

**Credit Card Marketing and the Use of Cards by College
Students**

Testimony Given by:

**Professor Michael E. Staten
Director, Credit Research Center
McDonough School of Business
Georgetown University
3240 Prospect St. N.W., Suite 300
Washington, D.C. 20007
(202) 625-0103**

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**Joint Subcommittee Studying the Status and Needs of
African-American Males in Virginia**

Introduction

Good afternoon Mr. Chairman and members of the Committee. My name is Michael Staten. I am Professor of Management and Director of the Credit Research Center at the McDonough School of Business at Georgetown University. The Center is a non-partisan, academic research center devoted to studying the economics of consumer and mortgage credit markets. Over its 25-year history the Credit Research Center has generated over 100 research studies and papers, most of which examine the impact of public policy toward credit markets. Throughout its history, the Center's research program has been supported by a mix of grants from the public sector (e.g., National Science Foundation, Federal Trade Commission) and unrestricted private sector grants from foundations and corporations made to the University on behalf of the Center. I have served as the Center's director since 1990.

I have reviewed House Joint Resolution #735 which created the Task Force effort to examine issues related to the marketing of credit cards to college students. I applaud the resolution's focus on developing and distributing credit education material for students. I understand that this committee has heard previous testimony regarding the financial literacy of young people and efforts to promote credit awareness and education. As you know, national coalitions of industry, government and non-profit organizations have committed substantial resources to such efforts in recent years. They have already created a tremendous range of educational materials and programs on personal finances for both children and adults, with the promise of more to come. I believe these efforts are essential to the long-term goal of improving the money management skills of most Americans who are faced with an increasingly sophisticated array of financial service products.

I also noticed that some statements in the Joint Resolution's preamble express a concern over the marketing of credit cards to college students and allege a link between those marketing tactics and subsequent credit problems that some cardholders face. I would like to devote my time today to alert you that the best publicly available survey evidence tells us that a large majority of college students who have credit cards are using them in ways that mirror the rest of the population. Whether or not they use them wisely is a subjective question that depends upon your own individual views of how credit should be used. However, there is much evidence that college students are as sensible as the rest of us when it comes to their card usage behavior, and more sensible in some respects. Certainly, a dramatic lack of sophistication in card usage is not apparent in the survey evidence.

Nevertheless, as you well know, a number of universities around the country have chosen to ban on-campus credit card marketing. Some state legislatures have debated restrictions that would attempt to limit all forms of credit card marketing to undergraduate students. I do not know if this Task Force is contemplating restrictions that would single out college students from the rest of the population, but I urge you not to follow that path. I say this for four reasons which I develop more fully below.

1. Survey Evidence Shows that the Majority of Undergraduate Credit Cardholders Use Their Cards Responsibly.

Although numerous marketing research surveys of credit cardholders are conducted annually for proprietary use, relatively few have been conducted for public distribution. The best contemporary survey (i.e., reflecting experience since 1994) that I have seen was conducted in March-April, 1998 by The Education Resources Institute (TERI), a unit of the Washington, DC-based Institute for Higher Education Policy. Both are non-profit organizations.¹ No survey is perfect, but I judge the TERI survey the best among recent, publicly available surveys because of its scope of questions, scientific national sampling and care taken to classify students by type of college experience. In particular, the results I present below draw on the responses to a nationally representative telephone survey of full-time, undergraduate students who are not financially independent of their parents. Presumably because of their youth and inexperience, these “traditional” undergraduates seem to be the primary focus of policy concerns about the marketing of credit cards to college students. Since their behavior with cards is of particular interest, the statistics below exclude undergraduates who are married, have children, are 24 years of age or older, or who have served (or are currently serving) in the military.

How Many Undergraduates Own Credit Cards With Their Own Name On Them?

- 61% of undergraduates owned at least one credit card (of any type) in 1998.
- By comparison, 75% of the entire U.S. adult population owned at least one card.

How Much Credit Do Students Have?

For undergraduates who had credit cards in 1998,

- 29% had combined limits across all of their cards of less than \$1,000.
- 45% had combined limits between \$1,000 and \$5,000
- 14% had combined limits over \$5,000.
- 10% didn't know their credit limits.

How Much Credit Do Students Use?

For undergraduates who had credit cards in 1998,

- 81% had combined balances across all cards of less than \$1,000 at the time they were interviewed
- 7% had combined balances between \$1,000 and \$2,000
- Only 2% reported combined balances greater than \$2,000.

¹ *Credit Risk or Credit Worthy? College Students and Credit Cards*, The Education Resources Institute, (330 Stuart St., Suite 500, Boston MA 02116) June, 1998.

How Many Undergraduates Pay Off Their Accounts vs. Revolve a Balance?

- 66% of undergraduate cardholders typically pay their monthly balance in full. Note that this is substantially higher than the 40-45% of all U.S. cardholders who report that they typically pay their full balance every month.
- Of the 34% who revolve a balance, 75% typically pay more than the minimum amount due. This means that only 8% of undergraduate cardholders routinely make just the minimum payments on their cards.

Why Do Students Obtain and Use Their Credit Cards?

When asked about actual use of their credit cards during the 1997-98 academic year:

- 11% used their cards for tuition and fees
- 59% used their cards for books and supplies
- 63% used their cards for occasional emergencies
- 79% used their cards for routine personal expenses

Percent of undergraduates who gave "high importance" for each reason to obtain and use a credit card:

- | | |
|---|-----|
| • To build a credit history | 52% |
| • For use in emergencies | 43 |
| • More convenient than cash or checks | 29 |
| • Stretches buying power when short on cash | 29 |

When Did Students Obtain Their First Card?

- 25% of undergraduates who have their own credit cards received their first card prior to enrollment at college.
- 55% received their first card during their first year in college.
- 20% received one during their sophomore year or later.

How Did They Get Their First Card With Their Name On It?

- Significantly, 22% of undergraduates with cards said they received their first card through their parents.
- 33% responded to a mailing
- 16% applied through an on-campus card representative or display table
- 20% applied for a card at a store, bank or business.
- 9% applied through other means (telemarketing, internet, etc.)

To summarize, most undergraduates have at least one credit card by the time they graduate. However, the large majority (81%) had combined balances on all of their cards of less than \$1,000 at the time they were interviewed. Only 2% reported combined

balances greater than \$2,000. Two thirds of undergraduates say they pay their balance in full each month, as compared to 40-45% of the total population of cardholders. For the most part the reasons students give for wanting to obtain a card and the uses to which the card is put are consistent with responses from surveys of all cardholders. Clearly, there are some students who have large balances which could well lead to payment problems, but that will be true of any cardholder population. ***I certainly see no evidence from their responses that students are misusing cards in such a way as to warrant singling them out as a group for special protections from marketing solicitations.***

2. A ban on on-campus marketing would be ineffectual at curbing credit card usage among students.

On-campus marketing is the source for only 16% of the first credit cards that students receive. Consequently, restrictions that would ban on-campus marketing would not stop the majority of students from acquiring cards. Moreover, such restrictions would eliminate probably the only opportunity for any face-to-face contact between a card issuer and the cardholder. Present marketing practices may not take full advantage of this opportunity for distributing educational materials and message, but the contact could certainly be used that way, and an outright ban on such marketing eliminates it.

3. Competition ultimately benefits cardholders by giving them choices.

In today's competitive market, the best defense a consumer has against high rates and unfair practices is the credible threat to take one's business elsewhere. Switching card brands has never been easier than it is today. The plethora of offers from other card issuers helps to keep incumbents honest. Conversely, marketing restrictions that make it more difficult or costly for issuers to reach new customers give an advantage to incumbents. Since most college students with cards acquire them through some off-campus source, a ban on on-campus marketing simply blocks one convenient avenue for students to compare their current card with a competing offer. Ironically, such bans often harm local community banks and credit unions more than the large national credit card companies since the former are more likely to rely on physical presence rather than run direct mail or telemarketing campaigns to obtain new customers.

4. More fundamentally, the four years that most undergraduates spend in school are arguably the best time to get acquainted with credit cards.

The undergraduate experience gives young adults an opportunity to transition from life at home to life on their own. Most students spend four years with one foot at home and one foot in the real world, learning about one but sheltered by the other. Learning personal financial management is part of that real-world experience. A general purpose credit card offered with relatively low limits gives students an introduction to the most powerful and versatile payment device on the planet. Students learn that their wants usually exceed their resources and how they must manage that tension; they learn that a purchase made with plastic today and forgotten tomorrow can come back to haunt them

at the end of the month with the arrival of the credit card statement. They learn that the credit card company doesn't forget you've made the purchase, nor does it forget if you don't pay. For those who choose to revolve, a balance that seems to fall far too slowly month after month kindles a new urge to find gainful employment during the summer, or after graduation.

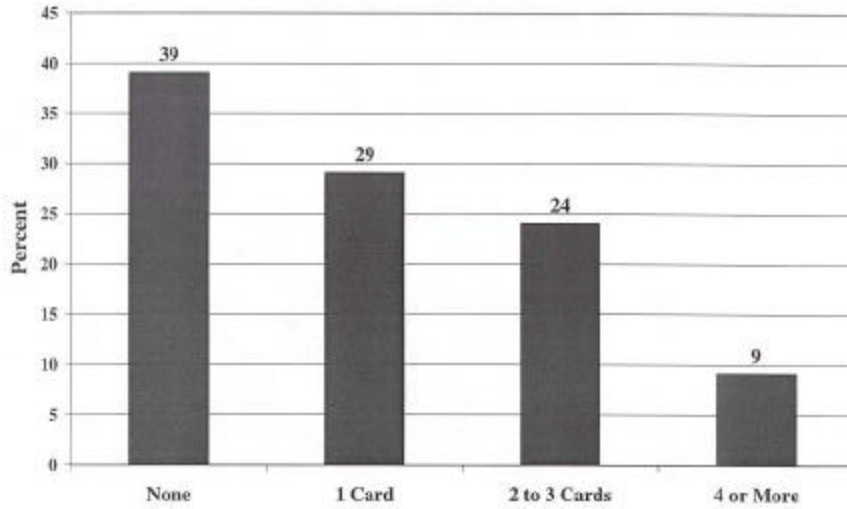
All of these lessons must be learned eventually. I believe it is better to learn them with relatively small exposure, and while most are still under the protective economic umbrella of their parents. Postponing the lesson until graduation seems to raise the financial stakes and put young consumers at even greater risk. Thus, even if it were possible to legislatively prevent college students from acquiring cards, it would not be in the students' best interest.

Summary

It is foolish to suggest that it would be too difficult for our best and brightest youth to learn about cards while in college, and naive to believe that we can keep them from learning on their own. Artificial limits on credit card marketing to this group will not improve financial literacy. The wiser course is to facilitate student access to the information they need to make sound decisions about using credit, the importance of maintaining a good credit history, and their consumer rights when they find themselves in a dispute.

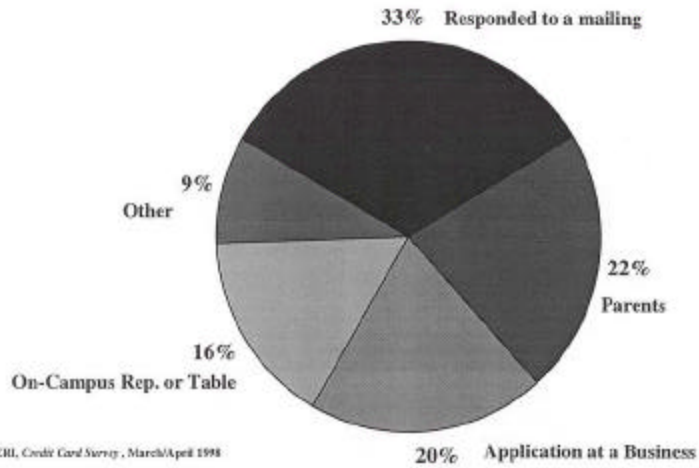
I thank you for the opportunity to appear today and would be happy to answer questions.

Percent of Undergraduates Who Own Credit Cards, 1998



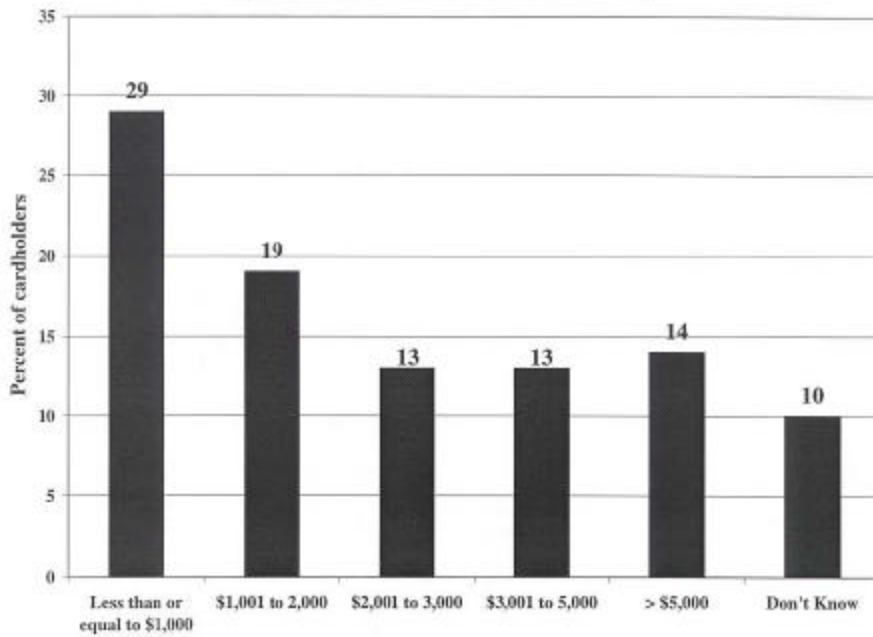
Source: The Education Resources Institute (ERI), Credit Card Survey, March/April 1998.

Source of First Card:
 "How did you obtain that first card with your name on it?"



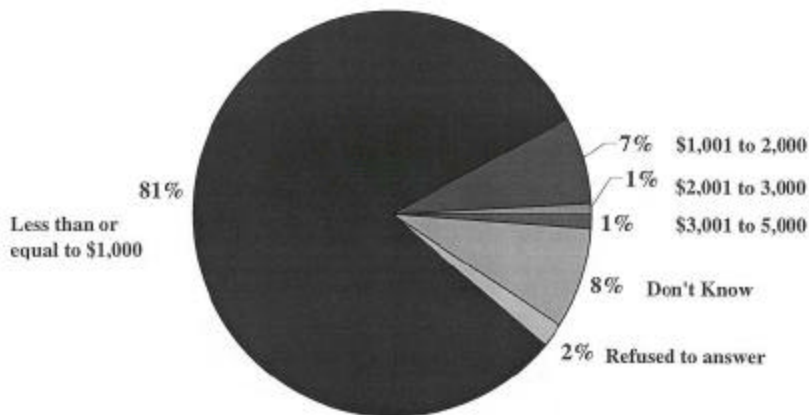
Source: ERI, Credit Card Survey, March/April 1998

Combined Limits on All Cards



Source: TERC, Credit Card Survey, March/April 1998.

Combined Balances on All Cards (As of Interview)



Source: TERC, Credit Card Survey, March/April 1998.