Consumer Financial Protection Bureau

June 1, 2017

[CEO Name]
[Bank Address 1]
[Bank Address 2]

Dear [CEO Name]:

I am writing to you about the use of deferred interest as a means of attracting customers and encouraging purchases. In 2015, the Consumer Financial Protection Bureau studied deferred-interest products and found that they offer substantial benefits to some consumers, but carry significant costs and risks to others. In particular, our review raised concerns that deferred-interest products may lack transparency to consumers, as a consequence of the back-end pricing that can be a feature of these products. Last month, a major U.S. retailer, in partnership with one of the largest U.S. credit card issuers, decided to end deferred-interest promotions on its credit card program. Instead, the retailer will now offer its customers a 0% interest promotion, which is more transparent and carries less risk for consumers. Unlike with deferred interest, under 0% interest promotions, consumers are not assessed interest retroactively if the promotional balance is not paid in full by the end of the promotional period. We commend this decision and want to bring it to your attention.

The costs of deferred-interest financing are typically less transparent because when they are incurred it is not until the end of the promotional period. While deferred-interest offers are marketed to the public as charging no interest for the promotional period, interest actually starts accruing from the date of purchase and will be added back on top of the remaining principal balance if the promotional balance is not paid in full by the deadline at the end of the promotional period. Given that the non-promotional interest rate on these offers is generally around 25%, the interest charge imposed as a lump sum on affected consumers can be substantial. Those who fail to pay off the balance in full, for example those with even a very small balance carried past the promotional expiration date, can end up owing much more in interest than the remaining balance due. We have received many consumer complaints from people who have found that they have incurred this unexpected charge.

The Bureau's 2015 analysis of deferred-interest promotions revealed that a large portion of consumers who fail to repay their entire promotional balance before the deadline at the end of the promotional period do manage to pay off the entire balance and associated interest charges shortly thereafter. This data may indicate that many consumers do not fully understand how deferred-interest promotions operate and the manner in which interest is assessed on these products. A lack of transparency can harm consumers by impeding their ability to manage their finances successfully. The potential for confusion only increases if these accounts are used for other purchases as well. The Bureau's study showed that more than half of the people who have both a deferred-interest purchase and other purchases who are assessed deferred interest actually pay more than the full amount of their promotional balance during the promotional period. The Bureau's study showed that more than a third of people with both promotional and other types of purchases who are assessed deferred interest pay in excess of 150% of their promotional balance during that period.

Successful implementation of deferred-interest programs requires robust compliance management systems and third-party oversight measures that ensure consumers are fully informed of the terms and true costs of promotional financing. Under 0% interest promotions, by contrast, consumers are not assessed interest retroactively if the promotional balance is not paid in full by the end of the promotional period. Following the promotional period, the interest rate converts to the regular rate, and interest begins to accrue only on remaining balances. As long as the end date of the promotional period is clearly disclosed, this approach is easier for consumers to understand. And its costs may be more straightforward. If consumers do not fully repay by the promotional end date, they have the opportunity to resolve their debts without incurring an unexpectedly large lump-sum financial cost.

Although altering these promotional terms only benefits consumers who fail to pay their promotional balances in full by the deadline at the end of the promotional period, it is precisely these consumers who are likely to be most at risk. Our research has shown that this group of consumers includes a disproportionate number of people with lower credit scores. It also may include consumers who experience an adverse economic shock, such as an unexpected medical bill or job loss. This change in promotional terms may assist consumers who do not understand the full costs of failing to pay the deferred-interest promotional balances and make it easier for them to repay their debts following financial hardship.

It is important that every consumer fully understands the terms and true costs of promotional financing and is able to confidently make the best choice for his or her unique financial situation. In recent years, attention to such responsible lending practices has greatly improved consumer trust and satisfaction with the credit card market.

Sincerely,

Richard Cordray
Director