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CARD Act Disclosures May Have Little Sway Over Consumers

by Kevin Wack
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One of the main promises of the 2009 credit card reform law was that clearer disclosures to consumers would prompt them to make more prudent financial decisions.

For example, the law requires monthly statements to show the payment amount that would be required to pay off the card balance within 36 months, which is often well above the minimum due. The CARD Act also mandates that card companies list a toll-free phone number for troubled borrowers to call for information about credit counseling.

The disclosure rules have won praise from regulators, consumer advocates, and some bankers. But now questions are emerging about whether the requirements – which are part of a larger policy movement to nudge consumers to act more responsibly – actually had much tangible impact on consumer behavior.

In a paper published in September, four economists, including a researcher at the Office of the Comptroller of the Currency, calculated that once the law took effect, the percentage of borrowers on track to pay off their balance in 36 months rose by a mere 0.5 percentage points. That's after the addition of a prominent box on their monthly statements showing how much they could save by paying more than the minimum.

Even among the small percentage of consumers whose behavior did change, borrowers saved an average of just $24 per year, the researchers found.

"This evidence suggests that the nudge was worthwhile if costless to implement, but might have been relatively less beneficial than other policy options," the economists wrote in a paper, which found other clearer benefits for consumers from other parts of the law.

Questions are also being raised about the effectiveness of the law's requirement that monthly statements list a credit counseling phone number, though the evidence so far is anecdotal.

The number of calls from consumers to credit counseling agencies that belong to the National Foundation for Credit Counseling has actually fallen in recent years, says Gail Cunningham, the group's vice president of membership and public relations. She did not provide specific data.

"I did expect that more consumers would use that number," Cunningham says. "Frankly I would have thought this was exactly what the American consumer was after."

The credit counseling organization recently conducted an online poll of visitors to its website, and found that 53% of respondents were not aware of the credit counseling phone number on their monthly statements. Another 34% of those polled had never used the number, while the remaining 14% had called it.

Apart from whatever impact the *Credit Card Accountability, Responsibility, and DisclosureAct*has made, other factors are likely influencing the number of phone calls that consumers place to credit counseling agencies.

Notably, American consumers have less card debt today than they did four years ago; total revolving consumer credit outstanding fell by about 7% between 2009 and August 2013, according to Federal Reserve data.

Card issuers cut borrowers' credit lines in the wake of the financial crisis, and many consumers began paying down their balances. "So if there is a silver lining to the recession, it could be that people learned their lesson," Cunningham says.

In Oct. 2 remarks about the CARD Act's effects, Consumer Financial Protection Bureau Director Richard Cordray praised the new disclosures on monthly card statements. "These disclosures give consumers a clearer sense of the consequences in deciding how to handle their credit card payments," Cordray said at the time.

But a CFPB report released a day earlier shed light on one potential reason why the disclosure requirements may not be having as much impact as their backers hoped.

Card issuers do not include the 36-month payment warning on the payment screens of their online account portals, according to the report. So consumers who are only looking at their bills online likely will not see the disclosures required by the CARD Act.

Of course, the disclosure requirements are only one part of the CARD Act, and consumer advocates argue that some of the law's other provisions, such as the restrictions on interest rate hikes on existing debt, have clearly been a boon for credit card users.

"The most important protections are substantive protections that stop unfair practices, and the CARD Act in many ways stopped the worst things that banks were doing," says Ed Mierzwinski, consumer program director for the U.S. Public Interest Research Group.
