



BOSTON COLLEGE

WALLACE E. CARROLL SCHOOL OF MANAGEMENT
MARKETING DEPARTMENT

October 23, 2020

To: Comment Intake—CARD Act Rules RFA Review and Credit Card Market Review
Bureau of Consumer Financial Protection
1700 G Street, NW
Washington, DC 20552

RE: Docket No. CFPB-2020-0027, RFI Regarding Consumer Credit Market

We are writing in response to the CFPB's request for information regarding the impact of the CARD Act on the consumer credit market. This comment relates specifically to the **CARD Act section 502(a) review**, effectiveness of disclosures, and adapting current credit card disclosures to the digital environment. This aligns with topic #2 in the list of seven topics of interest described in the section titled, "II. CARD Act Section 502(a) Review," of the Bureau's RFI posted online.

This comment is a summary of our recently published research testing alternative credit card minimum payment warning e-disclosure designs and their influence on credit card repayment choices in online settings.

Research article:

Salisbury, Linda Court and Min Zhao (2020), "Active Choice Format and Minimum Payment Warnings in Credit Card Repayment Decisions," *Journal of Public Policy & Marketing*, 39(3), 284-304.

Research Summary:

Credit card balances have become the most commonly held type of debt amongst US families (Federal Reserve, 2017). While credit card purchases create initial debt liability, consumers' repayment choices also influence debt accumulation due to compounding interest costs over time, so lenders' minimum payment policies and payment choice architecture can have a big impact on consumers' debt burden and default risk. A growing number of credit cardholders repay their credit cards online, but the payment choice architecture online differs from traditional monthly billing statements in ways that may impact how much consumers choose to repay and consequent debt levels.

Most credit cardholders enroll in their lender's online account portals, but only about 10% of active account holders view their electronic billing statement (CFPB, 2017). The CARD Act mandates that lenders include a minimum payment warning (MPW) disclosure on monthly billing

statements; however, this information is not required for online account portals. The Bureau of Consumer Financial Protection (“CFPB”) identified the lack of online MPW disclosures as an area of concern “that may pose risks to consumers and may warrant further scrutiny by the Bureau” (CFPB, 2013, p. 7).

In addition to the lack of online MPW disclosure, when cardholders opt to repay their credit card debt online, account portals present repayment choices differently from traditional monthly billing statements in two other important ways. First, a traditional credit card statement uses an “*open choice format*,” and consumers enter an amount they wish to pay on a line such as, “\$_____ Amount Enclosed.” However, online payment formats use an “*active choice format*” and explicitly list specific payment amount options such as paying the minimum required, paying the full balance, or paying an “other” amount consumers can specify. In addition, *current balance* – the total credit card account balance at the moment a cardholder is logged in to his/her credit card account online portal – is never available on the monthly statement but is commonly included in online payment choice options. We examine how payment choices are influenced by the emerging active choice format online versus traditional open choice formats, and we test alternative approaches to including MPW disclosures in online active choice formats.

Across three studies examining monthly credit card repayment choices ($N = 1,665$), we found that active choice format tends to increase consumers’ choice of the salient payment options, such as the minimum required amount or full balance amount, resulting in overall higher average payments than the open choice format found on traditional credit card statements. In addition, the presence of current balance in active choice format can serve as a high anchoring point and lead to an upward shift in likelihood to pay off the balance.

The MPW disclosure, which is mandatory on traditional monthly billing statements but typically absent in online payment settings, increased choice of the “3-year payoff amount” described in MPW disclosures when it was included in online payment settings. As a result, it decreased choice of the minimum required amount across both open and active choice formats. Further, MPW disclosure increased the statement balance payoff rate in active choice format. A test across alternative active choice format designs incorporating the MPW in different ways indicated that including the 3-year payoff amount as one of the explicit payment options further increased consumers’ choice of the 3-year payoff amount and decreased their propensity to choose the minimum required payment amount. An “enhanced active choice format” design with the MPW information embedded directly in the choice option descriptions showed the strongest effects, as it made the long-term cost of paying only the minimum required amount salient to the greatest extent.

We also found that financially vulnerable participants were less likely to pay off the balance, more likely to pay the minimum required amount, and had a lower average payment amount overall. Most effects of choice format, current balance, and MPW disclosure were robust to consumers’ financial vulnerability status; however, the presence of MPW disclosure increased financially vulnerable consumers’ subjective feelings that they made the right decision for themselves.

Our findings that minimum required payment rates, statement balance payoff rates, and average payment amounts are higher in active choice formats typical of credit card account portals (versus traditional open choice formats on credit card paper billing statements) suggest that online repayment may impact debt levels. Downward shifts toward the minimum required amount increase long-term debt, while upward shifts toward the full balance decrease debt, so the relative propensity of each behavior will influence the degree to which aggregated debt levels increase or decrease over

time. Estimates of projected long-term debt showed that shifts in the proportion of consumers paying the minimum amount had a particularly strong impact on long-term cost and pay off time. As such, the results consistently indicate that the MPW disclosure reduced average total pay off time and long-term cost of debt, even for conditions when average monthly payment amount decreased, because of the nonlinear nature of interest compounding over time.

A copy of the research article is attached for your reference. Thank you for the opportunity to submit information about this relevant research.

Sincerely,

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