United States Government Accountability Office

GAO

Report to Congressional Requesters

April 2006

CREDIT CARDS

Customized Minimum Payment Disclosures Would Provide More Information to Consumers, but Impact Could Vary

GAO
Accountability ★ Integrity ★ Reliability

GAO-06-434

Highlights

Highlights of GAO-06-434, a report to congressional requesters

Why GAO Did This Study

The Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 requires that credit card issuers (issuers) include in all cardholder billing statements a generic warning, or "disclosure," about the potential financial consequences of consistently making only the minimum payment due on a credit card. However, some have urged that consumers should instead receive "customized" disclosures in their billing statements that use cardholders' actual balances and the applicable interest rates on their accounts to show the consequences of making only minimum payments, such as estimates of the time required to repay balances and the total interest amount resulting from continual minimum payments.

In response to a congressional request, this report assesses the (1) feasibility and cost of requiring issuers to provide cardholders with customized minimum payment information, (2) usefulness of providing customized information to cardholders, and (3) options for providing cardholders with customized or other information about the financial consequences of making minimum payments.

www.gao.gov/cgi-bin/getrpt?GAO-06-434.

To view the full product, including the scope and methodology, click on the link above. To view selected results of the cardholder interviews, go to http://www.gao.gov/cgi-bin/getrpt?GAO-06-611sp.
For more information, contact David G. Wood at (202) 512-8678 or woodd@gao.gov.

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CREDIT CARDS

Customized Minimum Payment Disclosures Would Provide More Information to Consumers, but Impact Could Vary

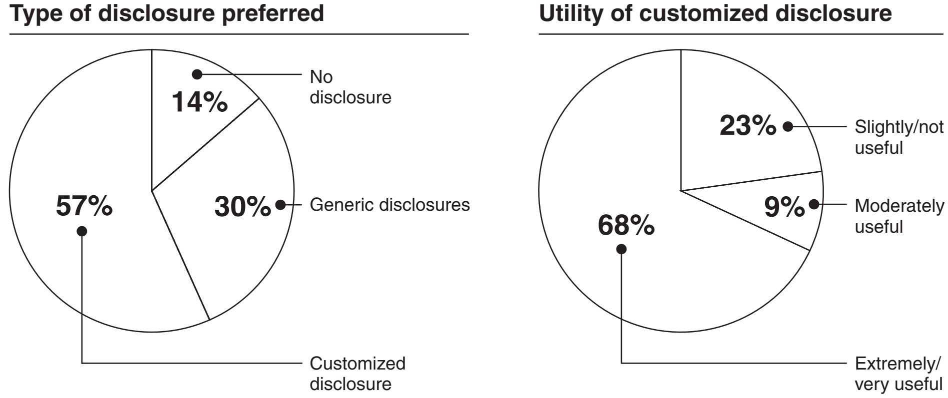
What GAO Found

Representatives of credit card issuers and processors that handle billing and other operations for issuers said they have the technological capability to provide cardholders with customized minimum payment information. The calculations that would be included in such disclosures require various assumptions, including that no more charges are made on the account, and decisions on how to address other issues, such as balances subject to multiple interest rates, that would affect the estimates' precision. Issuers and processors estimated that the most significant costs of providing customized disclosures would be for additional postage, computer programming, and customer service. Although uncertain about exactly what calculations would be required, the estimates that issuers provided for total implementation costs ranged from \$9 million to \$57 million.

In GAO's interviews with 112 cardholders, most who typically carry credit card balances (revolvers) found customized disclosures very useful and would prefer to receive them in their billing statements. These consumers liked that customized disclosures would be specific to their accounts, would change based on their transactions, and would provide more information than generic disclosures. However, cardholders who pay their balances in full each month were generally satisfied with receiving generic disclosures or none at all. Consumer groups, financial educators, and others indicated that customized disclosures could reduce cardholders' tendency to make minimum payments; conversely, issuers foresaw limited impact because few cardholders make minimum payments and not all can afford to pay more.

Alternatives for providing customized disclosures include providing them only to revolvers, providing them less frequently, or in a location other than the first page of billing statements. While such alternatives could lower issuer costs, they could also decrease the customized disclosures' potential impact.

Views of Credit Card Revolvers that GAO Interviewed on Customized Minimum Payment Disclosure



Source: GAO.

Note: Percentages may not total to 100 percent due to rounding.

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Abbreviations

FACT	Fair and Accurate Credit Transaction Act
TILA	Truth in Lending Act

United States Government Accountability Office
Washington, D.C. 20548

April 21, 2006

The Honorable Paul S. Sarbanes
Ranking Minority Member
Committee on Banking, Housing and Urban Affairs
United States Senate

The Honorable Daniel K. Akaka
United States Senate

Making only the minimum payment due on a credit card can greatly increase the time required to pay off the entire balance and increase the total amount of interest paid by a consumer. With more than 292 million credit cards in use in the United States and a growth in personal bankruptcies, many financial educators see an increasing need for consumers to become more educated about the cost of using credit cards. As one way of achieving this, Section 1301 of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (Bankruptcy Act), passed in April 2005, amends the Truth in Lending Act (TILA) to require that a generic warning, or "disclosure," be printed on all cardholders' billing statements about the potential financial consequences of making only the minimum payment due.[1]

The provision also requires that cardholders' billing statements provide a toll-free telephone number for obtaining individualized information about how making minimum payments would affect their accounts. However, some lawmakers and others believe that these requirements are not extensive enough to educate consumers about the effects of making only minimum payments on credit cards. They argue that the generic disclosures required by the law will not adequately inform cardholders of their situation in today's credit environment, in which interest rates on credit card debt can exceed 30 percent. Instead, they believe that a "customized disclosure"—that is, one that uses cardholders' actual balances and the applicable interest rates on their accounts to calculate how long a given balance would take to pay off if only minimum payments are made—would allow cardholders to make more informed credit decisions.

[1]Pub. L. No. 109-8, 119 Stat. 23, 204-14 (2005) and Pub. L. No. 90-321, title I, 82 Stat. 146-157 (1968) (codified at 15 U.S.C. §§ 1601 et seq.).

This report responds to your April 25, 2005, request that we study the feasibility of requiring credit card issuers (issuers) to provide customized information to cardholders about the consequences of making minimum payments, as well as the usefulness of this information to cardholders. Specifically, our objectives were to (1) determine the feasibility and cost of requiring issuers to provide cardholders with customized minimum payment information, (2) assess the usefulness of providing customized information to cardholders, and (3) identify options for providing cardholders with customized or other information about the financial consequences of making minimum payments.

To determine the feasibility and cost of requiring issuers to provide customized information to cardholders on billing statements, we met with staff members of six major credit card issuers and one mid-size issuer. We determined that these issuers account for about 67 percent of actively used credit card accounts as of year-end 2005.[2] We asked each of the issuers about how they could implement the requirement and their estimates of the costs they would incur in doing so. We also obtained cost estimates for three other large issuers from court documents that were associated with a California lawsuit challenging a state statute that required issuers to include minimum payment disclosures on billing statements sent to California cardholders. In addition, we discussed the feasibility and cost of additional requirements with the staff of two external credit card processors (processors) that produce billing statements for thousands of large and small issuers, and a representation of industry, legal, academic, government, and consumer entities. To assess the usefulness of customized disclosures, we interviewed 112 cardholders in Boston, Chicago, and San Francisco to gather data on their preferences for and opinions on the utility of statements about making minimum payments. This sample of cardholders was not designed to be statistically representative of all cardholders, and thus our results cannot be generalized to the population of all U.S. cardholders. Our efforts to identify options for increasing consumer awareness of minimum payment issues involved interviews with representatives of credit card issuers and processors, consumer interest groups, a credit counseling agency, as well as federal financial regulators and the Director of the federal Financial Literacy and Education

[2]Based on data from Cardweb.com, Inc., an online publisher of information pertaining to the payment card industry, and self-reported data from two issuers, we determined that the seven issuers with whom we spoke represent approximately 231 million active credit card accounts as of year-end 2005.

Commission.[3] We also reviewed comment letters provided to the Board of Governors of the Federal Reserve System (Federal Reserve) in connection with the Federal Reserve's recent advance notices of proposed rulemaking regarding its open-end (revolving) credit rules of Regulation Z, which implements TILA.[4] A more detailed description of our methodology is presented in appendix I. Additionally, a copy of the survey instrument we used to interview cardholders, along with summarized results, can be found in GAO-06-611sp. We conducted our study between June 2005 and April 2006 in Boston, Chicago, San Francisco, and Washington, D.C., in accordance with generally accepted government auditing standards.

Background

The credit card industry is composed of issuers, processors, and card networks. Typically banks, thrifts, and credit unions are the organizations that issue credit cards and underwrite the credit that is provided to consumers. The issuance of credit cards is highly concentrated, with the eight largest issuers representing 88 percent of all outstanding consumer credit card balances reported by CardWeb.com, Inc., as of year-end 2005. Processors provide a wide range of services for thousands of issuers, including card production, transaction processing, and production and mailing of billing statements. The level of services provided by processors can differ depending on a specific issuer's needs. For example, some issuers handle all billing calculations and maintain all related data within the organization and rely on processors solely for printing and mailing billing statements. Other issuers, including many of the smaller issuers, use processors to perform all necessary services related to their credit cards. Finally, credit card networks facilitate payment transactions between cardholders and merchants by transferring information and funds between a merchant and a cardholder.

[3]Fair and Accurate Credit Transaction (FACT) Act of 2003 § 513, 20 U.S.C. § 9702. Title V of the FACT Act, referred to as the Federal Literacy and Education Improvement Act, established the Financial Literacy and Education Commission with the purpose of improving financial literacy and education of persons in the United States.

[4]In addition to being charged with implementing TILA, the Federal Reserve is the agency responsible for overseeing state member banks for compliance with TILA. Compliance with TILA by other depository institutions is overseen by the appropriate federal bank supervisor: Federal Deposit Insurance Corporation, the National Credit Union Administration, the Office of the Comptroller of the Currency, or the Office of Thrift Supervision. Any nonbank card issuers are overseen by the Federal Trade Commission for compliance with TILA.

Credit card users can be characterized into two groups—those who use their cards for purchases but consistently pay their outstanding balance in full every month (convenience users) and those who carry a balance on their cards (revolvers). Different data sources report that in 2004 revolvers represented between approximately 46 and 55 percent of cardholders. Various data sources indicate that the proportion of cardholders that pay only the minimum payment or slightly more than the minimum payment at any given time ranged from about 7 and 40 percent between 1999 and 2005, while issuers indicated that a small percentage of their cardholders (from less than 1 percent and up to 10 percent) make multiple consecutive minimum payments. According to a survey conducted by the Federal Reserve in 2004, the median balance for U.S. families that carried balances on bank-type credit cards was $2,200, and the average balance was $5,100.[5]

Each issuer determines the minimum payments that cardholders must pay each billing cycle to keep an account in good standing. Issuers calculate minimum payment amounts in a variety of ways, including as a set percentage of a cardholder's outstanding balance, or the sum of all interest and fees to be paid as well as some portion of the principal balance, among other ways. For example, some issuers calculate minimum payments as 1 percent of the outstanding balance plus any finance charges and fees (such as late fees or over-the-limit fees) incurred for that billing period.

Historically, required minimum payments generally averaged about 5 percent of the outstanding balance, but these amounts declined to about 2 percent in the last decade. The decrease in minimum payment rates lowered a cardholder's monthly payment obligation, but also further delayed a cardholder's repayment of principal. In some cases, the amount required for the minimum payment was not sufficient to cover all incurred interest or other transaction charges, which increased the outstanding balance. Concerns about such increases—known as negative amortization—as well as other practices compelled four federal banking regulators to issue guidance in January 2003 that stated that issuers should require minimum repayment amounts so that cardholders' current

[5]The Federal Reserve's *Survey of Consumer Finances* is a triennial survey of the balance sheet, pension, income, and other demographic characteristics of U.S. families. The 2004 survey was released in February 2006.

balances would be paid off—amortize—over a reasonable period of time.[6] The guidance was designed to discourage minimum payment formulas that result in prolonged negative amortization of accounts, a practice viewed by regulators as raising safety and soundness concerns. However, it is possible that a bank could satisfy a regulator's expectations by requiring minimum payment amounts that represent less than the 5 percent of outstanding principal that previously was customary in the industry. According to a representative of the Office of the Comptroller of the Currency, by year-end 2005, nearly all the issuers that it oversees (which includes the largest issuers in the United States) had controls in place to address concerns regarding negative amortization of credit card accounts.

As part of the Bankruptcy Act, issuers will be required to provide cardholders with information about the consequences of making minimum payments on outstanding credit card balances. More specifically, the act requires creditors to print on the billing statements of revolving credit products (of which credit cards are a form) a generic disclosure that "making only the minimum payment will increase the interest you pay and the time it takes to repay your balance."[7] In addition to the generic disclosure, the law requires creditors to choose from two options for providing additional information to cardholders: (1) providing a toll-free telephone number that cardholders could use to obtain the actual number of months that it would take to repay their outstanding balance if they made only minimum payments or (2) providing an example of the length of time required to pay off a sample balance at an interest rate of 17 percent and a toll-free telephone number cardholders could call to get an estimate of the time required to repay their balances.[8] These requirements are intended to increase consumer awareness of the consequences of these types of payments. The Federal Reserve is currently establishing regulations to implement the new law, which it expects to complete in

[6] *Credit Card Lending: Account Management and Loss Allowance Guidance* (January 2003), joint guidance issued under the auspices of the Federal Financial Institutions Examination Council by the Office of the Comptroller of the Currency (OCC Bulletin 2003-1), Federal Reserve (Supervisory Letter SR-03-1), Federal Deposit Insurance Corporation (Financial Institution Letter, FIL-2-2003), and Office of Thrift Supervision (OTS Release 03-01).

[7] Bankruptcy Act § 1301, 15 U.S.C. §1637(b).

[8] The specified balance is either $300 or $1,000, depending upon the size of the minimum payment required by the creditor (see also table 1). A creditor may elect to use an interest rate greater than 17 percent for purposes of the sample calculation.

2007.[9] The minimum payment disclosure requirements will take effect 12 months after the final regulations are published.[10]

While the Bankruptcy Act mandated that generic disclosures be made to consumers on their billing statements, some lawmakers had sought to require additional and more customized disclosures that would have provided each cardholder with customized information about the costs and time involved in paying off credit card balances resulting from habitually making only minimum payments. Amendments that would have mandated these customized disclosures failed to pass prior to the passage of the Bankruptcy Act. While the details vary, five bills were pending in Congress as of March 2006 that would mandate that issuers provide customized disclosures to consumers.[11]

Table 1 illustrates the differences between the disclosure options that issuers will be required to implement as a result of the Bankruptcy Act and an example of the type of customized disclosures that have been envisioned as part of various legislative proposals.

[9]According to Federal Reserve staff, the agency is conducting the rulemaking process for minimum payment disclosures in combination with its wholesale review of its open-end credit rules of Regulation Z, resulting in a longer time frame to issue the final regulations on minimum payment disclosures.

[10]Section 1301(b) of the Bankruptcy Act provides that the minimum payment disclosure requirements will take effect the later of October 20, 2006, or 12 months after the publication of final rules implementing the requirements by the Federal Reserve. However, as noted above, the Federal Reserve does not anticipate publishing final rules until after October 20, 2006.

[11]S. 393, 109th Cong. (2005), S. 499, 109th Cong. (2005), S. 1040, 109th Cong. (2005), H.R. 3492, 109th Cong. (2005) and H.R. 3852, 109th Cong. (2005).

Table 1: Comparison of Disclosures Required under the Bankruptcy Act and a Potential Customized Disclosure

	Information required to appear on cardholder billing statements under the Bankruptcy Act[a]		Information that could appear on cardholder billing statements with a customized disclosure
	Generic disclosures		Customized disclosure
Elements of disclosure	**Minimum Payment Warning Statement Option**	**Minimum Payment Warning With An Example Option**	
Minimum payment warning	"Making only the minimum payment will increase the interest you pay and the time it takes to repay your balance."	"Minimum Payment Warning: Making only the minimum payment will increase the interest you pay and the time it takes to repay your balance."	"Minimum Payment Warning: Making only the minimum payment will increase the amount of interest paid and the length of time to repay the outstanding balance."
Length of repayment	"For more information, call this toll-free number: ____________." The information required to be provided is the actual number of months that it will take the cardholder to repay his/or her outstanding balance.	"For example, making only the typical 2% minimum monthly payment on a balance of $1,000 at an interest rate of 17% would take 88 months to repay the balance in full." "For an *estimate* of the time it would take to repay your balance, making only the minimum payments, call this toll-free number: _______________.[b]	"For example, your balance of [XX][c] will take [XX] months to pay off…"
Total cost in principal and interest	N/A	N/A	"…at a total cost of [XX] in principal and [XX] in interest if only the minimum monthly payments were made."
Monthly payment amount to pay off balance over a prescribed period	N/A	N/A	"To pay off your balance in 3 years, you would need to pay [XX] monthly."

Sources: Bankruptcy Act and GAO.

[a]The Bankruptcy Act allows issuers to provide one of the two options in cardholder statements.

[b]The statutory sample calculations for the repayment period and the principal balance will vary depending on whether issuers (1) require a minimum payment of 4 percent or less, (2) require a minimum payment of more than 4 percent, or, (3) are regulated by the Federal Trade Commission with respect to compliance with TILA.

[c]XX would contain a cardholder's actual balance, number of months required to pay balance in full, and the total cost in principal and interest if only minimum payments were made. This customized disclosure would also include the monthly payment amount needed to repay balance in full in 3 years. These figures would be calculated using a cardholder's actual balance, applicable interest rate(s), and other variables.

An attempt to mandate customized disclosures on the consequences of making minimum payments also was made at the state level. In 2001, California enacted a law that required issuers to provide the state's cardholders with more detailed information about making minimum payments.[12] Issuers were required to provide one of two disclosure options. Both options required the issuer to provide a minimum payment warning. In addition to the minimum payment warning, one option required issuers to print an example of the length of time required to pay off a sample balance amount using a sample interest rate. Further, issuers were required to provide cardholders, via a toll-free telephone number, with information about both the length of time required and total cost of paying an outstanding balance if only minimum payments were made. The second option, which was mandated if a cardholder did not pay more than the minimum payment for 6 consecutive months, required issuers to print on the billing statement individualized information indicating an estimate of the number of years and months and the approximate total cost to pay off the total balance due, based on the terms of the credit agreement, if the holder were to make only the minimum payment. The disclosure also included a toll-free telephone number to a credit counseling referral service. In December 2002, the U.S. District Court for the Eastern District of California held that the state statute was preempted by federal law and determined that the law was inapplicable to all federally chartered banks, savings associations and credit unions.[13] According to a staff attorney for the California Attorney General's office involved in the case, the judge effectively invalidated the law for all issuers because federally chartered issuers held more than 95 percent of credit card debt in the state at the time, thereby compelling the state for fairness reasons to relieve all issuers from compliance with the law.

Results in Brief

Credit card issuers and data processors appear capable of providing cardholders with customized information on the consequences of making only minimum payments, but adding such disclosures to cardholders' statements would increase issuers' costs. Representatives of credit card issuers and processors said they have the technological capability and data

[12]California Assembly Bill No. 865 was approved by the Governor on October 10, 2001, with instructions to become effective July 1, 2002. The law was codified at California Civ. Code §1748.13.

[13]*See American Bankers Assoc. et al. v. Lockyer*, 239 F. Supp. 2d 1000 (E.D. Cal. 2002).

in their information systems to calculate estimates of the time that would be needed to repay balances and other information that would use cardholders' actual balances and interest rates. These estimates would incorporate various assumptions, including that no additional transactions would occur on a cardholder's account. Calculations necessary for customized disclosures could also require choices about how to account for other variables that can affect the precision of the estimates produced, such as how to address cardholder balances that are subject to multiple interest rates. Because the calculations would involve these various assumptions and decisions, issuers said that any requirement to provide such disclosures should include legal protections against potential lawsuits about the "precision" of the calculations. The issuers and processors from which we obtained data were not able to provide precise estimates of costs for various reasons, including uncertainty about how the calculations would be required to be made and how the disclosures would be formatted. However, issuers and processors estimated that the three most significant costs for producing customized minimum payment disclosures would be the additional postage for mailing longer billing statements, computer programming necessary for the calculations, and handling of the increased number of cardholder telephone calls about such disclosures. Postage appears to be the largest cost. Estimates of the total first-year costs to implement customized disclosures varied widely across issuers, with one large issuer expecting to incur at least $9 million but another issuer expecting as much as $57 million. Because issuers already are obligated to bear some of these costs as part of implementing the minimum payment disclosures required by the Bankruptcy Act, the incremental costs of providing customized disclosures likely would be less than these estimates. Further, an industry analyst saw these costs as being very small in terms of the income and expenses of the largest issuers.

Cardholders and others generally found customized disclosures on the consequences of making minimum payments useful; however, opinions on the extent to which the disclosures would influence cardholders' payment behavior varied. Among the 112 cardholders we interviewed, when offered a choice of receiving either a customized disclosure, the generic disclosures of the Bankruptcy Act, or no disclosure at all, 57 percent of the revolver cardholders—who typically carry balances on their cards and thus would be most likely to find information on minimum payment consequences useful—preferred to receive customized disclosures. While several convenience users—who pay their balances in full each month—also preferred the customized disclosure, the majority (60 percent) said they would be satisfied with receiving either generic disclosures or none at all. Among the reasons that cardholders who preferred customized disclosures found them useful were that the information would be specific to their accounts, change based on their transactions, and provide more information than a generic disclosure. The cardholders who did not prefer customized disclosures told us that they did not need such information, for example, because they already understood the consequences of making minimum payments or because they paid their credit card balances in full each month. Although generally seen as useful by many of the cardholders, the impact of customized disclosures on cardholder payment behavior could vary. Consumer groups, financial educators, and many of the cardholders with whom we spoke indicated that customized disclosures would influence cardholders to make larger payments or change how they use their credit cards because such disclosures would be more noticeable than generic ones. However, customized disclosures might not affect the behavior of cardholders who make minimum payments because they may be financially unable to do otherwise. In addition, issuers' representatives stated that providing customized disclosures to all cardholders would have limited impact for various reasons; for example, they saw only a small impact because the number of cardholders that routinely made only minimum payments on their accounts is small.

Issuers, consumer groups, and others suggested various alternatives to providing all cardholders with information on the consequences of making only minimum payments on each monthly billing statement. Alternatives included providing customized disclosures only to cardholders who revolve balances or make minimum or slightly higher payments; in a location other than the first page of the billing statement; or less frequently (such as quarterly or annually). Each of the alternatives presents various advantages and disadvantages for issuers and cardholders. For example, providing customized disclosures only to cardholders who revolve balances or make minimum or slightly higher payments could more effectively target persons who are more likely to need the information and reduce issuers' postage costs. In addition, providing customized disclosures in a location other than the first page of the billing statement or providing such disclosures less frequently could lower programming and other implementation costs. However, these alternatives also could decrease the extent to which such disclosures affect cardholders' behavior, because fewer cardholders would receive the information or could fail to notice it if the disclosure were removed from the first page of the billing statement. Other options included not providing customized disclosures but rather making greater use of generic examples or increasing financial education efforts. For example, issuers could provide generic examples (of the time required to pay off a balance and other information) for a range of balance amounts and present cardholders with the example that most accurately reflected their account. A final suggestion was to improve consumer awareness of the consequences of making minimum payments through greater financial education; for example, by including general information about the consequences of only making minimum payments in solicitation letters or the introductory package cardholders receive with credit cards.

We provided a draft of this report to the Federal Deposit Insurance Corporation, the Federal Reserve, the Federal Trade Commission, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision for comment. The Federal Reserve, the Federal Trade Commission, and the Office of the Comptroller of the Currency provided technical comments that we incorporated where appropriate. The National Credit Union Administration provided written comments that agreed with our findings. This regulator also noted that costs of implementing customized disclosures could be significant for some small institutions and that considering options in how to implement such disclosures would be important.

Providing Cardholders with Customized Information Seen as Feasible but Doing So Would Increase Costs for Issuers

According to credit card issuers and others we interviewed, providing customized estimates to cardholders would be feasible. However, the precision of these estimates would depend upon the assumptions incorporated in the calculations needed to produce this information, which can vary based on decisions about how various factors are included. Issuers also said providing such information could expose them to legal liability and suggested a variety of regulatory actions to address these concerns. Although uncertainty about format and content prevented issuers and processors from providing precise cost estimates, they told us the largest individual cost components for large and small issuers appeared to be ongoing postage and call center operations, as well as one-time programming costs. Total projected costs to implement customized disclosures varied widely. However, issuers already are going to bear some of these costs to implement Bankruptcy Act disclosures; and, according to an industry analyst, the costs appear very small when compared with large issuers' net income.

Issuers and Others Stated That Providing Customized Estimates Is Feasible but Could Increase Issuers' Legal Liability

Issuers and others familiar with the proposed minimum payment disclosure indicated to us that providing cardholders with estimates of various consequences of making minimum payments would be possible. Representatives for all six large credit card issuers whom we interviewed acknowledged that their computer systems could be programmed to use individual cardholder account information to calculate estimates of the information envisioned to be disclosed. These calculations would include the amount of time required to pay off a cardholder's specific balance if only the minimum payment were made, the total amount of interest incurred over that time, and the amount a cardholder would be required to pay each billing cycle to pay off an outstanding balance over a given period. Some credit card issuers and processors already had successfully developed the capability to produce tailored estimates for their cardholders as a result of customized minimum payment disclosures that had been required in California in 2002. One of these issuers developed this capability internally, while another used a third-party processor that developed this functionality for all its issuer clients to use.

Besides noting that they could produce customized disclosures, some issuers said they would prefer to provide customized rather than generic information to cardholders. For example, representatives for one large issuer told us they would prefer the Bankruptcy Act option that would require them to produce actual repayment times for cardholders, obtainable by calling a toll-free telephone number provided in billing statements. In a comment letter responding to the Federal Reserve's advance notice of proposed rulemaking, a representative for another large issuer said that existing disclosure provisions should be implemented in such a way as to encourage issuers to provide customized information to cardholders. These two large issuers said they supported providing customized information to their cardholders because they believe cardholders would find it more relevant than generic information. A representative for one of these issuers also said the issuer would benefit because providing customized information over the telephone would require the shortest statement to be printed on a billing statement of the two options under the Bankruptcy Act and could be printed anywhere on a billing statement, which could be easier to implement.

Although generally having fewer resources than larger issuers, small banks that issue credit cards also could likely implement customized disclosures, but such a requirement could represent a larger burden for those that do not use third-party processors. A representative of a trade association representing community banks told us customized estimates would be feasible for small institutions because the work to implement such a requirement would be done largely by the third-party processors already used to manage cardholder data and process billing statements.[14] According to staff of the National Credit Union Administration and the Federal Deposit Insurance Corporation who were familiar with the operations of smaller financial institutions offering credit cards, most small issuers use third-party processors to assist with card operations because the small issuers lack the resources to provide such a product themselves. For example, small issuers typically assign only one or two people to manage their credit card programs that, according to representatives of a third-party processor, would not be adequate for managing the technical, legal, and compliance issues that would be required to provide the proposed customized disclosure. However, small institutions benefit from economies of scale by working through third-party processors. For example, a representative for a third-party processor with thousands of small-bank clients told us that the processor requires all small institutions to use the same billing statement format or template. Therefore, changes made by the third-party processor to the billing statement template would apply to all clients using that template. In this case, the processor's costs to modify the template would be spread across its client base. A representative from a federal banking regulator told us that if issuers discontinue a credit card program upon the implementation of new disclosure requirements, it would likely be because the program had been marginally profitable or unprofitable even before the requirements took effect.

Assumptions and Calculation Methods Can Affect the Precision of Customized Estimates

Issuers and others told us the calculations needed to produce customized information require the incorporation of certain assumptions, and their precision can vary depending on various choices that can be made as part of these calculations. The calculations needed to produce customized information require assumptions about future cardholder behavior or changes in account terms. For example, an estimate of the time required to pay off a cardholder's current balance would assume that the cardholder does not make more purchases with the card. Any subsequent increase to a cardholder's outstanding balance would lengthen the repayment period and also likely increase the total amount of interest to be paid for a cardholder making minimum payments. Additionally, the estimates produced would assume that a consumer continuously paid exactly the minimum payment

[14]Community banks are independent, locally owned and operated institutions with assets ranging from less than $10 million to multibillion dollar institutions.

and that payments would be made by the due date. Other assumptions would address potential changes in account terms. For example, calculations would assume that the interest rate applied to the cardholder's balance remained constant. However, changes in future interest rates are likely, and such changes could affect the time required to fully repay a given balance. Similarly, the estimates produced would assume that the formulas issuers use to allocate payments to the various balances subject to different interest rates, among other things, also would stay the same.

In addition to these assumptions, the choices that lawmakers, regulators or issuers make about calculation methods also affect the precision of the customized estimates.[15] These choices include how issuers compute minimum payment amounts or finance charges, among other things. For example:

- Minimum payment formulas vary among issuers and each issuer could have as many as six different methods for determining the minimum payment on a single account. Some card issuers calculate minimum payment amounts as a set percentage of a cardholder's outstanding balance, while others include all interest and fees to be paid as well as some amount of the principal balance. Further, issuers differ in their absolute minimum payment amounts (e.g., $10, $15, $20). Estimates based on each firm's actual formula for calculating minimum payments therefore would differ from estimates calculated using a standard formula for all issuers.

- Many issuers have credit cards that charge different rates for different types of transactions, such as purchases, cash advances, or balance transfers from other credit cards. Estimates that require issuers to incorporate the various interest rates that apply to their cardholders' outstanding balances would differ from those based on formulas that assume a single interest rate, including ones using a composite rate.

As a result, if lawmakers or regulators mandated use of a standardized calculation to prepare customized minimum payment estimates,

[15]The regulatory approach as to how to produce customized information has yet to be determined. As of April 2006, the Federal Reserve was in the process of determining how issuers should implement provisions of the Bankruptcy Act requiring them to provide consumers with information over the telephone that would be customized to their accounts about the length of time required to repay an outstanding balance if only minimum payments were made.

cardholders could receive less precise estimates. In contrast, requiring issuers to calculate estimates using actual interest rates—including cases in which multiple interest rates apply to different portions of a total balance—and include other information that specifically reflects each issuer's own terms and practices likely would lead to more precise estimates.

Because some issuers saw the assumptions that must be incorporated into the calculations for customized minimum payment disclosures as unrealistic, they and others questioned whether such disclosures provided useful information. For example, some issuer representatives noted that the customized disclosures presented estimates that would be accurate only as long as cardholders did not make further purchases and the interest rate on the card remained constant. However, issuers said that such situations were not representative of most cardholders' behavior or today's credit environment. Some issuers mentioned that, for these reasons, the Bankruptcy Act disclosure options were a good compromise between Congress and the industry. As a result, issuers and others stated that these disclosures deserve a chance to work before further, more detailed disclosures are required.

Issuers See Shelter from Legal Liability as Important for Providing Customized Disclosures

According to some issuers and a third-party processor, providing customized estimates to cardholders could expose card issuers to increased legal risk. Because of the imprecise nature of customized minimum payment estimates, some issuers expressed concerns about facing lawsuits. For example, some issuer representatives told us that issuers were concerned about being held responsible for adverse consequences experienced by cardholders who misinterpreted the estimates, which incorporate certain assumptions and calculation choices that affect their precision. Issuers and others said litigation (e.g., class action lawsuits) could arise out of such misinterpretations and subject issuers to significant legal costs, even if they took reasonable actions under the guidance to provide cardholders with customized information. A representative of a trade association for community banks told us the threat of legal liability would be more onerous for small issuers.

The extent to which requiring customized disclosures would increase issuers' legal risk is not certain because cardholders' ability to sue can vary. For example, under TILA provisions, class action lawsuits are not available to cardholders with grievances under the minimum payment disclosure requirement added by the Bankruptcy Act.[16] However, TILA provides cardholders with a private right of action against issuers, which could make issuers that failed to comply with the minimum payment disclosure requirements liable for actual losses incurred by cardholders.[17] In addition, an Office of the Comptroller of the Currency official told us that the possibility exists that a cardholder may have a private right of action against an issuer for erroneous disclosures under a state's consumer protection law.

Although various "safe harbor" provisions in TILA already protect issuers from unintentional errors resulting from good-faith efforts to comply with rules and regulations, organizations we interviewed suggested a variety of additional legal protections if disclosure requirements were to change. For example, a representative for an issuer suggested that issuers could use calculation methods previously deemed acceptable to the Federal Reserve. Issuers that performed calculations according to the approved methods would be considered in compliance with the disclosure requirements. Also, issuer representatives and a representative of a consumer interest group said that the estimates that issuers calculate could be subject to a tolerance test, which would give issuers a margin of error (e.g., a few months) within which the estimates could be deemed accurate. Another legal protection could involve determining whether issuers followed required steps—according to defined assumptions and calculation methodologies—to calculate the customized information. For example, regulation could establish parameters for the calculations, such as how to treat accounts with multiple interest rates. However, a representative of a consumer interest group and credit card processor cautioned that while a higher level of standardization of the calculations could help protect issuers from lawsuits because expectations would be clearer, standardized calculations might not be sufficient to reflect variation in the terms and conditions of various credit card products.

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[16]See 15 U.S.C. 1640(a).

[17]See TILA §130, 15 U.S.C. 1640.

Issuers Identified Three Significant Costs to Implement Customized Disclosures, but Estimates of Total Costs Varied Widely

Although not certain about the form and content of a customized minimum payment disclosure, issuer and processor representatives were able to identify the implementation components that likely would be the most costly, including postage, computer programming, and call center operations. However, the estimates of the total implementation costs varied widely. Further, issuers already would incur some portion of the costs to provide customized disclosures in providing the Bankruptcy Act disclosures; thus, not all of the cost estimates we obtained represent the cost of customized disclosures exclusively.

Credit card issuers and processors—the entities with the best data about the cost to implement customized disclosures—were unable to provide precise cost estimates for a variety of reasons. First, factors affecting actual paper and postage costs cannot be determined until a law requiring a customized disclosure is enacted and implementing regulations issued. Such factors could include how customized disclosures would be formatted (e.g., font size, spacing) and where such disclosures would be required to be placed in the billing statement (e.g., front page, leaflet). Second, decisions about calculation methods and the treatment of variables could affect estimates for programming computers. For example, representatives for two large issuers told us that if issuers had to make complex calculations, actual programming costs could be as much as four to five times higher than if simpler calculations were required. Third, some issuers were uncertain of the costs that would be incurred outside their own organizations, for example, by third-party processors. Accordingly, some issuers generated estimates based on previous experiences (such as implementing similar requirements) or by making assumptions about implementation requirements, such as the required location and length of a disclosure.

Increased Postage Represents One of the Largest Cost Components

Two large issuers and two third-party processors provided us with estimates of postage costs, which they said would be potentially the highest cost item to implement a customized disclosure. Postage cost increases could occur if adding the disclosure also added an additional page to the monthly statement. This added weight could move the statement into a higher postage category. Adding a page to billing statements could increase postage costs because, as one large issuer explained, issuers generally manage the amount of information they include in their mailings to meet a 1-ounce limit, which according to a representative of a third-party processor costs on average $0.30 per statement to mail. The incremental cost of moving from a 1-ounce bulk postage rate to a 2-ounce rate would be on average about $0.23, or almost an 80 percent increase, according to representatives for two third-party processors. However, requiring that additional information be included in a billing statement would not necessarily push all billing statements into a higher postage category because issuers add and remove information (such as advertising) from statements to meet weight limits, according to representatives for some issuers. According to representatives of a third-party processor, postage rates for small issuers that mail statements through third-party processors would be relatively the same as for large issuers. A representative of another third-party processor told us small issuers get the same bulk postage rates as large issuers because their mailings are combined. Postage rates decline as more statements make up a mailing. However, postage costs for small issuers that mail statements at retail rates would be higher. We were unable to determine the proportion of small issuers that use retail postage rates.

According to issuers and processors, additional postage arising from implementing customized minimum payment disclosures for a large issuer could be as high as about $14 million annually. We obtained postage cost estimates from representatives for two large issuers that mail up to 50 million statements each month.

- According to one of these issuers, annual postage costs could increase up to about $5 million if all cardholders were required to receive the customized information envisioned in a proposed disclosure on the first page of every billing statement. We estimated this to be an increase of about 5 percent to annual postage costs for mailing billing statements.[18]

- Representatives for the other issuer told us their postage costs could increase by as much as about $14 million annually to implement customized disclosures on the first page of billing statements. We estimated this to represent about an 8 percent increase to the issuer's annual postage costs to mail billing statements. The representatives estimated these disclosures to be twice the length of a generic

[18]To calculate percentage changes, we first estimated the issuer's current mailing costs by multiplying the number of statements the issuer mailed each month by 12 to determine the total number of statements mailed each year, and then multiplied this number by the average postage rate of $0.30 for a 1-ounce mailing. We divided the issuer's estimated increase in postage cost by the total annual postage cost that we calculated to arrive at the percentage increase that could occur to implement a customized disclosure.

disclosure, thereby forcing more than 20 percent of statements to require an additional page.

Differences in these estimates are attributable to the number of billing statements that the issuers estimated would require additional postage, which differs across issuers depending on the format of their statements and the assumptions they made about formatting for the proposed disclosure.

Although estimated postage cost increases appear to constitute the largest component of projected implementation costs, issuers usually incur much higher postage costs for other purposes. For example, a credit card industry analyst told us postage costs for mailing statements are insignificant when compared with the expense per issuer of mailing about 4-5 billion solicitations each year, a typical amount for the largest card issuers. In contrast—based on our analysis of CardWeb.com, Inc., data—we estimate that even the largest issuers mail less than 1 billion statements per year. Also, postage costs could decline as the number of cardholders receiving billing statements in electronic formats increases. Representatives for some issuers told us that the proportion of cardholders receiving statements in an electronic format is small, but growing. According to representatives of one large issuer, between 2002 and 2004, electronic statement use among their cardholders increased about 85 percent, and 6 to 12 percent received statements electronically. Representatives for a smaller issuer told us that about 10 percent of its cardholders used the issuer's Web site to get information about their card accounts.

Programming Modifications Are Also Likely to Be a Major Implementation Cost Component

According to issuers and others, expenses related to programming computer systems to develop tailored estimates would be another major cost of implementing customized disclosures. Programming costs are one-time costs for designing, testing, and implementing computer code. Once in place, the new or revised programs would use cardholder account data to provide estimates of the repayment period, total interest costs, and monthly payment amount to pay off a balance if only minimum payments were to be made. Issuers' programming costs would arise from the time their own information technology staff spend making systems modifications or from the increased expenses from the use of third-party processors, which maintain information systems that store issuers' cardholder account data as well as develop, print, and mail billing statements.

Estimates for programming generally were $1 million or less and depended on the complexity of the required calculations and issuers' information systems. For example, representatives of a large issuer and a card processor representing over one thousand large and small issuers told us the up-front costs to develop and program computer code for a customized disclosure would cost about $500,000 but could cost as much as $1 million for more complex calculations. In providing us with estimates, we asked issuers and third-party processors to assume that calculations would reflect issuers' actual account terms and practices at the time the information was produced, including interest rates, account balances, and methods for calculating finance charges and minimum payments. However, representatives for the same large issuer told us programming costs could be as much as $5 million for the most complex calculations—for example, a calculation that would require issuers to factor in such situations as temporary zero percent promotional interest rates. We obtained estimates from others for programming under the Bankruptcy Act provisions, which only require one calculation to estimate a cardholder's repayment period. These estimates were generally less than $500,000. For example, one lender stated in a comment letter to the Federal Reserve that such programming would cost about $412,500.

Estimated programming costs for smaller issuers that use third-party processors were lower than for large issuers. We obtained estimates for programming the customized provisions under the Bankruptcy Act from a processor and a medium-sized issuer. A representative of the processor estimated it would cost about $300,000 to modify information systems to accommodate the Bankruptcy Act disclosure option requiring issuers to provide an estimate of the repayment time. According to the representative, this cost would be spread across the processor's small- and medium-size issuer client base of about 5,000 issuers. In addition, representatives for a medium-sized issuer told us it would cost the issuer $5,000 to $10,000 to have its third-party processor modify its information systems to accommodate customized provisions contained in the Bankruptcy Act. They further noted that it would cost about $150 per hour to hire a processor to program the other two messages that are envisioned to be included in customized disclosures.

Costs for programming would vary depending on the level of precision that would be required and the complexity of an issuer's account practices. Some issuers have more complex pricing schemes that could increase the programming required to develop estimates that more closely reflect a cardholder's situation. For example, as noted above, many large issuers engage in transaction-based pricing, in which different rates of interest apply to balances originating from different transactions (such as purchases, cash advances, or balance transfers). Programming a calculation that accounts for a variety of balances at different interest rates, while more precise, is more complex than a calculation that uses one balance and one interest rate. Adding further to the complexity, with multiple balances and interest rates, decisions would need to be made about the order in which to allocate cardholder payments to the outstanding balances.

A smaller portion of the programming estimates we received was for reformatting billing statements to accommodate the text of the disclosure. Issuers use various formats or templates to present cardholders with information about their accounts, including transactions, payment due dates, and rewards program information. Issuers may also use different templates for different card programs, such as cards with rewards (e.g., cash-back or travel benefits) or private-label cards associated with major retailers. The issuers use an average of three statement templates, with the smallest issuers using just one and the largest issuers using as many as 100 templates, according to representatives of third-party processors serving large and small issuers. One representative estimated one-time costs of about $13,500 per issuer, assuming three templates required revision. Programming costs for small issuers would generally be the same on a per-unit (statement template) basis. However, a representative of another third-party processor told us reformatting costs would be substantially lower for small issuers because the processor requires all small issuers to use the same statement template, thereby spreading reformatting costs across the thousands of institutions using that statement.

Need for Expanded Customer Service Resources Would Also Increase Issuer Costs

Issuers estimated that call-center costs would increase following the implementation of customized disclosures because the centers would receive more and longer telephone calls from customers. One large issuer told us its costs could increase by about $3 million in the first few months following implementation of customized disclosures. However, this issuer said these calls likely would taper off after cardholders became familiar with the customized information. In addition, an issuer in a comment letter to the Federal Reserve noted that the Bankruptcy Act requirements would increase call volume and duration, which could increase its expense for servicing customer calls by about $900,000 monthly. As part of preparing to implement the California disclosure requirements, six large issuers estimated incurring expenses averaging about $680,000 monthly to operate a telephone bank upon implementing minimum payment disclosures in California.

Estimates of Total Implementation Cost Varied Widely

Perhaps reflecting the uncertainties and range of assumptions noted above, the estimates that we obtained of total first-year costs ranged from $9 million to $57 million for large issuers. For example, representatives of one issuer estimated that postage, programming, and customer service costs could total approximately $9 million, but also noted that the issuer could incur additional costs, such as training staff and retaining legal services to keep abreast of regulatory changes and court decisions that could affect compliance.

Not all issuers from whom we obtained data were able to provide total estimates based on individual implementation cost components. Instead, these issuers provided us with only aggregated estimates based on their experiences in implementing California's minimum payment disclosure requirements; and these estimates generally were higher than those provided by another issuer and two processors that estimated individual component costs. For example, representatives of one large issuer estimated the company would have spent a total of $57 million in the first year following implementation had it implemented the California requirements, which roughly resembled portions of the customized disclosure we studied. The issuer separated this estimate into two categories of one-time, start-up costs and ongoing costs. The one-time costs would be about $30 million, which would include programming computer systems and modifications to customer service systems, among other things. Ongoing costs would be about $27 million annually, including postage and handling a higher number of calls from cardholders, among other things. In documents filed with a federal district court, three large issuers estimated it would cost them about $41 million each in the first year to implement California's customized disclosure requirements.[19] Of this amount, about $18 million would pay for one-time, start-up costs with the remaining $23 million for ongoing costs.

Issuers Already Slated to Incur Some of These Costs, Which Are Small Relative to Net Income

As noted above, impending minimum payment disclosure requirements under the Bankruptcy Act could soon require issuers to make programming and billing statement changes that could consequently reduce estimated

[19]Although court documents contained cost estimates for six large issuers, we relied on the court documents to represent cost data for just three issuers because we obtained more recent cost estimates for the other three issuers mentioned in the documents.

costs to implement any additional customized disclosures. For example, one Bankruptcy Act option would require issuers to produce actual information about a cardholder's repayment period if only minimum payments were made and make this information available to cardholders over the telephone. Programming expenses made up front to meet that requirement could reduce the programming costs for implementing customized disclosures. Also, estimated increases to postage costs associated with a new customized disclosure requirement may be overstated in that they do not account for increased postage costs issuers will already have incurred for implementing the Bankruptcy Act requirements.

Because the cost estimates we obtained were not comprehensive, it is not possible to ascertain how additional customized minimum payment disclosure requirements would affect issuers' overall profitability. However, the costs of implementing customized disclosures do not appear to be significant in terms of large issuers' net income. According to a credit card industry analyst, estimates for implementing the customized minimum payment disclosures are insignificant to issuers and easily would be absorbed. The analyst noted that estimates for start-up and ongoing costs in the first year would be so small that they would be the equivalent of a rounding error in terms of net income.

Comparing these estimated implementation costs with issuers' operating expenses also indicated that such costs might not significantly increase their operating expenses. To determine how estimates of the costs to implement customized disclosures—which ranged from $9 million to $57 million—would affect the operating expense of the issuers that provided us with these estimates, we identified operating expenses and amounts in outstanding credit card loans from financial reports and data the issuers provided to us.[20] By adding the estimates of total implementation costs to the amount each issuer reported in operating expenses, we found that the ratio of their operating expenses to their outstanding credit card loans—a metric commonly used by industry analysts—would stay the same or increase slightly.[21] For example, we found that the issuer that provided us

[20]We obtained financial data from 10-K statements filed with the U.S. Securities and Exchange Commission for calendar year 2004, as well as from the Federal Deposit Insurance Corporation's Call Report database.

[21]Operating expenses include items such as credit processing, call center servicing, billing, collections, fraud management, and card issuance.

with a $9 million estimate for total implementation costs for the first year would experience no change to its operating expense ratio. The issuer that provided us with a $57 million estimate would experience an increase in current ratio from approximately 3.3 percent to about 3.5 percent. According to CardWeb.com, Inc., monthly operating expense ratios for the 150 issuers that it monitors generally averaged between 4.2 and approximately 6.0 percent from January 2001 to December 2005.[22]

Customized Disclosure Was Seen as Useful, but Its Impact on Cardholders May Vary

Most of the revolver cardholders—those that carry a balance on their credit cards—who we interviewed preferred to receive a customized disclosure on minimum payment consequences. Although some convenience users also preferred a customized disclosure, most saw generic disclosures or no disclosure at all as sufficient for their needs. Those preferring the customized disclosure did so because it would be cardholder-specific, change each month based on account transactions, and provide more information than the two Bankruptcy Act options. However, opinions as to how the customized disclosure would influence cardholder behavior varied, with some believing that such a disclosure would have a great impact and others believing that it would have little impact.

Revolvers Preferred Customized Disclosures

To assess the usefulness of providing a customized disclosure to cardholders, we interviewed 112 adult cardholders and asked for their preferences for three disclosure statements—the two generic disclosure options from the Bankruptcy Act and an example of a proposed customized disclosure—or no disclosure at all. We categorized the cardholders into two groups, of 38 convenience users and 74 revolvers, based on their responses to questions about their credit card payment behaviors.[23] The cardholders recruited for the interviews did not form a random, statistically representative sample of the U.S. population. As described in table 1 (in the background section), the two generic disclosure options shown to cardholders include one that contains a minimum payment

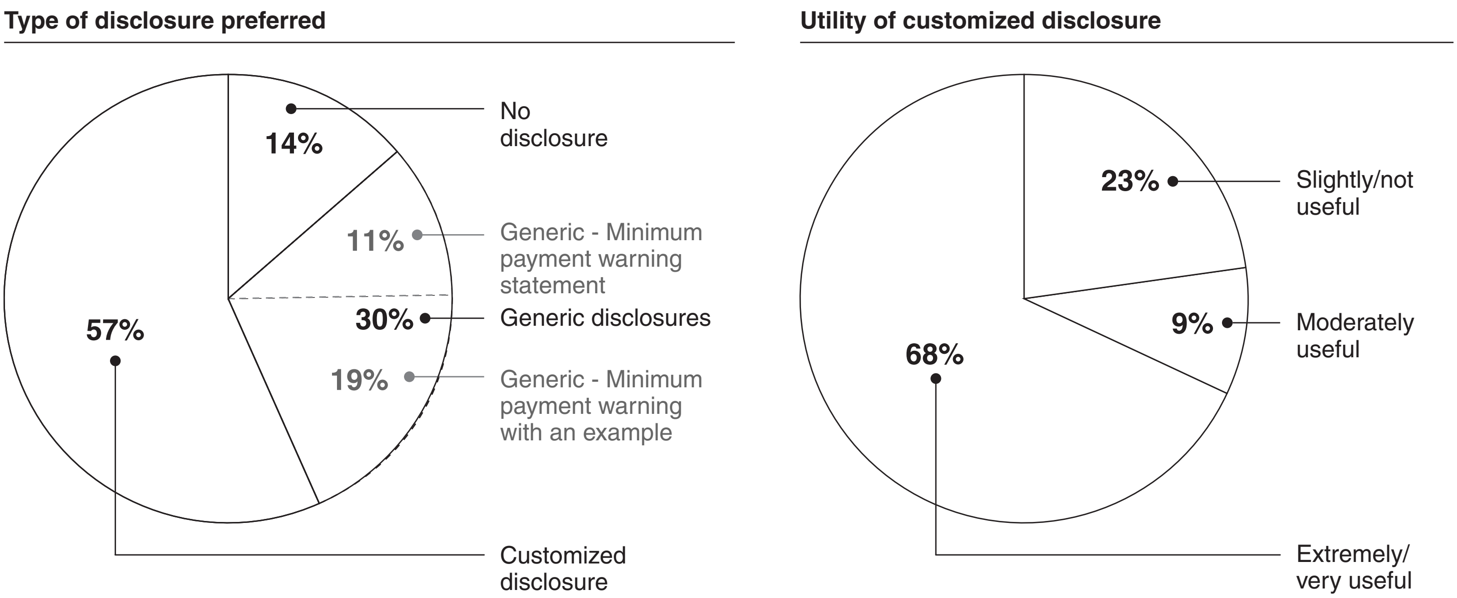
[22]CardWeb.com, Inc., data for operating expense ratios are derived from a database of approximately 150 active issuers representing 97 percent of total credit card loans held by issuers.

[23]Revolvers represented 66 percent of the cardholders we interviewed and convenience users represented 34 percent. This distribution does not represent, nor was it intended to reflect, the overall U.S. population of cardholders.

warning statement only, and another that contains a minimum payment warning statement and an example of the amount of time needed to pay off a sample balance. Table 1 also includes an example of a customized disclosure, similar to the one that cardholders were shown.

Revolvers generally preferred to receive a customized disclosure about the consequences of making minimum payments. Specifically, more than half of the revolvers (42 out of 74) choose to receive the customized disclosure over the two Bankruptcy Act disclosure options or no disclosure at all (see fig. 1).

Figure 1: Extent to Which 74 Credit Card Revolvers Preferred and Found Useful a Customized Minimum Payment Disclosure



Source: GAO.

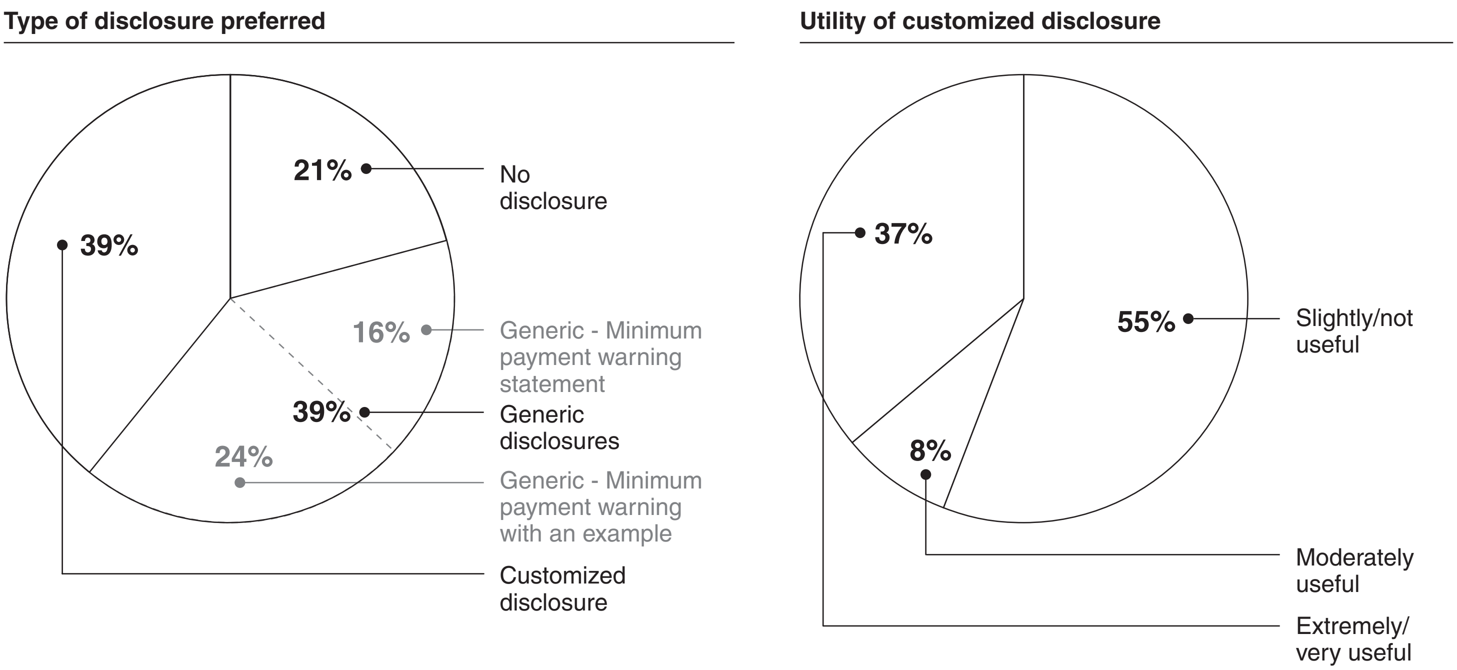
Note: Percentages may not total to 100 percent due to rounding.

As figure 1 shows, the revolvers—including some for whom the customized disclosure was not the preferred option—also generally found the information contained in the customized disclosure to be useful. Sixty-eight percent (50 out of 74) of the revolvers found the customized disclosure either extremely or very useful, while 23 percent (17 out of 74) found the customized disclosure slightly useful or not useful at all.

Although Several Convenience Users Also Preferred a Customized Disclosure, Most Did Not Believe They Needed to Receive Such Information

Although more convenience users preferred the customized disclosure to either of the generic ones, the majority (60 percent) were satisfied with receiving a generic disclosure or no disclosure at all. The number of convenience users preferring the customized disclosure (15 out of 38) was equal to the total number who preferred the generic disclosures.

Figure 2: Extent to Which 38 Credit Card Convenience Users Preferred and Found Useful a Customized Minimum Payment Disclosure



Source: GAO.

Note: Percentages may not total to 100 percent due to rounding. The individual percentages for the two generic disclosures also do not total to the combined percentage due to rounding.

As shown in figure 2, while 37 percent (14 out of 38) of convenience users found the customized disclosures extremely or very useful, 55 percent (21 out of 38) found it slightly useful or not useful at all.

Revolvers and Convenience Users Cited Similar Reasons for Preferring the Customized Disclosure, but Not All Cardholders Wanted This Information

The reasons given by both revolvers and convenience users for preferring the customized disclosure generally were similar. Many of the cardholders who preferred the customized disclosure or thought that it was more useful than a generic disclosure said they did so because the information provided would be specific to their account and change each month, based on their transactions. For example, if issuers were providing a customized disclosure, the information on the monthly billing statements would take into account any changes in customers' accounts that occurred since the previous billing cycle, including new purchases, payments received, changes in interest rates, and any fees that might have been assessed. The customized disclosure, therefore, would provide cardholders with a new "snapshot" of their account each month, as of the date the bill was calculated. Many of the cardholders noted that, even if the information was outdated by the time they received it (e.g., if they had made additional purchases), just having an idea of the payments needed to pay off their balances would be helpful. One respondent noted that she found the customized disclosure more useful than the generic example in the Bankruptcy Act disclosure because, even though her issuer cannot anticipate future purchases or changes in her interest rate, the customized disclosure still would be closer to reality. Some respondents also found the dynamic nature of the disclosure helped them understand the consequences of making minimum payments more than the generic examples because they would be better able to see how purchases or payments made on their account affected their repayment estimates.

Additionally, some respondents noted that because the customized disclosure would be updated each month they could track their account and use the information for budgeting or financial planning purposes. Although issuers and others stated that the information would not be practical for cardholders because the estimates would assume no activity on the account, we did not find that the cardholders we interviewed believed this limited the usefulness of the customized information. In fact, after we explained to cardholders that the customized disclosure would represent only a point-in-time estimate and that the information would change if there were additional activity on their account, 79 percent (89 of 112 cardholders) found the customized disclosure more useful than the generic example in one of the Bankruptcy Act options.

Customized Disclosures Provide Cardholders with Additional Information

Cardholders also preferred a customized disclosure because such a disclosure provided them with new and additional information. We found that the majority of cardholders already demonstrated a basic understanding of the consequences of making only minimum payments. For example, 68 percent of the cardholders could explain that both the length of time and amount of interest they would pay would increase if they made only minimum payments. An additional 29 percent of respondents could name at least one of these two consequences. Because many cardholders already understood that making only minimum payments could be harmful to their financial condition, the information provided by either of the Bankruptcy Act disclosures would not be new to the cardholder. One cardholder told us that he preferred the customized disclosure because he already understood the concept addressed in both Bankruptcy Act disclosure options; however, the customized disclosure provided him with personalized details that he found helpful. Another cardholder mentioned that the customized disclosure gave him a "plan," whereas the other two options were "merely warnings" and would not tell him anything he did not already know.

In addition to providing cardholder-specific information on the length of repayment, a customized disclosure also could include information on the total amount of interest a cardholder would pay if only minimum payments were made, and the monthly payment amount needed to repay the balance over some time period (e.g., 3 years). During our interviews, several cardholders told us that seeing such information would be useful to them. For example, some cardholders told us they found the information on the monthly amounts needed to repay the balance over a time period to be the most useful part of the disclosure because it provided them with a plan for how to pay off their balances.

The majority of cardholders we interviewed (57 percent) indicated that they were unlikely to take the initiative to call the toll-free telephone numbers required by the Bankruptcy Act, and many indicated that they had not calculated the information on their own to obtain individualized information. Therefore, if the customized disclosure were not provided directly on their billing statement, they would be unlikely to receive any individualized information at all. In fact, many cardholders mentioned that they liked the customized disclosure because it eliminated the need for them to calculate the information on their own or call a toll-free telephone number. Additionally, most of the cardholders were not aware of or using existing tools such as amortization calculators that are available on the Internet. Only 41 percent of cardholders were aware of these calculators, and only 33 percent of those who were aware of the tools had used them. Also, according to financial educators, it is important to provide customized disclosures because most cardholders are not able to calculate amortization periods and total interest payments correctly.

Some Cardholders Saw Limited Need to Receive Customized Disclosures

Not all of the cardholders chose to receive the customized disclosure or found the information that it contained useful. As shown in figures 1 and 2, 30 percent (22 of 74) of the revolvers and 39 percent (15 of 38) of the convenience users preferred to receive one of the two Bankruptcy Act options. Some of these cardholders explained that they thought the generic disclosures mandated by this act were simpler and easier to understand. Others indicated that the example provided in one of the Bankruptcy Act options gave them a good understanding of the consequences of making minimum payments, without having to see specific estimated numbers based on personal account information. Other cardholders specifically stated that they found the customized disclosure confusing, and some noted that having the option to call the toll-free number if they wanted additional information was sufficient.

Finally, some cardholders preferred not to receive any disclosure on the consequences of making minimum payments, primarily because they already understood the consequences of making minimum payments. Some cardholders were concerned that issuers would pass on to them the costs associated with providing customized disclosures. Other cardholders told us they probably would not pay attention to the disclosure or that they would not read it because they did not read their credit card statements.

This report does not contain all the results from the interviews. The interview guide and a more complete tabulation of the results can be viewed at GAO-06-611sp.

Customized Disclosures' Impact on Cardholders May Vary

Opinions varied on how effective customized disclosures would be in influencing cardholder behavior. Consumer groups, financial educators, and many of the cardholders we interviewed indicated that considerable benefits might result from providing cardholders with customized disclosures. Such benefits could include cardholders making larger payments or otherwise changing how they use their credit cards.

Customized disclosures might have greater impact because they would be more noticeable than other disclosures. For example, a consumer group representative and financial educator told us that cardholders generally are more likely to notice a customized disclosure over a generic one. They compared providing the generic Bankruptcy Act disclosures on cardholders' billing statements to providing smokers with the Surgeon General's Warning on a cigarette pack, and noted that once cardholders become familiar with a generic minimum payment disclosure, they are likely to ignore it and not be influenced by the information that it contains. The risk of a repeated and identical disclosure being ignored appears real, as some of the cardholders we interviewed said that after seeing the generic Bankruptcy Act disclosures a few times they probably would stop reading them. In contrast, cardholders told us that that they would be more likely to notice customized information each month. Representatives from some consumer groups and other organizations told us that, because the example contained in one of the generic Bankruptcy Act disclosures contains a sample balance and interest rate that is not reflective of most cardholders' accounts, cardholders likely would dismiss it entirely because they would assume it did not apply to them.

Customized disclosures also were seen as having a potentially significant impact on cardholder behavior because they would provide information that changes as the cardholder's situation changes. For example, one representative of a third-party credit card processor told us that she believes that if cardholders were shown information that changed each month according to the actions they took, they then would be more likely to change their behavior. Many of the cardholders also indicated that a customized disclosure would be more influential than a generic disclosure in causing them to consider increasing monthly payments. For example, one respondent said that during the months when she might not pay her full balance, seeing the customized disclosure would make her want to "scrape together more money from savings" to make a larger payment. Additionally, another respondent noted that the customized disclosure would influence him to take disposable income and put it toward his credit card balance. Another said that seeing the amount of interest he was paying would make him want to pay off the balance sooner. Additionally, two of the cardholders we interviewed told us that seeing new information every month would help them make decisions for the future and might change the way in which they used their credit cards.

However, others, including issuer representatives and industry researchers, indicated that customized disclosures might not be effective in changing consumer behavior. They noted that not all cardholders need the information provided in the customized disclosure. For example, while customized disclosures could provide convenience users with illustrative information, the cardholders—by paying their balances in full each month—already are modeling behavior that customized information was designed to promote. As a result, these cardholders would appear not to need this additional disclosure. Many of the convenience users we interviewed—who preferred not to receive a customized disclosure—explained that they paid their balance in full each month, already understood the consequences of making only minimum payments, and therefore did not need the additional reminder. Instead, most of the convenience users told us that they would rather receive information on the first page of their billing statement that would be more useful to them, such as information on a credit card reward program. Additionally, because a customized disclosure would assume that only the exact minimum amount would be paid, representatives of some issuers told us that such disclosures would be of limited use to the large number of cardholders who, although not fully paying the balance each month, do pay more than the minimum amount due.

Some organizations also said that customized disclosures might have a limited impact on cardholder behavior overall because the number of cardholders that make consecutive minimum payments appears to be small. According to issuers, minimum payment disclosures, whether customized or generic, are useful only to the cardholder population that revolves balances—specifically, the smaller subset of that population that habitually makes minimum payments. According to six of the issuers we contacted, the percentage of their customers who make minimum payments is small.[24] As a result, most issuers questioned the value of implementing customized disclosures that would benefit such a small percentage of their customers. Additionally, representatives of one large issuer told us that their firm had implemented the minimum payment disclosures required under the California law for 3 months and, while acknowledging that these disclosures were in place for a brief period, indicated that they did not notice a difference in the number of cardholders making minimum payments. As a result of this experience, the representatives said that they did not expect the proposed customized disclosure to have much of an impact either.

Customized disclosures also might have little impact on cardholder behavior because some cardholders are not able to make larger than minimum payments. Many of the cardholders we interviewed who made minimum payments told us that they did so because they could not afford

[24]The other issuer does not track data on the proportion of its cardholders who consistently pay the minimum amount due.

to pay more. Competing expenses and a lack of additional disposable income were the primary reasons these cardholders gave for making at least one minimum payment within the last year. A representative from a large issuer also told us that cardholders who make minimum payments lack the ability to regularly pay more.

Various Options Exist for Providing Information on Consequences of Minimum Payments

Issuers, consumer groups, and others that we interviewed suggested alternatives for providing cardholders with customized information on the consequences of making minimum payments. Among the alternatives mentioned were targeting customized disclosures to only certain cardholders or not requiring the disclosure to appear on the first page of cardholders' billing statements. While these alternatives might make it easier and less costly for issuers to implement customized disclosures, they also may reduce the desired impact of the disclosure because fewer cardholders would receive the information or notice the disclosure. Rather than providing customized disclosures, some suggested that government agencies, issuers, financial educators, and consumer groups expand general financial education efforts on the consequences of making minimum payments.

Suggested Alternatives Included Fewer Recipients, Flexible Formatting, and Online Delivery

Consumer groups, issuers, and others suggested that the population of cardholders that would receive customized disclosures could be narrowed. For example, a consumer group representative suggested the information could be targeted only to cardholders most likely to need it, such as revolvers. A representative of another consumer group told us that such information ought to be provided to any cardholders that paid the minimum amount or close to the minimum amount in any given month. Some issuer representatives asserted that the population receiving customized disclosures ought to be even narrower, such as cardholders who have made minimum payments for several consecutive months.

Limiting the number of cardholders who receive customized disclosures offers some advantages to issuers and some disadvantages to cardholders. For example, providing customized information to a more limited number of cardholders would lower issuer costs, such as paper and postage, by reducing the number of billing statements that might require an additional page. However, limiting customized disclosures to cardholders who pay only the minimum could preclude other cardholders from benefiting from such information. For example, many of the cardholders we interviewed identified themselves as paying “a lot more than the minimum payment,” “almost their entire balance,” or their “entire balance” each month, yet found the customized disclosure to be either extremely or very useful. Some of these cardholders noted that even though they do not typically make minimum payments or close to the minimum payment, the disclosure still provided them with useful information in case they ever experienced a time when they would need to make minimum payments. Some of the convenience users who found the customized disclosure useful explained that the information served as a good reminder on the consequences of making minimum payments.

A second alternative that issuers and others identified would be to place the disclosure in a location other than the first page of the billing statement. For example, issuers could be allowed to print the customized disclosure on either the back side of a statement page or on a subsequent page. One regulatory official noted that issuers could provide text on the first page that informs cardholders that customized information is available elsewhere in the statement. Issuers and a card processor told us that space on the first page of the billing statement is at a premium because it typically contains a lot of important information, such as messages on the status of an account (e.g., over-the-limit notices).

Providing the customized minimum payment disclosures to cardholders in a location other than the first page of the billing statement would offer issuers some cost advantages, but a disadvantage of such a change could include less impact on cardholder behavior. Not being required to place the disclosure on the first page of billing statements could make implementing the disclosure easier and less costly for issuers because they might not need to reformat their statement templates. However, according to consumer groups and others, not placing the information on the first page of the statement would reduce its prominence and likely its influence on cardholder behavior. For example, one representative told us that cardholders might be less likely to notice the disclosure if it was not prominently positioned on their billing statement. An industry expert confirmed that the primary tool issuers use to communicate with their cardholders is the monthly billing statement. Therefore, removing the customized minimum payment disclosure from the billing statement entirely could decrease the number of cardholders who read it at all.

A third suggestion that could reduce the cost of customized disclosures would involve providing the information electronically or online. According to an issuer and a consumer group we contacted, customized information could be provided to cardholders in electronic statements sent by issuers. Cardholders also could access such information directly on issuers' Web sites. For example, issuers could provide online calculators in which cardholders could enter their balances, applicable interest rates, and payment amounts to obtain repayment and other estimates specific to their accounts. At a credit card industry symposium held in June 2005, participants advocated increasing the reliance on technology for delivering more useful consumer disclosures.[25] One issuer that we interviewed already has implemented an online calculator to provide its customers with customized information, while another issuer told us they were currently developing one.

Making customized disclosures available online, rather than in monthly statements, could prevent cardholders from receiving outdated information and allow cardholders to access the information when they need it, rather than limit them to a monthly statement. Online availability also presents cardholders with the ability to receive only the information they prefer. Online disclosures also could give cardholders the flexibility to obtain the information they deemed most useful to them. For example, some cardholders found customized disclosures only slightly useful, because they made more than the minimum payment every month. Additionally, one cardholder said that he would rather see the calculation that showed the monthly payment amount that would be required to pay his balance off in 1 year, rather than some longer period.

However, an exclusively online presentation could also reduce the impact of the disclosure. Removing the disclosure from the billing statements could greatly decrease the number of cardholders that see such information, because not all cardholders have easy access to the Internet. Some cardholders we interviewed mentioned that although they were aware of online calculators to help them estimate credit card payoff times, they had not used them because they did not have easy access to the Internet. In addition, even cardholders with the ability to obtain such information online might not utilize it. For example, only two of the 43 cardholders with whom we spoke that identified themselves as typically paying "the minimum amount" or "more than the minimum amount, but not much more than the minimum," had used an online credit card calculator. Some of these cardholders were not comfortable with using the Internet for

[25]On June 10, 2005, the Payment Cards Center of the Federal Reserve Bank of Philadelphia hosted "Federal Consumer Protection Regulation: Disclosures and Beyond."

personal finance. In addition, the consumers we interviewed generally greatly preferred receiving minimum payment disclosures in their billing statements. Of the 112 cardholders we interviewed, 73 percent preferred to receive such information on their monthly billing statement, while about 11 percent preferred receiving the information via the Internet.

A fourth alternative for providing customized information on minimum payment consequences to cardholders would be to do so less often than monthly. For example, issuers could provide the information to cardholders quarterly or annually. Several of the cardholders we interviewed (about 24 percent) were amenable to receiving the disclosure less frequently than monthly. This alternative could reduce both postage and paper costs for issuers because additional pages to print the disclosure would be needed less frequently.

However, if cardholders received the information less frequently, they would not be reminded of the consequences of making minimum payments in the months they did not receive the disclosure. For example, one cardholder we interviewed who typically made only slightly more than minimum payments said that she "just doesn't really think about it when she makes the payment," but with a customized disclosure "in front of her, she would think about it more." Another noted, "Having it [the customized disclosure] in front of you with your specific information makes it easier to keep in the back of your mind that you should be quick to pay your balance off sooner."

Options Besides Customized Disclosures Were also Identified

Consumer groups, federal regulators, and others identified options for improving the information cardholders receive on the consequences of making minimum payments that would not entail providing customized information. For example, one issuer representative advocated expanding the generic example in one of the Bankruptcy Act options by developing a wider range of balance amounts and interest rates. With several different examples available, issuers could provide cardholders with a disclosure that contained a sample balance and interest rate that would be closer to those in the cardholder's actual account, without having to incur the expense of producing disclosures using the exact amounts. While this approach would not provide cardholders with estimates as specific to their situation as a customized disclosure, it likely would provide better information to cardholders whose balances and interest rates were not similar to those currently used in the example contained in the Bankruptcy Act disclosure.

Finally, instead of providing customized disclosures, federal regulators, educators, and consumer groups mentioned that consumer awareness could be improved by requiring issuers and others to increase financial education efforts tailored to minimum payment messages. Issuers could do this by including information about the consequences of making only minimum payments in solicitation letters or the introductory packages consumers receive when they obtain a new credit card. Government agencies and financial education providers could make additional use of advertisements in various media to underline messages about the consequences of making minimum payments.

Observations

Our work indicates that credit card issuers and processors have the necessary data and systems capabilities to provide customized minimum payment disclosures—that is, to include customized information in billing statements that would show the length of time required to pay off each cardholder's actual balance and the additional interest that would be incurred if only the minimum payment is made each month, as well as the monthly payment required to pay off an outstanding balance in a given time period. However, such disclosures are only point-in-time estimates that would fluctuate as cardholders make additional purchases or increase their payment amount. Credit card issuers and processors would incur initial costs, estimated to be from less than $1 million to up to several million dollars, to revise their systems to make these calculations. They would also likely incur additional costs resulting from higher postal charges—if including such disclosures increases the size of cardholder statements—and from increased customer service expenses, as they respond to account holder questions about these disclosures. While these additional costs could increase the ongoing expenses of producing and mailing billing statements, card issuers are already obligated to bear some portion of these costs as they implement the minimum payment disclosures mandated by the Bankruptcy Act. While we cannot estimate the incremental costs of providing customized disclosures, the known estimated costs appear to be small relative to the income of the largest issuers, which account for the vast majority of cardholder accounts. Further, the costs to the thousands of small card issuers would be minimal because of their use of third-party processors.

While most of the revolver cardholders whom we spoke with found customized disclosures very useful, the impact that they might have on cardholder payment behavior could vary. Many of the consumers that we interviewed told us that customized disclosures provided more useful information than the generic disclosures mandated by the Bankruptcy Act, with the majority of revolvers preferring to receive customized disclosures. However, the majority of convenience users, while finding some value in the information contained in customized disclosures, were satisfied with receiving either the generic disclosures or no additional disclosure at all. While cardholders told us that such disclosures could strongly influence their decisions about making minimum payments, not all cardholders' financial circumstances would allow them to increase their payment amounts. Therefore, the ultimate impact of providing additional disclosures could vary.

While providing cardholders with additional disclosures about the consequences of making only minimum payments on their credit cards would appear to provide them with useful information, such disclosures would raise issuer costs and whether the impact on consumer behavior would be large or small is not known. However, various options, which have both advantages and disadvantages, for providing such information exist. For example, providing customized information only to those cardholders who revolve credit card balances or by providing it to all cardholders but on a less frequent basis or in another location besides the first page of the monthly billing statement could make it easier and less costly for issuers to implement customized disclosures. These options, however, could lessen the potential impact of the customized disclosure because fewer cardholders would receive, or be likely to notice, the information.

Agency Comments and Our Evaluation

We provided a draft of this report to the Federal Deposit Insurance Corporation, the Federal Reserve, the Federal Trade Commission, the National Credit Union Administration, the Office of the Comptroller of the Currency, and the Office of Thrift Supervision for their review and comment. In a letter from the National Credit Union Administration, the Chairman notes that the Administration agrees with the findings of our report, including that customized disclosures for consumers could feasibly be required of card issuers at a potentially significant but relatively reasonable cost and such disclosures could be useful and desirable for some consumers despite the uncertainty of their impact. The Chairman also notes that, collectively, the potential impact on credit unions of requiring card issuers to provide customized disclosures to consumers should be minimal, particularly since many use third-party processors. However, the Chairman's letter also notes that the financial impact of customized disclosure requirements could still be significant for these small issuers and even more significant for moderate sized financial institutions servicing their own credit card portfolios, particularly in institutions where credit card interest margins are already low. The letter also notes that considering the incremental costs of customized disclosures is important because such costs will ultimately be passed on to consumers through increased fees or higher interest rates, which could result in a negative impact on the same consumers whom the disclosures are meant to help. As a result, the Chairman indicates that some of the alternatives to providing customized disclosures that are mentioned in our report could be more economically efficient than implementing customized disclosures to increase consumer awareness of the consequences of making minimum payments.

We also received technical comments from the Federal Reserve, the Federal Trade Commission, and the Office of the Comptroller of the Currency, which we incorporated as appropriate. The Federal Deposit Insurance Corporation and the Office of Thrift Supervision did not provide any comments.

As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days after the date of this report. At that time, we will send copies of this report to the Chairman, Federal Deposit Insurance Corporation; the Chairman, Federal Reserve; the Chairman, Federal Trade Commission; the Chairman, National Credit Union Administration; the Comptroller of the Currency; and the Director, Office of Thrift Supervision and to interested congressional committees. We will also make copies available to others upon request. The report will be available at no charge on the GAO Web site at http://www.gao.gov. The results of the interviews will also be available on the GAO Web site at GAO-06-611sp.

If you or your staff have any questions regarding this report, please contact me at (202) 512-8678 or woodd@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Key contributors to this report are listed in appendix III.

David G. Wood

David G. Wood
Director, Financial Markets and Community Investment

Objectives, Scope, and Methodology

Our objectives were to (1) determine the feasibility and cost of requiring credit card issuers (issuers) to provide cardholders with customized minimum payment information, (2) assess the usefulness of providing customized information to cardholders, and (3) identify options for providing cardholders with customized or other information about the financial consequences of making minimum payments.

To determine the feasibility and cost of providing cardholders with customized minimum payment information, we reviewed current and proposed disclosure requirements, including Title XIII of the Bankruptcy Abuse Prevention and Consumer Protection Act of 2005 (Bankruptcy Act), which amended the Truth in Lending Act (TILA) to require issuers to make disclosures regarding the consequences of making only the minimum payment. We also reviewed the advance notices of proposed rulemaking that the Board of Governor's of the Federal Reserve System (Federal Reserve) issued. The proposed rulemaking is associated with the Federal Reserve's self-initiated comprehensive review of the open-end (revolving) credit rules in Regulation Z, which implements TILA, as well as the implementation of the minimum payment disclosure requirements of the Bankruptcy Act. We also reviewed California's Civil Code, section 1748.13, which had also mandated that consumers receive disclosures regarding minimum payment consequences. We discussed the feasibility and cost of providing customized information to cardholders with the staff of six major issuers and one mid-size issuer. We determined that these issuers account for about 67 percent of actively used credit card accounts as of year-end 2005. We provided issuers with a list of 16 cost items to facilitate discussions of the costs to implement customized minimum payment disclosures.

We also met with the staff of two third-party credit card processors (processors) that manage card account data and produce billing statements for thousands of large and small issuers, who provided us with cost estimates and technical information about implementing customized disclosures. In addition, we obtained cost estimates for another three large issuers from court documents associated with a constitutional challenge of a California statute that required issuers to include minimum payment disclosures on billing statements sent to California cardholders. We supplemented our interview data with a review of 17 comment letters that issuers, processors, and trade associations submitted to the Federal Reserve that addressed the implementation of minimum payment disclosure provisions contained in the Bankruptcy Act. We reviewed two studies about costs of regulatory reforms and used them to shape our approach with issuers and processors to study the costs to implement customized minimum payment disclosures.[1]

To better understand how producing customized disclosures could affect issuer costs, we also discussed issuer operations and profitability with two broker-dealer research analysts that monitor credit card issuing banks and industry developments. We also met with representatives of federal banking regulators—the Federal Reserve, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Office of Thrift Supervision, and National Credit Union Administration—that oversee financial institutions offering credit cards, and met with representatives of the Federal Trade Commission, which oversees nonbank credit card issuing entities. We also attended a roundtable hosted by the McDonough School of Business at Georgetown University where representatives of credit card issuers, industry trade associations, law firms, federal regulatory agencies, and a consumer interest group addressed implementation issues relating to the provision of customized minimum payment disclosures.

To assess the usefulness of providing customized disclosures to cardholders, we conducted in-depth interviews with a total of 112 adult cardholders in three locations: Boston, Chicago, and San Francisco, in December 2005. We contracted with OneWorld Communications, Inc., to recruit a sample of cardholders that generally resembled the demographic makeup of the U.S. population in terms of age, education levels, and income. However, the cardholders recruited for the interviews did not form a random, statistically representative sample of the U.S. population. Cardholders had to speak English and meet certain other conditions: having owned at least one general-purpose credit card for at least the last 12 months prior to the interview, and not have participated in more than one focus group or similar in-person study in the 12 months prior to the interview. We selected proportionally more people who typically carried balances on their credit card (revolvers) rather than those who regularly paid off their balances (convenience users)—compared with their actual proportions in the U.S. population—because we judged revolvers as likely more in need of the information provided in the customized disclosure. See

[1]Gregory Elliehausen, "The Cost of Bank Regulation: A Review of the Evidence," Staff Study 171 (Washington, D.C.: Board of Governors of the Federal Reserve System, April 1998) and Gregory Elliehausen and Barbara R. Lowrey, "The Costs of Implementing Regulatory Changes: The Truth in Savings Act," *Journal of Financial Services Research* 17, no. 2 (2000): 165-179.

table 2 for the demographic information on the cardholders we interviewed.

Table 2: Demographic Characteristics of Cardholders Interviewed

Category	Number of cardholders	Percent of total
Age[a]		
18-24	12	10.8
25-34	19	17.1
35-44	27	24.3
45-54	23	20.7
55-64	13	11.7
65 and older	17	15.3
Household income		
Less than $25,000	16	14.3
$25,000 - $44,999	25	22.3
$45,000 - $64,999	24	21.4
$65,000 - $100,000	24	21.4
Over $100,000	23	20.5
Education level		
Some high school	15	13.4
High school graduate	32	28.6
Some college	18	16.1
College graduate	27	24.1
Graduate school	15	13.4
Other	5	4.5
Type of cardholder		
Convenience user	38	33.9
Revolver	74	66.1

Source: GAO.

Note: Percentages may not total to 100 percent due to rounding.

[a]One interviewee did not report age, so the total represented for this category is 111 cardholders.

During these consumer interviews, we obtained cardholders' opinions to assess the usefulness of the customized disclosure by asking them a number of open- and closed-ended questions, and asking them more tailored follow-up questions as necessary to more fully understand their answers. All cardholders were asked questions to determine their typical credit card payment behavior and elicit what they already knew about the consequences of making only minimum payments. To determine their preferences for various disclosures, we showed each participant three sample disclosure statements. Two of these sample disclosure statements contained the language and generic example mandated by the Bankruptcy Act minimum payment disclosure provisions. The other disclosure presented an example of language incorporating the components of the proposed customized disclosure we studied. The sample disclosure statements we showed to cardholders can be found in GAO-06-611sp.

Each of the cardholders we interviewed was asked a series of questions about each of the three disclosure statements, including how "understandable," "influential," "useful," and "helpful" each disclosure was to their understanding of the consequences of making minimum payments. After seeing the three statements, cardholders also were asked to compare the statements and choose the statement they would prefer to receive. Additionally, cardholders were asked how they would prefer to receive such information, and how frequently they would like to receive it. Narrative answers to open-ended questions were categorized into various themes based on the cardholders' responses. The reliability of the coding scheme was assessed by comparing the answers of a second, independent coder with a number of the answers. The interview instrument that was used to interview cardholders, as well as the results to the closed-ended questions can be found in GAO-06-611sp.

The data collected through our in-depth cardholder interviews are subject to certain limitations. For example, the data cannot be generalized to the entire U.S. population of credit cardholders. In addition, our sample distribution between convenience users and revolvers was not reflective of the estimates of the proportion of such cardholders in the overall U.S. cardholding population because we purposely oversampled revolvers. Additionally, the self-reported data we obtained from cardholders are based on their opinions and memories, which may be subject to error and may not predict their future behavior.

We gathered additional information on the usefulness of providing customized disclosures to cardholders by reviewing existing academic research on consumer protection disclosures and applicable public comment letters on the Federal Reserve's advance notices of proposed rulemaking. We also interviewed credit card issuers and processors, and a variety of industry, academic, government, consumer interest, and financial education organizations for their opinions on the usefulness of customized disclosures.

To identify other ways of providing cardholders with customized or other information about the financial consequences of making minimum payments, during our interviews we asked issuers and processors, as well as a variety of academic, government, consumer interest, and financial education organizations for suggestions and alternative options to providing customized disclosures. We discussed some suggestions with issuers and processors to determine their feasibility. We also asked the 112 cardholders for their opinions on other ways to communicate the financial consequences of minimum payments.

We conducted our study between June 2005 and April 2006 in Boston, Chicago, San Francisco, and Washington, D.C., in accordance with generally accepted government auditing standards.

Comments from the National Credit Union Administration

National Credit Union Administration

Office of the Chairman

April 3, 2006

Cody Goebel, Assistant Director
United States Government Accountability Office
Washington, D.C. 20548

Re: Draft GAO Report 06-434

Dear Mr. Goebel:

Thank you for the opportunity to review and comment on GAO's draft report entitled *Customized Minimum Payment Disclosures Would Provide More Information to Consumers, but Impact Could Vary.* NCUA appreciates the importance and timeliness of this study and draft report, particularly given the "disclosure" or consumer warning statement requirements for card issuers in the recently enacted Bankruptcy Protection Act of 2005. We commend the thoroughness of your staff in addressing this issue. Our comments below address the potential impact on credit unions and their members if card issuers are required to offer customized disclosures to consumers.

Potential Financial Impact on Credit Unions

Collectively, the potential impact on credit unions of requiring card issuers to provide customized disclosures to consumers should be minimal. At $23.9 billion, outstanding credit card balances comprise only 3.5% of total credit union assets. The report indicates the cost of customized disclosures may be significant for card issuers. As noted in the report, many small institutions, including many credit unions, utilize third-party processors to manage card operations and servicing. Since these third parties generally deal with many issuers, the financial impact on smaller institutions may be lessened through economies of scale. We believe this will be the case for most credit unions offering credit cards. However, we feel it is important to note that the financial impact of customized disclosure requirements could still be significant for these small issuers and even more significant for moderate sized financial institutions servicing their own credit card portfolios, particularly in institutions where credit card interest margins are already low.

Potential Financial Impact on Credit Union Members

The report notes that the consumers in the study preferred customized disclosures over generic disclosures and that consumers carrying a balance on card accounts found the customized disclosures to be most useful. The report also aptly notes that while the disclosures may be desirable and useful, there is no way to know what impact they might actually have on consumer behavior. Since consumers who continually pay minimum payments represent a small portion of all card holders and may lack the financial wherewithal to make a larger payment, it is important to consider that the cost of implementing customized disclosures may not be as economically efficient as some of the

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other alternatives mentioned in the report. It is also important to consider that the added incremental costs of customized disclosures will ultimately be passed on to consumers through increased fees or higher interest rates. To that end, the cost of customized disclosures could have a negative impact on the same consumers who the disclosures are meant to help.

We concur with the draft report's findings and feel this draft report fairly demonstrates the facts that: 1) customized disclosures for consumers could feasibly be required of card issuers at a potentially significant but relatively reasonable cost; 2) such disclosures could be useful and desirable for some consumers despite the uncertainty of their impact; and 3) numerous options exist at varying costs to heighten consumer awareness of the consequences of making only minimum payments on credit card accounts. NCUA supports the concept of raising consumer awareness about the consequences of making only minimum payments on credit card accounts. We further concur with the idea that alternatives to providing customized disclosures for all consumers may be more cost effective and helpful to those who need the information the most.

Thank you again for the opportunity to comment on the draft report. If you have any questions or need further information, please feel free to contact NCUA Executive Director J. Leonard Skiles at (703) 518-6321.

Sincerely,

JoAnn Johnson

JoAnn M. Johnson
Chairman

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Staff Acknowledgments

In addition to those named above, Cody Goebel, Assistant Director; Christine Houle; John C. Martin; Marc Molino; Carl Ramirez; Omyra Ramsingh; Barbara Roesmann; and Kathryn Supinski made key contributions to this report.

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