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Consumer Federation of America



Consumer @ction

January 28, 2005

The Honorable Daniel K. Akaka
United States Senate
Washington, D.C. 20510

The Honorable Richard J. Durbin
United States Senate
Washington, D.C. 20510

The Honorable Paul S. Sarbanes
United State Senate
Washington, D.C. 20510

Dear Senators Akaka, Durbin and Sarbanes:

The undersigned national consumer organizations write to strongly support the Credit Card Minimum Payment Warning Act. The Act would require credit card issuers to disclose more information to consumers about the costs associated with paying their bills at ever-declining minimum payment rates. **The Act provides a personalized “price tag” so consumers can understand what are the real costs of credit card debt and avoid financial problems in the future.**

Undisputed evidence links the rise in bankruptcy in recent years to the increase in consumer credit outstanding. These numbers have moved in lockstep for more than 20 years. Revolving credit, for example (most of which is credit card debt) ballooned from \$214 billion in January 1990 to over \$780 billion currently. As family debt increases, debt service payments on items such as interest and late fees take an ever-increasing piece of their budget. For some families, this contributes to the collapse of their budget. Bankruptcy becomes the only way out. (See the attached fact sheet for more information about the scope and impact of credit card debt.)

Credit card issuers have exacerbated the financial problems that many families have faced by lowering minimum payment amounts, from around 4 percent of the balance owed, to about 2 percent currently. This decline in the typical minimum payment is a significant reason for the rise in consumer bankruptcies in recent years. A low minimum payment often barely covers interest obligations. It convinces many borrowers that they are financially sound as long as they can meet all of their minimum payment obligations. However, those that cannot afford to make these payments often carry so much debt that bankruptcy is usually the only viable option.

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This bill will provide consumers several crucial pieces of information on their monthly credit card statement:

- ❑ A “minimum payment warning” that paying at the minimum rate will increase the amount of interest that is owed and the time it will take to repay the balance.
- ❑ The number of years and months that it will take the consumer to pay off the balance at the minimum rate.
- ❑ The total costs in interest and principal if the consumer pays at the minimum rate.
- ❑ The monthly payment that would be required to pay the balance off in three years.

The bill also requires that credit card companies provide a toll-free number that consumers can call to receive information about credit counseling and debt management assistance. In order to assure that consumers are referred to honest, legitimate non-profit credit counselors, the bill requires the Federal Reserve to screen these agencies to ensure that they meet rigorous quality standards.

Our groups commend you for offering this very important and long-overdue piece of legislation. It provides the kind of personalized, timely disclosure information that will help debt-choked families make informed decisions and start to work their way back to financial health.

Sincerely,

Travis B. Plunkett
Legislative Director
Consumer Federation of America

Edmund Mierzwinski
Consumer Programs Director
U.S. Public Interest Research Group

Susanna Montezemolo
Policy Analyst
Consumers Union

Linda Sherry
Editorial Director
Consumer Action

FACTS ABOUT CREDIT CARD DEBT:

Revolving debt (most of which is credit card debt) has ballooned from \$54 billion in January 1980 to over \$780 billion currently.	
January 1980:	\$ 54 billion
January 1984:	\$ 79 billion
January 1990:	\$214 billion
January 1994:	\$313 billion
November 2004:	\$780.1 billion
Source: http://www.federalreserve.gov/Releases/G19/hist/cc_hist_sa.html	

- About one-twelfth of this debt is paid off before it incurs interest, so Americans pay interest on an annual load of about \$690 billion in revolving debt.
- According to the Federal Reserve, the most recent average credit card interest rate is 12.4% APR. At simple interest, with no compounding, then, consumers pay at least \$85 billion annually in interest on credit card and other revolving debt.
- Just about 55 percent of consumers carry debt. The rest are convenience users.
- From PIRG/CFA analysis of Federal Reserve data, the average household with debt carries approximately \$10,000-12,000 in total revolving debt and has approximately nine cards.

FACTS ABOUT THE EFFECT OF MINIMUM MONTHLY PAYMENTS:

- A household making the monthly minimum required payments on this debt (usually the greater of 2 percent of the unpaid balance or \$20) at the very low average 12.4% APR (many consumers pay much higher penalty rates than this FRB-reported average) would pay \$1,175 in interest just in the first year, even if these cards are cut up and not used again.
- This household would pay a total of over \$9,800 in interest over a period of 25 years and three months. That fact is not disclosed.
- A household or consumer who merely doubled their minimum payment and paid 4% of the amount due would fare better. A household or consumer that paid 10% of the balance each month would fare much better. Here is a comparison.

Minimum Payment Warnings Would Encourage Larger Payments and Save Consumers Thousands of Dollars In High-Priced Credit Card Debt			
Credit Card Debt of \$10,000 at Modest 12.4% APR	Monthly Payment (% of unpaid balance)		
	2%	4%	10%
First Year Interest =	\$1,175	\$1,054	\$775
Total Interest Owed =	\$9,834	\$3,345	\$1,129
Months To Pay	303	127	52
Years To Pay	25.3	10.6	4.3
Calculations by U.S. PIRG. Also see http://www.truthaboutcredit.org/lowerapr.htm for additional comparisons and amortization tables.			

Giving consumers a minimum payment warning on their credit card statements is the most powerful action Congress could take to increase consumer understanding of the cost of credit card debt.

FACTS ABOUT WHO OWES CREDIT CARD DEBT:

- **Credit card debt has risen fastest among lower-income Americans.** These families saw the largest increase—a 184 percent rise in their debt—but even very high-income families had 28 percent more credit card debt in 2001 than they did in 1989. *Source: Demos*
- **Thirty-nine percent of student loan borrowers now graduate with unmanageable levels of debt,** meaning that their monthly payments are more than 8% of their monthly incomes. According to PIRG analysis of the 1999-2000 NPSAS data, in 2001, 41% of the graduating seniors carried a credit card balance, with an average balance of \$3,071. Student loan borrowers were even more likely to carry credit card debt, with 48% of borrowers carrying an average credit card balance of \$3,176. See “The Burden of Borrowing,” 2002, Tracey King, the State PIRGs, <http://www.pirg.org/highered/BurdenofBorrowing.pdf>

While less likely to have credit cards than white families, data show that African-American and Hispanic families are more likely to carry debt			
	% With Credit cards 2001	Cardholding % with debt 2001	Average Credit card debt 2001
All families	76%	55%	\$4,126
White families	82%	51%	\$4,381
Black families	59%	84%	\$2,950
Hispanic families	53%	75%	\$3,691

Demos calculations using 2001 Survey of Consumer Finances. See [Borrowing To Make Ends Meet](http://www.demos-usa.org/pubs/borrowing_to_make_ends_meet.pdf). Demos, http://www.demos-usa.org/pubs/borrowing_to_make_ends_meet.pdf

Seniors (over age 65):

- Credit card debt among older Americans increased by 89 percent from 1992 to 2001. Average balances among indebted adults over 65 increased by 89 percent, to \$4,041.
- Seniors between 65 and 69 years old, presumably the newly-retired, saw the most staggering rise in credit card debt—217 percent—to an average of \$5,844.
- Female-headed senior households experienced a 48 percent increase between 1992 and 2001, to an average of \$2,319.
- Among seniors with incomes under \$50,000 (70 percent of seniors), about one in five families with credit card debt is in debt hardship—spending over 40 percent of their income on debt payments, including mortgage debt.

Transitioners (ages 55 – 64):

- Transitioners experienced a 47 percent increase in credit card debt between 1992 and 2001, to an average of \$4,088.
- The average credit card-indebted family in this age group now spends 31 percent of their income on debt payments, a 10 percent increase over the decade.

Source: "Retiring in the Red: The Growth of Debt Among Older Americans"; <http://www.demos-usa.org/pub101.cfm>

Other fact sheet sources include "Deflate Your Rate," MASSPIRG, 2002, see <http://www.truthaboutcredit.org> and other reports by Demos. See <http://www.demos-usa.org/page38.cfm>