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Credit card debt on college campuses: causes, consequences, and solutions

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Credit card debt is a burgeoning problem on campuses. Although most students handle credit well, a significant minority get into debt. Causes include beliefs about future earnings, debt attitudes and financial knowledge. Many students have not had financial training and, among those who have, classes do not necessarily cause behavioral changes. Colleges, parents, and public policy makers must work together to combat the problem of student consumer debt. Suggestions are made for college policy with respect to credit card solicitation.

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"I've called several attorneys and my question is how can they charge so much for bankruptcy when you already don't have any money? How much do you charge?"

These are questions you might expect to hear in a bankruptcy attorney's office. Instead, the inquiries were from a young woman at a seminar on managing credit card debt led by a local attorney given on our college campus.

Credit cards have become a fact of life on college campuses. With a reported $13 billion in discretionary income, college students represent a huge market for credit card companies (Kara, Kaynak, & Kucukemiroglu, 1994). Students often receive incentives, such as t-shirts or mugs, to apply for cards, and requirements, such as previous credit history, are often waived (Kara et al, 1994). Due in large part to these marketing efforts, a recent study reported that approximately 70 percent of college students possess at least one credit card--a number much higher than previously thought (Manning, 1999), while another study reported that 93 percent of college seniors have acquired at least one card (Markovich & DeVaney, 1997).

Colleges, too, have embraced the idea of credit cards among their students. According to one study, 77 percent of colleges reported accepting credit cards for payment of tuition (National Association of College and University Business Officers, 1995). Further, many colleges allow companies to solicit students and alumni with imprint cards, cards personalized with the institution's logo. Colleges then receive money, either in a lump sum, an amount for each completed application, or, in some cases, a percent of the amount charged by those possessing the cards. Credit card companies often are allowed to seek business on campus. For example, at some institutions, student groups may sponsor credit card companies who wish to solicit applications. Both sides appear to benefit from this arrangement. The student group receives a set dollar amount for each application received, and the company is able to set up a table one day a week in the student union.

Most Students Manage Credit Well

For most students, this easy access to credit is not an issue. Studies indicate that most students manage credit wisely. The 1998 TERI (The Education Resources Institute) Credit Risk or Credit Worthy study reported that 59 percent of students pay off their credit cards monthly. Others have estimated that only one in ten students is irresponsible with credit card use (Stanford, 1999). Indeed, the TERI study reported that most students report using and having credit cards in order to build a credit history and for use in emergencies. The study further reported that 82 percent of students with credit cards had balances of $1000 or less.

Credit Card Debt is a Problem for Many

However, despite the fact that the majority of students do well managing their finances, a significant portion do not. Manning (1999) reported an average credit card debt of $2,226 while Norvilitis, Szablicki, and Wilson (in press) found an average debt of $1,518 among all students. The consequences can be serious. There have been at least two cases widely reported in the media of college students who took their lives in part because of their credit card debt. Sean Moyer was a 22-year-old student with $10,000 of debt and Mitzi Pool was a 19-year-old student with $2,500 in debt. In both cases, they had talked to others about feeling overwhelmed by the debt shortly before their deaths. Anecdotally, on this campus, many students at academic probation hearings report having to hold several jobs to service the debt they have already accrued. For other students, the result can be bankruptcy or starting a career already heavily burdened by debt. It is not surprising, then, that students with high levels of debt, likely realizing the severity and chronicity of their situations, report both daily financial stress and decreased psychological well-being. Further, high levels of debt are related to a decreased sense of one's ability to manage and comprehend one's financial situation (Lange & Byrd, 1998).

The situation may be worse for those who get their credit cards on campus. The Public Interest Research Group's (PIRG) Student Credit Card Trap study (1998) found that students who received cards from campus tables had higher unpaid balances than students who received their cards from elsewhere and were also more likely to carry a balance from one month to the next. Norvilitis and colleagues (in press) found a similar pattern that suggested that students who receive cards from tables in the student union have larger debt to income ratios than students whose cards are from another source.

Multiple Causes Exist for Credit Card Debt

Regardless of the origin of the card, the reasons for falling into debt are only partially understood. For some students, credit cards may be their only means to pay for their education. The TERI (1998) study reported that 19 percent of students have charged their tuition and fees, but one-third of those with balances of over $1,000 have charged tuition. If the balance is not paid in full, this is, in essence, an 18 percent loan. Charging tuition, then, may be part of an escalating pattern for some students in financial trouble.

Other students may get into debt because of the assumption that they will easily get out of debt upon graduation from college. Somers and Cofer (1998) reported that graduate students, although concerned about their debt, viewed it as necessary for paying bills and staying in school. Unfortunately, this belief that debt will be quickly repaid can be misguided. As Warwick and Mansfield (2000) point out, today's college students have grown up in a culture saturated with credit cards, but may view credit as something abstract or equivalent to earnings. These rather cavalier attitudes may be related to the fact that 71 percent in their study had no idea what interest rate they were paying.

It is not just knowledge of interest rates that students are lacking. In the 1999 Youth and Money [American Savings Education Council (ASEC), 1999] survey, two-thirds of students reported that they should know more about money management. Indeed, students without debt consistently underestimated the length of time it will take to repay money with interest (Lewis & van Venrooij, 1995). Further, in one study of high school seniors, only a quarter knew that interest accrues on the day of a purchase when accounts are not paid in full monthly [Brobeck, 1990, as cited in National Institute for Consumer Education (NICE), 1996]. Students already shouldering debt actually overestimate the length of time it takes to repay money (Lewis & van Venrooij, 1995), suggesting that they feel burdened by debt. Further, Eskilson and Wiley (1999) report that undergraduates are very optimistic about their future earning potential and that this optimism is unrelated to current school performance. That is, students with lower grades, who are less likely to obtain top jobs after graduation, are as optimistic about the future as students with higher grades. Thus, students may both underestimate the length of time it will take to repay debt and overestimate their ability to pay off debt before they choose to assume debt.

Lack of knowledge is likely due to a lack of education about personal finances. Almost all students--94 percent--report that they are likely to ask their parents questions about finances (ASEC, 1999). However, 30 percent also say that their parents have

not discussed such issues as setting financial goals or the importance of savings with them. Students also aren't learning about money in school. Although 62 percent of students reported that they had been offered a personal finance class, only a third of those offered a class actually took it (ASEC, 1999).

Unfortunately, even among students who take such classes, training alone may not combat the behavior that gets students into financial trouble. In the Youth and Money survey, there were few differences in behavior between the 21 percent of students who had taken a personal finance course and the 79 percent who had not (ASEC, 1999). Students may know what they should do, but do not carry through on it. For example, although most students report that they have credit cards for emergencies, only 13 percent of cardholders reported that they actually limit use to emergencies (PIRG, 1998).

Information provided to students when they apply for credit cards also does not appear to solve the problem. The PIRG study found that 59 percent of student credit card holders found the education materials provided with applications to be not helpful or "unreadable." Further, one-quarter of students found teaser rates--lower introductory rates--to be misleading.

Another factor related to student credit card debt is one's attitude toward money. Boyce and Danes (1998) argue that teenagers experience "premature affluence" because of their high levels of discretionary income and almost no bills. Some teens may become used to a certain lifestyle and not know how to adjust when bills increase in college. Further, some students may be more comfortable with debt. Davies and Lea (1995) reported that higher levels of debt in college students were related to greater tolerance of debt. The authors hypothesized that college students accumulate debt because they believe that their current financial situation is temporary and that short-term debt will be easily repaid and is not a problem. Students may be willing to tolerate debt so that they can maintain the comfortable lifestyle to which they are accustomed. Further, those in debt are more likely to have attitudes that are more favorable to credit and are more likely to have an external economic locus of control. That is, they are more likely to think that things external to them control their finances (Livingstone & Lunt, 1992).

How Can the Problem Be Addressed?

Clearly, consumer debt is a problem for a significant number of students. Many students lack the knowledge of how to handle credit and have attitudes that suggest that debt is acceptable. As noted above, even students who have participated in courses on financial management do not handle credit significantly differently than students without such courses. What then can be done?

First, education is key. However, education must go beyond providing information. For example, early generation sexuality education focused on improving knowledge about sexuality and helping students to clarify values. Although there is some evidence that these programs increased knowledge, they did not reduce teen pregnancy or delay sexual activity (Kirby, 1992). Effective sexuality education programs provide information, but also focus specifically on reducing risk-taking behavior, are based on established theories of social learning, teach through activities rather than lectures, and address media influences on sexual risk-taking (Kirby et al., 1994).

A similar pattern has been found with drug and alcohol education programs. Programs that simply provide information to scare students away from drugs and alcohol are not effective. One popular example of such a program is DARE, an information-based program. Found in many cities across the nation, DARE has not been found to effectively reduce drug use or positive drug attitudes (Lynam et al., 1999). On the other hand, programs that provide students with skills to combat peer pressure and solve problems, such as the program Life Skills Training, are effective. Life Skills Training has been found to lower levels of alcohol, tobacco, and drugs by over 50 percent through teaching skills to resist drugs and enhance self-management and social skills (Scattergood, Dash, Epstein, & Adler, 1998).

Although sexual activity, drug and alcohol use, and credit card debt appear far apart, the same guiding principles are currently

used in education about sex and about drugs. At present, it appears that there is no standard for educating students about money. According to the National Institute for Consumer Education (NICE; 1996), more than half of states have a policy about consumer education in the schools. However, great variability exists in the requirements and in programs offered.

A search of available programs located a range that varied from videos and handouts to comprehensive multi-session presentations with instructor's manuals, workbooks, and structured activities. Unfortunately, very little outcome research has been done on most programs. For example, the Master Your Future program from MasterCard, touted as being "award-winning," has not been systematically evaluated. The National Endowment for Financial Education's High School Financial Planning Program has had limited research. At a three-month follow-up, student knowledge had increased as well as personal savings rates (Boyce & Danes, 1998). Credit card debt was not specifically targeted and long-term follow up has not been completed.

Thus, the present state of consumer education programs leaves much to be desired from the perspective of reducing college student credit card debt. Some programs appear heavily focused on providing information, rather than skills, and may not be likely to effect change. Other programs appear promising and follow many of the principles that guide effective sexuality and alcohol education programs. However, until experimental studies support their effectiveness, it will remain unclear whether or not these studies help our college students.

Nonetheless, it is important to educate students about credit cards. Students need to know basic guidelines for eliminating and staying out of debt such as knowing credit card balances and interest rates, knowing that transferring high-interest rate balances to lower rate cards provides instant savings (if the high rate cards are immediately cut up), and that debit cards and checks allow students to only spend what they actually have.

Colleges should be encouraged to develop their own programs or modify existing high school programs to increase awareness and financial skills. A logical place for such a program would be in conjunction with new student orientation, although programming should be offered throughout the year and for all students. Clearly, program effectiveness studies would need to be completed. In addition, many organizations, ranging from Visa, MasterCard and American Express to the Federal Trade Commission, offer free educational pamphlets on credit cards. Such pamphlets should be available to students in many locations across campus together with information about non-profit credit counseling services.

Education and awareness alone may not be enough to reduce the problem of student credit card debt. Changing the process by which students obtain credit cards on campus is another important component. Norvilitis and colleagues (in press) found that two-thirds of students believe that the college supports credit card companies who solicit students in the union. Further, a quarter of students incorrectly believe that the college screens credit card companies who solicit in the student union. PIRG (1998) recommends that colleges should alter the way students apply for cards on campus. For example, they recommend that students not be allowed to receive free gifts for applying until after they have read a credit card educational brochure. Another possibility would be limiting the number of tables allowed on campus. On this campus, credit card companies are allowed to solicit only one day per week and only if sponsored by a student group. Still other potential changes would involve changing how fees are paid to colleges or student organizations. For example, if student groups received a flat fee for sponsoring a table rather than an amount per completed application, there might be less pressure on students to complete applications (PIRG, 1998).

While colleges are in a position to teach credit card savvy to students, that task is not the sole responsibility of--nor should it begin with--the institution of higher education. Ideally, money management techniques would be first taught in the home with relevant programming implemented at the elementary and high school levels. The issue at hand is a societal problem, which requires a concerted effort by parents, educators, elected officials et al.

It is understood that, although parents hold the primary responsibility for teaching their children good spending and effective saving habits, this is not a perfect world and such is not always the case. Following suit, relevant programming may be available, fundable, or considered important enough at the K-12 levels of education.

College students, in all of their unperceived naivete, fall prey to the lure of the good life that is dangled before them by credit card solicitors on campus and compounded by peer pressure to spend. Everyone knows that a college education is expensive, that spring break is a necessity, that a good car is the key to popularity, and that day to day living costs money. Television programs, too, lead young people to believe that they can live a lifestyle where money is no object and spending has no serious consequences (Shenk, 1997). Unfortunately, this is a "buy now, pay later" society where credit flows freely in the direction of young people who have very little experience with handling finances. It is also no secret that college students are a select group that is old enough for credit but has not yet established brand loyalty.

Colleges are not the only institution taking note. Due to parental concern for a growing problem that has been brought to her attention, Rep. Louise M. Slaughter (D, Rochester, NY), has introduced the College Student Credit Card Protection Act. This legislation seeks to restrict the lending practices of banks with regard to students. Companies would have to determine student ability to pay off a balance before giving approval to an application. Student credit lines would be limited to 20 percent of their annual income without a cosigner. Rep. Slaughter is also seeking lower credit limits with prompt payment as an incentive for increases. Small print relative to hidden fees and written parental notification of credit line increases would be encompassed by another provision. In addition, Rep. Slaughter commissioned a study by the General Accounting Office (GAO), which is the investigative arm of Congress. This report, released in June, 2001, reported on the credit card solicitation practices of colleges and universities and found that there is no uniform set of practices among colleges.

Student consumer debt is not a problem that will be solved easily. Elected officials, college educators, and parents must all work together to identify and implement the best practices. It is encouraging that three-quarters of students report thinking about trying to manage their money (ASEC, 1999) and that, when offered information on credit card debt, over half of students requested that information (Norvilitis et al., in press). This suggests that students want help with such issues. Colleges should take advantage of their unique opportunity to provide students with greater awareness and education.

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