Consumer Federation of America

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CREDIT CARD DEBT IMPOSES HUGE COSTS ON MANY COLLEGE STUDENTS

Previous Research Understates Extent of Debt and Related Problems

Washington, D.C. -- This morning, the Consumer Federation of America (CFA) released a 90-page study by Georgetown University sociologist Robert Manning on student credit card debt. The study indicates that previous research has underestimated the extent of this debt and related problems, including suicides of indebted students. The study also reveals how aggressive, seductive, and effective the marketing efforts of credit card issuers have become.

CFA called on issuers and cardholders to exercise more responsibility, respectively, in the distribution and use of credit cards. "For a start, Congress should pass legislation permitting only those minors with parental approval or sufficient income to obtain credit cards," said CFA Executive Director Stephen Brobeck. "The large majority of young adults support such a restriction," he added.

The study, titled Credit Cards on Campus: Costs and Consequences of Student Debt, was based on more than 300 interviews and more than 400 responses to a detailed questionnaire completed by students at Georgetown University, American University, and the University of Maryland.

Student Credit Card Debt Larger Than Previous Estimates

One notable finding of the study is that student credit card-related debt is larger than previously thought. About 70 percent of undergraduates at four-year colleges possess at least one credit card. "Revolvers" carry debts on these cards that average more than $2,000, with one-fifth carrying debts of more than $10,000. But additional credit card debt has been "refinanced" with student loans or with private debt consolidation loans. At some schools, college loan debt averages more than $20,000 per graduating senior.

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Over the past decade, students obtained their first credit card at a younger age. In 1994, 66 percent of college students with at least one card received their first card before college or during their freshman year; in 1998, 81 percent had received their first card by the end of their freshman year.

Many colleges and universities not only permit aggressive credit card marketing on campus; they actually benefit financially from this marketing. Credit card issuers pay institutions for sponsorship of school programs, for support of student activities, for rental of on-campus solicitation tables, and for exclusive marketing agreements such as college "affinity" credit cards. On the other hand, few issuers or institutions support effective financial education of undergraduates beginning with freshman orientation.

Debt Imposes Large and Varied Costs on Students

Perhaps the most striking finding of the study is the huge and varied costs credit card debts impose on students.

- Students, with large debts, who come from affluent families typically are bailed out by parents who then impose strict financial discipline. The greatest costs here are embarrassment and family tensions.

- But students, with unsustainable debts, who come from families with modest incomes are typically forced to cut back on their course work and take or increase time on paid jobs to pay off their debts. In worst cases, these students are forced to drop out of school and work full time. A University of Indiana administrator said, in 1998, that "we lose more students to credit card debt than to academic failure."

- Increasingly, students with high credit card debts are having trouble getting good jobs because employers are reviewing credit reports. One interviewee was asked by a major Wall Street Banking firm: "How can we feel comfortable about you managing large sums of our money when you have had such difficulty handling your own [credit card] debts?"

- The psychological problems resulting from unsustainable debts can be more severe than the financial strains. These problems range from anxiety to a severe emotional crisis resulting in suicide.

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> Sean Moyer, the son of Janne O'Donnell and a National Merit Scholar, signed up for a credit card his freshman year at the University of Texas. With a part-time job, he could afford the debt on this card. But without his parents' knowledge, he accumulated a Visa, two MasterCards, and nine other store and gas cards. His parents did not learn that he owed $10,000 until he moved home to save money and work off his debts. A week before his suicide in 1998, he told his mother that he had no idea how to get out of his financial mess and did not see much of a future for himself.
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> Around the same time, the daughter of Tricia Johnson, Mitzi Pool, called her mother crying and distraught. The University of Central Oklahoma freshman had lost her part-time job as a telemarketer and was afraid that she could not make ends meets. Johnson tried to reassure the frantic 18-year old. Late that night, police called to tell her that Mitzi had hung herself with a bedsheet. What Johnson had not known was that Mitzi, whose weekly income rarely exceeded $65, had received three credit cards and run up $2,500 in balances. "Credit cards and bills were spread out on her bed," says her mother. "That had to be what was on her mind."

"The unrestricted marketing of credit cards on college campuses is so aggressive that it now poses a greater threat than alcohol or sexually transmitted diseases," said Manning. "Typically, students slide into debt through the extension of unaffordable credit lines, increasing education-related expenses, peer pressure to spend, and financial naiviete reinforced by low minimum monthly payments and routine increases in credit," he added.

<u>Issuers, Colleges, and Debtors Must Exercise Restraint</u>

The most important measure that could be taken to mitigate this problem would be for Congress to pass legislation restricting minors from obtaining credit cards without parental approval or an adequate income. In fact, in a national opinion survey conducted by Opinion Research Corporation International in April, 79 percent of those between the ages of 18 and 24 supported such a restriction. The most important reason was summed up by one interviewee: "The credit card industry knows exactly what it is doing [in encouraging debt] while taking advantage of students who are trying to learn how to adjust to living away from home, often for the first time."

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But it would also be helpful if card issuers and college administrators took more responsibility. The former should limit the total revolving credit extended to individual students (certainly to no more than 20 percent of their incomes unless parents co-sign for the debt). College administrators should not accept subsidies from issuers, should severely restrict credit card marketing, and should insist that the quid pro quo for marketing is effective financial education for cardholders, especially during freshman orientation. As a Georgetown University student noted: "We don't need another AIDS awareness program during freshman orientation, by now we know how to protect ourselves, but credit cards...that is the information that we need and don't get."

The 90-page Manning study is available to the press for free from CFA; for $15 to others.

CFA is a non-profit association of more than 260 consumer groups that seeks to advance the consumer interest through advocacy and education.

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<u>Statement of Janne M. O'Donnell, Norman, OK</u>

My son, Sean Moyer, committed suicide on February 7, 1988. He was 22 years old, a junior at the University of Oklahoma and $10,000 in debt to credit card companies.

I am here this morning because I believe something must be done to stop credit card companies from preying on 18, 19, and 20 year olds. My hope is that maybe by telling Sean's story, someone, somewhere, will think about the damage credit cards do to our children.

Like most kids in credit card debt, Sean was a good kid. He got his first job when he was 16 and worked all through high school and college. He was a national merit finalist and earned a full-ride scholarship to the University of Texas at Dallas. He was so birght about many things but so stupid when it came to managing his money -- he just couldn't do it.

I remember the day his father and I took him to college. We were so full of excitment about his future. The excitement about living on campus, being in the big city, his classes and the opportunities he would have. I also remember the credit card companies having booths at the union trying to get Sean and other freshman to sign up. They offered the kids T-shirts and other things just for opening an account.

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Sean got his first card soon after he started college. While attending UT he worked as a gift wrapper and sales person at Marshall Fields. He was making minimum wage. His meager salary didn't bother the credit card companies. By the time he died he had 12 cards including 1 Mastercard, 2 Visas, Neiman-Marcus, Saks 5th Avenue, Macy's, Marshall Fields, Conoco and Discover. How those companies can justify giving a credit card to a person making $5.15 an hour is beyond me.

Sean tried to pay off his debts. He went through credit counseling while in Dallas but he fell further and further behind. When he was 21 he realized he couldn't afford Dallas and moved back home with us to attend the University of Oklahoma. He was working at 2 jobs while attending OU. Still he couldn't make ends meet.

A week before he killed himself Sean and I had a long talk about his debts and about his future. He told me he had no idea how to get out of his financial mess and didn't see much of a future for himself. He had wanted to go to law school but didn't think he could get a loan to pay tuition because he owed so much on his cards.

His father and I were appalled that we had gotten into so much debt but we also didn't have an extra $10,000 to pay his bills. He thought he was a failure at 22. I will never know the exact reason Sean killed himself -- he didn't leave a note -- but I have no doubt that his credit card debt played a significant part in his decision.

I am haunted by the thought that he might be alive today if I had been able to pay off those cards. And I am outraged by the aggressive marketing tactics used by credit card companies that prey on kids like Sean. You can't attend a college event without seeing credit card booths giving students gifts for signing up. The University of Oklahoma's web page allows a student to sign up without asking how much money they make. They do ask, however, how many of the student's other credit cards they want to transfer to the new card. There simply has to be some limits set on credit card companies before more students end up in bankruptcy or dead.

Credit must be based on the applicant's present income -- not on their potential to earn. If a student is making minimum wage today, credit card companies have no business giving him credit based on the probability that someday he might be earning a lot more.

Credit card companies have to take into account the number of cards the students already has. You don't issue a Mastercard when the kid already has 2 Visas. Base the issuance of credit on a person's reasonable ability to pay off the debt. Credit card companies must act responsibly when it comes to issuing cards.

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Responsibility is a two-way street. Students need to limit their spending; they need to think about the long-term consequences of how they use credit; they need to realize that they must wait for some of the things they want.

Finally, our government must regulate the issuance of cards to children under the age of 21. I have heard the argument that this is not an issue for government action. That 18-year olds are legally adults, and at some point, we've got to stop protecting them from themselves. That point is when they are 21. When they've had a chance to grow up, to be on their own, to earn a living, pay bills and mature. Not when they are fresh out of high school. Give them an opportunity to grow up before credit card companies give them the opportunity to wreck their lives.

<u>Statement of Trisha Johnson, Enid, OK</u>

I am Trisha Johnson, and I'm here to tell you my story so other families will not have to suffer as we have. My daughter, Mitzi Pool, was a first-year student at the University of Oklahoma in the fall of 1997. She had a small scholarship and student loans to get herself through college. She had grown up most of her life in a single-parent environment and missed out on a lot of the finer things in life. She started working at the age of 14. When she entered college, she took on a 12-14 hour/week part-time job to pay her car insurance and any spending money. She had applied, received, and maxed out 3 credit cards within the short 3 and one-half months of her college life. This girl had been taught and honored paying her bills.

On December 1, 1997 at 7:30 p.m., she called me crying and upset. She had lost her part-time job and did not know what she was going to do until school was out at the semester break. I tried to assure her that when she came home for the weekend we would sit down and go over her bills and work some plan out. I was not aware of the credit cards she had gained. This was my last conversation with my daughter.

With her checkbook and bills spread out on her bed, my lovely daughter committed suicide that night. No letter, no explanation. The $2,500 credit card debt does not sound like that much to you and me, but for an 18 year old trying to be an adult too fast, $2,500 is devasting.

After the shock wore off, I was angry. But I didn't know who to be more angry at: Mitzi or the credit card companies. I thought I had taught my daughter the value of money and responsibility. At 16 I co-signed a department store credit card for Mitzi with a $200 limit.

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She did so well with that. But her good credit gave her access to others, wthout my consent. So then I was angry at the credit card companies for issuing these cards. Perhaps the first card with a reasonable limit would have been all right, but not two more back to back with higher limits!

The credit card companies target these young adults just like the tobacco industries. They lure them in and then they have them hooked. Hooked for a long time. These debts can tear a family up. The parents have to bail them out, or they file for bankruptcy, or have a tragic ending like Jan's family and I have had. This has to stop.