Although cash purchases seem to be waning in popularity, few researchers have investigated credit card literacy. This study examines college students' use and knowledge of credit cards. Researchers designed a questionnaire with 24 items and asked business professors in the southern region of the United States to administer the instrument to students in the professors' classes. The results of the 495 responses received are presented in 3 categories: (1) credit card use; (2) credit card knowledge; and (3) demographic information. The findings indicate that although most students consider themselves credit-card wise, they are willing to pay the high interest rates charged by credit-card companies. Few students defaulted on their card payments, but over 65 percent of them paid less than half of their outstanding balance each month. Some of the recommendations made include the offering of credit classes in high schools and colleges, financial counseling for students, and further research to determine how many college students experience financial difficulties due to credit overextension. Eight tables contain statistical summaries and a copy of the questionnaire appears in an appendix. (RJM)
AWARENESS, COMPREHENSION, AND USE OF CREDIT CARDS BY SOUTHERN REGION COLLEGE STUDENTS

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Introduction

In today’s volatile economic conditions, a gradual switch to a cashless society is taking place (Clayton, Porter, Thomas, and Williams, 1984). Individuals must know how to be wise consumers—especially of credit. Researchers have given little emphasis, however, to credit card literacy. Therefore, a study to determine how much college and university students know about credit cards, as well as the extent to which students use them, is warranted.

The American Bar Association (1988) noted that "at any one time, about three-fifths of American families have installment debts outstanding ... [and] among these families, payments on their installment debts absorb about ten percent of family income" (p. 5). Many people are finding they have overextended themselves financially. As a result, personal bankruptcies are rising (American Bar Association, 1988).

Clayton and Porter (1984) noted that approximately 167 million customers worldwide hold the top two credit cards (Visa and MasterCard). Additionally, more and more today, teenagers and young adults are choosing to obtain and use credit cards. Once young individuals reach the age of 18, they are often tempted to enter the world of plastic money through unsolicited invitations by companies offering instant credit. Are these individuals prepared to be wise consumers of credit?

Problem Statements

This study determined:

1. Whether college students in the Southern Region of the United States are knowledgeable consumers and users of credit cards.

2. Whether curriculum changes need to be made in Southern Region high schools and/or colleges of business in order to ensure that students are knowledgeable consumers and users of credit cards.
Objective

The objectives for this study were:

1. To determine the extent of credit card use among Southern Region college students.
2. To determine an awareness of credit card policies among Southern Region college students.
3. To determine credit card payment habits of Southern Region college students.
4. To determine extent of consumer credit card education (at the high school or collegiate level).

Methods and Procedures

Quantitative, descriptive research was used for this study. The researchers designed a questionnaire consisting of 24 dichotomous and multiple choice items (Appendix A). Items 1 through 16 requested information pertaining specifically to the objectives of this study. Items 17 through 24 provided demographic information on the study participants.

A cover letter requesting the recipients to administer the questionnaire to students in their business classes was mailed to 21 college of business professors from colleges and universities throughout the Southern Region of the United States. Nineteen professors (91%) returned their students' responses.

The sample for this study, therefore, consisted of 495 students attending college in the Southern Region (Alabama, Arkansas, District of Columbia, Florida, Georgia, Kentucky, Louisiana, Maryland, Mississippi, North Carolina, Oklahoma, South Carolina, Tennessee, Texas, and West Virginia).

Findings and Results

Analyses of data collected during the study were performed using SPSSx statistical software. Frequencies and percentages resulting from those analyses are reported here. It should be noted that percentages may not total 100% in some instances, because students checked more than one response or because all did not respond to an item. For clarity, findings and results will be reported in three categories: credit card use, credit card knowledge, and demographic information.
Awareness, Comprehension and Use of Credit Cards

Credit Card Use. Nine questionnaire items solicited information from the respondents relating to the manner in which they obtained and use credit cards. Tables 1 through 7 summarize data obtained from questions 1 through 9 of the survey.

Of the 495 respondents, 86% indicated that they have applied for their own credit card (Table 1). Additionally, while 30.1% reported that their cards were obtained as a result of unsolicited information from credit card companies, the majority (51.3%) indicated that it was their own idea (Table 2).

Table 1
Percent of Southern Region College Students Who Have or Have Not Applied for Credit Cards (n=495)

<table>
<thead>
<tr>
<th>Question</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Have you ever applied for your own credit card?</td>
<td>426</td>
<td>69</td>
</tr>
</tbody>
</table>

Table 2
Stimulus for Credit Card Application by Southern Region College Students (n=425)

<table>
<thead>
<tr>
<th>Question: Who initiated the application?</th>
<th>f</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>It was my own idea.</td>
<td>218</td>
<td>51.3</td>
</tr>
<tr>
<td>The credit card company sent me unrequested information.</td>
<td>131</td>
<td>30.8</td>
</tr>
<tr>
<td>My parents encouraged me.</td>
<td>42</td>
<td>9.9</td>
</tr>
<tr>
<td>Other</td>
<td>34</td>
<td>8.0</td>
</tr>
</tbody>
</table>
Awareness, Comprehension and Use of Credit Cards

Question three provided data about the number of credit cards students have. About half (50.1%) of the students responding (n=453) to that question indicated that they have three or more cards, and only 11.7% indicated that they have no credit cards (Table 3).

Table 3

Number of Credit Cards of Southern Region College Students (n=453)

<table>
<thead>
<tr>
<th>Question: How many credit cards do you personally (or you and your spouse) have?</th>
<th>f</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>none</td>
<td>53</td>
<td>11.7</td>
</tr>
<tr>
<td>one</td>
<td>89</td>
<td>19.6</td>
</tr>
<tr>
<td>two</td>
<td>84</td>
<td>18.5</td>
</tr>
<tr>
<td>three or more</td>
<td>227</td>
<td>50.1</td>
</tr>
</tbody>
</table>

Students were also asked which credit cards they have. As Table 4 shows, students have a variety of credit cards. More students indicated that they have Visa (67.6%) than either MasterCard or Discover, and only 49 students reported having American Express.

Table 4 also shows that less than half (36.2%) of the students indicated that they had no department store credit cards. However, of those students who reported having department store cards, 36.3% have one or two cards; and 20.7% have three to seven cards. Two students reported having ten department store credit cards (Table 4a).

Only 30.9% of the students responding to question four indicated that they have gasoline credit cards (Table 4), and most of them have only one. However, one student reported having five gasoline cards (Table 4b).
### Awareness, Comprehension and Use of Credit Cards

#### Table 4
Type of Credit Cards of Southern Region College Students (n=398)

<table>
<thead>
<tr>
<th>Card Type</th>
<th>f</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Visa</td>
<td>269</td>
<td>67.6</td>
</tr>
<tr>
<td>MasterCard</td>
<td>164</td>
<td>41.2</td>
</tr>
<tr>
<td>American Express</td>
<td>49</td>
<td>12.3</td>
</tr>
<tr>
<td>Discover</td>
<td>116</td>
<td>29.1</td>
</tr>
<tr>
<td>Department Store (Sears, Penney,</td>
<td>253</td>
<td>63.6</td>
</tr>
<tr>
<td>Dillards, etc.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gasoline (Amoco, BP, Exxon, Shell, etc.)</td>
<td>123</td>
<td>30.9</td>
</tr>
</tbody>
</table>
Awareness, Comprehension and Use of Credit Cards

Less than half (38.8%) of the students who responded to the question asking for information about the total line of credit for all credit cards combined reported having lines of credit limited to $2,000. Additionally, 48.2% reported credit lines ranging between $2,000 and $10,000, and 51 students (13%) indicated limits exceeding $10,000 (Table 5).

Table 5

Total Line of Credit of Southern Region College Students (n=392)

<table>
<thead>
<tr>
<th>Question: What is your total line of credit (on all your credit cards combined)?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Response</td>
</tr>
<tr>
<td>$0 - $2,000</td>
</tr>
<tr>
<td>$2,001 - $4,000</td>
</tr>
<tr>
<td>$4,001 - $6,000</td>
</tr>
<tr>
<td>$6,001 - $8,000</td>
</tr>
<tr>
<td>$8,001 - $10,000</td>
</tr>
<tr>
<td>more than $10,000</td>
</tr>
</tbody>
</table>

While one student reported averaging more than $1,000 in credit card purchases monthly, most (82.1%) reported limiting their average monthly charges to a maximum of $200 (Table 6).
Awareness, Comprehension and Use of Credit Cards

Table 6

Average Monthly Charged by Southern Region College Students (n=397)

| Question: On the average, approximately what amount do you (or you and your spouse) charge to your credit card(s) each month? |
|---|---|
| **Response** | **f** | **%** |
| $0 - $200 | 326 | 82.1 |
| $201 - $400 | 46 | 11.6 |
| $401 - $600 | 15 | 3.8 |
| $601 - $800 | 7 | 1.8 |
| $801 - $1,000 | 2 | .5 |
| more than $1,000 | 1 | .3 |

Less than half (43.4%) of the students responding reported that they pay more than the minimum amount due each month, and 27.3% indicated that they pay the entire balance monthly. However, 87 students reported that they pay only the minimum amount, and one student reported paying only interest monthly (Table 7).

Table 7 also shows that while a little more than four-fifths (85.5%) of the students reported paying their credit card bills on time, 49 students reported having had credit cards cancelled for nonpayment.

Credit Card Knowledge. Few students indicated that they had learned strategies for wise credit card use in either high school (10.2%) or college (32.2%).

However, most students indicated that they know how credit card companies work (70.7%), know what to do if they can’t pay their debts (60.0%), know their rights and obligations regarding credit cards (53.2%), know what to do if their credit cards are lost or stolen (96.0%), and know the annual percentage rate of interest charged by their credit card companies (87.3%).
## Table 7

**Methods Southern Region College Students Use to Pay Credit Card Charges**

<table>
<thead>
<tr>
<th>Question: Generally, how do you pay charges made to your credit card?</th>
<th>Response</th>
<th>f</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay only interest charged each month</td>
<td></td>
<td>2</td>
<td>.5</td>
</tr>
<tr>
<td>Pay minimum amount due on each statement</td>
<td></td>
<td>87</td>
<td>22.0</td>
</tr>
<tr>
<td>Pay more than minimum amount due each month but less than half of entire balance</td>
<td></td>
<td>172</td>
<td>43.4</td>
</tr>
<tr>
<td>Pay at least half, but not the entire balance</td>
<td></td>
<td>26</td>
<td>6.6</td>
</tr>
<tr>
<td>Pay in full each month</td>
<td></td>
<td>108</td>
<td>27.3</td>
</tr>
</tbody>
</table>

---

**Question: Do you make your credit card payments on time each month?**

<table>
<thead>
<tr>
<th>Response</th>
<th>f</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>341</td>
<td>85.5</td>
</tr>
<tr>
<td>No</td>
<td>58</td>
<td>14.5</td>
</tr>
</tbody>
</table>

---

**Question: Have you ever had a credit card canceled for nonpayment?**

<table>
<thead>
<tr>
<th>Response</th>
<th>f</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>49</td>
<td>11.9</td>
</tr>
<tr>
<td>No</td>
<td>364</td>
<td>88.1</td>
</tr>
</tbody>
</table>
Awareness, Comprehension and Use of Credit Cards

Demographic Information. Most respondents were under 25 years of age (78.1%), female (53.6%), and single (82.2%)

While students of all collegiate classifications participated in the study, the majority were seniors (52.3%). Other classifications were freshman (1.7%), sophomore (11.6%), junior (28.8%), and graduate (6.2%).

Additionally, as Table 8 shows, the majority were Caucasian.

Table 8

Race of Southern College Students Participating in Credit Card Study (n=495)

<table>
<thead>
<tr>
<th>Race</th>
<th>f</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>African American</td>
<td>113</td>
<td>23.5</td>
</tr>
<tr>
<td>Asian</td>
<td>7</td>
<td>1.5</td>
</tr>
<tr>
<td>Caucasian</td>
<td>330</td>
<td>68.6</td>
</tr>
<tr>
<td>Hispanic</td>
<td>11</td>
<td>2.3</td>
</tr>
<tr>
<td>Native American</td>
<td>13</td>
<td>2.7</td>
</tr>
<tr>
<td>Other</td>
<td>7</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Annual income for students participating in the study ranged from $5,000 or less (44.3%) to more than $30,000 (10.0%). Seventy-six percent of the students reported annual incomes of $15,000 and under.

Only 8.7% of the students reported that they were totally supported by parents or spouse; 26.2% indicated that they provided at least half of their financial source; and 24.1% reported that they were totally self-supporting.
Conclusions and Recommendations

Conclusions

The following conclusions are drawn from the analyses of survey responses:

1. Even though most students indicate that they are credit-card wise, they are willing to pay the high interest rates charged by credit-card companies.

2. Since few have had their credit cards canceled for nonpayment, students probably keep their payments fairly current.

3. Since most students pay less than half the entire balance each month, they are not necessarily wise consumers of credit.

Recommendations

Based on analyses of the responses, the following recommendations are offered:

1. Curriculum planners at the high school level and/or collegiate level should ensure that their students learn about credit and how to be wise consumers of credit.

2. Further research is needed to determine how many college students are experiencing financial difficulty because they have overextended themselves and to discover cause-effect relationships.

3. High schools, colleges, and universities might consider offering financial counseling to students who want it.

Summary

The "cashless society" may not be as remote as we think. How often do we stop to consider the actual cost of our credit habits? People today are awash in credit--credit cards, rent-to-own, easy credit payment plans. The total cost of credit purchases can double or triple, not to mention the extended time frame involved. For instance, by paying only the minimum balance each month on a debt of $3,100, approximately 15 years would elapse before the account would be cleared.
Awareness, Comprehension and Use of Credit Cards

Business educators have certain goals, such as preparing students "for" and "about" business. Educators are supposed to provide students with the necessary skills and knowledge to become excellent, productive workers; and they are supposed to give students the knowledge to be wise citizens and consumers. The results of this study indicate that students perceive that they have considerable credit card knowledge, but they often fail to apply that knowledge in their personal lives. Therefore, business educators need to review and enhance the "about" portion of the curriculum, specifically to ensure that students understand the importance of using the information they learn in their daily lives.

References


Appendix A

Personal Use and Knowledge of Credit Cards

The purposes of this questionnaire are to determine personal use and knowledge of credit cards. By voluntarily completing and returning this survey, you are giving your permission for this information to be used as grouped data. Your anonymity is guaranteed because your name is not requested on the survey.

Credit Card Use

1. Have you ever applied for your own credit card?
   ___ a. yes
   ___ b. no

2. Who initiated the application?
   ___ a. It was my own idea.
   ___ b. The credit card company sent me unrequested information.
   ___ c. My parents encouraged me.
   ___ d. Other (specify):

3. How many credit cards do you personally (or you and your spouse) have?
   ___ a. none
   ___ b. one
   ___ c. two
   ___ d. three or more

4. If you have a credit card, which card(s) do you have? (Check all that apply.)
   ___ a. Visa
   ___ b. MasterCard
   ___ c. American Express
   ___ d. Discover
   ___ e. department store (Sears, Penney, Dillards, etc.)
      How many?
   ___ f. gasoline (Amoco, BP, Exxon, Shell, etc.)
      How many?

5. What is your total line of credit (on all your credit cards combined)?
   ___ a. $0 - $2,000
   ___ b. $2,001 - $4,000
   ___ c. $4,001 - $6,000
   ___ d. $6,001 - $8,000
   ___ e. $8,001 - $10,000
   ___ f. more than $10,000

6. On the average, approximately what amount do you (or you and your spouse) charge to your credit card(s) each month?
   ___ a. $0 - $200
   ___ b. $201 - $400
   ___ c. $401 - $600
   ___ d. $601 - $800
   ___ e. $801 - $1,000
   ___ f. more than $1,000

7. Generally, how do you pay charges made to your credit card?
   ___ a. pay only interest charged each month
   ___ b. pay minimum amount due on each statement
   ___ c. pay more than minimum amount due each month but less than half of entire balance
   ___ d. pay at least half, but not the entire balance
   ___ e. pay in full each month

8. Do you make your credit card payments on time each month?
   ___ a. yes
   ___ b. no

9. Have you ever had a credit card canceled for nonpayment?
   ___ a. yes
   ___ b. no

Credit Card Knowledge

10. Have you learned strategies for wise credit card use in any of your college business courses?
    ___ a. yes
    ___ b. no

CONTINUED ON OTHER SIDE → →
Awareness, Comprehension and Use of Credit Cards

11. Did you learn strategies for wise credit card use in any of your high school business courses?  
   a. yes  
   b. no

12. Do you know how credit card companies work?  
   a. yes  
   b. no

13. Do you know what to do if you cannot pay your bills?  
   a. yes  
   b. no

14. Do you know your legal rights and obligations as they relate to credit card use?  
   a. yes  
   b. no

15. Do you know what to do if credit cards are lost or stolen?  
   a. yes  
   b. no

16. Do you know the annual percentage rate of interest charged by your credit card companies?  
   a. yes  
   b. no

Personal Information

17. What is your age?  
   a. under 25  
   b. 25 and older

18. What is your marital status?  
   a. single  
   b. married

19. What is your race?  
   a. African American  
   b. Asian  
   c. Caucasian  
   d. Hispanic  
   e. Native American  
   f. Other (specify)

20. What is your gender?  
   a. female  
   b. male

21. What is your (or your and your spouse's) total annual income?  
   a. $5,000 or less  
   b. $5,001 - $10,000  
   c. $10,001 - $15,000  
   d. $15,001 - $20,000  
   e. $20,001 - $25,000  
   f. $25,001 - $30,000  
   g. more than $30,000

22. How would you best describe your financial source?  
   a. totally self-supporting  
   b. mostly self, some parental/spousal support  
   c. half self, half parental/spousal support  
   d. some self, mostly parental/spousal support  
   e. totally parental/spousal support  
   f. other (specify)

23. What is your academic major?  
   a. Accounting  
   b. Business Admin./General Business  
   c. Business Education  
   d. Computer Info. Systems  
   e. Economics  
   f. Finance  
   g. Management  
   h. Marketing  
   i. Office Admin./Admin. Services  
   j. Other (specify)

24. What is your collegiate classification?  
   a. Freshman  
   b. Sophomore  
   c. Junior  
   d. Senior  
   e. Graduate

THANK YOU FOR YOUR HELP!

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