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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.
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April 2006

CREDIT CARDS

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

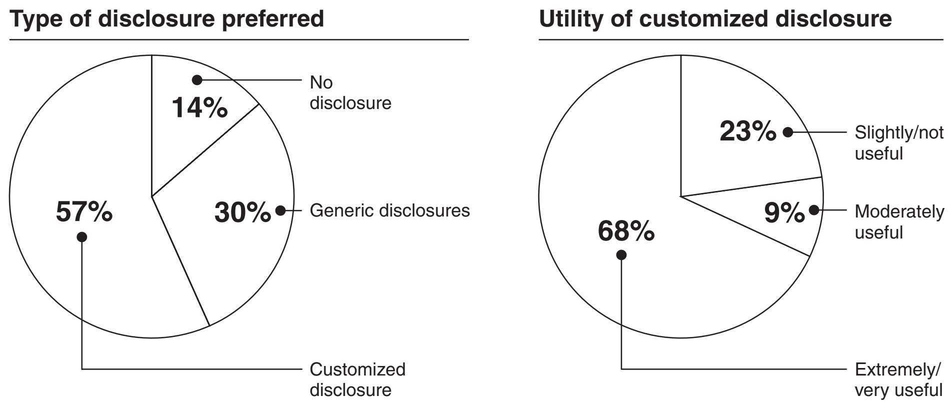
What GAO Found

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.