STATEMENT BY U.S. SENATOR DANIEL K. AKAKA
"Examining the Current Legal and Regulatory Requirements and Industry Practices for Credit Card Issuers with Respect to Consumer Disclosures and Marketing Efforts"

Thank you Mr. Chairman, I appreciate your including me in this hearing today. I also want to express my deep appreciation to Senator Sarbanes for working closely with me on a wide range of financial literacy related issues, including credit card disclosures.

Mr. Chairman, revolving debt, mostly comprised of credit card debt, has risen from $54 billion in January 1980 to more than $800 billion in March 2005. During all of 1980, only 287,570 consumers filed for bankruptcy. In 2004, approximately 1.5 million consumers filed for bankruptcy, keeping pace with 2003's record level.

Some of this increased activity can be explained by a ballooning in consumer debt burdens, particularly revolving debt, primarily made up of credit card debt. Credit card issuers have a lot of flexibility in setting minimum monthly payments. Competitive pressures and a desire to preserve outstanding balances have led to a general easing of minimum payment requirements in recent years. The result has been extended repayment programs. Even with the doubling of minimum monthly payments from two to four percent by some of the country's largest credit card issuers, much of that payment continues to cover only interest and fees. Meanwhile, other initiatives by large credit card issuers, such as reducing grace periods, will catch many consumers with late fees which will trigger higher default interest rate charges.

It is imperative that we make consumers more aware of the long-term effects of their financial decisions, particularly in managing credit card debt. Obtaining credit has become easier. Students are offered credit cards at earlier ages, particularly since credit card companies have been successful with aggressive campaigns targeted at college students. Universities and alumni associations across the country have entered into marketing agreements with credit card companies. More than 1,000 universities and colleges have affinity marketing relationships with credit card issuers. Affinity relationships are made as attractive as possible to credit card account holders through the offering of various benefits and discounts for using the credit card, with the affinity group receiving a percentage of the total charge volume from the credit card issuer. Thus, college students, many already burdened with student loans, are accumulating credit card debt. I appreciate all of the work that Senator Dodd has done in order to address this situation.

While it is relatively easy to obtain credit, especially on college campuses, not enough is being done to ensure that credit is properly managed. Currently, credit card statements fail to include vital information that would allow individuals to make fully informed financial decisions. Additional disclosure is needed to ensure that individuals completely understand the implications of their credit card use and the costs of only making the minimum payments as determined by credit card companies.

I have a long history of seeking to improve financial literacy in this country, primarily through expanding educational opportunities for students and adults. Beyond education, I also believe that consumers need to be made more aware of the long-term effects of their financial decisions, particularly in managing their credit card debt, so that they can avoid financial pitfalls.

The Bankruptcy Reform law includes a requirement that credit card issuers provide information to consumers about the consequences of only making the minimum monthly payment. However, this requirement fails to provide the detailed information on billing statements that consumers need to know to make informed decisions. The bankruptcy law will allow credit card issuers a choice between disclosure statements. The first option included in the bankruptcy bill would require a standard "Minimum Payment Warning." The generic warning would state that it would take 88 months to pay off a balance of $1,000 for bank card holders or 24 months to pay off a balance of $300 for retail card holders. This first option also includes a requirement that a toll-free number be established that would provide an estimate of the time it would take to pay off the customer's balance. The Federal Reserve Board would be required to establish the table that would estimate the approximate number of months it would take to pay off a variety of account balances.

There is a second option that the legislation permits. The second option allows the credit card issuer to provide a general minimum payment warning and provide a toll-free number that consumers could call for the actual number of months to repay the outstanding balance.

The options available under the Bankruptcy Reform law are woefully inadequate. They do not require issuers to provide their customers with the total amount they would pay in interest and principal if they chose to pay off their balance at the minimum rate. Since the average household with debt carries a balance of approximately $10,000 to $12,000 in revolving debt, a warning based on a balance of $1,000 will not be helpful. The minimum payment warning included in the first option underestimates the costs of paying a balance off at the minimum payment. If a family has a credit card debt of $10,000, and the interest rate is a modest 12.4 percent, it would take more than ten and a half years to pay off the balance while making minimum monthly payments of four percent.

Along with Senators Sarbanes, Schumer, Durbin, and Leahy, I introduced the Credit Card Minimum Payment Warning Act and subsequently offered it as an amendment to the bankruptcy bill. The legislation would make it very clear what costs consumers will incur if they make only the minimum payments on their credit cards. If the Credit Card Minimum Payment Warning Act is enacted, the personalized information consumers would receive for their accounts would help them make informed choices about their payments towards reducing outstanding debt.

Our bill requires a minimum payment warning notification on monthly statements stating that making the minimum payment will increase the amount of interest that will be paid and extend the amount of time it will take to repay the outstanding balance. The legislation also requires companies to inform consumers of how many years and months it will take to repay their entire balance if they make only the minimum payments. In addition, the total cost in interest and principal, if the consumer pays only the minimum payment, would have to be disclosed. These provisions will make individuals much more aware of the true costs of their credit card debts. The bill also requires that credit card companies provide useful information so that people can develop strategies to free themselves of credit card debt. Consumers would have to be provided with the amount they need to pay to eliminate their outstanding balance within 36 months.

Finally, our bill would require that creditors establish a toll-free number so that consumers can access trustworthy credit counselors. In order to ensure that consumers are referred to only trustworthy credit counseling organizations, these agencies would have to be approved by the Federal Trade Commission and the Federal Reserve Board as having met comprehensive quality standards. These standards are necessary because certain credit counseling agencies have abused their nonprofit, tax-exempt status and taken advantage of people seeking assistance in managing their debts. Many people believe, sometimes mistakenly, that they can place blind trust in nonprofit organizations and that their fees will be lower than those of other credit counseling organizations.

We must provide consumers with detailed personalized information to assist them in making better informed choices about their credit card use and repayment. Our bill makes clear the adverse consequences of uninformed choices, such as making only minimum payments, and provides opportunities to locate assistance to better manage credit card debt.

In response to critics who believe that the Credit Card Minimum Payment Warning Act disclosures are not feasible, I, along with Senator Sarbanes, have asked the General Accountability Office to study the feasibility of requiring credit card issuers to disclose more information to consumers about the cost association with making only the minimum monthly payment. I look forward to reviewing the GAO's conclusions.

Mr. Chairman, I look forward to working with you, Senator Sarbanes, and all of the members of the Committee, to improve credit card disclosures so that they provide relevant and useful information that hopefully will bring about positive behavior change among consumers. Consumers with lower debt levels will be better able to establish savings plans that allow them to be in a better position to afford a home, pay for their child's education, or retire comfortably on their own terms.

Thank you again for including me in this important hearing, Mr. Chairman.