

Using credit cards

Consumers sometimes use credit cards to buy things they couldn't afford otherwise, and they get into financial trouble.

Credit cards are everywhere—in the fourth quarter of 2012 there were 399 million open credit card accounts. More than half of credit card holders carry a balance. This means they pay interest and sometimes other finance charges.

Consumers tend to hold more than one credit card: 3.5 cards was the average in 2010. About two out of five low- and middle-income consumers use credit cards for basic living expenses when they don't have cash. Consumers often feel guilt and shame about their credit card debt, so they tend not to talk about it, and instead they feel alone with their worries.

Exploring the causes

Research shows that consumers have many reasons for their actions. To gain insight into why it's so hard for consumers to organize and manage their financial lives, consider these factors.

1. The pain of paying

Spending on a credit card feels easier than spending cash. Consumers tend to spend more on credit than they would with cash.

2. Time perceptions and control

Consumers tend to make choices today that their future selves wouldn't make. They can be too confident that they won't need to borrow more next time and that it will be easy to pay the bills when they come due.

Inspired to help?

Think about ways you can make it easier for consumers to carry out their best intentions—or make it harder to slip up. The ideas below can help guide your brainstorming.

- Make it easier to shop and compare credit card features and costs, including rewards cards
- Pre-commit to smarter credit card spending and payments

- Help consumers keep better track of their total credit purchases and payment due dates
- Reward people, emotionally or financially, for reducing and avoiding debt
- Help people catalog and track expenses at the point of purchase, so they can decide whether to make a credit card purchase or not
- Create a product or process to help people save for a purchase, as an alternative to financing it with a credit card

3. Overconfidence and underestimating forgetfulness

Consumers are optimistic about getting in financial shape and making on-time payments in the future. Credit card bills and due dates are hard for consumers to track on a daily basis.

4. Short-term rewards

Rewards cards may train consumers to expect perks for each purchase. Consumers tend to choose cards based on short-term features like teaser rates and rewards instead of costs over time.

Inspired to do more research?

The factors described above are starting points. You may want to dig deeper—for example, to find out which influences are strongest on different groups of consumers. You might ask questions like:

- How much more do consumers actually spend when they pay with a credit card, compared to cash, check, or debit?

- How do consumers feel when they've spent a lot on a credit card? How do they feel later when they are paying the bill?
- Do consumers change spending when they approach their credit limit? How often do consumers miss their payment due dates by just a few days?
- How do consumers use rewards cards and cards with teaser rates? How diligent are they about paying their credit card bills?
- How does having and using a credit card reinforce consumers' identities? What positive meanings do consumers attach to having a credit card?

Making a difference

According to the CFPB's Consumer Credit Panel, about 71% of Americans had a credit card in 2012, and many had multiple accounts. Helping consumers stop overspending and stay out of a cycle of debt can have a large impact.

ABOUT THESE IDEAS

The Consumer Financial Protection Bureau hired a group of analysts and researchers to investigate challenges that consumers face when they make financial decisions. The group reviewed published studies, talked to academics and financial experts, surveyed financial products, and looked at what actions consumers took—and why.

To pinpoint the most important challenges, the group set up a few categories: income, expenses, saving, borrowing, payments and transactions, and risk management. Then, the group looked into the causes of problems in these categories. Are there too few products and services that are safe, affordable, and high quality? Are there too many products and services that set consumers up to make mistakes? What else adds to the problems?

Finally, the group selected challenges that are based on consumer behaviors or decisions, widespread, possible to change, and possible to measure.

Sources: New York Federal Reserve Bank Quarterly Report on Household Debt, November 2013. Woolsey, Ben and Schultz, Matt. "Credit Card Statistics, Industry Facts, Debt Statistics." CreditCards.com, February 28, 2012. Federal Reserve Bank of Boston. "The Survey of Consumer Payment Choice." (2010). Traub, A. & C. Ruetschlin. "The Plastic Safety Net: Findings from the 2012 National Survey on Credit Card Debt of Low- and Middle-Income Households." Demos, (2012). Prelec, Drazen, and Simester, Duncan. "Always Leave Home Without It: A Further Investigation of the Credit-Card Effect on Willingness to Pay, Marketing Letters 12:1 (2001).