Credit card delinquencies, depicted in **Figure 3**, have been steadily increasing since third quarter 2022. In third quarter 2025, these delinquencies, measured as a percentage of balance more than 90 days delinquent, stand at the highest level (12.4%) since the global financial crisis.[119] These delinquencies are concentrated among subprime borrowers with credit scores under 670.[120] This delinquency rate seems in contrast to the relatively strong job market and overall economy. The increase of these delinquencies could potentially be attributed to several different reasons, including post-pandemic inflation, the rise in interest rates, the decrease in excess savings, and looser underwriting standards following the pandemic.[121] Amid these increasing delinquencies, banks have tightened their underwriting standards for credit cards.[122]

[117] Justin Katz, Dominic Russel, and Claire Shi, "The Supply Side of Consumer Debt Repayment," *SSRN*, November 7, 2024, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=5012593.

[118] P.L. 111-24. For more information on the CARD Act, see CRS Report R43364, *Recent Trends in Consumer Retail Payment Services Delivered by Depository Institutions*, by Darryl E. Getter; CFPB, *CARD Act Report: A Review of the Impact of the CARD Act on the Consumer Credit Card Market*, October 1, 2013, pp. 66-68, https://files.consumerfinance.gov/f/201309_cfpb_card-act-report.pdf; Glenn B. Canner and Gregory Elliehausen, *Consumer Experiences with Credit Cards*, Board of Governors of the Federal Reserve System, December 2013, p. 20, https://www.federalreserve.gov/pubs/bulletin/2013/pdf/consumer-experiences-with-credit-cards-201312.pdf; Sumit Agarwal et al., "Regulating Consumer Financial Products: Evidence from Credit Cards," *Quarterly Journal of Economics*, vol. 130, no. 1 (November 25, 2014), https://doi.org/10.1093/qje/qju037; Keys and Wang, "Minimum Payments and Debt Paydown in Consumer Credit Cards."

[119] Federal Reserve Bank of New York, Center for Microeconomic Data, *Quarterly Report on Household Debt and Credit, 2025:Q1*.

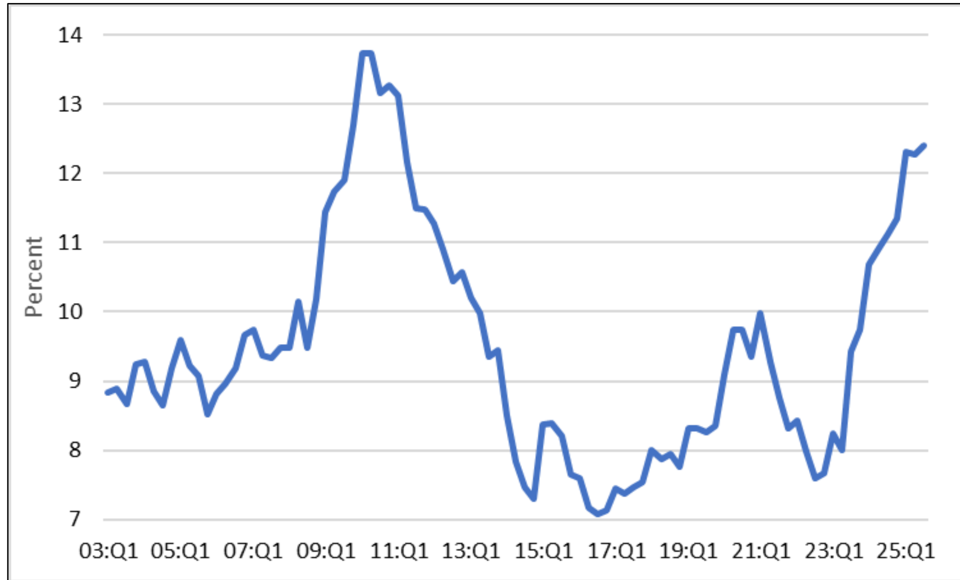
[120] Jordan Pandolfo, "Subprime Credit Card Delinquencies Have Fallen," Federal Reserve Bank of Kansas City, April 2, 2025, https://www.kansascityfed.org/research/economic-bulletin/subprime-credit-card-delinquencies-have-fallen/.

[121] Hamza Abdelrahman and Luiz Edgard Oliveira, "Pandemic Savings Are Gone: What's Next for U.S. Consumers?," *Research and Insights*, Federal Reserve Bank of San Francisco, May 3, 2024, https://www.frbsf.org/research-and-insights/blog/sf-fed-blog/2024/05/03/pandemic-savings-are-gone-whats-next-for-us-consumers/; Michael Evangelist and Amy Higgins, *Household Perceptions of Price Changes and Coping Strategies*, Federal Reserve Bank of Boston, August 2024, https://www.bostonfed.org/publications/community-development-field-notes/2024/household-perceptions-of-price-changes-and-coping-strategies.aspx.

[122] Luke Morgan et al., "Senior Loan Officer Opinion Survey on Bank Lending Practices," Board of Governors of the Federal Reserve System, January 2025, https://www.federalreserve.gov/data/sloos/sloos-202501.htm; Jacob Sloan and Andy Kish, "Large Bank Credit Card and Mortgage Data 2024 Q2 Narrative," Federal Reserve Bank of Philadelphia, October 9, 2024, https://www.philadelphiafed.org/surveys-and-data/2024-q2-large-bank.

Figure 3. Percentage of Credit Card Balances at Least 90 Days Delinquent

2003:Q1-2025:Q3



Source: Federal Reserve Bank of New York, Center for Microeconomic Data, *Quarterly Report on Household Debt and Credit*, https://www.newyorkfed.org/microeconomics/databank.html.

Notes: This statistic includes severely derogatory debt, such as charge-offs and defaulted debt. As a result, these delinquency rates may be higher than those publicly reported by lenders or in other sources that explicitly exclude this debt.

Payday Loans and Other Similar Credit Alternative Financial Products[123]

When consumers face financial shocks, such as unemployment or car repairs, sometimes they need credit to manage the unforeseen events. One option a consumer may access is a short-term, small-dollar loan with an origination amount of generally less than $1,000. Banks and credit unions sometimes provide these types of loans through cash advances, short-term small-dollar loans (discussed in more detail below), or checking account overdraft programs.

Many consumers—often those with low credit scores or no credit history and lower incomes—also turn to varied alternative products from nonbanks including payday loans, pawn shop loans, and auto title loans.[124] According to the Federal Deposit Insurance Corporation (FDIC), in 2023, 5.8% of consumers used credit alternative financial services in the previous year.[125] Households

[123] For more background on short-term, small-dollar loans, see CRS Report R44868, *Short-Term, Small-Dollar Lending: Policy Issues and Implications*, by Darryl E. Getter. For more background on financial inclusion and credit access policy issues, see CRS Report R45979, *Financial Inclusion and Credit Access Policy Issues*, by Cheryl R. Cooper.

[124] Scott Fulford and Cortnie Shupe, *Consumer Use of Payday, Auto Title, and Pawn Loans: Insights from the Making Ends Meet Survey*, CFPB, May 2021, https://files.consumerfinance.gov/f/documents/cfpb_consumer-use-of-payday-auto_title-pawn_loans_research-brief_2021-05.pdf.

[125] Garret Christensen et al., *2023 FDIC National Survey of Unbanked and Underbanked Households*, FDIC, 2024, p. 12, https://www.fdic.gov/household-survey.

that used these products in the past year are more likely to be "unbanked" (i.e., to not have a bank account) and lower-income compared to the general U.S. population.[126]

Perhaps the best known of these products are payday loans, which have been the subject of significant regulatory, congressional, and media attention. Payday loans are structured as short-term advances that allow consumers to access cash before they receive their paychecks and are designed to be paid back with consumers' next paychecks. Payday loans are offered through storefront locations or online for a set fee. The underwriting of these loans is minimal, with payday lenders relying on either credit reporting, income or employment verification, or other methods. Rather than paying off the loans entirely when they are originally due, many consumers roll over or renew these loans. A CFPB study found that 36% of new payday loan sequences were repaid fully without any rollovers, while 15% of sequences extended for 10 or more loans.[127] Sequences of continuous rollovers may result in consumers being in increased debt for extended periods of time. Because a consumer generally pays a fee for each new loan, payday loans can become expensive relative to alternatives.

The cost of payday loans and potential implications for consumer financial health has been driving debate over regulations at the state and federal levels. According to Pew, as of 2022, a payday loan customer in the median-cost state for payday lending who borrows $500 would pay $433 in fees over four months, with a median annual percentage rate (APR) of 336%.[128] APR represents the *annual* borrowing costs as a percentage rate, which is less aligned with the short-term nature of a payday loan—typically between two to four weeks—or other similarly quick-turnaround products than with longer-term products. Some observers have contended that APR is not the correct computation of the true cost of payday loans and other shorter-term financial products, as the payments are structured so that they are repaid by the next paycheck.[129] Many borrowers roll over such payday loans, making the actual term of a sequence longer.[130]

In the payday market, similar to other financial policy, policy disagreements tend to center on balancing access to credit with consumer protection. The academic research is mixed in terms of payday loans' effects on consumer well-being.[131] When consumers have emergencies, short-term, small-dollar credit can help them make ends meet. Payday loans' product features, such as the option to roll over, can allow consumers to pay back their loans flexibly but can result in relatively higher fees, which some may consider problematic.

States have also imposed certain restrictions on payday loans, including limiting the maximum loan amount, loan terms, and restrictions on total finance charges or complete ban of payday loans.[132] For example, as of July 2020, 18 states and the District of Columbia either banned or

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[126] Christensen et al., *2023 FDIC National Survey*, p. 12.

[127] Kathleen Burke et al., *CFPB Data Point: Payday Lending*, CFPB, Office of Research, March 2014, pp. 10-11, https://files.consumerfinance.gov/f/201403_cfpb_report_payday-lending.pdf.

[128] Linlin Liang and Alex Horowitz, "Payday Loans Cost 4 Times More in States with Few Consumer Protections," Pew Charitable Trusts, June 3, 2022, https://www.pew.org/en/research-and-analysis/issue-briefs/2022/04/payday-loans-cost-4-times-more-in-states-with-few-consumer-protections.

[129] Matthew Adams and John Berlau, "The Annual Percentage Rate Is the Wrong Metric for Assessing the Cost of a Short-Term Loan," Competitive Enterprise Institute, April 7, 2021, https://cei.org/wp-content/uploads/2021/04/Matthew-Adams-and-John-Berlau-Why-the-Annual-Percentage-Rate-is-the-Wrong-Metric.pdf.

[130] Burke et al., *CFPB Data Point: Payday Lending*.

[131] See CFPB, "Payday, Vehicle Title, and Certain High-Cost Installment Loans," 84 *Federal Register* 4252, February 14, 2019, pp. 4292-4294; and CFPB, "Payday, Vehicle Title, and Certain High-Cost Installment Loans," 82 *Federal Register* 54472, November 17, 2017, pp. 54842-54846.

[132] For an overview of these statutes, see Heather Morton, "Payday Lending State Statutes," National Conference of State Legislatures, February 28, 2023, https://www.ncsl.org/financial-services/payday-lending-state-statutes.

limited the interest rates on these loans.[133] The following textbox discusses the history of CFPB regulation of short-term, small-dollar loans.

[133] According to CFPB, "Payday, Vehicle Title, and Certain High-Cost Installment Loans," 85 *Federal Register* 44382, July 22, 2020, p. 44383.

CFPB Rulemaking(s): Payday, Vehicle Title, and Certain High-Cost Installment Loans

In 2010, the Dodd-Frank Act authorized the CFPB to supervise payday lenders for the first time at the federal level but prohibited the CFPB from imposing an interest rate limit on any type of credit, including payday loans.[134] The below describes the history of this CFPB rule directed at payday and certain other short-term loans:

- In October 2017, under then-Director Richard Cordray,[135] the CFPB finalized a rule covering payday and other small-dollar, short-term loans.[136] The 2017 rule stated that it is "an unfair and abusive practice" for a lender to make certain types of short-term, small-dollar loans "without reasonably determining that consumers have the ability to repay the loans." The rule would have mandated underwriting provisions for short-term, small-dollar loans unless they were made with certain features.
- In July 2020, the CFPB, under then-Director Kathy Kraninger, issued a final rule that rescinded the mandatory underwriting provisions before the 2017 final rule went into effect.[137] The 2020 rule would leave unchanged other parts of the 2017 rule, such as protections for consumers paying back these loans.
- Originally in April 2018, the Community Financial Services Association of America, a group representing payday lenders, sued the CFPB, arguing that the rule violated the Administrative Procedure Act and that the CFPB funding structure was unconstitutional.[138] This lawsuit was stayed until August 2020, as Kraninger was appointed to the CFPB and subsequently rewrote the rule as described above.[139] The Fifth Circuit held that the CFPB's funding authority violated the Constitution's Appropriations Clause and the separation of powers and vacated the rule as written by the CFPB.[140] In May 2024, the Supreme Court reversed this decision and ultimately upheld the CFPB's funding structure and this rule.[141] Following the end of this litigation, this rule came into effect in March 2025.[142]
- In March 2025, as the new rule came into effect, Acting CFPB Director Russell Vought stated that the CFPB "will not prioritize enforcement or supervision actions with regard to any penalties or fines" associated with certain aspects of the rule.[143] Additionally, the CFPB is "contemplating issuing a notice of proposed rulemaking to narrow the scope of the rule" and listed this rulemaking in its unified agenda in the "Proposed Rule Stage."[144]

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[134] See P.L. 111-203, §1023, §1027.

[135] Director Cordray was appointed by President Obama.

[136] 12 C.F.R. §§1041.1-1041.14.

[137] Director Kraninger was appointed by President Trump during his first term. For more information, see CRS Insight IN11059, *CFPB Finalizes New Payday Lending Rule, Reversing Prior Regulation*, by Cheryl R. Cooper.

[138] *Community Financial Services Association of America, LTD., and Consumer Service Alliance of Texas v. Consumer Financial Protection Bureau and John Michael Mulvaney, in his unofficial capacity as Acting Director, Consumer Financial Protection Bureau*, 1:18 295 (District Court for the Western District of Texas, Austin Division 2018).

[139] For a summary of the history surrounding this lawsuit, see John Orona and Alexander Strohl, "Consumer Financial Protection Bureau v. Community Financial Services Ass'n of America," Cornell Law School, Legal Information Institute, https://www.law.cornell.edu/supct/cert/22-448.

[140] For more on this, see CRS Legal Sidebar LSB10891, *Fifth Circuit: CFPB's Funding Authority is Unconstitutional*, by Sean Stiff and David H. Carpenter.

[141] Consumer Financial Protection Bureau v. Community Financial Services Association of America, 22-448 (2024).

[142] CFPB, "New Protections for Payday and Installment Loans Take Effect March 30," press release, January 10, 2025, https://www.consumerfinance.gov/about-us/blog/new-protections-for-payday-and-installment-loans-take-effect-march-30/.

[143] CFPB, "CFPB Offers Regulatory Relief for Small Loan Providers," press release, March 28, 2025, https://www.consumerfinance.gov/about-us/newsroom/cfpb-offers-regulatory-relief-for-small-loan-providers/. President Trump has designated Vought as acting CFPB director during his second term.

[144] CFPB, "Agency Rule List—Spring 2025," https://www.reginfo.gov/public/do/eAgendaMain?operation=OPERATION_GET_AGENCY_RULE_LIST¤tPub=true&agencyCode=&showStage=active&agencyCd=3170&csrf_token=627ED65C9B8EA797B226ABF4B14B3F41FCF2025A15E57B5A5D0450C4052074336F99FA3EC49FFF837551CA2E7C37B3DFE4BD.

Personal Loans

Personal loans, also known as installment loans, are closed-end products with specified terms, often two to seven years. Personal loans can be for varied uses including "debt consolidation, medical bills, vacations, or the payment of a large ticket item."[145] These loans can be secured against valuables such as jewelry (about one-quarter of all loans) or unsecured. Personal loans may be desirable for consumers because they sometimes offer lower interest rates than credit cards, which can help more affordably consolidate debt or pay off a large expense.

In total, the Fed estimates that the personal loan sector totaled $356 billion in 2022. A majority (60%) of such loans are fixed-rate, and 40% of personal loans are originated to borrowers with credit scores below 720. In the broader personal loan market, depository institutions hold three-fourths of such loans, primarily lending to prime consumers. However, in the small-dollar, largely subprime market, banks held 6% of total balances in 2019.

Some financial institutions have been interested in exploring smaller-dollar, short-term loans as a novel income source. Market participants have cited that the regulatory uncertainty surrounding these loans previously discouraged banks from issuing them.[146] In March 2020, the Fed, the CFPB, the FDIC, the National Credit Union Administration, and the Office of the Comptroller of the Currency encouraged their supervised financial institutions to offer small-dollar credit products to consumers and small businesses alike.[147] In 2020, the CFPB also issued "No-Action Letters" that enabled the Bank Policy Institute, a trade group, and Bank of America to experiment with using cash flow to underwrite small dollar personal loans with a lower level of regulatory scrutiny, although the CFPB rescinded these letters in 2022.[148]

As a result of this guidance and other factors, the percentage of total small-dollar loans outstanding held by banks and thrift holding companies has grown from 6% in 2019 to 22% in 2023.[149] Today, six of the eight banks with the largest number branches in the United States—and approximately 77% of community banks—offer such small-dollar, short-term products.[150] Some

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[145] Jessica N. Flagg and Simona M. Hannon, *An Overview of Personal Loans in the U.S.*, Board of Governors of the Federal Reserve System, 2023, https://www.federalreserve.gov/econres/feds/files/2023057pap.pdf.

[146] GAO, *Regulators Have Taken Actions to Increase Access, but Measurement of Actions' Effectiveness Could Be Improved*, GAO-22-104468, February 2022, pp. 30-39, https://www.gao.gov/assets/gao-22-104468.pdf.

[147] Board of Governors of the Federal Reserve System, FDIC, National Credit Union Administration, Office of the Comptroller of the Currency, *Interagency Lending Principles for Offering Responsible Small-Dollar Loans*, May 2020, at https://www.occ.gov/news-issuances/news-releases/2020/nr-ia-2020-65a.pdf.

[148] Paul Watkins, Assistant Director, Office of Innovation, CFPB, letter to Bank Policy Institute, May 22, 2020, https://files.consumerfinance.gov/f/documents/cfpb_bpi_no-action-letter.pdf; Edward Blatnik, Acting Assistant Director, Office of Innovation, CFPB, letter to Christi Gray, SVP, Regulatory Relations Executive, Bank of America, November 5, 2020, https://files.consumerfinance.gov/f/documents/cfpb_bank-of-america_no-action-letter_2020-11.pdf; Rohit Chopra, "Statement on Competition and Innovation," CFPB, September 30, 2022, https://files.consumerfinance.gov/f/documents/cfpb_statement-on-competition-innovation_2022-09.pdf. For more on No-Action Letters generally, see CRS In Focus IF12875, *Regulatory Sandboxes at the Consumer Financial Protection Bureau*, by Karl E. Schneider.

[149] Jessica N. Flagg and Simona M. Hannon, *Small-Dollar Loans in the U.S.: Evidence from Credit Bureau Data*, Board of Governors of the Federal Reserve System, July 19, 2024, https://www.federalreserve.gov/econres/notes/feds-notes/small-dollar-loans-in-the-us-evidence-from-credit-bureau-data-20240719.html.

[150] Alex Horowitz, "Six of the Eight Largest Banks Now Offer Affordable Small Loans," Pew Charitable Trusts, February 17, 2023, https://www.pewtrusts.org/en/research-and-analysis/articles/2023/01/24/six-of-the-eight-largest-banks-now-offer-affordable-small-loans; Conference of State Bank Supervisors, "2024 CSBS Annual Survey of Community Banks," October 2, 2024, https://www.csbs.org/sites/default/files/other-files/FINAL2024CSBSSurvey.pdf.

banks originate small-dollar loans out of partnerships with fintechs, using fintech underwriting models.[151]

Earned Wage Access (EWA)

EWA products allow employees to access portions of their earned income in advance of their regularly scheduled pay dates.[152] These products are generally developed by fintechs. Some EWA products are *employer-integrated*, meaning EWA companies work directly with employers to access their time management and payroll software. Others are *direct-to-consumer*, meaning the employer is not involved in the transaction. In 2022, the EWA market was estimated at $32 billion used by 10 million workers, with employer-integrated models representing 71% of the total EWA transaction volume.[153]

Roughly 80% of EWA products have fees associated with them that average $2.60 per transaction and $69 per year.[154] These fees may include expedited transaction fees, tips, or subscription models, which are more common for direct-to-consumer EWA. EWA products are generally not underwritten in a traditional way, they are not reported to credit bureaus, and EWA companies do not engage in debt collection. Policy debates surround whether an EWA product should be considered credit (for the purposes of TILA) or a spot payment for wages an employee already earned, and if the associated consumer protections should apply.

EWA is currently regulated by a growing patchwork of state laws and regulations. A handful of states (among them Arkansas, Kansas, South Carolina, Wisconsin, Utah, Missouri, Nevada) do not designate EWA as credit but have certain requirements including providing disclosures, offering a fee-free option, and no debt reporting or collection.[155] California and Connecticut have implemented regulations and guidance with increased levels of regulatory scrutiny.[156] Connecticut's guidance associated with Public Act 23-126 has severely limited EWA access within the state, imposing APR caps for certain small financial products of 12%.[157]

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[151] Alan Chernof and Julapa Jagtiani, *The Role of Bank-Fintech Partnerships in Creating a More Inclusive Banking System*, Federal Reserve Bank of Philadelphia, September 2023, https://www.philadelphiafed.org/-/media/FRBP/Assets/working-papers/2023/wp23-21.pdf.

[152] For more on EWA, see CRS In Focus IF12727, *Earned Wage Access Products*, by Paul Tierno and Karl E. Schneider.

[153] CFPB, "Data Spotlight: Developments in the Paycheck Advance Market," July 18, 2024, https://www.consumerfinance.gov/data-research/research-reports/data-spotlight-developments-in-the-paycheck-advance-market/.

[154] CFPB, "Data Spotlight."

[155] Alexander J. Callen, "Utah Becomes Seventh State to Enact Law Regulating Earned Wage Access Services," Goodwin Procter, March 26, 2025, https://www.goodwinlaw.com/en/insights/publications/2025/03/alerts-finance-ftec-utah-becomes-seventh-state-to-enact-law.

[156] California Department of Financial Protection and Innovation, Title 10. Investment, Chapter 3. Subchapter 4. California Consumer Financial Protection Law, Commissioner of Financial Protection and Innovation, Pro 01-21, https://dfpi.ca.gov/wp-content/uploads/2024/10/Order-Final-Text.pdf; Connecticut Department of Banking, Department of Banking Issues Industry Guidance Regarding Public Act 23-126, September 11, 2023, https://portal.ct.gov/-/media/DOB/Consumer-Credit-Division/09-11-23-Department-Issues-Industry-Guidance-Reg-PA-23-126.pdf.

[157] Kerri M. Raissian et al., "Connecticut Earned Wage Access User Impact Study," University of Connecticut School of Public Policy, April 7, 2025, https://publicpolicy.media.uconn.edu/wp-content/uploads/sites/3091/2025/04/CT_EWAUserStudy_UConn_Raissian_04072025.pdf; Jason Cover et al., "Connecticut Department of Banking Issues Guidance Expanding Small Loan Act to Cover Earned Wage Access Products," Troutman Pepper Locke, September 28, 2023, https://www.consumerfinancialserviceslawmonitor.com/2023/09/connecticut-department-of-banking-issues-guidance-expanding-small-loan-act-to-cover-earned-wage-access-products/.

Both consumer advocates and fintech trade associations have called for a consistent federal framework, albeit with different levels of desired regulatory scrutiny.[158] In July 2024, the CFPB issued a notice of a proposed interpretative rule that would have characterized EWA as credit under TILA. However, that proposal was never finalized and faces an uncertain future under the Trump Administration, as Acting Director Vought withdrew a related advisory opinion and the CFPB has focused on reducing regulatory burden.[159]

Buy Now, Pay Later (BNPL)

BNPL is a form of point-of-sales financing that allows a consumer to purchase an item immediately and pay for it later on a predetermined payment schedule, often in four installments known as "Pay in 4," although some BNPL firms offer longer payment plans for larger purchases. While retailers have offered BNPL financing for much of history in the form of installment plans, it is now often offered online, and the market has grown in popularity. This modern form has generally been developed by fintech companies, although depository institutions are increasingly offering BNPL products often in partnership with these firms.[160]

Estimates of the BNPL market for six larger firms totaled $34 billion in 2022.[161] While BNPL companies generally do not charge interest or fees at the time of purchase for their Pay in 4 products, they generally charge late fees if customers do not make payments on time and other fees such as processing BNPL payments by card. Compared to other forms of financing, BNPL is often at a lower cost and arguably more flexible.

Similar to EWA, a major question is if BNPL constitutes credit under TILA. In May 2024, the CFPB issued an interpretative rule that expanded "the term credit cards to include such digital credit devices [including BNPL] for purposes of TILA and Regulation Z." This meant BNPL providers had to provide certain disclosures and protections. The reaction to this interpretative

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[158] Ian P. Moloney, SVP, Head of Policy and Regulatory Affairs at the American Fintech Council, letter to Rohit Chopra, Director, CFPB, February 7, 2024, https://cdn.prod.website-files.com/65ffe2c368384b0aaeb608e2/65ffff1d13d5a8d681c315cd_American%2BFintech%2BCouncil%2BLetter%2Bto%2BCFPB%2Bon%2B%2BDeveloping%2Ba%2BPragmatic%2BRegulatory%2BFramework%2Bfor%2BEWA.pdf; letter from 96 consumer, labor, civil rights, legal services, faith, community and financial organizations and academics to Rohit Chopra, Director, CFPB, October 12, 2021, https://www.nclc.org/wp-content/uploads/2022/10/CFPB-EWA-letter-coalition-FINAL2.pdf.

[159] CFPB, "Truth in Lending (Regulation Z); Consumer Credit Offered to Borrowers in Advance of Expected Receipt of Compensation for Work," 89 *Federal Register* 61358-61363, July 31, 2024. https://www.federalregister.gov/documents/2024/07/31/2024-16827/truth-in-lending-regulation-z-consumer-credit-offered-to-borrowers-in-advance-of-expected-receipt-of; CFPB, "Interpretive Rules, Policy Statements, and Advisory Opinions; Withdrawal," 90 *Federal Register* 20084-20087, May 12, 2025, https://www.federalregister.gov/documents/2025/05/12/2025-08286/interpretive-rules-policy-statements-and-advisory-opinions-withdrawal; CFPB, "Truth in Lending (Regulation Z); Consumer Credit Offered to Borrowers in Advance of Expected Receipt of Compensation for Work," 90 *Federal Register* 3622-3624, January 15, 2025, https://www.federalregister.gov/documents/2025/01/15/2025-00381/truth-in-lending-regulation-z-consumer-credit-offered-to-borrowers-in-advance-of-expected-receipt-of.

[160] Some of the fintech players in the BNPL space include PayPal, Klarna, Affirm, and Afterpay. For more on banks' involvement in BNPL, see Stephen Gandel, "Big Banks Play Catch-Up with Fintech Start-Ups in Deferred Payments," *Financial Times*, March 8, 2025, https://www.ft.com/content/7e7ba266-cc70-49e6-acde-dd873b81a399.

[161] Cortnie Shupe and Joshua DeLuca, *Consumer Use of Buy Now, Pay Later and Other Unsecured Debt*, CFPB, January 2025, p. 8, https://files.consumerfinance.gov/f/documents/cfpb_BNPL_Report_2025_01.pdf. The total BNPL market could be larger based on the firms included and excluded from this sample.

rule was mixed.[162] In May 2025, Acting Director Vought withdrew the BNPL interpretative rule, which was also being challenged by the Financial Technology Association in court.[163]

Checking Accounts and Substitutes

Checking accounts allow consumers to deposit and withdraw money and make payments, for example, using bill pay, debit cards, and paper checks. These checking accounts can help facilitate transactions in a much smoother manner than relying on cash. Frequently, a checking account includes access to a debit card to increase a consumer's ability to make payment transactions through the account. Checking accounts are provided by depository institutions, and consumers' deposits are government-insured (up to a certain amount) against the institution's failure.[164] In addition, banks might be better able to underwrite and price loans to consumers with checking account data than to consumers without this relationship.[165]

Depository institutions, such as banks and credit unions, incur expenses to provide accounts to consumers, including the costs of providing monthly statements, protecting against settlement and fraud risks, hiring staff, and maintaining retail locations. To recoup these costs and make profits, depository institutions use deposits as a source of relatively low-cost funding to make money from interest on loans and noninterest fees such as minimum balance or overdraft fees. Lower balance or less creditworthy consumers are generally not as profitable for banks to serve, as banks have lower amounts of funds to lend out and make a profit with and are less likely to cross-sell more profitable products such as mortgages or credit cards.

Related to this tension, one policy issue is consumer access to banking accounts. According to the Fed, the share of "unbanked" consumers stood at 6% in 2024, which represented a large decline from 14% in 1989 and a modest decline from 8% in 2007.[166] Unbanked households most frequently reported that they did not have bank accounts because they did not have enough money, did not trust banks, wanted to maintain privacy, or sought to avoid high and unpredictable bank fees.[167] Some policymakers have suggested incentivizing new bank formation or the government directly providing checking accounts to further decrease this percentage. There have

[162] Jeffrey Levine, Senior Vice President, Paypal, letter to the Hon. Rohit Chopra, Director, CFPB, July 31, 2024, https://downloads.regulations.gov/CFPB-2024-0017-0025/attachment_1.pdf; Woodstock Institute, Prosperity Now, National Association for Latino Community Asset Builders, LatinoProsperity, letter to Rohit Chopra, Director, CFPB, July 22, 2024, https://www.regulations.gov/comment/CFPB-2024-0017-0014.

[163] *Financial Technology Association vs. Consumer Financial Protection Bureau* (U.S. District Court for the District of Columbia 2024), https://www.pacermonitor.com/public/case/55513574/FINANCIAL_TECHNOLOGY_ASSOCIATION_v_CONSUMER_FINANCIAL_PROTECTION_BUREAU_et_al.; CFPB, "Interpretive Rules, Policy Statements, and Advisory Opinions; Withdrawal," May 12, 2025.

[164] For more information on checking accounts, see CRS Report R43364, *Recent Trends in Consumer Retail Payment Services Delivered by Depository Institutions*, by Darryl E. Getter.

[165] See for example: Jennifer Chasseur et al., "The Use of Cash-Flow Data in Underwriting Credit: Market Context and Policy Analysis," FinRegLab, February 2020, https://finreglab.org/wp-content/uploads/2023/12/FinRegLab_2020-03-03_Research-Report_The-Use-of-Cash-Flow-Data-in-Underwriting-Credit_Market-Context-and-Policy-Analysis.pdf.

[166] CRS In Focus IF11631, *Financial Inclusion: Access to Bank Accounts*, by Karl E. Schneider; Board of Governors of the Federal Reserve System, "Report on the Economic Well-Being of U.S. Households in 2024—May 2025," June 2025, https://www.federalreserve.gov/publications/2025-economic-well-being-of-us-households-in-2024-banking-and-credit.htm.

[167] Ryan Goodstein, "A Closer look at the Unbanked: Cash-Only Households Versus Those That Use Prepaid Cards or Nonbank Payment Apps," FDIC, July 2024, p. 10, https://www.fdic.gov/system/files/2024-08/cash-only.pdf.

been some private sector responses to this issue: Certain fintechs have offered no-fee or low-fee checking account alternatives with a focus on unbanked and underbanked consumers.[168]

Overdraft and Associated Policy Issues

The most common fees that checking account consumers incur are overdraft and non-sufficient fund fees.[169] A consumer can incur an overdraft by transacting below the account balance, and the bank or credit union covers the negative balance for the consumer for a fee. In general, negative balance episodes are short in duration. Overdraft services can help consumers pay bills on time. However, overdraft fees can be costly, particularly for consumers who are inattentive or tend to overspend due to tight budgets and mental accounting biases, as they are more likely to incur more fees.[170]

Policymakers have debated the degree to which overdraft should be constrained by regulation. In 2009, a provision of the CARD Act required consumers to affirmatively opt in for overdraft coverage of ATM withdrawals and nonrecurring debit card transactions.[171]

The CFPB finalized a rule in December 2024 that gave financial institutions three options to comply with new overdraft requirements: (1) cap overdraft fees at $5; (2) cap them at a higher level if it can be justified by the expense to the institution of providing the service; or (3) treat overdraft like credit subject to TILA, providing additional disclosures similar to other lending products.[172]

The efficacy of this rule was debated. Some consumer advocates—and CFPB leadership at the time—argued that the rule would protect vulnerable consumers from excessive fees and close a loophole in the law created by TILA.[173] Conversely, previous research from economists at the New York Fed argues that "overdraft fee caps hamper, rather than foster, financial inclusion," as low-income borrowers may lose access to checking accounts, reflecting similar arguments from the Consumer Bankers Association and other financial trade associations.[174]

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[168] GAO, *Products Have Benefits and Risks to Underserved Consumers and Regulatory Clarity Is Needed*, GAO-23-105536, March 2023, pp. 12-13, 47, https://www.gao.gov/assets/gao-23-105536.pdf.

Fintechs that provide these types of accounts include Chime, Dave, and Varo.

[169] Trevor Bakker et al., *Data Point: Checking Account Overdraft*, CFPB, July 2014, p. 5, https://files.consumerfinance.gov/f/201407_cfpb_report_data-point_overdrafts.pdf.

[170] For more background on overdraft services, see CRS In Focus IF11460, *Overdraft: Payment Service or Small-Dollar Credit?* by Andrew P. Scott.

[171] The opt-in rules do not cover checks or automatic bill payments.

[172] CFPB, "Overdraft Lending: Very Large Financial Institutions," 89, *Federal Register* 106768-106845, December 30, 2024.

[173] National Consumer Law Center, "CFPB Overdraft Rule Provides Real Savings for Families Living Paycheck to Paycheck," press release, December 12, 2024, https://www.nclc.org/cfpb-overdraft-rule-provides-real-savings-for-families-living-paycheck-to-paycheck/.

[174] Jennifer L. Dlugosz et al., "Who Pays the Price? Overdraft Fee Ceilings and the Unbanked," Federal Reserve Bank of New York, July 2023, https://www.newyorkfed.org/research/staff_reports/sr973; Consumer Bankers Association, "The Data Desk—Cumulative Impact: What Do Reg. II and Overdraft Proposals Mean for Consumers and Consumer Banking?," December 2, 2024, https://consumerbankers.com/blog/the-data-desk-cumulative-impact-what-do-reg-ii-and-overdraft-proposals-mean-for-consumers-and-consumer-banking/.

Congress overturned this rule under the fast-track legislative procedures of the Congressional Review Act.[175] In March and April 2025, respectively, the Senate and the House voted to pass S.J.Res. 18, which the President signed into law (P.L. 119-10).

Overview of Consumer Finance Market Support Systems

Although each consumer credit market is unique, certain common aspects of the consumer credit system facilitate the pricing of credit offers and the resolution of delinquencies and defaults for most consumer credit markets. This section discusses two of what this report will refer to as market support systems: the consumer credit reporting system (which helps lenders price consumer loans) and the debt collection market (which helps lenders collect upon consumer default). In both of these market support systems, consumers do not have the ability to choose the financial institutions or entities with which they engage and therefore are unable to take their business elsewhere if issues arise. For this reason, when consumer abuses occur in these markets, consumer protection laws and regulations may be particularly important. According to the CFPB, credit reporting and debt collection are the consumer finance markets with by far the most complaints, together accounting for 65% of the total complaints the agency received in 2019 (44% and 21%, respectively).[176]

Credit Reporting, Credit Bureaus, and Credit Scoring[177]

Consumer credit reporting agencies (CRAs, also called credit bureaus) collect and subsequently provide information, called consumer reports or credit reports, to firms about consumer credit and payment behavior. Firms use this credit report information to screen for consumer risks. For example, lenders rely upon credit reports and scores to determine the likelihood that prospective borrowers will repay their loans.

The three largest CRAs—Equifax, Experian, and TransUnion—provide credit reports nationwide.[178] These reports contain historical information about repayment on credit products such as mortgages, student loans, credit cards, and auto loans. Credit applications, bankruptcies, and debts in collection are also regularly included. Credit reports and what is included on them significantly affect consumer access to financial products and opportunities. For example, negative or derogatory information on a credit report, such as that a consumer has paid late or defaulted on a loan, may influence a lender to deny that consumer access to credit. Oftentimes, financial firms can both purchase and utilize credit scores for their uses, including to underwrite loans and *furnish* the payment activity associated with their accounts, known as *tradelines*.[179]

[175] For more on the Congressional Review Act, see CRS Report R43992, *The Congressional Review Act (CRA): Frequently Asked Questions*, by Maeve P. Carey and Christopher M. Davis

[176] CFPB, *Consumer Response Annual Report: January 1-December 31, 2019*, March 2020, p. 9, https://files.consumerfinance.gov/f/documents/cfpb_consumer-response-annual-report_2019.pdf.

[177] For more information on the consumer data industry, see CRS Report R44125, *Consumer and Credit Reporting, Scoring, and Related Policy Issues*, by Darryl E. Getter.

[178] For a list of consumer reporting agencies, see CFPB, "List of Consumer Reporting Agencies," https://www.consumerfinance.gov/consumer-tools/credit-reports-and-scores/consumer-reporting-companies/companies-list/.

[179] Providing information, such as on debt repayment, to CRAs is known as furnishing. A tradeline is an account attached to an individual consumer that the furnisher reports to the CRA.

The main statute regulating the credit reporting industry is the Fair Credit Reporting Act (FCRA),[180] enacted in 1970. The FCRA requires "that consumer reporting agencies adopt reasonable procedures for meeting the needs of commerce for consumer credit … in a manner which is fair and equitable to the consumer, with regard to the confidentiality, accuracy, relevancy, and proper utilization of such information."[181] Among other things, the FCRA establishes permissible uses of credit reports and imposes certain responsibilities on those who collect, furnish, and use the information contained in consumers' credit reports.

The FCRA also includes consumer protection provisions. Under the FCRA, a lender must advise a consumer when it has used information from a CRA in taking an adverse action (generally a denial of credit) against the consumer.[182] That information must be disclosed free of charge. Under the current version of the FCRA, consumers have a right to one free credit report every year (from each of the three largest nationwide CRAs) even in the absence of an adverse action (e.g., credit denial). Consumers also have the right to dispute inaccurate or incomplete information in their reports. After a consumer alerts a CRA of such a discrepancy, the CRA must investigate and correct errors, usually within 30 days. The FCRA also limits the length of time negative information may remain on credit reports. Negative debt collection information typically stays on credit reports for seven years, even if the consumer pays in full for the item in collection. Information about a personal bankruptcy stays on a credit report for a maximum of 10 years.[183]

The CFPB has rulemaking and enforcement authorities over all CRAs in connection with certain consumer protection laws, including the FCRA. It also has supervisory authority, or the authority to conduct examinations, over the larger CRAs. In July 2012, the CFPB announced that it would supervise CRAs with $7 million or more in annual receipts, which included 30 firms representing approximately 94% of the market.[184]

Inaccurate or disputed consumer data within the credit bureaus' data reports is an ongoing concern in this market. Inaccurate information in a credit report may limit a consumer's access to credit in some cases or increase the costs to the consumer of obtaining credit in others.[185] In response to this concern, the CFPB has encouraged CRAs and financial institutions to improve data accuracy in credit reporting, brought enforcement actions against CRAs purported to violate the FCRA, and issued certain advisory opinions and rulemakings.[186] In response to a 2015 settlement between the nationwide CRAs and over 30 state attorneys general, Experian, Equifax,

[180] 15 U.S.C. §1681.

[181] 15 U.S.C. §1681.

[182] See Federal Trade Commission (FTC), "A Summary of your Rights Under the Fair Credit Reporting Act," https://www.consumer.ftc.gov/sites/default/files/articles/pdf/pdf-0096-fair-credit-reporting-act.pdf.

[183] CFPB, "How Long Does Negative Information Remain on My Credit Report?," last reviewed September 5, 2025, https://www.consumerfinance.gov/ask-cfpb/how-long-does-negative-information-remain-on-my-credit-report-en-323/. Some situations in which negative debt collection may not stay on credit reports could be debt that contained inaccurate information, medical debt under $500, and paid debt voluntarily deleted by the lender or debt collector.

[184] CFPB, "CFPB to Supervise Credit Reporting," press release, July 16, 2012, http://www.consumerfinance.gov/newsroom/consumer-financial-protection-bureau-to-superivse-credit-reporting/.

[185] For example, in 2012, the FTC reported that 26% of participants in a survey of credit report accuracy were able to identify at least one potentially material error on at least one of approximately three different credit reports prepared using their consumer information. After the reports were corrected, 13% of participants in the FTC study saw one or more of their credit scores increase. More recent studies have found similar effects.

[186] CFPB, *Supervisory Highlights Consumer Reporting Special Edition*, March 2017, https://files.consumerfinance.gov/f/documents/201703_cfpb_Supervisory-Highlights-Consumer-Reporting-Special-Edition.pdf.

and Transunion launched the National Consumer Assistance Plan to increase accuracy in consumer credit reports.[187]

In addition, the CFPB has encouraged CRAs to improve their dispute and resolution processes, including making them easier and more informative for consumers.[188] Some have still raised concerns over the accuracy of such credit reports.[189]

Some recent congressional action provided additional credit reporting protections. In 2018, the Economic Growth, Regulatory Relief, and Consumer Protection Act (P.L. 115-174) established new consumer protections related to credit reporting, including the right to a free credit freeze. Credit freezes allow consumers to protect themselves from fraud and identity theft by stopping new credit from being opened in their names. The CARES Act (P.L. 116-136) provided borrowers with additional relief from credit reporting during the pandemic if they received accommodation from lenders such as loan forbearance. Section 602 of the National Defense Authorization Act for Fiscal Year 2022 (P.L. 117-81) prohibits CRAs from furnishing consumer reports containing adverse information for victims of certain types of human trafficking. The CFPB issued a final rule implementing this law shortly thereafter.[190] In October 2024, the CFPB proposed a rule that would have expanded the scope of the FCRA to include data brokers that sell certain financial-related information.

Some consumers do not have credit scores, although this is much less prevalent than once estimated.[191] In recent research, the CFPB estimated that only 3% of the population was truly credit invisible, while an additional 10% had credit records but did not have enough information for credit scores due to insufficient or stale data.[192] Consumers without credit scores have trouble accessing credit, and without access to credit, a consumer cannot establish a credit record. GAO estimates that for FY2016-FY2020, "less than 0.1 percent of mortgages purchased by Fannie Mae and Freddie Mac were made to borrowers without credit scores."[193] In general, policymakers tend to consider approaching this issue by either expanding uptake of financial products reported in the current system or expanding the types of information in the credit reporting system using alternative data—for example, rental, utility, or BNPL payments.[194]

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[187] Claire Brennecke et al., *Public Records, Credit Scores, and Credit Performance*, CFPB, December 2019, p. 2, https://files.consumerfinance.gov/f/documents/cfpb_quarterly-consumer-credit-trends_public-records-credit-scores-performance_2019-12.pdf.

[188] The CRAs' efforts to make disputes easier and more informative for consumers include (1) online portals to submit disputes and upload supporting documentation; (2) improvements to their call center scripts and training regarding solicitation of relevant information from consumers with disputes; (3) no longer requiring that consumers obtain or purchase recent consumer reports before investigations; and (4) notice to consumers of dispute results, including investigation results. CFPB, *Supervisory Highlights Consumer Reporting Special Edition*, March 2017, pp. 9-11.

[189] U.S. Congress, House Financial Services Committee, Oversight and Investigations Subcommittee, *Consumer Credit Reporting: Assessing Accuracy and Compliance*, 117th Cong., 1st sess., May 26, 2021, 117-27.

[190] CFPB, "Prohibition on Inclusion of Adverse Information in Consumer Reporting in Cases of Human Trafficking (Regulation V)," 87 *Federal Register* 37700-37724, June 24, 2022.

[191] For more information on credit access policy issues, see CRS Report R45979, *Financial Inclusion and Credit Access Policy Issues*, by Cheryl R. Cooper.

[192] Michelle Kambara and Cooper Luce, *Technical Correction and Update to the CFPB's Credit Invisibles Estimate*, CFPB, June 2025, p. 4, https://files.consumerfinance.gov/f/documents/cfpb_update-credit-invisibles-estimate_2025-06.pdf.

[193] GAO, *Mortgage Lending: Use of Alternative Data Is Limited but Has Potential Benefits*, GAO-22-104380, December 16, 2021, https://www.gao.gov/products/gao-22-104380.

[194] *Alternative data* generally refers to information used to determine a consumer's creditworthiness that the national CRAs have not traditionally used to calculate a credit score. For more, see CRS In Focus IF11630, *Alternative Data in Financial Services*, by Karl E. Schneider.

Whether medical debts should be included on credit reports is an area of active debate and action from industry, regulators, and Congress.[195] According to the CFPB as of June 2021, consumers owed $88 billion in medical debt, which constituted 58% of debts in collection and on credit reports.[196]

In 2022, the three major CRAs took voluntary action to exclude medical debts under $500, paid debts, and debts under a year old.[197] The CRAs estimated that this change eliminated 70% of medical debt collection accounts from consumer credit files.[198] In January 2025, the CFPB finalized a rule that would have removed all medical debt from credit reports and prohibited lenders from making credit decisions based on medical debt.[199] This rule would have gone beyond industries' voluntary efforts to exclude only certain kinds of medical debt and was set to go into effect March 2025. The rule was challenged by a lawsuit shortly after it was finalized.[200] In April 2025, the CFPB under new leadership and the plaintiffs jointly asked the court to vacate the medical debt rule. In July 2025, a judge agreed to this joint motion and vacated the rule.

Debt Collection and Bankruptcy[201]

When a consumer defaults on a debt, a third-party debt collector—rather than the lender to whom the debt is originally owed—often collects the debt obligation. These third-party debt collectors either receive a share of the amount collected or buy the debt obligation in full.[202] In general, a robust debt collection market allows a lender to recoup losses to the maximum extent possible after a consumer defaults on a loan and it is charged-off or written off as a loss by the original lender. Debt collection can generally make consumer credit and other related markets more efficient. When lenders can effectively recoup their losses, they may be more willing to lend to consumers at lower initial loan costs, leading to more access to credit for consumers.

Many Americans experience debt collection. According to a 2016 CFPB survey, about one-third of consumers with CRA files reported being contacted in the previous year by at least one creditor or collector trying to collect on one or more debts.[203] Consumers with lower incomes and non-prime credit scores were more likely to report experience with debt collection.[204] In 2019, debt

[195] For more, see CRS In Focus IF12169, *An Overview of Medical Debt: Collection, Credit Reporting, and Related Policy Issues*, by Karl E. Schneider.

[196] CFPB, "CFPB Estimates $88 Billion in Medical Bills on Credit Reports," March 1, 2022, https://www.consumerfinance.gov/about-us/newsroom/cfpb-estimates-88-billion-in-medical-bills-on-credit-reports/.

[197] Consumer Data Industry Association, "National Credit Bureaus Support Consumers with Changes to Medical Collection Debt Reporting," March 18, 2022, https://www.cdiaonline.org/news/2022/03/18/equifax-experian-and-transunion-support-u-s-consumers-with-changes-to-medical-collection-debt-reporting/.

[198] Equifax, "Can Medical Collection Debt Impact Credit Scores?," https://www.equifax.com/personal/education/credit/score/articles/-/learn/can-medical-debt-impact-credit-scores/.

[199] CFPB, "Prohibition on Creditors and Consumer Reporting Agencies Concerning Medical Information (Regulation V)," 90 *Federal Register* 3276-3374, January 2025.

[200] *Cornestone Credit Union League, Consumer Data Industry Association v. Consumer Financial Protection Bureau and Rohit Chopra in his official capacity as Director of the CFP*, (United States District Court, Eastern District of Texas, Sherman Division 2025).

[201] For more information on the debt collection market and related policy issues, see CRS Report R46477, *The Debt Collection Market and Selected Policy Issues*, by Cheryl R. Cooper.

[202] CFPB, *Fair Debt Collection Practices Act*, March 2020, pp. 8-10, https://www.consumerfinance.gov/data-research/research-reports/fair-debt-collection-practices-act-annual-report-2020/.

[203] CFPB, *Consumer Experiences with Debt Collection: Findings from the CFPB's Survey of Consumer Views on Debt*, January 2017, p. 5, https://files.consumerfinance.gov/f/documents/201701_cfpb_Debt-Collection-Survey-Report.pdf.

[204] CFPB, *Consumer Experiences with Debt Collection*, pp. 15-16.

from unpaid loans or other financial services accounted for close to 40% of debt collection revenue.[205] The other over 60% of debt collection revenue includes medical, telecom, utility, and other retail debt.

The Fair Debt Collection Practices Act (FDCPA) is the primary federal statute regulating the consumer debt collection market.[206] Congress passed the FDCPA in 1977 to "eliminate abusive debt collection practices by debt collectors."[207] The law generally applies only to debt collectors, not the original creditors.[208] It prohibits debt collectors from engaging in certain types of conduct when seeking to collect certain debts from consumers, such as harassment or abuse[209] or making false or misleading representations.[210] The FDCPA limits when and how a debt collector communicates with a consumer, such as limits on communications at "unusual time[s] or place[s],"[211] and grants consumers the right to dispute[212] or stop certain communications about alleged debts.[213] The FDCPA also requires that a debt collector send a consumer a validation notice, which is to disclose certain information about the debt to the consumer, within five days of the initial communication.[214] In 2010, the Dodd-Frank Act granted authority over the FDCPA to the CFPB, which became the first federal agency to be able to write regulations to implement the FDCPA.[215] It also grants the CFPB authority over those who collect debt related to consumer financial product services, as defined in the Dodd-Frank Act.

In general, debt collectors expect that they will collect only a fraction of the face value of any particular debt, knowing that some consumers will never pay back their debts in full. Therefore, when a third-party debt collector contacts a consumer, both parties can negotiate the amount and payment schedule of the debt.[216] If a consumer does not settle the debt, the debt owner often has several options, such as seizing the collateral for secured loans (e.g., a car home)[217] or garnishing the consumer's wages after obtaining a court order. According to CFPB research, "the cost of filing a claim plays a large role in litigation decisions and varies significantly across jurisdictions based on differences in factors such as filing fees and what types of collections claims can be brought in small claims court."[218] More than half of filed suits lead to default judgments in favor

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[205] Rohan Jaura, "Debt Collection Agencies in the US," *IBIS World*, December 2019, p. 16.

[206] 15 U.S.C. §1692a et seq. The law covers only consumer debts "primarily for personal, family, or household purposes."

[207] 15 U.S.C. §1692.

[208] 15 U.S.C. §1692a. The FDCPA can apply to a creditor collecting its own debts using a different name. Some creditors audit their debt collectors in terms of compliance with federal and state law. For more information on auditing practices of debt collectors, see CFPB, *Study of Third-Party Debt Collection Operations*, July 2016, pp. 20-21, https://files.consumerfinance.gov/f/documents/20160727_cfpb_Third_Party_Debt_Collection_Operations_Study.pdf.

[209] 15 U.S.C. §1692d.

[210] 15 U.S.C. §1692e.

[211] 15 U.S.C. §1692c(a)(1).

[212] 15 U.S.C. §1692g(b).

[213] 15 U.S.C. §1692c(c). For exceptions to this rule, see 15 U.S.C. §1692c(c)(1)-(3).

[214] 15 U.S.C. §1692g(a).

[215] See P.L. 111-203, §1002 and §1011. For more information on the CFPB's authorities, see CRS In Focus IF10031, *Introduction to Financial Services: The Consumer Financial Protection Bureau (CFPB)*, by Cheryl R. Cooper and David H. Carpenter.

[216] CFPB, "How Do I Negotiate a Settlement with a Debt Collector?," last reviewed August 2, 2023, https://www.consumerfinance.gov/ask-cfpb/how-do-i-negotiate-a-settlement-with-a-debt-collector-en-1447/.

[217] Legal processes are in place to seize collateral for secured loans, such as foreclosure or car repossession.

[218] CFPB, *Study of Third-Party Debt Collection Operations*, p. 18.

of the debt owner, often because consumers fail to appear in court.[219] Also relevant to debt collection, consumers who cannot pay their debts may seek relief through the federal bankruptcy process, which is generally governed by the Bankruptcy Code.[220]

In late 2020, the CFPB announced two final rules on the debt collection market.[221] These CFPB regulations, among other things, clarify appropriate communication tactics for debt collectors and what information debt collectors should be required to disclose to consumers. One of these regulations generally limits debt collector phone calls to seven times in a seven-day period and would prohibit a debt collector from making calls within a week after speaking by phone to a consumer. It also allows debt collectors to use newer technologies, such as emails or text messages, to communicate with consumers, requiring a reasonable and simple method for consumers to opt out of these types of messages if they choose. Other ongoing policy issues relating to debt collection include the treatment of medical debt by debt collectors and debts incorrectly attributed to consumers or for incorrect amounts.

Cross-Cutting Policy Issues

Certain policy issues cut across some of these financial products and are important when considering the overall consumer finance market. Congress routinely debates these issues, and its actions impact each of these loan products and have downstream effects on consumers. The issues include the regulation of consumer finance products, how such products are underwritten, how financial data flows across the system, and how consumers should be protected from scams and fraud.

Nonbanks and Their Role in Consumer Finance

Nonbank consumer finance companies (nonbanks) offer consumer finance products or services but do not have traditional bank or credit union charters. The CFPB regulates the underlying products and is the primary federal supervisory regulator tasked with consumer financial protection for larger nonbank participants, as defined by the CFPB, and all nonbanks in certain sectors, such as mortgages and payday lending.

Since the financial crisis, nonbanks have become increasingly important in markets for certain financial products including small business lending and mortgage lending.[222] Nonbanks originated roughly two-thirds of all mortgages in 2022 and made roughly half of personal loans by loan balance in 2019.[223] Nonbanks have traditionally dominated financial services such as third-party debt collection, payday lending, and credit reporting.

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[219] CFPB, *Study of Third-Party Debt Collection Operations*, p. 18.

[220] 11 U.S.C. §§101-1532. For more information on the bankruptcy process, see CRS Report R45137, *Bankruptcy Basics: A Primer*, by Kevin M. Lewis.

[221] CFPB, "Debt Collection Practices (Regulation F)," 85 *Federal Register* 76734, November 30, 2020; and CFPB, "Consumer Financial Protection Bureau Issues Final Rule on Consumer Disclosures Related to Debt Collection," December 18, 2020, https://www.consumerfinance.gov/about-us/newsroom/consumer-financial-protection-bureau-issues-final-rule-on-consumer-disclosures-related-to-debt-collection/.

[222] Manasa Gopal and Philipp Schnabl, "The Rise of Finance Companies and FinTech Lenders in Small Business Lending," *Review of Financial Studies*, vol. 35, no. 11 (June 13, 2022), https://academic.oup.com/rfs/article-abstract/35/11/4859/6607597; Marshall Lux and Robert Greene, "What's Behind the Non-Bank Mortgage Boom?," *M-RCBG Associate Working Paper*, vol. 42 (June 2015), https://www.hks.harvard.edu/sites/default/files/centers/mrcbg/working.papers/42_Nonbank_Boom_Lux_Greene.pdf.

[223] Financial Stability Oversight Council, *Report on Nonbank Mortgage Servicing: 2024*, 2024, p. 6,
(continued...)

Nonbanks have arguably succeeded in part due to regulatory arbitrage, where they are sometimes not subject to the same level of regulatory scrutiny as banks are. For example, nonbanks generally are not subject to comparable safety and soundness regulation (such as capital requirements) and certain forms of supervision, both of which are costly to banks. One study found that 60% of the growth in nonbanks in the mortgage lending sphere from 2007 to 2015 was as a result of this regulatory arbitrage.[224] In the context of consumer finance, policymakers debate whether nonbanks do and should face similar regulatory requirements and supervisory scrutiny as banks.

Nonbanks have also arguably succeeded due to more rapidly adopting novel technologies, including for pricing and underwriting consumer financial products. These new pricing technologies may have resulted in nonbanks making increased loan originations to traditionally underserved borrowers with faster origination speeds.[225]

Financial Scams and Fraud

According to the Federal Trade Commission, total fraud and scams were estimated to be between $23 billion and $158 billion as of 2023, an extrapolation of the fraud and scams that were directly reported at $10 billion, which grew to $12.5 billion in 2024.[226] These schemes can deprive Americans of much-needed savings and worsen their overall financial health. Scams and fraud can also undermine confidence in the financial system and drive costs to financial institutions to counter such issues.

Fraud is a broad term that includes false representations, dishonesty, and deceit.[227] While the terms *fraud* and *scam* are often used interchangeably, a scam is often described as a type of fraud that involves tricking people into willingly providing money—or their personal information that can in turn be used to gain access to funds. Scams come in many forms, including romance scams, phishing/spoofing, nonpayment/nondelivery crimes, and investment and tech support scams.[228] Certain types of fraud are not scams. For instance, selling counterfeit goods as authentic and making financial transactions using someone's stolen personal information are fraudulent activities but not scams. In part assisted by nascent technologies such as artificial intelligence, scams have increased in complexity, making consumers more vulnerable to such risks.

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https://home.treasury.gov/system/files/261/FSOC-2024-Nonbank-Mortgage-Servicing-Report.pdf; U.S. Department of the Treasury, *Assessing the Impact of New Entrant Non-Bank Firms on Competition in Consumer Finance Markets*, November 2022, https://home.treasury.gov/system/files/136/Assessing-the-Impact-of-New-Entrant-Nonbank-Firms.pdf.

[224] Buchak et al., "Fintech, Regulatory Arbitrage, and the Rise of Shadow Banks."

[225] Ambika Nair and Eldar Beiseitov, *The Role of Fintech in Unsecured Consumer Lending to Low-and Moderate-Income Individuals*, Federal Reserve Bank of New York, November 2023, https://www.newyorkfed.org/medialibrary/media/outreach-and-education/household-financial-well-being/the-role-of-fintech-in-unsecured-consumer-lending-to-low-and-moderate-income-individuals.

[226] FTC, *Protecting Older Consumers 2023-2024*, October 18, 2024, https://www.ftc.gov/system/files/ftc_gov/pdf/federal-trade-commission-protecting-older-adults-report_102024.pdf; FTC, "New FTC Data Show a Big Jump in Reported Losses to Fraud to $12.5 Billion in 2024," press release, March 10, 2025, https://www.ftc.gov/news-events/news/press-releases/2025/03/new-ftc-data-show-big-jump-reported-losses-fraud-125-billion-2024. For more on this issue specifically, see CRS In Focus IF13094, *Financial Fraud and Scams: The Roles of Federal Law Enforcement and Financial Regulators*, by Karl E. Schneider and Kristin Finklea.

[227] See 18 U.S.C. §1341 and Rachel E. Morgan, *Financial Fraud in the United States, 2017*, Department of Justice, Bureau of Justice Statistics, April 2021, p. 3, https://bjs.ojp.gov/content/pub/pdf/ffus17.pdf.

[228] Federal Bureau of Investigation, "Common Frauds and Scams," https://www.fbi.gov/how-we-can-help-you/scams-and-safety/common-frauds-and-scams.

Due to the nature of communications and financial transactions in today's world, most fraud has a cyber or technology component, such as social media or email.[229] An April 2025 Pew Research Center survey found that "73% of U.S. adults have experienced some kind of online scam or attack, and … most get scam calls, texts and emails at least weekly."[230] After initial contact, scammers will often continue the conversation on direct messaging sites and eventually complete the scams through a host of payment methods, including bank transfers, peer-to-peer payments, or cryptocurrency (crypto).[231] Investigation of these scams and frauds implicate a number of different local, state, and federal authorities.[232]

Financial institutions have certain obligations related to financial scams and fraud. For example, certain unauthorized electronic transactions (i.e., a transaction not initiated by the consumer) that involve financial institutions fall under the Electronic Fund Transfer Act (15 U.S.C. §1693), which limits consumers' liability to $50 for certain transactions reported within two business days of identifying the transaction. For a transaction authorized by a consumer but induced by a third party under fraudulent circumstances, the liability would generally rest with the consumer and not the financial institution. Financial institutions also often voluntarily institute measures to prevent fraud and scams, including providing staff training, slowing down payments to allow consumers to verify the legitimacy of transactions, and investing in fraud detection technology.[233]

Artificial Intelligence (AI) and Machine Learning

Consumer finance firms have increasingly automated the provision of financial services. In recent years, much of those changes have been driven by AI and machine learning.[234] AI is commonly used to detect fraud and flag potentially suspicious transactions, but it is also used in credit underwriting, marketing, and customer service functions.[235] According to data from the Census Bureau, the percentage of banks using AI increased from 19% in 2017 to 43% in 2019. With news reports indicating the more widespread adoption of AI and recent industry surveys of banks that appear to match that trend, AI adoption by banks has increased substantially since 2019.[236]

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[229] Federal Bureau of Investigation, *Internet Crime Report 2024*, https://www.ic3.gov/AnnualReport/Reports/2024_IC3Report.pdf.

[230] Jeffrey Gottfried et al., "Online Scams and Attacks in America Today," Pew Research Center, July 31, 2025, https://www.pewresearch.org/internet/2025/07/31/online-scams-and-attacks-in-america-today/.

[231] Block, "How Cash App Is Fighting Scams," December 2024, p. 8, https://block.xyz/documents/how-cash-app-is-fighting-scams.pdf; CFPB, "What Are Some Common Types of Scams?," last reviewed March 13, 2024, https://www.consumerfinance.gov/ask-cfpb/what-are-some-common-types-of-scams-en-2092/.

[232] Numerous federal agencies have authorities over scams and fraud, including the Secret Service, Department of Justice, federal banking regulators, Immigration and Customs Enforcement, CFPB, Postal Service, and Department of Treasury. At the state level, law enforcement, state attorneys general, and adult protective services all have some jurisdiction over these issues. For more on various government agencies' responsibilities on scams and fraud, see GAO, *Actions Needed to Improve Complaint Reporting, Consumer Education, and Federal Coordination to Counter Scams*, GAO-25-107088, April 2025, https://www.gao.gov/assets/gao-25-107088.pdf.

[233] GAO, *Payment Scams: Information on Financial Industry Efforts*, GAO-24-107107, July 25, 2024, https://www.gao.gov/products/gao-24-107107.

[234] As defined in CRS In Focus IF12399, *Automation, Artificial Intelligence, and Machine Learning in Consumer Lending*, by Cheryl R. Cooper: "AI technologies are computerized systems that work and react in ways commonly thought to require intelligence, such as solving complex problems in real-world situations. [Machine learning] is often referred to as a subfield of AI with algorithms designed to automatically improve their performance through experience with little or no human input."

[235] For more on financial institutions' uses of AI, see GAO, *Artificial Intelligence: Use and Oversight in Financial Services*, GAO-25-107197, May 2025, https://www.gao.gov/assets/gao-25-107197.pdf.

[236] Frank Gargano, "Are Banks Getting What They Pay for as the Top AI Spenders?," *American Banker*, May 9, 2025, https://www.americanbanker.com/news/are-banks-getting-what-they-pay-for-as-the-top-ai-spenders.

Using AI in underwriting results in faster models that may better measure credit risk and enable more precise underwriting, minimizing overall losses while perhaps expanding credit access.[237] For example, recent research from FinRegLab found "substantial improvements in underwriting performance by machine learning models compared to logistic regression models across most data sources." These improvements were largest when cash flow data complemented traditional credit bureau data. Research suggests that AI has improved financial services' ability to spot and prevent fraudulent transactions.[238]

Others have questioned AI's ability to fit under existing legal frameworks. For example, some have flagged the importance of accurate AI adverse action notices and raised the possibility of human review to minimize errors.[239] Other concerns center around ensuring that these models are accurate and do not present adverse algorithmic bias that could violate fair lending laws, for example.[240]

Consumer Financial Protection Bureau

The regulation of consumer financial protections by the CFPB and its structure, budget, and powers has been an area of active debate among Congress. Specifically, there has been extensive discussion whether the CFPB has faithfully executed these laws to the benefit of consumers and if the existing laws strike the right balance.[241] Some have criticized CFPB actions as "stretching its authority," negatively impacting consumers' access to credit through "regulatory overkill," and "misguided in both mission and execution."[242] Others have generally hailed the CFPB as

[237] See, for example, Zishun Zhao and Kelly Thompson Cochran, "Advancing the Credit Ecosystem: Machine Learning and Cash Flow Data in Consumer Underwriting," FinRegLab, July 1, 2025, p. 4, https://finreglab.org/wp-content/uploads/2025/07/FinRegLab_07-01-2025_Advancing-the-Credit-Ecosystem-Main.pdf.

[238] Deekshith Narsina et al., "AI-Driven Database Systems in FinTech: Enhancing Fraud Detection and Transaction Efficiency," *Asian Accounting and Auditing Advancement*, vol. 10, no. 1 (2019), https://www.researchgate.net/publication/386575787_AI-Driven_Database_Systems_in_FinTech_Enhancing_Fraud_Detection_and_Transaction_Efficiency; Department of the Treasury, *Managing Artificial Intelligence-Specific Cybersecurity Risks in the Financial Services Sector*, March 2024, p. 3, https://home.treasury.gov/system/files/136/Managing-Artificial-Intelligence-Specific-Cybersecurity-Risks-In-The-Financial-Services-Sector.pdf. For an example on how this is deployed at a particular consumer finance firm, see Block, "How Cash App Is Fighting Scams," December 2024, p.15-17.

[239] Todd Phillips and Adam Conner, "Fact Sheet: Recommendations for Financial Regulatory Agencies to Take Further Action on AI," Center for American Progress, June 17, 2024, https://www.americanprogress.org/article/fact-sheet-recommendations-for-financial-regulatory-agencies-to-take-further-action-on-ai/.

[240] Organisation for Economic Co-operation and Development, "Artificial Intelligence, Machine Learning, and Big Data in Finance," 2021, p. 30, https://www.oecd.org/content/dam/oecd/en/publications/reports/2021/08/artificial-intelligence-machine-learning-and-big-data-in-finance_8d088cbb/98e761e7-en.pdf.

[241] For more on the debate regarding specific rulemakings, see, for example, CRS In Focus IF12935, *Congress Repeals Rule That Would Have Subjected Large, Nonbank Digital Wallet and Payment App Providers to CFPB Supervision*, by David H. Carpenter, Karl E. Schneider, and Paul Tierno; CRS In Focus IF12169, *An Overview of Medical Debt: Collection, Credit Reporting, and Related Policy Issues*, by Karl E. Schneider; and CRS In Focus IF12751, *The Consumer Financial Protection Bureau (CFPB) Finalizes Rule for a Registry of Nonbank Covered Orders*, by Karl E. Schneider.

[242] Veronique de Rugy, "Abolish the CFPB," *Reason*, January 27, 2025, https://reason.com/2025/01/27/abolish-the-cfpb/; Solveig Singleton, "Restructure or Repeal? What's the Best Way to Fix the Consumer Financial Protection Bureau?," Cato Institute, July 1, 2025, https://www.cato.org/blog/restructure-or-repeal-whats-best-way-fix-consumer-financial-protection-bureau; testimony of Devin Watkins, Attorney, Competitive Enterprise Institute, in U.S. Congress, House Financial Services Committee, Oversight and Investigations Subcommittee, *From Watchdog to Attack Dog: Examining the CFPB's Chopra-Era Assault on Disfavored Industries*, 119th Cong., June 26, 2025.

"deliver[ing] real results for American consumers," arguing that the agency "protect[s] the financial system from speculators" and is efficient in looking out for consumer finances.[243]

As previously discussed, Congress structured the CFPB as an independent bureau technically located within the Fed but generally independent of it. The CFPB is headed by a single director, appointed by the President for a maximum of a five-year term with the advice and consent of the Senate. In 2020, the Supreme Court held in *Seila Law v. CFPB* that the President may fire the director at will, concluding that the provision in the Dodd-Frank Act to the contrary was unconstitutional.[244] Some policymakers have called for the CFPB to be led by a multimember commission with bipartisan representation, while others argue that the current structure is appropriate.[245]

Rather than being funded through regular appropriations, the CFPB funds its operations through monetary transfers from the Fed.[246] The Fed's board must transfer amounts requested by the CFPB director based on the director's determination of need, subject to a statutory funding cap. Congress has debated whether subjecting the CFPB to appropriations would be more appropriate. In May 2024, in *CFPB vs. Community Financial Services Association of America (CFSA)*, the Supreme Court held that the CFPB's funding structure is constitutional.[247] Section 30001 of the FY2025 reconciliation act modified the CFPB's funding cap, reducing the maximum the CFPB may request from the Fed by 46%. For example, the funding cap for FY2025 is $446 million under the new formula, compared to the prior cap of $823 million under the original formula set by the Dodd-Frank Act.[248] At the end of FY2024, the CFPB had 1,758 employees. Acting Director Vought had previously attempted to reduce the CFPB's staff from roughly 1,700 to 200 in an attempt to "right size" the agency.[249] This reduction in force is the subject of ongoing litigation.[250]

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[243] Carol Jackson and Jackie Ogburn, "Explainer: What Dismantling the Consumer Financial Protection Bureau Will Cost Americans," Duke Sanford School of Public Policy, April 1, 2025, https://sanford.duke.edu/story/explainer-what-dismantling-consumer-financial-protection-bureau-will-cost-americans-podcast/; Consumer Federation of America, "Advocates from Nearly Every State Take to Capitol Hill to Urge Lawmakers to Keep Consumers Safe," press release, March 6, 2025, https://consumerfed.org/press_release/advocates-from-nearly-every-state-take-to-capitol-hill-to-urge-lawmakers-to-keep-consumers-safe/; testimony of Morgan Harper, Director of Policy and Advocacy, American Economic Liberties Project, in U.S. Congress, House Financial Services Committee, Oversight and Investigations Subcommittee, *From Watchdog to Attack Dog*.

[244] Seila Law LLC vs. CFPB, 591 U.S. 197, 205 (2020).

[245] House Committee on Financial Services, "Chairman Hill Applauds as Treasury Secretary Scott Bessent is Named Acting Director of the CFPB," press release, February 3, 2025, https://financialservices.house.gov/news/documentsingle.aspx?DocumentID=409454; Brian H. Fletcher and Pamela S. Karlan, *Brief for Amicus Curiae the United States House of Representatives in support of the Judgment Below*, Office of the General Counsel, U.S. House of Representatives, https://www.supremecourt.gov/DocketPDF/19/19-7/129452/20200122125542419_19-7bsacTheUnitedStatesHouseOfRepresentatives.pdf.

[246] For more on the CFPB budget generally, see CRS Report R48295, *The Consumer Financial Protection Bureau Budget: Background, Trends, and Policy Options*, coordinated by Karl E. Schneider.

[247] *Consumer Financial Protection Bureau v. Community Financial Services Association of America*, 22-448 (2024).

[248] For more on the changes in the FY2025 reconciliation act (OBBBA), see CRS Insight IN12578, *P.L. 119-21, the FY2025 Reconciliation Law, Provisions Related to CFPB Funding*, by Karl E. Schneider and Baird Webel.

[249] National Treasury Employees Union, et al., v. Russell Vought in his official capacity as Acting Director of the Consumer Financial Protection Bureau, et al., 1:25 109 4 (United States District Court for the District of Columbia 2025).

[250] National Treasury Employees Union, et al., v. Russell Vought in his official capacity as Acting Director of the Consumer Financial Protection Bureau, et al., 1:25 140 (United States District Court for the District of Columbia 2025).

Under Acting Director Vought, the CFPB has drawn down existing "unobligated" funds for FY2025 expenses with a projection from the CFPB that such funds will run out in early 2026.[251] An opinion from the Department of Justice Office of Legal Counsel (OLC) argues that the CFPB "may not legally request funds" from the Fed, because the central bank currently lacks any "combined earnings" and, therefore, the CFPB would lack a funding source to run its operations.[252] In accordance with this OLC opinion, the CFPB filed a notice with the court overseeing the litigation over its reduction in force that Acting Director Vought anticipates preparing a report identifying the "funding needs of the Bureau." However, the filing notes that the CFPB does not know "whether and the extent to which Congress will appropriate funding to pay the expenses of the Bureau" and that, therefore, the CFPB may soon lack sufficient funding to be able to run its operations and comply with the court's orders.[253] The legal reasoning of the OLC opinion is contested. Plaintiffs that have invoked similar arguments in separate litigation challenging the CFPB's funding structure have thus far been unsuccessful.[254]

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[251] Russell T. Vought, Acting Director, CFPB, letter to the Hon. Jerome H. Powell, Chairman, Board of Governors of the Federal Reserve System, February 8, 2025, https://files.consumerfinance.gov/f/documents/cfpb_letter-from-frb-to-cfpb_2025-02.pdf; National Treasury Employees Union, et al., v. Russell Vought in his official capacity as Acting Director of the Consumer Financial Protection Bureau, et al., 1:25 145 (United States District Court for the District of Columbia 2025).

[252] T. Elliot Gaiser, Whether the Consumer Financial Protection Bureau May Continue to Draw Funds from the Federal Reserve System Under 12 U.S.C. § 5497 When the Federal Reserve System Is Operating at a Loss, Department of Justice, Office of Legal Counsel, November 7, 2025, https://www.justice.gov/olc/media/1417326/dl?inline.

[253] *Notice of Potential Lapse of Appropriations to Pay the Expenses of the Bureau*, Nat'l Treasury Emp. Union, v. CFPB, 1:25-cv-00381-ABJ, Doc. No. 2144745 (D.D.C. 2025).

[254] Kate Berry, "New Wave of Challenges to CFPB's Funding Gains Steam," *American Banker*, August 19, 2024, https://www.americanbanker.com/news/new-wave-of-challenges-to-cfpbs-funding-gains-steam.

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