

# Optimal Display of Interest Rate Information on Credit Card Statements

Carsten Erner<sup>1,2</sup>, Helen Colby<sup>1,2</sup>, Melissa Knoll<sup>3</sup>, and Christopher Trepel<sup>2</sup>

<sup>1</sup>UCLA Anderson School of Management, <sup>2</sup>Consumer Credit Research Institute (Encore Capital Group), <sup>3</sup>Consumer Financial Protection Bureau†

## Introduction

The average American household with one or more credit cards had nearly \$15,000 of debt in the third quarter of 2013, at annual interest rates often reaching 20%. Much of the effort to reduce credit card debt has focused on improving the flow of information to consumers; in particular, information about the cost of high interest borrowing. The 2009 Credit Card Accountability Responsibility and Disclosure Act (CARD Act) seeks to ensure that consumers have information about their revolving debt accounts and requires banks to provide clear information about the finance charges and fees charged to consumers. Additionally, the CARD Act requires a prominently displayed box on each credit card statement showing (1) how long consumers must continue to pay an outstanding balance before it will be paid off, assuming they make no new charges and pay only the minimum each month, and (2) the monthly payments required to pay the balance down completely in three years.

What is not included in the CARD Act box is the interest rate of the credit card. For consumers who are juggling multiple credit card accounts, this information can be crucial to the efficient repayment of outstanding debts.

## Research Question

**What is the most effective way in which to present credit card interest rate information to consumers?**

## Methods

1,033 MTurk participants were given a variety of budgeting tasks. For each task, participants received a budget and a variety of items that were either optional (e.g., dinner out) or required (e.g., gas bill). Each item had either a discretionary cost that participants could choose (e.g., how much to spend on movies) or a fixed cost (e.g., phone bill).

One budgeting task asked participants to allocate a maximum of \$350 across three credit card bills. Participants were randomly presented with one of two sets of credit card bills (Table 1). In the control condition, no interest rate information was provided in any form, as is the current standard on the front pages of credit card statements.

	Balance	Minimum Payment	Interest Rate
<b>Card Group A</b>			
Card 1	\$1,000	\$25	16%
Card 2	\$2,500	\$50	22%
Card 3	\$4,000	\$80	10%
<b>Card Group B</b>			
Card 1	\$4,000	\$80	16%
Card 2	\$2,500	\$50	22%
Card 3	\$1,000	\$25	10%

Table 1: Balance, minimum payment, and interest rate information for credit card statements.

## Interest Savings Graph

**Concept:** The CARD Act box provides only two points of information about interest savings. Providing the full range of payments and interest savings may help consumers pick the exact repayment amount that best meets their needs.

**Stimuli:** Participants were provided with a graph showing the interest savings they would achieve by monthly payment amount (see Figure 1 for an example graph).

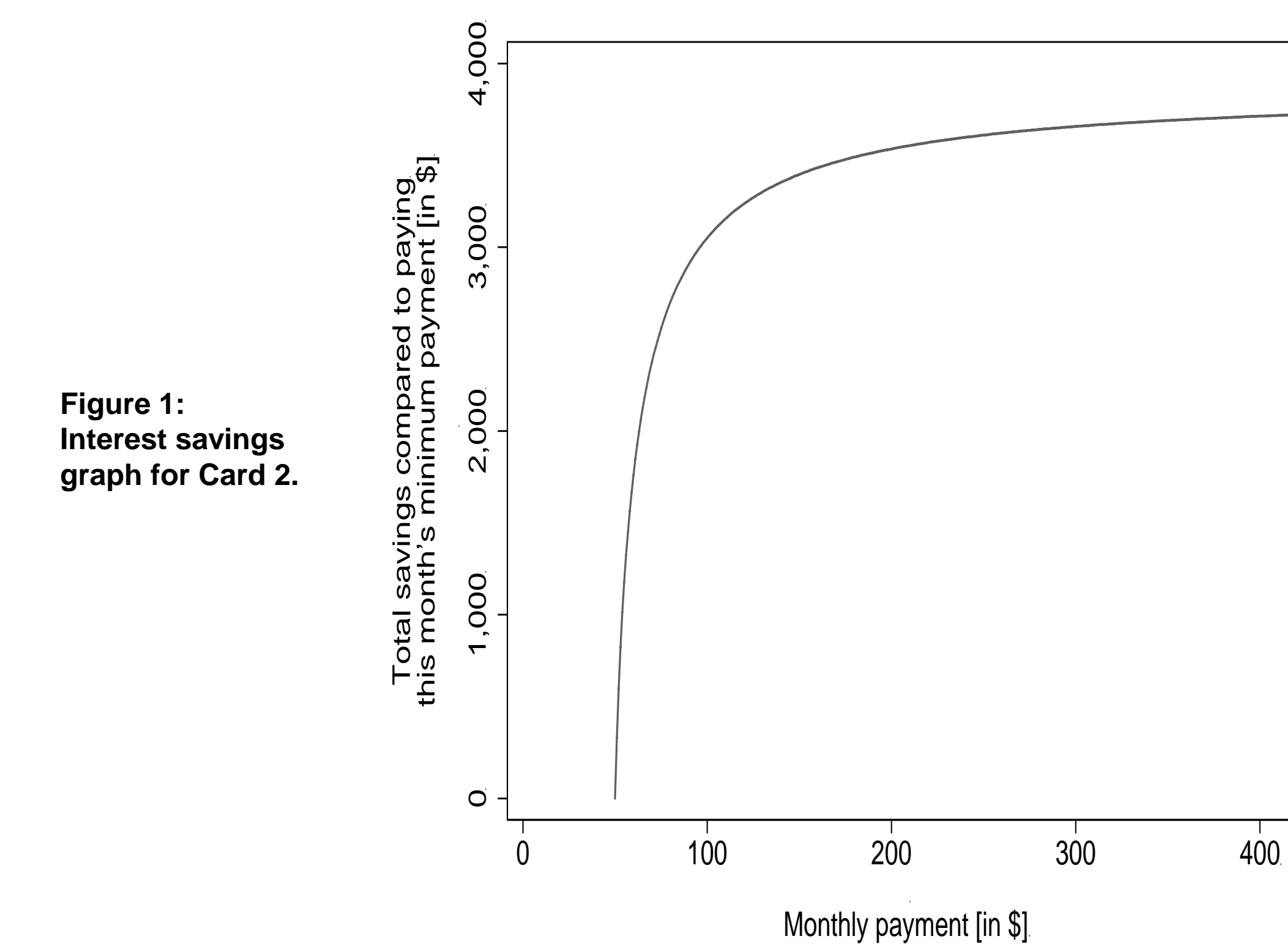


Figure 1: Interest savings graph for Card 2.

**Results:** There was no significant impact of providing interest savings graphs with the credit card statements (all  $p$ s > .30).

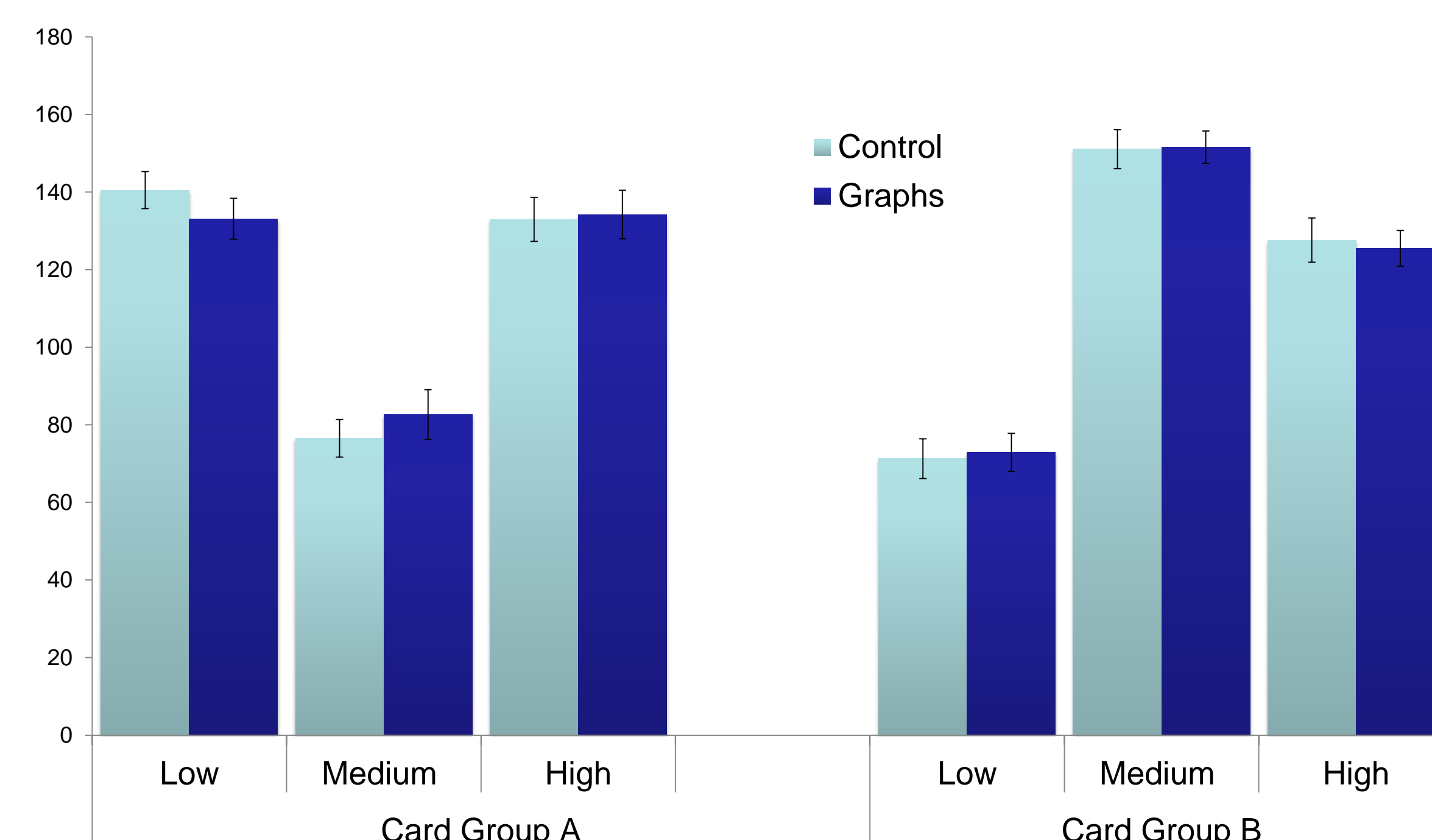


Figure 2: Mean scaled credit card payments for the low, medium, and high-interest rate cards for participants who saw no interest rate information and for those who had interest savings provided in graphical form.

## Interest Calculator

**Concept:** Graphs can be intimidating to consumers, but if consumers can test specific monthly repayment amounts against their budgets in a less threatening way, they may see the interest-saving benefits of higher repayment amounts.

**Stimuli:** Participants were provided with an online calculator that allowed them to enter different monthly payments and see how much interest would be saved by making the given monthly payment instead of the minimum payment.

**Results:** There were no significant or marginal effects of access to the repayment calculator (all  $p$ s > .26).

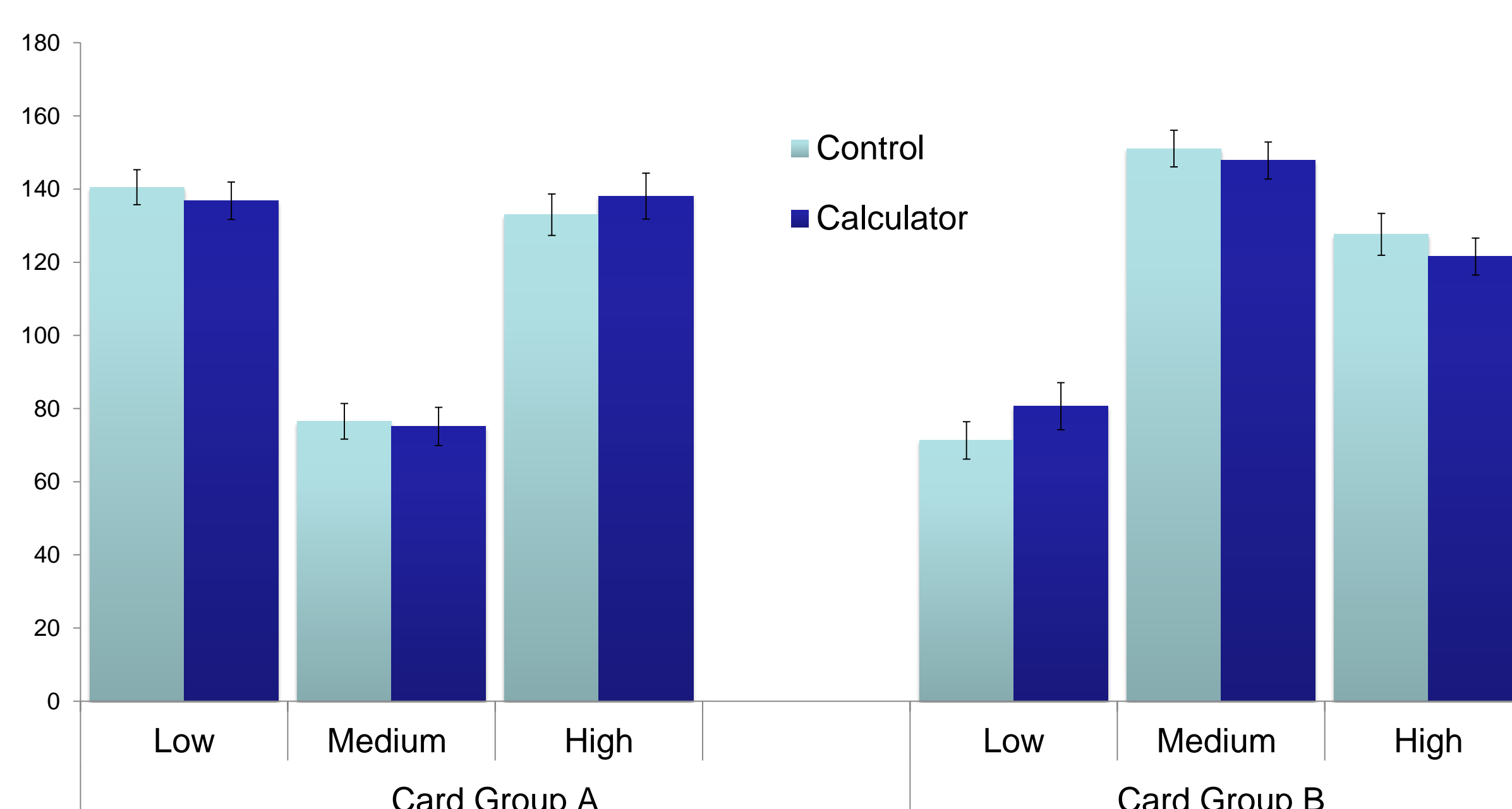


Figure 3: Mean scaled credit card payments for the low, medium, and high-interest rate cards for participants who saw no interest rate information and for those who had access to an interest savings calculator.

## Savings with Additional \$50 Payment

**Concept:** Providing consumers with a specific additional amount to pay may provide an anchor and be seen as a concrete suggestion that is more realistic than the three-year repayment amount.

**Stimuli:** A sentence was added in bold to the bottom of each statement indicating the amount of interest that would be saved with one additional \$50 payment.

**Results:** There was a marginal decrease in repayment of the lowest-interest card in Card Group A ( $p=.067$ ), however it did not replicate in Card Group B (all other  $p$ s > .21).

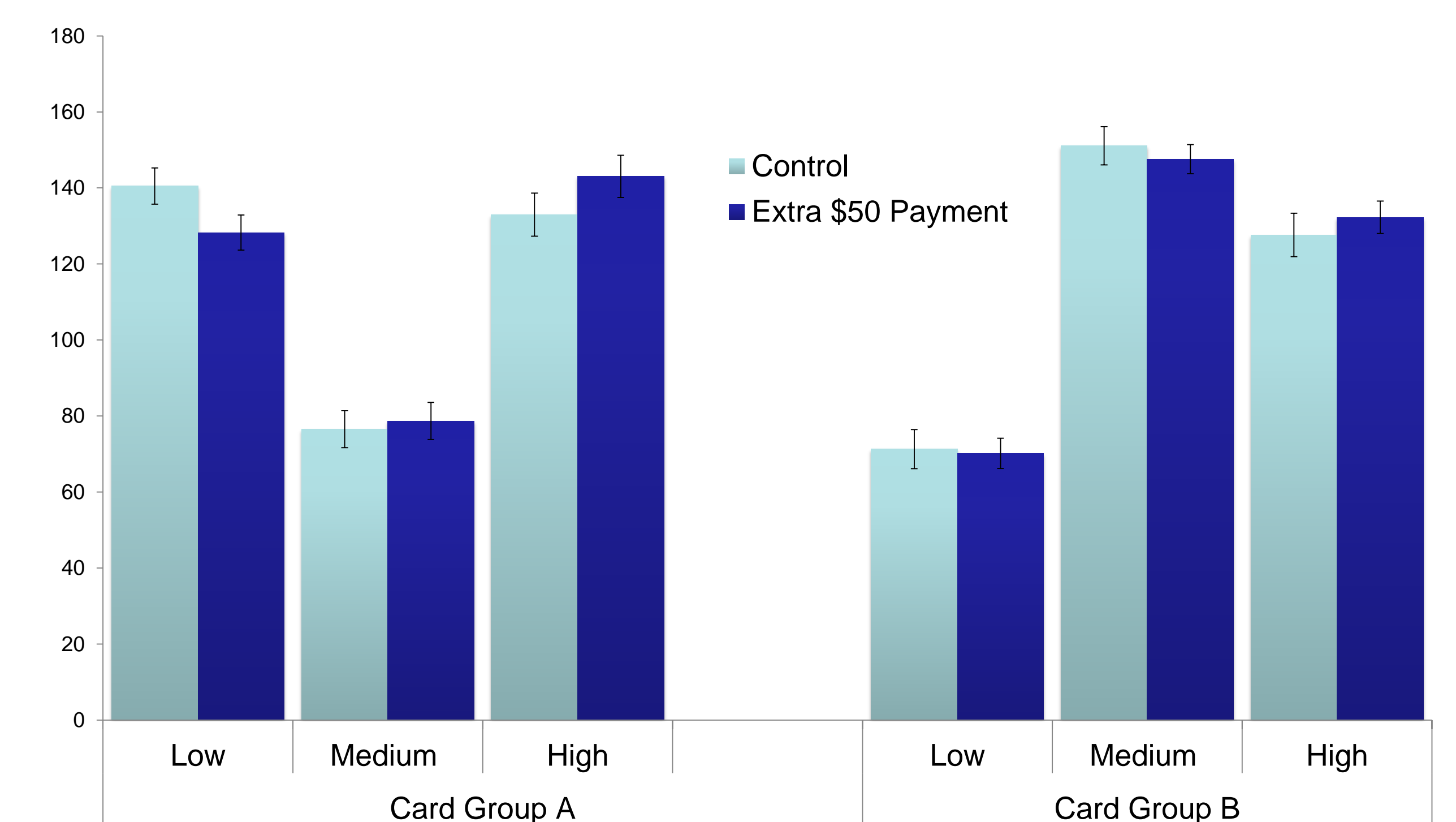


Figure 4: Mean scaled credit card payments for the low, medium, and high-interest rate cards for participants who saw no interest rate information and for those who saw the interest savings that would be achieved by a single additional \$50 payment.

## Displayed Interest Rate

**Concept:** Simple is best. Providing consumers with the actual interest rates may give them an easy way to quickly compare across cards and make allocations.

**Stimuli:** The annual interest rate was displayed in simple numeric form in the table that displayed the current period's activity, previous payment, finance charge, balance, and minimum payment information.

**Results:** For Card Group A, there was a significant increase in payment towards the highest-interest credit card [ $t(202)=2.96$ ,  $p=.004$ ], driven by a significant decrease in repayment of the lowest-interest card [ $t(202)=3.63$ ,  $p<.001$ ].

For Card Group B, there was also a significant increase in repayment of the highest-interest card [ $t(206)=4.02$ ,  $p<.001$ ], driven by significant decreases in repayment of the lowest-interest card [ $t(206)=2.29$ ,  $p=.023$ ] and the medium-interest card [ $t(206)=2.52$ ,  $p=.012$ ].

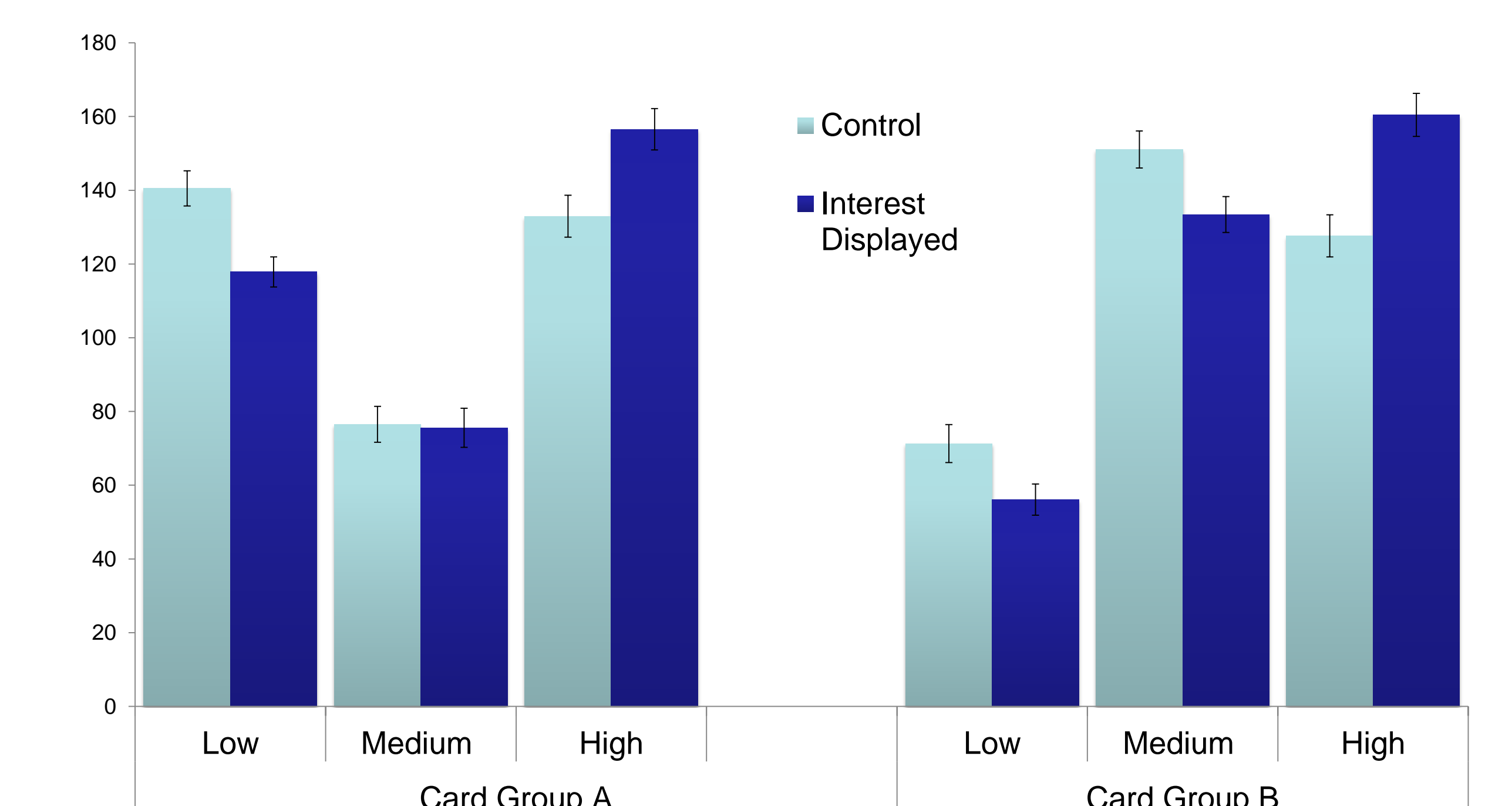


Figure 5: Mean scaled credit card payments for the low, medium, and high-interest rate cards for participants who saw no interest rate information and for those who saw simple numeric interest rates.

## Conclusion and Discussion

Providing information about the cost of credit can help consumers make better repayment decisions. These results suggest that presenting interest rate information as simply as possible, as a single interest rate number, in an easy-to-spot area of the credit card statement can help consumers juggling multiple debts repay their most expensive debt first.

Questions or comments? [helen.colby@anderson.ucla.edu](mailto:helen.colby@anderson.ucla.edu)

† The opinions expressed are those of the author and do not represent the views of the CFPB or the United States.