FOLLOW UP:

# Credit Card Caution

TIMOTHY P. CAHILL

In "Pushing Plastic," (*The New England Journal of Higher Education*, Summer 2007), John Humphrey notes that many college administrators justify their credit card solicitations by suggesting that credit card access will help students learn to manage their own finances. Instead, credit card debt will teach thousands of students a lesson they will never forget.

The "earnings premium" enjoyed by college graduates is well-documented: college graduates earn significantly higher annual incomes than high schools graduates. So should we really be concerned about the ability of college students, with their higher income potential, to pay their credit card bills? Should a state treasurer's office dedicate time to improve the financial knowledge of these privileged young adults, when many underserved Americans are marked with poor credit to the point where they may be out of rational financial options?

The answer is yes. A number of groups help people who are unbanked by traditional financial institutions due to their poor credit histories. College students, meanwhile, are a demographic that has proven particularly naïve and inexperienced in personal financial decision-making. In Massachusetts, students who planned to attend a four-year college received an average score of 55 percent on the 2006 National Jumpstart Coalition Survey, which measures knowledge of personal income, money management, savings, spending and debt. On the debt portion of the survey, they scored even worse. Few college students recognize credit card debt for what it is—a very high-interest loan.

**Generation Plastic**

Members of the class of 2007 graduated college with four credit cards on average and $3,000 in credit card debt, according to an investigative report by CBS Evening News, which dubbed today's generation of college students "Generation Plastic." This consumer behavior has been carefully molded with the exclusive marketing agreements between colleges and credit card issuers for which the schools receive financial compensation. In 2001, *60 Minutes II* reported on a 10-year contract which specified that First USA pay $3 million to get on the University of Oklahoma campus and issue a credit card with the university's name on it. This particular contract also stipulated that the university receive four-tenths of 1 percent of every purchase students make with their cards. It was agreed further upon the demand of the credit card issuer that the university provide the names, addresses and phone numbers of its 21,000 students. Hundreds of colleges have cut similar deals, which in some circumstances give credit card issuers the exclusive right to market to the alumni and employees of the colleges as well.

Students are solicited on average 25 to 50 times per school year through the mail as well as in person at student unions, bookstores, athletic departments and alumni associations. According to a Student Monitor study, 36 percent of students obtained their credit cards by responding to mail offers, 15 percent by filling out an application from a display on campus, and 14 percent by applying at a bank. These numbers suggest that many students are acquiring credit cards without prior planning and in response to aggressive marketing, rather than intentionally obtaining credit cards through their banks.

College administrators voice little skepticism about these marketing tactics. After all, the credit card issuer usually promises payments to the college based on the number of "affinity" cards issued at a particular academic institution and the charges made to the cards. The relationships between the institution and credit card issuer often result in the credit card bearing the college or university's logo, which to an inexperienced student can represent a sense of school spirit and familiarity.

Moreover, college administrators may not realize that four in six credit card issuers have customized underwriting standards for college students. These criteria typically eliminate standard income and employment requirements that are ordinarily required for an individual to obtain a credit card, making it easier for students to obtain credit. This customization of standards for credit access should raise a red flag that credit card approval is being granted prematurely for many full-time college students.

**Protecting Students**

Recently filed legislation to protect college students from predatory practices would require credit card companies to verify the annual incomes of full-time students under age 21, require a co-signer for students who have no verifiable income for both initial credit cards and requests for increases in credit, and prohibit a credit card company from issuing multiple cards to students.

While policy initiatives such as this will take time to implement, college administrators and lenders can begin protecting students immediately by adopting some of the strategies currently being used to educate minorities and moderate-income people about credit.

For example, Compucredit's Economic Empowerment Initiative provides unbanked consumers with a comprehensive economic literacy guide as well as a credit card on which cardholders may obtain increased privileges gradually as they establish a positive credit history. The credit cards, like those issued on college campuses, are affinity cards, meaning a small contribution is made with every transaction. But Compucredit's affinity contributions are used to increase the availability of financial education resources and volunteer efforts aimed at educating unbanked communities.

Colleges can and should take a leadership role in preventing borrowing abuses. College freshmen could be required to take a first-year experience course that includes a "Credit 101" segment covering how to qualify for these credit cards or high-interest loans. All contracts between the school and the lending institutions could be rewritten to protect students from particularly aggressive methods of solicitation.

**Financial Literacy**

Colleges should insist on annual contracting with lending institutions that protects students who are so susceptible to hidden fees and tricky lending practices. This contract could include specific penalties assessed to credit card issuers for exploitative practices such as unauthorized use of college mailing lists.

Colleges, nonprofit financial consultants and private companies like Compucredit should also hold consumers accountable before handing out a new line of credit. In a 2001 case study, the U.S. General Accounting Office reported that "all six card issuers told us that they provided financial education information in various formats including television, commercials, magazine articles, and advertising, brochures and websites … a credit card industry official explained these educational efforts by pointing out that the industry's interests were not served by having its products misused." A great way to prove the sincerity of these educational efforts is to make the qualifications to get a credit card more difficult and deny access to credit cards if students fail to correctly answer a formal series of questions regarding general financial literacy, the risks involved in debt management, identity theft, and essential information specified in any given contract such as the annual percentage rate, credit terms limits, and how much time and money it will cost to pay off the maximum balance amount. We need to educate "Generation Plastic" in financial literacy just as aggressively as the industry is marketing to them.

New England college administrators have a real opportunity to prevent the young people attending the region's 270 colleges and universities from becoming the unbanked citizens of tomorrow. They should start by enforcing a standardized "Survey to Swipe," which could be administered by the schools' admissions offices, along with the college application. When a college student applies for a credit card, particularly when he cannot prove any form of income, then the respective college could grant the credit card issuer access to the student's "Survey Score" upon request. If the student has not answered 70 percent of the questions correctly, then the credit card issuer must provide the student with either a seminar about credit or access to necessary literature.

This hands-on approach to financial education can protect our students while earning the region a reputation for social and fiscal responsibility.

***Timothy P. Cahill*** *is the Massachusetts state treasurer & receiver general. His office runs the Caution with Credit Program: www.cautionwithcredit.com.*