



Decisions & Disclosures: Insights from Behavioral Economics

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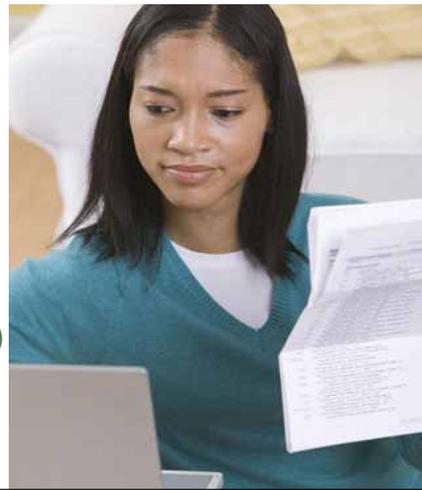
Designing disclosures

WHO?	Federal Reserve Board (sometimes in collaboration with other federal regulators)
WHAT?	Required disclosures lenders provide to consumers about <ul style="list-style-type: none"> • credit cards • mortgages • privacy policies • overdrafts, private student loans, payroll cards, leasing...
WHY?	Authority delegated by Congress under the <ul style="list-style-type: none"> • Truth in Lending Act, Truth in Savings Act, Electronic Funds Transfer Act, Gramm-Leach-Bliley Act, Federal Trade Commission Act...
HOW?	Consumer testing (to supplement legal analysis, outreach, research) <ul style="list-style-type: none"> • Qualitative (interviews, focus groups) • Quantitative (mall intercept surveys)



Basic comprehension remains an issue

- ▲ Text vs tables
- ▲ Graphic layout
- ▲ Typeface
- ▲ Scanability (regardless of delivery channel)



Consumers told us . . .

Who has the time to sit down and listen or read everything? Or if you have a video, really, who has the time to sit down and watch [it]? I think the best information is word-of-mouth.





1. Think about the last 3 digits of your phone number
2. Add 400



When was Atilla the Hun defeated?





Anchoring

Using reference point for decisions





Anchor:
Minimum payment

Solution:
Provide additional information and reference points

XXX Bank Credit Card Account Statement
Account Number XXXX XXXX XXXX XXXX
February 21, 2012 to March 22, 2012

Summary of Account Activity		Payment Information										
Previous Balance	\$535.07	New Balance	\$1,784.53									
Payments	-\$450.00	Minimum Payment Due	\$53.00									
Other Credits	-\$13.45	Payment Due Date	4/20/12									
Purchases	+\$529.57	<p><small>Late Payment Warning: If we do not receive your minimum payment by the date listed above, you may have to pay a \$35 late fee and your APRs may be increased up to the Penalty APR of 28.99%.</small></p> <p><small>Minimum Payment Warning: If you make only the minimum payment each period, you will pay more in interest and it will take you longer to pay off your balance. For example:</small></p> <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <tr> <th style="font-size: 0.8em;">If you make no additional charges using this card and each month you pay...</th> <th style="font-size: 0.8em;">You will pay off the balance shown on this statement in about...</th> <th style="font-size: 0.8em;">And you will end up paying an estimated total of...</th> </tr> <tr> <td style="font-size: 0.8em;">Only the minimum payment</td> <td style="font-size: 0.8em;">10 years</td> <td style="font-size: 0.8em;">\$3,284</td> </tr> <tr> <td style="font-size: 0.8em;">\$62</td> <td style="font-size: 0.8em;">3 years</td> <td style="font-size: 0.8em;">\$2,232 (Savings-\$1,052)</td> </tr> </table>		If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...	Only the minimum payment	10 years	\$3,284	\$62	3 years	\$2,232 (Savings-\$1,052)
If you make no additional charges using this card and each month you pay...	You will pay off the balance shown on this statement in about...	And you will end up paying an estimated total of...										
Only the minimum payment	10 years	\$3,284										
\$62	3 years	\$2,232 (Savings-\$1,052)										
Balance Transfers	-\$785.00											
Cash Advances	-\$318.00											
Past Due Amount	+\$0.00											
Fees Charged	+\$69.43											
Interest Charged	+\$16.89											
New Balance	\$1,784.53											
Credit limit	\$2,000.00											
Available credit	\$27.47											
Statement closing date	3/22/2012											
Days in billing cycle	30											

QUESTIONS?
 Call Customer Service: 1-XXX-XXX-XXXX
 Lost or Stolen Credit Card: 1-XXX-XXX-XXXX

If you would like information about credit counseling services, call 1-800-XXX-XXXX.

Please send billing inquiries and correspondence to:
 PO Box XXXX, Anytown, Anystate XXXX

Notice of Changes to Your Interest Rates

You have triggered the Penalty APR of 28.99%. This change will impact your account as follows:
 Transactions made on or after 4/20/12 at a Penalty APR will result in these

Anchor: Monthly payment (P & I)

Solution: Provide additional information on taxes & insurance (PITI)

INTEREST RATE AND PAYMENT SUMMARY

	INTRODUCTORY Rate & Monthly Payment (for first 3 years)	MAXIMUM at FIRST ADJUSTMENT (March 2012)	MAXIMUM EVER (as early as 2014)
Interest Rate	5.625%	7.625%	11.625%
Principal + Interest Payment	\$1,151.31	\$1,397.15	\$1,924.97
Est. Taxes + Insurance (Escrow)	\$241.00	\$241.00	\$241.00
Total Est. Monthly Payment	\$1,392.31	\$1,638.15	\$2,165.97

Introductory Rate Notice
 You have a discounted introductory rate of 5.625% that ends after 3 years.
 In the fourth year, even if market rates do not change, this rate will increase to 7.625%.

Proposed TILA statement

Anchor: Initial monthly payment

Solution: Include adjustments and max ever

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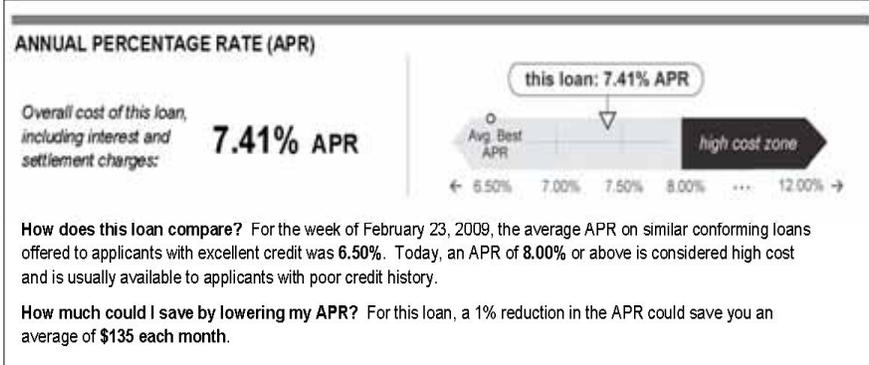
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Proposed TILA statement



Anchor: Current loan offer

Solution: Show range in market



Proposed TILA statement



Which would you prefer?

1/20 OFF EVERYTHING

bogo

BUY ONE GET ONE



Choice architecture

BOGO vs 50% off

Opt in vs opt out

APR vs monthly payment





Architecture given: Opt out

**Solution:
Strive for neutrality**

FACTS	WHAT DOES MARS BANK DO WITH YOUR PERSONAL INFORMATION?		
Why?	Financial companies choose how they share your personal information. Federal law gives consumers the right to restrict some but not all sharing. Federal law also requires us to tell you how we collect, share, and protect your personal information. Please read this notice carefully to understand what we do.		
What?	The types of personal information we collect and share depend on the product or service you have with us. This information can include: <ul style="list-style-type: none"> • social security number and income • account balances and payment history • credit history and credit scores When you close your account, we continue to share information about you according to our policies.		
How?	All financial companies need to share customers' personal information to run their everyday business—to process transactions, maintain customer accounts, and report to credit bureaus. In the section below, we list all the ways our financial companies can share their customers' personal information; the ways Mars Bank chooses to share; and whether you can limit this sharing.		
	Reasons we can share your personal information	Does Mars Bank share?	Can you limit this sharing?
	For our everyday business purposes—to process your transactions, maintain your account, and report to credit bureaus	No	No
	For our marketing purposes—to offer our products and services to you	No	No
	For joint marketing with other financial companies	No	We don't share
	For our affiliates' everyday business purposes—information about your transactions and experiences	No	We don't share
	For our affiliates' everyday business purposes—information about your creditworthiness	No	We don't share
	For our affiliates to market to you	No	We don't share
	For nonaffiliates to market to you	No	We don't share
Contact Us	Call 1.800.895.8446 or go to www.marbank.com/privacy		



**Architecture
chosen:
Opt in**

**Solution:
Understand
consumer
preferences**



**Basic comprehension
remains an issue**

**W: We just got a letter from ABC saying
that our property value went down so
they are lowering our line of credit.**

H: That's nice.

W: Are you being sarcastic?

**H: No, that's nice that they are letting us
know that they will not charge us as
much.**

**W: No, they are saying that we cannot
borrow as much anymore!**

H: Oh ... that's not nice. Not at all.



Basic comprehension remains an issue

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- ▲ Table as “truth about future” vs “how can you know?”
- ▲ “Literal” about table vs information elsewhere in document



Where do we go from here?

- ▲ What works in practice?
- ▲ What's the cost of misinterpreting information?





Summary

Testing of disclosures in controlled settings

- Design can improve comprehension and usability
- Reveals limitations, especially for complex concepts or products



Summary

Consumer decision-making in real-world transactions

- Difficult to observe and measure
- Affected by factors other than disclosure – context in which disclosures are delivered, actions of suppliers, etc.

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Summary

Disclosure

- Longstanding and important part of consumer protection policy
- May provide insufficient consumer protections in some circumstances
- Should be complemented by other tools such as education and substantive regulation

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When was Atilla the Hun defeated?

451 AD





Thank you

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