United States General Accounting Office

GAO

Report to Congressional Requesters

June 2001

CONSUMER FINANCE

College Students and Credit Cards

GAO

Accountability * Integrity * Reliability

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United States General Accounting Office
Washington, DC 20548

June 20, 2001

The Honorable Louise M. Slaughter
House of Representatives
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The Honorable Paul E. Kanjorski
House of Representatives

This report responds to your request that we examine several issues related to college students[1] and credit cards.[2] Eighteen year olds can enter into a financial contract for a credit card in their name—without the consent or signature of a parent or guardian—in most states. Controversy and media attention have surrounded these issues in recent years, and several state legislators and members of the U.S. Congress have introduced legislation related to college students' use of credit cards. As agreed with your offices, our objectives in this report are to describe (1) the advantages and disadvantages credit card use presents to college students and available bankruptcy data, (2) the results of key studies showing how college students acquire and use credit cards and how much credit card debt they carry, (3) universities' policies and practices related to on-campus credit card marketing, and (4) the business strategies and educational efforts credit card issuers direct at college students.

To address your request, we conducted structured interviews of about 100 officials at 12 universities and colleges around the country, including student deans, bursars, comptrollers, financial aid officials, student union

[1]By "college students," we mean those enrolled full time as undergraduates at 4 year colleges and universities in the United States. There were 5.4 million full-time undergraduate students at 4-year colleges and universities in the United States in the Spring of 2000. See Student Monitor, *Financial Services*, Ridgewood, NJ: 2000.

[2]The focus of this study is the "bank card" issued by American Express, Discover, and the financial institutions that are members of MasterCard and Visa. These cards are general-purpose credit cards that allow customers to carry an unpaid balance, require a minimum payment each month, and charge interest on the unpaid amount. Our scope does not include travel and entertainment cards that do not allow the user to roll over an unpaid balance from month to month, credit cards that can be used only at a specific store, or debit cards that deduct the cost of purchases directly from consumer checking accounts. For a general discussion of credit cards see Thomas A. Durkin, "Credit Cards: Use and Consumer Attitudes, 1970-2000," *Federal Reserve Bulletin*, Sept. 2000; and David Evans and Richard Schmalensee, *Paying With Plastic: The Digital Revolution in Buying and Borrowing*, Cambridge, MA: MIT Press, 1999.

directors, alumni association officials, credit union officials, and student government representatives. We selected a variety of universities based upon their status as public or private institutions, geographic region, admissions policy, size and composition of the student body, cost of attendance, and other factors. On campus, we also collected credit card applications and observed the solicitation of students at tables set up in student unions. We also interviewed officials from five consumer groups and five credit card issuers. We analyzed studies on college students and credit card use as well as documentation from universities, consumer groups, academics, and federal bank regulators.

Credit card issuer participation in our study was voluntary because we do not have a legal right of access to any account data or business information of credit card issuers. We obtained information on business strategies from six large credit card issuers.[3] Some credit card issuers were not comfortable discussing certain issues, citing the confidential and proprietary nature of information such as the criteria the companies use to evaluate applications. One credit card issuer declined to meet with us or to answer written questions we submitted. Because we were unable to get account data from major credit card issuers we were unable to address some questions you asked, such as whether college students manage their credit card debt differently than other groups including new credit users and general credit card users. We are continuing our negotiations with nine credit card issuers on creating a pooled database of information from credit card accounts that would allow us to undertake an independent analysis of college students' accounts and compare them with the accounts of other types of credit card users. If these negotiations were to be successful, we would issue a separate report to you on the results of that work. Appendix I provides a complete description of our scope and methodology. Appendix II provides the information you requested about actions taken or pending in state legislatures since January 1999, regarding college students and credit cards.

Results in Brief

Credit cards were generally perceived as advantageous to college students, but there was also concern about the risks they presented for this group. Students, university officials, and representatives of consumer

[3]This report focuses on credit cards that college students have obtained in their own name and for which they have payment responsibility. Our scope excludes credit cards cosigned by another individual—typically a parent—who is responsible for making payments if the student does not.

organizations and credit counseling services agreed that credit cards offered students many advantages. Credit cards provided convenience and security and were especially useful in emergencies, allowing students to pay for unplanned medical expenses or purchase airplane tickets home. In addition, they allowed students to establish credit histories that can help in acquiring additional credit in the future. But some university officials and debt counseling services told us that they believed that college students were more likely than other types of credit card users to run up debts they could not pay because of their financial inexperience. This problem could become particularly severe after graduation, when many students must begin making payments on education loans (about half of college graduates leave schools with an average of $19,400 in student loans). Credit card debt combined with education loan repayments and other expenses graduates may incur—such as renting an apartment and buying a car—may create a substantial repayment burden. We were unable to determine how many college students file for bankruptcy and what, if any, contribution credit card debt might have been.

The three studies we reviewed showed that the majority of college students had at least one credit card in their name, and some had credit card debt. Two of the studies, which were representative of a larger national college student population, but which relied on self-reporting, showed that 63 and 64 percent of students had credit cards. Most of these students (59 and 58 percent) reported paying their balance in full each month; among the 42 percent who did not pay in full in one study, the average balance was $577.[4] Much smaller percentages—14 and 16 percent— said they had balances over $1,000, and in one study, 5 percent reported balances exceeding $3,000. A third study reported actual credit card balances from credit reports based on a small sample drawn from students applying for a particular type of student loan and was not designed to be representative of college students as a whole. The study reported that 78 percent owned credit cards and carried an average balance of $2,748. These higher numbers for credit card ownership and average balances may reflect the different characteristics of the subgroup applying for this loan and the fact that data from credit reports, and not self-reports of indebtedness, were used. About one third of the students said that they acquired credit cards through mail solicitation (36 to 37 percent) and about one quarter from campus displays and solicitation (21

[4]Research suggests that individuals tend to underreport the amounts or levels of certain information—such as consumer debt—that could reflect poorly on them.

to 24 percent). They reported using credit cards for a variety of expenses, including books, supplies, food, clothing, entertainment, school fees, and tuition.

Universities' policies and practices regarding credit cards—and in particular regarding solicitation—varied not only across universities, but also within the universities themselves. We found that policies were either campuswide (all parts of the university were subject to one set of rules) or allowed individual entities, such as bookstores, student unions, and alumni associations, to set their own rules. Of the 12 universities and colleges we visited, 2 state universities had relatively restrictive policies based on state law; and one private university prohibited credit card solicitation. Nine institutions had decentralized policies. On these campuses, for example, a student union might restrict solicitation, while a bookstore might not. In some cases, complaints from students about aggressive marketing had led the universities to adopt policies restricting on-campus marketing. Both university officials and students cited the personal solicitation of college students on campuses as causing the most controversy. One official pointed to the "carnival atmosphere" marketers created and many raised concerns about aggressive sales practices. Card issuers paid credit card vendors by completed application. Several major credit card issuers made an effort to address this problem by adopting a "code of conduct" for contractors that solicit on campuses. All but two of the universities had made efforts to educate students about handling their finances, including offering informal "financial education" presentations, debt counseling, and on-line information. Two universities made bankruptcy attorneys available to counsel students who were having financial difficulties. One attorney told us that about one in five students who used the legal service over the past 3 years sought advice or information on credit card debt issues. Few of the universities we visited collected data on why students left college, but most of the universities cited financial concerns as possible reasons why college students decided to leave prior to graduation.

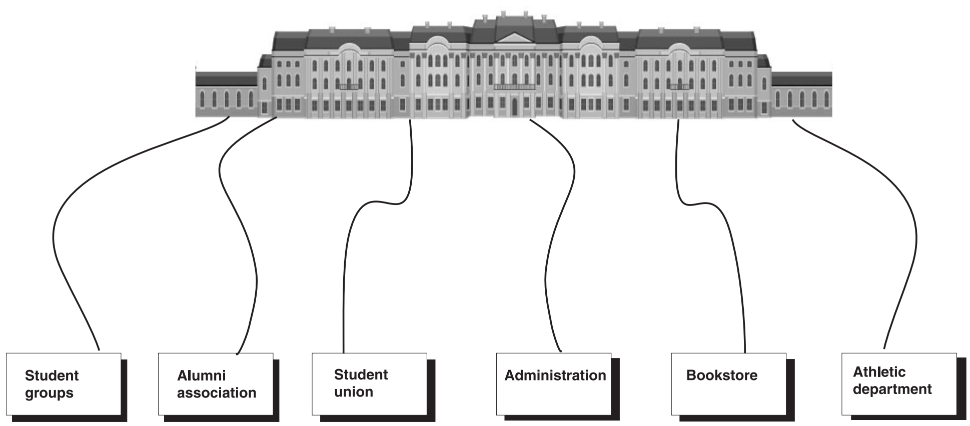
As part of their overall business strategy, certain credit card issuers marketed to college students because they viewed them as good customers who would continue using the issuers' credit cards in a responsible way. These companies used a variety of strategies to solicit students, including soliciting on campus and the Internet, although many favored direct mail marketing. Some issuers had arrangements with a certain part of a university (e.g., an athletic department or alumni association) that allowed the issuer to offer a credit card bearing the university logo in return for payments from the issuer. Most of the issuers we talked with customized their risk management or underwriting standards (or both) for college students and sometimes adjusted the terms and conditions of the cards. Other companies treated college students like other first-time cardholders. Card issuers distributed credit information materials and provided financial support to financial literacy and debt counseling organizations. Most card issuers provided counseling to help college students who were having trouble making payments and worked out payment plans or reduced interest payments. Some issuers referred students to credit counseling services.

We obtained comments on a draft of this report from representatives of the credit card issuers, the firms responsible for the studies we analyzed, the universities we visited and staff of appropriate federal regulatory agencies. The credit card issuer representatives objected to our presentation of the views of university officials stating that they were not necessarily a reflection of the experiences on campuses nationwide. Our draft had noted that our sample was not intended to be representative of universities in the United States, but we also noted that we interviewed about 100 officials at 12 universities in different parts of the country and with different characteristics of size, cost of attendance, and other factors. The issuers' comments and our responses are summarized at the end of the report. Officials of universities who reviewed the university section of the draft report agreed with our presentation of their views and the information they provided. All who reviewed the draft report or sections pertinent to their organizations made some technical suggestions that we addressed as appropriate. See pages 41 to 44. We are not making recommendations in this report.

Background

In this report, the term "university" includes nonacademic entities such as the university administration, student union, alumni association, athletic departments, and bookstore. These entities may or may not be autonomous (see fig. 1). Student unions are the center of college community life, serving students, faculty, staff, alumni, and guests, and therefore are often the focus of credit card marketing. Alumni associations provide a fund-raising link to graduates, offer financial services to alumni and students, and therefore can be a source of credit card customers. As taxpayer support for universities has diminished relative to other sources of income, universities have sought to raise funds by increasing tuition and fees and becoming more market oriented.[5] Some universities have sought increased revenues through contracts with private companies (e.g., sale of space for advertising at athletic arenas) and increased alumni donations.

Figure 1: Nonacademic Entities of a University



Source: GAO analysis.

The credit card industry is a major provider of financial services and a multibillion-dollar industry.[6] According to the American Bankers Association, in the second quarter of 1998 companies that issued Visa and MasterCard credit cards had 335 million accounts, including 186 million active accounts with balances totaling $401 billion. The top-10 credit card issuers held 75 percent of total bank credit card receivables.[7] The preferred marketing technique for potential customers was direct mail—with 3.54 billion pieces of mail sent in 1999—but card issuers also used

[5]Universities are generally tax-exempt charities, although some components, such as bookstores, may be for-profit entities.

[6]In mid-1999, revolving bank card credit totaled $585 billion, or 10.4 percent of outstanding consumer credit. This amount is slightly less than the $782 billion in other installment loans (13.9 percent of outstanding consumer credit) and much less than the $4.3 trillion in home mortgages—first and second mortgages plus home equity loans (75.7 percent). See American Bankers Association, *Bank Card Industry Survey Report*, Washington, D.C.: American Bankers Association (1999).

[7]The American Bankers Association listed the top-10 issuers—ranked by credit card receivables—in midyear 1999 as Citigroup, First USA, MBNA, Chase Manhattan, Bank of America, Providian, Capital One, Household, Fleet, and Wells Fargo.

techniques such as "tabling"[8] on university and college campuses. In addition, some card issuers pursued "affinity relationships"[9] with nonfinancial organizations and institutions, including universities. These relationships often result in a credit card bearing the business or institutional logo and payments from the card issuers based on the number of cards issued, the charges made to the cards, or both.

Some credit card issuers are engaged in the practice of extending credit to borrowers who are at a higher risk of default than traditional customers. These issuers are lending to borrowers who are attempting to establish or expand their credit history. Many college students—mostly those who are young, are not employed or have limited employment income, and have no credit history—fall into this category. Bank regulators have noted that these lending activities can present a greater-than-normal risk for financial institutions and deposit insurance funds.[10] Customers, including college students, with limited or no credit history and income will be charged a higher interest rate to compensate for the higher risk of repayment. Banks issuing credit cards are subject to oversight by federal bank regulators to ensure compliance with federal laws and regulations.[11]

Federal Reserve staff told us that credit cards issued to college students had not been the focus of bank examinations because they tended to examine the risk of the credit card portfolio as a whole and do not examine subgroups of card holders—especially at banks where the credit card portfolio is a minor portion of their financial business. These officials said that college student credit card portfolios have not been viewed as especially risky, even at banks whose primary business was issuing credit cards. Office of the Comptroller of the Currency (OCC) officials told us

[8]Tabling involves card issuers or their representatives who staff a table at a campus location and market credit cards to students, and it may include incentives to get students to apply for credit cards.

[9]An affinity relationship is a contract between a group and a credit card company that allows the group and issuer to market a card carrying a specific logo, without the issuers name, and which offers benefits tailored to the cardholder's interest. The issuer often pays the sponsoring organization a fee.

[10]See Office of the Comptroller of the Currency, *OCC Bulletin 99-15*, Washington, D.C.: Apr. 5, 1999.

[11]The Office of the Comptroller of the Currency, National Credit Union Administration, Federal Deposit Insurance Corporation, Federal Reserve Board, and Office of Thrift Supervision are the federal entities that oversee the depository institutions that issue credit cards.

that although they have not focused bank examinations on credit cards issued to college students, they do monitor and examine an issuer's various credit card portfolios—including a review of marketing and acquisition channels, underwriting, and other risk management functions. The portfolio segment of college students typically represented a small portion of the overall portfolio and OCC is not likely to spend additional time on the college student segment. OCC officials told us that if card issuer management reports provided to OCC examiners showed that the college student segment was a significant portion of the credit card portfolio and was growing rapidly or experiencing performance weakness, OCC would devote more resources to a review of the college student segment.

Bank regulators review banks' compliance with laws relevant to credit cards, including regulations governing credit card disclosure and advertising.[12] The Truth in Lending Act, among other things, requires card issuers to disclose key terms and costs in solicitations and applications to open credit and charge card accounts, when an account is opened, and in billing statements. Required disclosures include the periodic rate of interest that will be applied to account balances—expressed as an annual percentage rate—and an itemization of any other finance charges. Special requirements also apply to credit advertisements. The Federal Reserve's Regulation Z implements the Truth in Lending Act.[13]

Credit Cards Have Both Advantages and Disadvantages for College Students

The information we reviewed revealed consistent views of the advantages and disadvantages associated with using credit cards. For those students who manage their credit responsibly, credit cards provide access to credit and payment conveniences. For those college students who do not manage credit responsibly and have trouble repaying debt, the disadvantages of credit cards can outweigh the advantages, and their credit card debt may be costly and difficult to repay. Card issuers have used lower credit limits and other techniques on a per card basis to constrain the amount of debt that college students can accumulate.

[12]Other federal laws and regulations relevant to credit cards are the Equal Credit Opportunity Act, the Fair Credit Billing Act, the Fair Credit Reporting Act, and the Fair Debt Collections Practices Act.

[13]See 15 U.S.C. 1601 et seq. and 12 CFR 226.1.

The information we reviewed indicated that college students want their own credit cards, both for convenience and to establish a credit history.[14] The conveniences that credit cards offer students include the following:

- “Cashless” transactions,
- An interest-free loan from the time of purchase until the payment is due,
- Cash advances from automated teller machines,
- The ability to shop by telephone and on-line and make hotel reservations,
- The chance to purchase items that students might not have the cash to purchase, and
- An instant source of credit that is available without filling out forms or undergoing credit checks.

Several individuals we interviewed noted that credit cards provide some financial security for students. Unlike cash, a lost or stolen credit card can be replaced; and there are liability limits for fraudulent or unauthorized charges. Credit cards also offer resources in case of emergencies, such as a large car repair bill or airfare home during a family crisis. Some parents approve of their college students having credit cards because they see them as a tool for learning financial responsibility. Some student group representatives and representatives of credit card issuers cited free gifts or bonuses associated with obtaining a card and continued credit card use as advantages to card ownership. Finally, some issuers pointed out that monthly statements can serve as a financial record for students and their families. Gifts or awards associated with credit cards marketed to college students include cash rebates, magazine subscriptions, coupons reducing the price of airplane tickets, discounts or free telephone calls, points toward consumer products, and rebates for a car.

For some students, the disadvantages of having a credit card may outweigh the advantages. Some consumer group representatives, debt counselors, and university officials told us that students may not understand the consequences of incurring excessive debt and making payments late. The convenience of credit cards may tempt students to live beyond their means. Consumer and credit counseling groups pointed out that excessive credit card debt and late payments can impair a cardholder’s credit rating and make it more difficult and costly to obtain

[14] Credit files contain personal information such as date of birth and employment information; credit history information, including loans, credit limits, amount owed and late payments; public records, including court judgments, tax liens, and bankruptcy; and a record of inquiries of who has requested a copy of the report.

credit in the future. Credit card issuers emphasize this same point in information they make available to students. Many of these sources also noted that students who pay only the minimum balance each month may not understand the cumulative effect of interest rates. For example, a college student with a credit card loan of $2,000 and an interest rate of 19 percent who pays back the loan at $40 per month will incur interest charges of $1,994 by the time the loan is paid in full.[15] At this rate, it would take 100 months, or over 8 years, to pay back the loan (table 1).

Table 1: Minimum Repayment Schedule on a $2,000 Credit Card Loan at 19 Percent

Monthly minimum payment amount	Number of months to pay	Total interest payment
$ 40	$100	$1,994
50	64	1,193
75	35	619
100	25	424

Source: Credit Card Minimum Payment Interest Calculator, Daniel C. Peterson, www.webwinder.com.

Bankruptcy reform legislation that is currently pending before Congress would require such an example to be included in credit billing statements, but at this time no such disclosure is required. There was also general agreement that students may find credit card debt and other debts harder to repay upon graduation than they had anticipated. Parents of college students may or may not have the financial resources to help these students reduce or eliminate credit card and other debt. Some parents may have the resources to help but choose not to provide financial assistance with debt because they want their college student to learn a difficult lesson about financial responsibility. According to the College Board, the average undergraduate with student loans graduated owing $19,400 in 1998 to 1999. College officials and debt counselors also told us that students may overestimate their starting salaries and underestimate their living costs after graduation.[16] According to a 1998 study of college

[15]Minimum payments are typically 2 percent of the outstanding balance or $10, whichever is higher.

[16]Starting salaries ranged from about $23,300 for psychology majors to about $42,800 for chemical engineering majors. See The Education Resources Institute and the Institute for Higher Education Policy, *Now What? Life After College for Recent Graduates*, Boston, August 1997. This study reports that the fastest-growing components of composite debt of recent college graduates are student loans and credit cards.

students and credit cards, the potential accumulation of high interest payments on large amounts of credit card debt increases when

- four or more credit cards are owned,
- average credit card balances are greater than $1,000,
- balances are carried over each month, and
- tuition and fees are charged.[17]

At the extreme, excessive credit card debt combined with other financial problems[18] can lead to personal bankruptcy, according to one credit counseling organization.[19]

We were unable to determine the number of college students filing for bankruptcy. U.S. Department of Education officials told us that they did not track the number of college students filing for bankruptcy nor did they know of any other organization or study that reported this information. Officials of the Administrative Office of the U.S. Courts and the Executive Office for U.S. Trustees, which have responsibilities regarding bankruptcies, told us that their officials do not collect data on occupational status, including whether someone is attending college. They also told us that although those filing for bankruptcy are asked to report their age and that age information, along with much other information reported by bankruptcy applicants, is not systematically analyzed. American Bankruptcy Institute officials told us that they did not know of studies that tracked the college attendance or age of individuals filing for bankruptcy. We did identify some unpublished academic research that included data on age but not student status. The researchers collected demographic data, including age, from bankruptcy applicants in 1999 and

[17]See The Education Resources Institute and The Institute for Higher Education Policy, *Credit Risk or Credit Worthy? College Students and Credit Cards*, Boston, MA, June 1998.

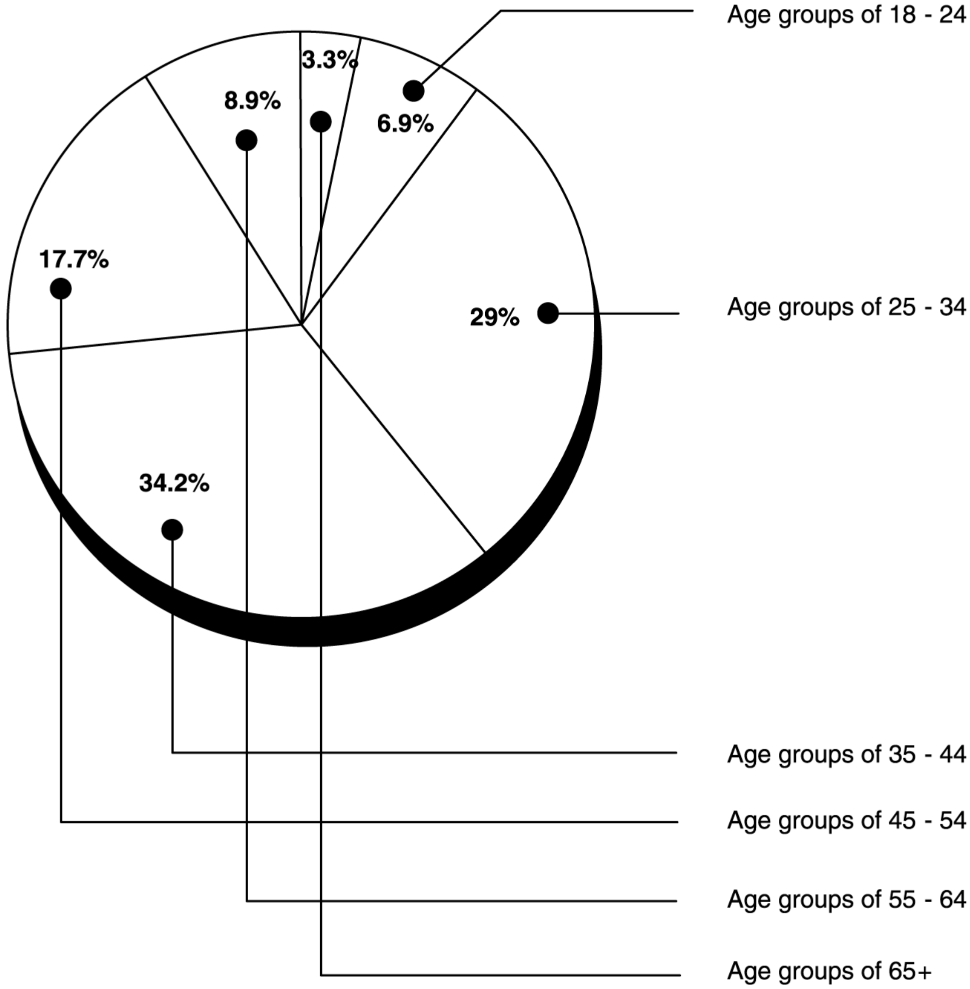
[18]U.S. Department of Education officials told us that they did not collect debt composition information—e.g., debt arising from credit card use, automobile loans, and other sources of financial obligation—for college students beyond debt arising from student loans. The Federal Reserve's Survey of Consumer Finance does not separate out college students within the households from whom it surveys financial activities.

[19]The two bankruptcy bills passed by the 107th Congress—S. 420 and H.R. 333—require the Board of Governors of the Federal Reserve System to study the impact on bankruptcy of extending credit to dependents (defined essentially as high school seniors and college students).

during previous years.[20] Based on their data collection effort using a questionnaire completed by 1,974 individual debtors filing for bankruptcy during the first quarter of 1999 in eight federal judicial districts around the country, the proportion of debtors in bankruptcy for selected age groups during 1999 are displayed in figure 2. Fewer Americans under 25 filed for bankruptcy in 1999 than those between ages 25 and 34 but more filed for bankruptcy than those age 65 and older. The growth rate of bankruptcy filings for people under 25 was greater than the growth rate for ages between 25 and 34 but less than that for people in age ranges 35 and older (see fig. 3). This data does not indicate how many individuals under 25 were college students nor does it indicate what, if any, contribution credit card debt made to these bankruptcy filings. Nonbusiness bankruptcy filings have declined somewhat in the last two years from about 1.4 million in 1998, to about 1.3 million in 1999, to about 1.2 million in 2000 according to the American Bankruptcy Institute.

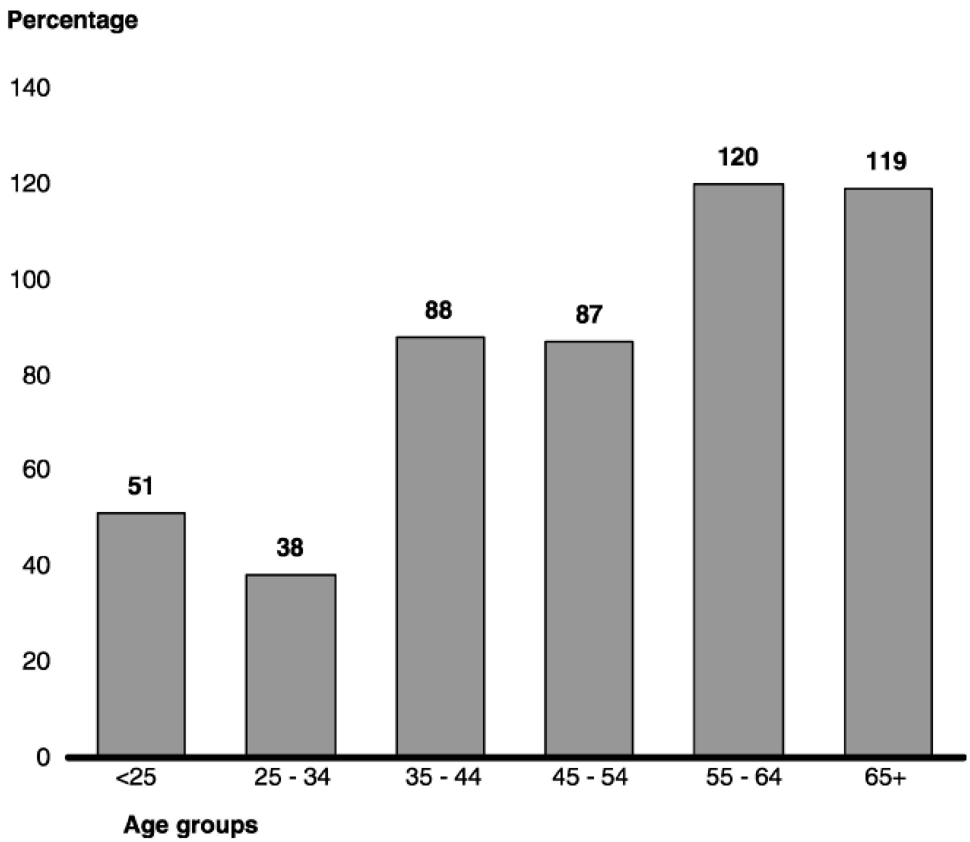
[20]See Melissa Jacoby, Teresa A. Sullivan, and Elizabeth Warren, "Rethinking the Debates Over Health Care Financing: Evidence From The Bankruptcy Courts," 75 *New York University Law Review*, May 2001. See also Teresa Sullivan, Elizabeth Warren and Jay Westbrook, *The Fragile Middle Class: Americans in Debt*, Yale University Press, 2000.

Figure 2: Proportion of Debtors Filing For Bankruptcy by Age Group



Source: Consumer Bankruptcy Projects II and III, 1991 and 1999.

Figure 3: Percent Growth in Bankruptcy Filings By Age of Petitioner—1991 to 1999



Source: Consumer Bankruptcy Projects II and III, 1991 and 1999.

Studies Provide Limited Information on College Students and Credit Cards

We identified three studies that provided some data on how college students acquire and use credit cards and pay credit card debt. Two of the studies—a survey sponsored jointly by The Education Resources Institution and Institute for Higher Education Policy (TERI/IHEP),[21] and a survey by the firm Student Monitor[22]—used similar methodologies and generated similar findings. The third study was conducted by Nellie Mae, a Sallie Mae subsidiary that provides loans for higher education. This study covered only a small group of students applying for a particular type of loan, and its findings differed from those of the other reports, which covered a broader and more typical population of college students. The Nellie Mae study showed more students owning credit cards and a higher average level of credit card debt. All three studies had generally sound methodologies but with some limitations: the TERI/IHEP and Student Monitor studies relied on self-reporting and were subject to nonresponse from sampled students, and the Nellie Mae study covered only a small pool of students who were trying to get a particular type of loan.

The TERI/IHEP and Student Monitor Studies Had Similar Methodologies and Limitations

The TERI/IHEP and Student Monitor surveys drew statistically valid samples that were representative of a broad college student population in the United States. The TERI/IHEP study, published in June 1998, was a telephone survey of a random sample of 750 college students drawn from a commercially available list.[23] The Student Monitor study conducted in spring 2000, was based on in-person interviews with 1,200 randomly selected college students from 100 universities around the country. The schools were selected to provide a representative sampling based on

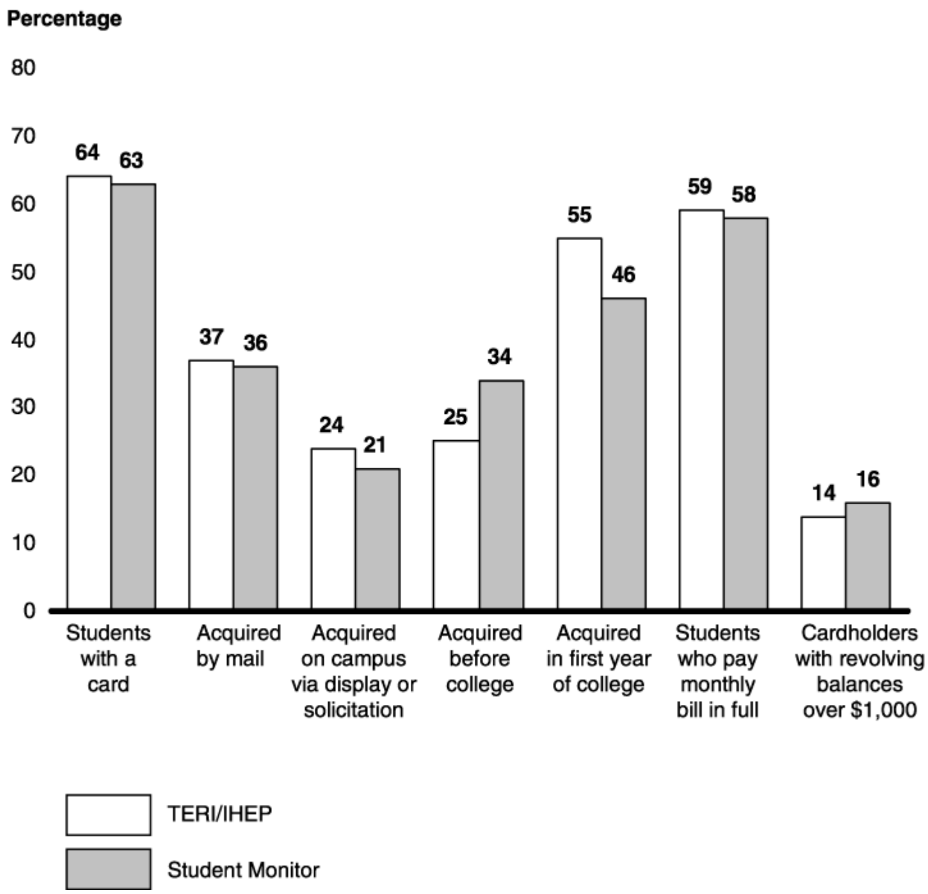
[21]TERI is a national not-for-profit organization that guarantees student loans and performs education policy and research activities. IHEP is a not-for-profit organization that fosters access to and quality in post-secondary education through research and policy analyses, among other efforts. The TERI/IHEP study was conducted in part to understand the debt levels graduating students have accumulated—especially the level of credit card debt in relation to student loan debt.

[22]Student Monitor is a firm that surveys college students on issues such as lifestyles and the media, automotive, computers and the Internet, and financial services and telecommunications. Companies (including credit card companies) can subscribe to the surveys and use this information to market specific products to college students.

[23]Fifty-nine percent of the respondents attended 4 year institutions, 29 percent were enrolled in 2 year institutions or trade schools, and 11 percent attended graduate or professional schools. Seventy-eight percent of survey respondents were younger than age 24. The TERI/IHEP results that we report differ from the results of the TERI/IHEP study itself, because, where possible, we excluded part-time students. Part-time students may be older than 21 years of age or working full time.

location, type of higher education institution (public or private), and enrollment. Figure 4 compares results of the two studies in key areas.

Figure 4: Comparison of TERI/IHEP Study and Student Monitor Study Results on College Student Credit Card Acquisition and Payment



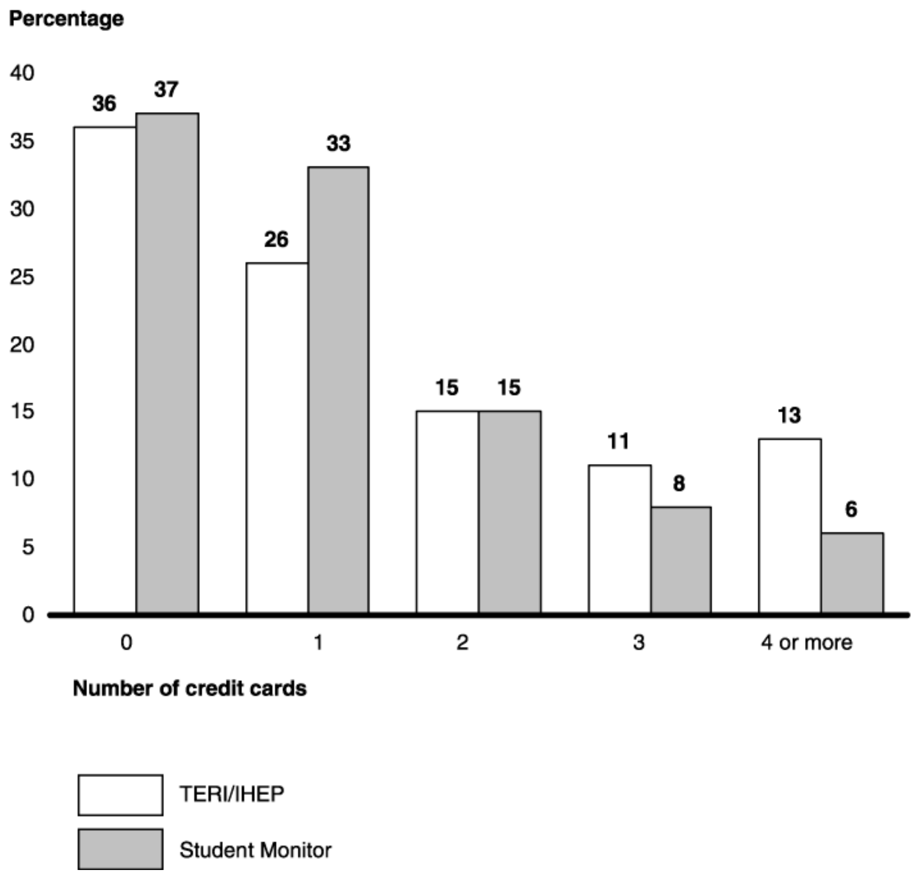
Source: TERI/IHEP and Student Monitor studies.

These two studies had an important limitation: they were based on information reported by the students themselves and were not designed to verify that information. Some researchers maintain that respondents sometimes underreport the quantity or level of characteristics that could be considered unflattering. Despite this and other limitations (such as a reliance on memory and nonresponse of part of the sample), these two studies provide the best data currently available for a broad population of college students. Appendix I contains more information about the methodology and findings of the studies, and appendix III describes other studies we identified on college students and credit cards but which are not discussed in the body of the report because of more pronounced methodological limitations.

Most College Students Had Credit Cards and Most Had Combined Credit Limits of Less Than $3,000

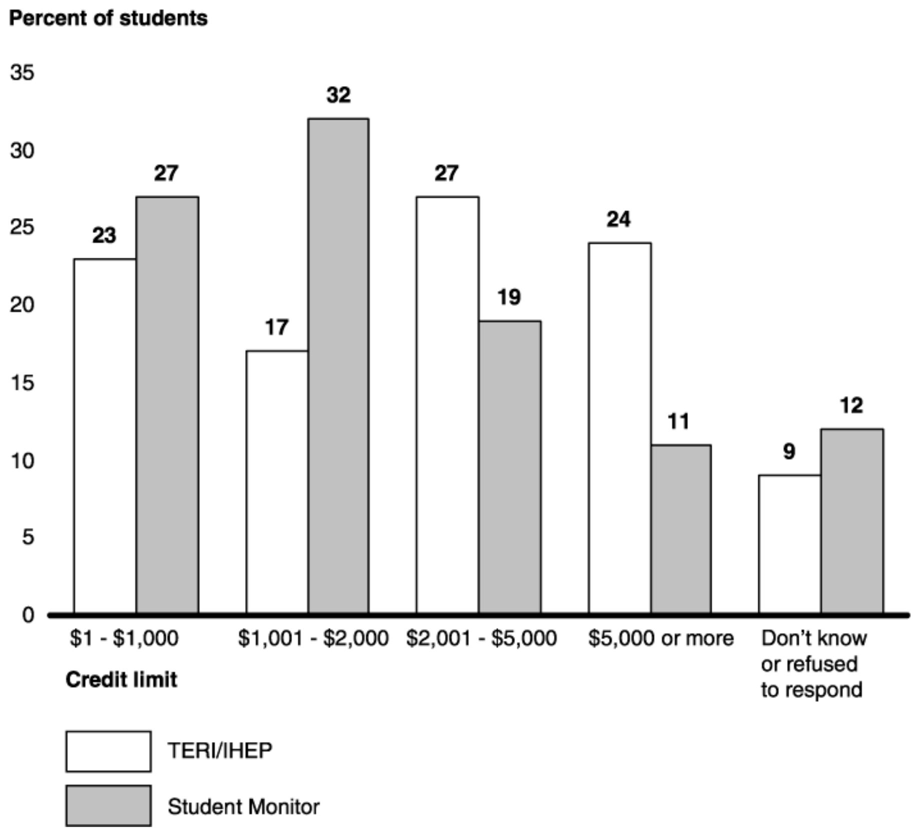
The TERI/IHEP and Student Monitor studies found that nearly two-thirds of all college students had at least one credit card in their name (fig. 5). Between 6 and 13 percent of college students had four or more credit cards. According to the Student Monitor study, more than half of the students reported credit limits of $1,001 to $5,000, and the TERI/IHEP study reported that 24 percent of students had total combined credit limits of more than $5,000 (fig. 6). Figure 6 depicts higher credit limits for the majority of students surveyed in the TERI/IHEP study (a combined total of 51 percent reporting credit limits of $2,001 or more compared with 30 percent of students surveyed by Student Monitor). The difference may be explained by the difference in the samples used in each study. The TERI/IHEP sample of students included 11 percent who were graduate or professional school students. Because these students are likely to be older, they may have the resources to qualify for higher credit limits. The TERI/IHEP study also included 29 percent who were at 2-year schools. More of those students may have been working full time and have had the resources to qualify for higher credit limits.

Figure 5: Number of Credit Cards in Students' Name



Source: TERI/IHEP and Student Monitor studies.

Figure 6: Credit Limits on College Students' Cards



Source: TERI/IHEP and Student Monitor studies.

Mail Solicitation Accounted for More Than One-Third of College Students' Credit Cards

Survey results indicated that college students got their credit cards from a variety of sources. According to the Student Monitor study, 36 percent of students obtained their 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. Smaller percentages came from tabling and off-campus displays (6 percent each); telephone solicitation (4 percent); and 800 telephone numbers, internet advertising, and applications placed in a college bookstore bag or college publication (8 percent combined). The TERI/IHEP study reported that 37 percent of college students got their first credit card through a mailing, 36 percent through an application at a business, 24 percent from an on-campus representative or advertisement, and 3 percent from other sources. This study also reported that 63 percent of the students obtained their first credit card by applying on their own. Another 18 percent reported that their first credit card was obtained from their parents; 14 percent said it was sent in the mail, and 4 percent received a first card by other methods.

Many of the students responding to both the Student Monitor and the TERI/IHEP surveys had credit cards as freshmen. Almost half of those responding reported getting a bank credit card during their freshman year, but a sizable minority said they already had credit cards when they entered college. According to the Student Monitor Study, 46 percent of college students obtained credit cards during their freshman year, 20 percent after high school but before college, and 14 percent in high school. Fourteen percent acquired a credit card during their sophomore year of college and 5 percent after their sophomore year of college. Among the students surveyed by TERI/IHEP, 55 percent reported receiving credit cards in their first year of college. Another 25 percent said they got their first credit card in high school, while 10 percent received theirs as sophomores and 10 percent after the sophomore year.

College Students Used Credit Cards to Pay for a Variety of Items

The two surveys showed that college students used their credit cards for a broad range of items. Students responding to the TERI/IHEP study said that the most common items for which they used credit cards were routine personal expenses such as food, clothing, and entertainment (77 percent); occasional and emergency expenses (67 percent); and books and school supplies (57 percent). Only 12 percent used credit cards to pay tuition and fees[24], and just 7 percent used them for room and board. Of the students who did charge their tuition and fees, over half (57 percent) paid the charges in full right away. Of survey respondents with credit cards, 44 percent said that credit cards were used for living expenses, 24 percent said they were used for large occasional purchases or health care, and 22 percent said they were used for education related expenses such as tuition, fees, books, and supplies. Student Monitor asked students how they typically paid for certain goods and services. Of students who purchased airline tickets, 61 percent of the students surveyed reported paying for airline tickets with credit cards. Thirty-three percent said they used credit cards to pay for car repairs, and 21 percent said they paid tuition with credit cards. College students charged an average of $127 a month in 2000 according to Student Monitor.

[24]This question was asked of those students who reported that their schools allowed credit card payment of tuition and fees or who did not know their school's policy.

Four credit card issuers provided us with data that showed the items college students charge most frequently (fig. 7).[25] Their data show that the top categories of spending for the most recent 12-month period available were gasoline and other service station goods and services; mail order, telephone, and Internet charges; and food, clothing, and other retail expenses. Two card issuers noted that the spending patterns of their college student customers were similar to nonstudents of a similar age or their general customers, but two other issuers reported that "education" as a spending category was the fourth most frequent spending category. One card issuer noted that data on the types of charges came from the stores where the items were bought and the charges were often not broken down into specific items. For example, department store charges could represent clothing, cosmetics, or household items, while university bookstore charges could include books, clothing, or athletic supplies.

[25] Two issuers declined to provide the data—one issuer said they did not have aggregate transaction available and another said the data was available but not pulled on an on-going basis for the student market. Card issuers used different categories, and some companies provided more detail than others. This information reported by the card issuers is not comparable with the data from the two studies.

Figure 7: Categories of College Student Credit Card Charges

Issuer 1	Issuer 2	Issuer 3	Issuer 4
Gas/service stations	Other retail	Gasoline	Mail order, phone, Internet
Grocery stores	Clothing stores	Specialty stores	Miscellaneous food
Restaurants	Mail order	Supermarkets	Restaurants
Department stores	Education	Department stores	Education
Direct marketing (predominantly catalogs)	Food stores	Mass merchandise	Discount stores
Discount stores			Department stores
Specialty retail stores			Books, newspapers
Airlines			Other specialty retail
Book stores			Gas, auto
Electronics			Other apparel

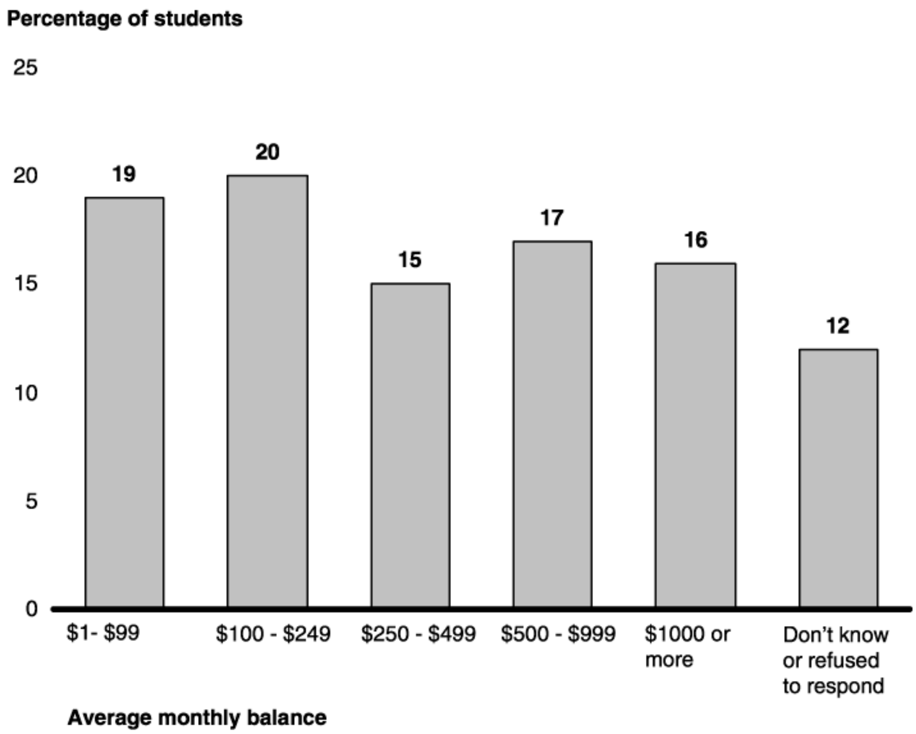
Note: Categories at top of figure are more frequently charged than categories at bottom of figure.

Source: Responses of four credit card issuers to GAO request for data.

Most Students Did Not Carry a Credit Card Balance

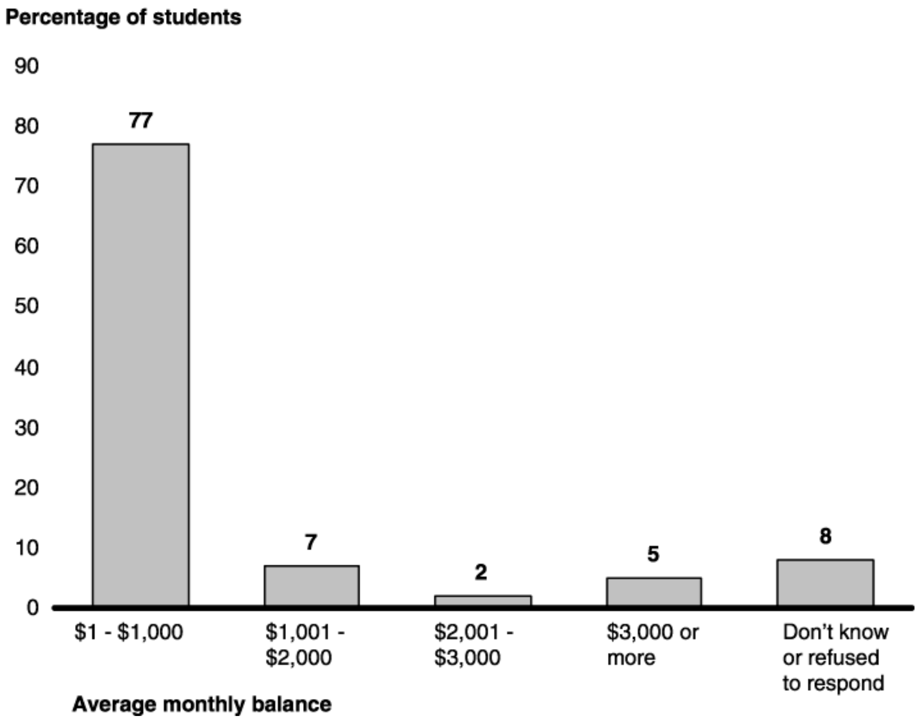
Most of the students who responded to the two surveys said that they paid their own monthly credit card bills and that they paid their balance in full each month. Eighty-six percent of the students interviewed for the TERI/IHEP study said they paid their own bills. Eighty-three percent of students with a card in their own name reported paying their own credit card bill, according to Student Monitor. Fifty-nine and 58 percent of the students surveyed in the studies reported that they paid their monthly bill in full. Eighty-two percent of the respondents who carried a balance said they typically paid more than the minimum amount due according to the TERI/IHEP study. According to the Student Monitor study, the reported average monthly balance of the 42 percent who carried debt was $577, and 16 percent of those carrying a balance from month to month were running a balance of more than $1,000 (fig. 8). The TERI/IHEP study did not report an average monthly balance but did report balances according to dollar ranges (fig. 9).

Figure 8: Average Monthly Balances on Student Credit Cards for Students Who Carry a Balance, Reported in the Student Monitor Study



Source: Student Monitor.

Figure 9: Average Monthly Balances on Student Credit Cards for Students Who Carry a Balance, Reported in the TERI/IHEP Study



Source: TERI/IHEP study.

The Nellie Mae Study Differed From the TERI/IHEP and Student Monitor Studies

The Nellie Mae study, published in December 2000, differs from the other two studies in its scope, methodology, and findings.[26] The study covers only a subset of college students who applied for a particular loan product and was not projectable to a national college student population. Nellie Mae drew a random sample of 256 undergraduates from its nationwide group of 1,065 students who applied for private loans for educational expenses early in 2000. These students either did not qualify for federal student loans or had already received the maximum amount available to them. The methodology is unique among the three reports (i.e., the study relies on information from credit bureaus and not on information provided by the students themselves). Credit bureaus receive information for

[26]Nellie Mae, "Credit Card Usage Continues Among College Students," Braintree, MA, Dec. 2000.

customers, including credit card issuers, banks, and other entities that extend credit.[27]

The Nellie Mae study reported that 78 percent of students in the sample had credit cards; the average number was three cards per student. The percentage of college students with four or more cards (32 percent) was higher than in the TERI/IHEP survey. In general, the Nellie Mae study reported higher levels of debt than the TERI/IHEP and Student Monitor studies. Nellie Mae reported an average credit card debt for those with a balance of $2,748. Thirteen percent of the students in its sample carried credit card balances of $3,000 to $7,000, and 9 percent had balances of more than $7,000. There are two possible reasons for the differences in the average level of credit card debt reported in the TERI/IHEP and Student Monitor studies, and the Nellie Mae study. First, students in the first two studies could have underreported their credit card debt. Second, because the students in the Nellie Mae study were drawn from a small pool of loan applicants, they were not representative of the college student population as a whole.

Universities' Policies on Credit Cards Differ, But Most Focus on Solicitation

The universities we visited took different approaches to on-campus solicitation by credit card issuers.[28] Some universities had campuswide policies that affected all organizational components, while others allowed nonacademic entities—student unions, bookstores, athletic departments, and alumni associations, for instance—to set their own policies. Only 1 of the 12 universities we visited prohibited credit card solicitation altogether, and just 2 others (both state universities) had relatively strict prohibitions, based in part on state laws.[29] At these two universities, commercial

[27]This study did not screen out co-signed cards but did screen out students who were only authorized users of credit cards—e.g., credit cards in the name of the parent and given to the college student to use.

[28]None of the universities we visited had student identification cards that could be used as credit cards. Nine of the 12 universities, however, had identification cards with a debit feature that allowed students to make some on-campus purchases and, in a few cases, limited-off campus purchases.

[29]These laws prohibit commercial solicitation and transactions and displays of property or services for sale on a campus, except with the written permission of the campus president. Permission is granted if the proposed activity (1) aids in the achievement of the educational objectives of the campus, (2) does not unreasonably interfere with the operation of the campus, and (3) is not prohibited by law. This test must be applied equally to all vendors and not selectively to certain types of vendors, such as credit card companies.

vendors were either prohibited from soliciting on campus or allowed to distribute but not collect credit card applications. The remaining nine universities allowed each university entity to set its own policies. At most of the universities we visited, tabling at student unions and aggressive marketing by vendors hired by credit card issuers created the most controversy. Most of the bookstores we visited were run by national corporations or operated independently of the university and tended to adhere to their own policies. While only a few of the athletic departments were involved in credit card solicitation, alumni associations often established relationships with credit card issuers to raise funds. Partly in response to criticism of university involvement with credit card solicitations, most of the universities we visited offered nonacademic instruction in personal finance. Figure 10 shows credit card marketing efforts and other characteristics of the universities visited. In addition, some credit card companies made changes in how they provide disclosure information and some adopted standards for campus solicitation.

Figure 10: University Policies on Credit Cards

Activity\university visited	A	B	C	D	E	F	G	H	I	J	K	L
Type of institution	Public	Public	Public	Public	Public	Public	Private	Public	Private	Public	Public	Private
Undergraduate enrollment[a]	34,000	9,000	10,000	26,000	32,000	10,000	5,000	26,000	8,000	16,000	14,000	3,000
Credit card tabling	✔	✔	✔[b]	✔	✔[c]	✔	✔	✔	✔	✔		
Credit card application inserts in bookstore bags	✔	✔	✔				✔	✔	✔	✔	✔	
Credit card mail solicitation to students from alumni association								✔	✔			
Alumni affinity card	✔	✔	✔	✔[d]	✔	✔	✔	✔	✔	✔	✔	
Athletic affinity card				✔[d]					✔			
Debt education offered	✔	✔	✔	✔	✔	✔		✔	✔	✔	✔	

Note: A checkmark indicates that the activity takes place.

[a]Undergraduate enrollment numbers are rounded to the nearest thousand.

[b]Although credit card vending is allowed, the university prohibits vendors from taking completed credit card applications from students on-campus. Completed applications from students on-campus must be mailed to the credit card companies.

[c]Only students are permitted to staff the tables at the student union.

[d]Alumni affinity relationship is in conjunction with the university's athletic affinity card.

Source: GAO interviews with university officials and Web site data.

Complaints About Aggressive Marketing at Student Unions Have Led to New Policies

Complaints about the marketing practices of credit card vendors at student unions have influenced universities' policies on solicitation. Student union administrators from some universities we visited cited marketing incentives (in the form of free gifts) as the most frequent source of complaints.[30] These concerns led three universities to prohibit the use of such incentives with credit card applications. One student union administrator complained that the vendors created a "carnival atmosphere" with loud music and games, noting that "the incentives, along with the party atmosphere, masked the responsibilities of owning a credit card," especially since there was no discussion of the consequences of misusing a credit card. Two officials from a state student association feared that using incentives could lead to potential abuses. One stated that credit card vendors pressured students to sign up for free gifts and that the students would then reveal personal information for gifts, such as a squeeze ball.

Instances of aggressive solicitation and the presence of many credit card solicitors in student unions also generated controversy at some universities, leading to more restrictive solicitation policies. Credit card companies pay the vendors according to the number of completed applications secured from students. The vendors we contacted declined to provide us information about how much they are paid for completed applications. Officials at several universities said students had a variety of complaints. For instance, students complained that vendors created a "hawking atmosphere," were "out of control," and were often "in [our] face." An official said that some college students complained that vendors followed them after they had refused the credit card application. Some of the universities we visited had tailored their solicitation policies to address these concerns, and some had imposed stricter limits. At one university, students voted to ban credit card vending in the student union altogether. Other universities restricted tabling to specific days or increased the fees for vending. One university limited tabling to three times per week and required that the tables be staffed only by students, effectively ending credit card solicitation at the student union. One credit card vendor told us that they reimbursed student groups based either on an hourly rate, a flat fee, or a fee based on the number of completed applications. A different credit card vendor told us that they pay student

[30]The gifts included inexpensive items, such as t-shirts, compact discs, water bottles, and squeeze balls.

groups between $25 and $200 a day to table credit cards as well as $1 to $5 for each completed application.

Complaints that credit card marketing efforts were not adequate or helpful in teaching responsible credit card use also affected solicitation policies at some universities. As noted previously, federal law requires written disclosure of key terms when credit is applied for and extended. Officials and students at several of the universities we visited complained that when soliciting credit card on campus, credit card vendors did not discuss or bring to the attention of students key credit card terms such as available interest rates or penalties that are in written disclosure documents. They also said credit card vendors did not provide information on the consequences of nonpayment. For example, an official of a state student association said students are not told about possible consequences, such as the impacts of a bad credit record. In response to such complaints, two universities among those we visited began requiring credit card vendors to hand out additional credit education information along with credit card applications and three began offering debt education presentations. These universities had both centralized and decentralized policies regarding solicitation.

Some policies responded to the ideological views and financial needs of student groups. A student union official at one university told us that the student culture was against commercialism and critical of corporate sponsorships. The university's three student unions had taken this viewpoint into account in banning commercial solicitation, including credit card solicitation. But other universities chose to consider the financial needs of student groups in formulating their solicitation policies. For example, student unions at five universities allowed student groups that relied on funding from credit cards to sponsor credit card vendors; these were the only vendors allowed to solicit. At one of the universities we visited credit card vendors paid $4,359 to five Greek organizations, and one other student organization, over the course of 3 academic years with one Greek organization receiving $2,370 in payments for credit card solicitation.

Some credit card issuers noted that they had responded to concerns about aggressive marketing in two ways: by supplementing disclosure information and by creating a code of conduct for on-campus marketers. Issuers told us that they provide disclosure information to college students both when soliciting and when credit is extended.[31] They include disclosure information on the application or in a separate handout applicants can keep for reference. Several issuers told us that they have the same disclosure guidelines for students and nonstudents.

Several card-issuing financial institutions, as well as MasterCard and Visa, developed the code of conduct for on-campus credit card solicitation in 2000 (appendix IV). The code, which applies to tabling companies and their representatives (vendors), aims to promote both responsible marketing practices on college campuses and responsible credit card use by students. An official with MasterCard International told us that as of March 2001, six of the largest credit card issuers had adopted the code of conduct. Two tabling companies specializing in college marketing told us that they also adhere to the code of conduct. The tabling companies also had procedures in place for responding to complaints about their representatives, including referring complaints directly to the issuer and retraining or terminating vendors. One tabling official said that the majority of credit card issuers they work with used quality control checks that included inspecting booths and applications and surveying applicants by telephone.

Most Bookstores Are Privately Managed and Have Their Own Solicitation Policies

Nine of the university bookstores we visited either operated independently of the university or were managed by national corporations. Seven of these bookstores did not receive operating funds from the university and eight had developed their own solicitation policies. Some bookstore managers told us they must find sources of revenue to help cover costs. Several bookstores allowed tabling and other forms of solicitation, including countertop brochures and applications in textbooks and shopping bags. The stores were rewarded for each credit card application they submitted to the issuer or received credit against advertising costs. Applications inserted in shopping bags often helped reduce the cost of the bags. One corporation developed their solicitation policies with input from store managers and school officials.

Bookstore officials told us that that tabling was a more limited activity than other forms of solicitation, including placing applications in shopping

[31] State laws and Regulation Z of the Federal Truth in Lending Act require lenders provide customers with information on the terms of the credit, including the interest rate and minimum monthly payment. Lenders must disclose the terms during solicitation and after an application has been accepted.

bags or displaying countertop brochures. Some bookstores had exclusive arrangements with one credit card company that was allowed to table on certain days. One bookstore (owned by the university but independently operated) required credit card vendors to provide consumer education information during tabling events. Another adhered to a university policy banning free gifts as incentives for applying for a credit card.

Athletic Departments May Have Credit Card Relationships

Athletic directors at several of the universities we visited told us that athletic departments engaged in fund-raising activities to help support athletic scholarships and programs. But only two athletic departments had credit card relationships. Some athletic departments engaged in more extensive fund-raising activities than others, particularly some departments at universities classified as Division I in the National Collegiate Athletic Association. These departments in some cases had separate arrangements with corporate sponsors and credit card banks and allowed spot announcements, signage, and credit card tabling at sporting events. In contrast, one athletic department at a Division III university we visited was relatively small and did not rely on credit cards or private sources for funding. Some athletic departments had contracts with issuers that allowed tabling, and two Division I universities had affinity relationships with credit card issuers. One official at a Division I university that had an affinity relationship said that the revenue the cards generated was only a small part of the department's overall budget and went directly into its general fund.

Alumni Associations Often Had Relationships With Credit Card Issuers

Alumni associations at most of the universities we visited sought additional revenue sources through relationships with credit card issuers. Eleven of the 12 associations we spoke with had affinity relationships with credit card issuers that generated substantial income. Alumni association officials told us that credit card issuers offered a flat fee or a lump sum plus royalties for completed credit card applications from association members or a percentage of the total charges made on affinity credit cards. Officials further told us that the income the associations received from the credit card issuers provided significant support for both the associations' programs and the universities. Income from the affinity agreements was used to cover such things as the associations' budgets, university operating costs, scholarships and mentoring, and long-term projects, such as the construction of new buildings. According to alumni association officials, their contracts with the credit card issuers precluded disclosure of the terms and condition of the agreement including information on payments made to the alumni association.

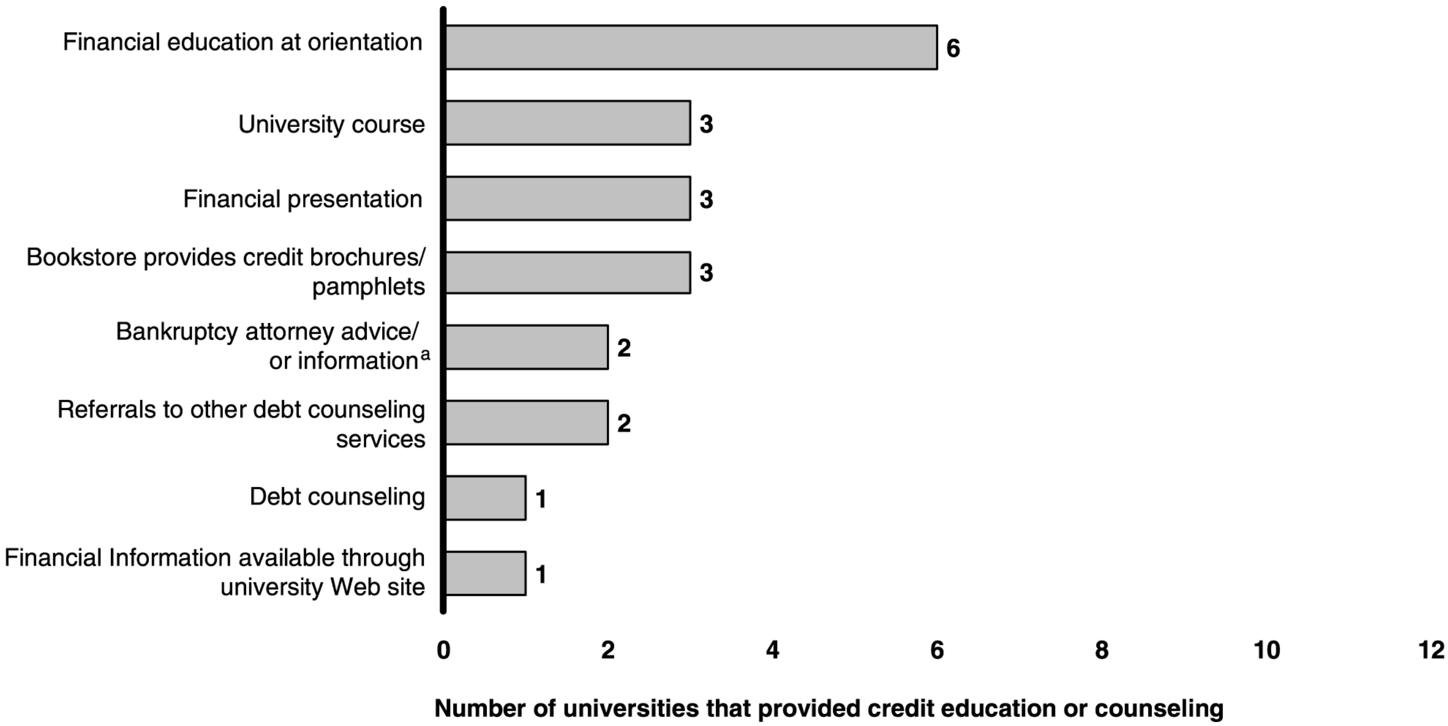
In general the alumni associations determined how the companies could market the cards. Most of the associations permitted credit card issuers to solicit members through mailings and telephone calls. Still others allowed solicitation in the form of tabling at sporting events, alumni gatherings and other special occasions, or at the student union. While tabling was permitted under some agreements, several alumni association officials mentioned that credit card issuers were no longer tabling.

The associations also decided which members could be the focus of marketing. Generally this group included the alumni themselves and sometimes student members of the associations. For example, officials from four of the seven alumni associations with student members told us that their associations did not permit soliciting of students. The other two alumni associations permitted solicitation of student members, either by mail or by mail and telephone. Several of the alumni associations told us that they had the right to approve the marketing language used in marketing materials. According to alumni officials, few students held affinity credit cards. Officials from five alumni associations told us that students were a small percentage of their alumni affinity cardholders (1 to 10 percent of the total credit card holders).

Universities Also Offered Financial Education and Credit Counseling

Some universities had responded to the increase in student credit card use and on-campus solicitation by offering students financial education and counseling. Ten of the 12 universities we visited provided some form of financial education instruction, and some had credit counseling services or referred students to outside services (fig. 11).

Figure 11: Universities' Financial Education Programs



[a]Includes financial presentations provided by on-campus credit unions.

Source: GAO interviews with university officials.

Financial education instruction was often part of freshmen orientation programs. The head of the collections department at one university, for instance, told us that the orientation program included a discussion on budgeting and the responsible use of credit cards. She explained that the university saw its efforts to balance credit card tabling with debt education as a way to help keep students out of debt. Another university covered credit card use in its summer orientation for the same reason. Two universities, both with decentralized policies regarding solicitation of students, had bankruptcy attorneys available to offer advice or information to students on their credit rights, and one had a presentation at the beginning of each academic year, provided students information on credit card use and the potential for financial trouble. All of the universities we visited that provided financial education instruction had voluntary programs, but some officials felt that this instruction should be mandatory given that many parents had not taught their children how to manage money.

We asked officials at the three universities that provided advice or information from bankruptcy attorneys or credit counseling services if they had any statistics on the extent to which students using these services had problems with credit card debt and how many had filed for bankruptcy. While all three universities did not have data on these issues a bankruptcy attorney representing one of the universities did. At one university with an undergraduate enrollment of about 10,000, the student association retained an attorney to provide general and financial advice to students. The attorney, who specialized in bankruptcy issues, stated that credit card debt was a primary concern of students seeking his advice. According to the attorney, over the 3 years since April 1998, approximately 1,328 students had utilized the legal service and of this number, 255 students had sought advice on credit card debt issues. The credit card debt of these students ranged from about $2,100 to nearly $39,000, with an average of approximately $11,200. The attorney told us that the younger college students tended to have less debt than the college students who are older than age 23. He said that about half the college students he sees are over age 23 and that the individuals with 6 or 7 credit cards and the highest levels of credit card debt come from this subgroup. The attorney stated that in some cases, after paying tuition, students had used any excess financial aid to pay their credit card debt. Further, during the last 3 years, 83 students using the legal service had filed for bankruptcy.

Credit Card Debt As A Reason For Leaving College

We asked officials at the 12 universities we visited whether or not they collected information on why students leave their universities prior to graduation, the extent to which this information identified whether credit card debt was an explanatory factor, and the opinions of university officials on whether credit card debt was a factor in college withdrawal. Officials at five of 12 universities we visited collected information on student withdrawals but they did not specifically ask the students to report whether credit card debt was a factor in their decision to leave. Officials from three of these universities told us that credit card debt was not generally cited by students as a reason for their decision to withdraw. Even so, officials from four universities, including two of the universities that did and two that did not collect student withdrawal information, told us that they thought students would not report credit card debt as a reason for deciding to withdraw unless the university specifically asked. Nevertheless, 7 of the 12 universities we contacted cited financial concerns, including credit card debt, as possible reasons why students decided to leave. Officials from 4 of the 12 universities stated that they did not sense that credit card debt was a major factor in a student's decision to withdraw. Officials from 9 of the 12 universities offered a variety of other reasons why students decide to withdraw. Among these reasons were the need to work more hours, family medical problems or health, homesickness, cultural concerns, academic difficulties, career changes, marriage, divorce, and pregnancy. Our review of academic research related to students leaving college indicated that financial factors are some of the many factors that college students and researchers cite as reasons for leaving college prior to graduation. We did not find evidence that the research examined the extent to which credit card debt was a contributory factor to students leaving college. One researcher said that financial considerations appear to be but one part of a complex decisionmaking process, one that depends in large measure upon the nature of the student's social and intellectual experiences within the college—especially the daily interactions between students and faculty both inside and outside the classroom.[32]

Card Issuers Customize Business Strategies for College Students

We surveyed 10 credit card issuers, 6 of which responded, and talked with industry officials. In our survey and discussions with credit card issuers, we found that issuers had a variety of business practices directed toward college students. Some issuers wanted to market to college students because most college students have some income and lower living expenses compared to non-students. College graduates were also attractive because they had higher earning potential than nonstudents, and students continue to use their cards after college. Issuers told us that they had several methods of marketing to college students, including direct mail, the Internet, and on-campus displays. Most of the issuers that marketed to students said they customized their underwriting standards for college students. For example, one issuer told us that the college a student attended was more important than whether or not the student was employed. Interest rates on the credit cards offered to college students were tied to the prime rate, students' credit ratings, or other factors.[33] Half of the issuers we contacted said that they charged college students the same late fees as other customers. They said credit limits were smaller overall and were adjusted according to factors such as year in college and whether or not the student had a checking or savings account at the card

[32]See Vincent Tinto, *Leaving College: Rethinking the Causes and Cures of Student Attrition*, University of Chicago Press, 1993.

[33]The prime rate is the base rate that banks use to price commercial loans with short maturities for the most creditworthy customers.

issuer's bank. Card issuers also said they tried to help students who were delinquent in their payments by providing counseling or referrals to credit counseling services. They also told us they developed credit information materials and supported financial literacy and debt counseling organizations. Appendix V lists the questions we asked the issuers.

Card Issuers Market to College Students Because They Are Good Customers

Card issuers market to college students because most have some income. According to the Student Monitor study, 55 percent of students said they worked part time, and 9 percent said they worked full time, in 2000. The students reported their mean annual earnings at around $4,550. For the approximately 58 percent of college students who said they received money from home each month to help meet their expenses, the average amount received from home was about $300. Students reported that they had an average of $195 available for discretionary purchases each month.[34] Bachelor's degree recipients earn 75 percent more on average than those with only high school diplomas and over a lifetime the gap in earning potential between a high school diploma and a Bachelor's degree or higher exceeds $1 million, according to the College Board.[35] Two issuers told us that they marketed to students because of the long-term profitability of the college student market. One of these issuers noted that credit cards issued to college students were not as profitable as those issued to nonstudents; but once the students graduated, their cards became more profitable than nonstudents' accounts. This issuer, who had affinity relationships with sports teams, professional groups, and cause related groups, told us that their college student accounts accounted for 15 percent of their affinity cardholders.

Some credit card issuer's marketing was directed at college students through affinity relationships. Universities or their components received funds from the card issuer—either a flat fee or an amount based on factors such as the number of cards issued or monthly charges to the cards. One card issuer that sought affinity card relationships told us that the company marketed to college and universities ranked highly on academic competitiveness measures and that alumni of the top-rated schools managed their credit responsibly. The issuer added that most of the

[34]Discretionary purchases are expenditures after college students have covered tuition, room, board, books, and fees.

[35]The College Board is a membership association of more than 3,800 schools, colleges, universities, and other educational associations.

company's affinity relationships were with universities that allowed the company to use all marketing channels.

Card issuers used a variety of methods to market to students, including direct mail, tabling, relationship banking, the Internet, and displays on college campuses known as "take-ones" (fig. 12). Direct mail was a method of marketing to college students for five of the six issuers who responded to our questions about marketing practices. One of these four issuers told us that direct mail and telesales accounted for more than three-quarters of their college student accounts.[36] On-campus tabling was the most visible marketing method, and three of the issuers used tabling on and off campus including at athletic events.[37] Two of the issuers used their branch banks as the primary method of marketing to students, offering credit card applications to students who opened checking accounts and received automated teller cards. All the issuers allowed college students to apply for credit cards through their Internet sites, and students could also apply for the credit cards of the financial institution members of Visa and MasterCard through the Visa and MasterCard Web sites. Only one of the issuers told us that they had an 800 telephone number that students could call to apply for a credit card.

[36]One issuer told us that their mail marketing yielded about 1 percent card issuance and that about 9 out of 10 of their college student accounts come through mail marketing.

[37]One of the issuers did not mention their campus tabling activity although we observed them tabling credit cards and other financial services on one university campus.

Figure 12: Credit Card Issuers' Marketing Methods

Marketing method	Credit card issuers 1	2	3	4	5	6
Direct mail	✓	✓	✓		✓	✓
Internet	✓	✓	✓	✓	✓	✓
Tabling			✓		✓	✓
Display					✓	✓
Banking relationship				✓	✓	
800 telephone number					✓	
Telemarketing						✓

Source: Responses of six card issuers to GAO request for data.

Card Issuers Customized Underwriting Standards for College Students

Four issuers told us that they customized their underwriting standards for college students, eliminating standard income and employment requirements. The first issuer told us that the company had a unique experiential scorecard for the college market with no income or employment requirement.[38] Extensive experience with college students enabled the company to predict good credit performance based on selective marketing, a credit bureau evaluation, and careful management of the account once the card was issued. This issuer's college student accounts compared favorably with traditional accounts. The second issuer had two sets of criteria for college students, one for students with credit histories and another for those with no credit records. College students with credit files were judged on the basis of ability, stability, and willingness to repay. Applications from students who did not have credit files were judged according to their source—that is, whether they came from a university that had an affinity relationship with the card issuer. This issuer told us that the company rejected most applications from college

[38]A scorecard is a table listing the characteristics that provide predictive information, the attributes of each characteristic, and the number of points associated with each attribute. See Edward M. Lewis, *An Introduction to Credit Scoring*, San Rafael, CA, Athena Press, 1994.

students. Reasons for denial included that the college students already had credit available, had histories of delinquency, or had too little income.

The third issuer told us that the company had a specialized scorecard for college students that took into account limited employment history and other factors that set students apart from the nonstudent population.[39] Employment history, salary, credit reports, credit need, and ability to pay were important elements in the credit decision; the company also considered year in college and grade point average. This card issuer said that underwriting standards for other customers with characteristics similar to those of college students (e.g., customers with little credit experience) varied only in terms of the importance placed on income and credit history. The fourth issuer told us that the company's underwriting standards required that college students be enrolled in a 2- or 4-year college or a graduate institution; be 18 years of age; be a U.S. citizen; have a minimum monthly discretionary income of at least $200 after rent, tuition and food are paid for; pass scorecard approval criteria; and not have an existing credit card account at that bank. For this card issuer, employment was not a requirement, but an existing credit history and a demonstrated ability to pay debts were. Again, income and credit histories were more important factors for nonstudents. This issuer told us that its college student portfolio was typically a low-risk portfolio, because most applications came from the company's banking centers rather than from on-campus marketing efforts.

Of the two remaining credit card issuers that responded to our request for information about their underwriting practices, one declined to provide information, except to tell us that the risk adjusted performance of their student portfolio was comparable to new credit customers. The remaining issuer told us that its underwriting process was no different for college students than it was for any other customer. This company said that it used all available relevant information to create the most accurate risk assessment possible and accepted only applicants that were judged to be good risks.

[39]The Equal Credit Opportunity Act allows creditors to consider an applicant's age for the purposes of assessing the amount and probable continuance of income and credit history.

Many Issuers Adjust the Terms and Conditions of Credit Cards for College Students

The terms and conditions some credit card issuers applied to college student credit cards differed from the terms and conditions companies offered their other customers (fig. 13). Two card issuers, however, treated college students the same as other "new-to-credit" customers. Most card issuers told us that they charged college students a variety of interest rates, depending on the prime rate, credit experience, and other factors. One issuer charged college students interest rates based on the prime rate plus additional interest of between 6.9 and 10.9 percent. Another issuer charged students interest rates ranging from 13.9 percent to 19.8 percent, depending on credit experience. One issuer charged students different interest rates depending on the source of the application (for instance, mail, Internet, or campus tabling), whether or not the student had a credit history, and the type of card issued.[40] Another issuer charged a flat rate of 15.99 percent.

Figure 13: Credit Card Terms for Students and Nonstudents

	Interest rates		Late fees		Credit limits
Card issuer	College students	Nonstudents	College students	Nonstudents	College students
A	Prime rate plus margin between 6.9 and 10.9 percent	Prime rate plus margins between 2.9 and 12.9 percent	$29	$29	$700 to $1,000 or $1,000 to $2,000 with banking relationship
B	Range between 13.9 and 19.8 percent	9.9 percent or higher	$25	N/A	$200 - $2,000
C	19.49 percent; 19.4 percent	N/A	$29	N/A	N/A
D	15.99 percent	12.99 to 16.99 percent	Changing to $19	$29	$500 - $2,000
E	21.05 percent	21.05 percent	$30	$30	$500 - $1,000

Note: N/A represents not available in information provided.

Source: GAO analysis based on information provided by credit card issuers.

Most card issuers told us that the interest rates they charged varied across customers, including college students. One issuer told us that the range of interest rates for student credit cards was wider than the rates charged for customers with established credit histories and pristine payment records. Another issuer told us that the margin they added to the prime rate for college students was between 6.9 and 10.9 percent and that this range for nonstudents varied, depending on the type of credit card the college

[40]Some cards offered cash back, points toward products, rebates toward a car purchase, airline savings certificates, and other benefits.

student had. For example, platinum, gold, and classic cards had a range of 2.9 percent to 12.9 percent over the prime rate, while a "reward card" had a range of 8.99 percent to 12.99 percent over the prime rate. Two issuers told us that their student rate was consistent with those offered to nonstudents with similar risk profiles—typically customers with little credit experience.

Five issuers told us that they set special low credit limits (between $200 and $2,000) for college students and adjusted these limits upward over time if the student's credit performance was satisfactory .[41] One issuer told us that the factors considered in raising credit limits included the length of time the account had been open, how it had been used, and the payment history, regardless of account type, while another issuer set credit limits according to the students' year in school ($700 for freshmen and sophomores, $800 for juniors, and $900 for seniors). They said that credit-limit increases were granted only to select customers who had demonstrated financial responsibility and were at low risk of default in the future. Students who maintained a banking relationship with this issuer were given higher credit limits. This issuer said that in general it gave nonstudents higher credit limits and "more aggressive" increases than students. Two other issuers set credit limits for college students at anywhere from $200 to $2,000, depending on factors such as credit experience, past performance, class year, and creditworthiness. One of these issuers said that credit line increases were based on factors such as payment history, account use, and external revolving debt. Still another issuer set even stricter credit limits for college students (from $500 to $1,000) and did not offer increases until a year after the card had been issued (the increases were generally $500 or less).

Card Issuers Have Programs Designed to Assist College Students and Educate Them About Credit

Most of the card issuers in our study told us that they either provided credit counseling for college students who had trouble making payments or referred these students to credit counseling services. One issuer told us that they were willing to help students by lowering interest rates and adjusting payment schedules. The issuer said that when an account was delinquent, they worked with the student to determine the cause of the problem and take appropriate action. Another issuer told us that although

[41] A credit card industry official told us that in the past many credit card issuers had approved large credit limits for college students but were now limiting credit to students in smaller amounts.

students had primary responsibility for managing their accounts, the company was committed to assisting those who faced debt problems. Students could call the customer service number to discuss concerns about their debt, and a collections specialist would review the account and possibly reduce the interest rate or establish a minimum payment schedule. Another issuer told us that it also tried to assist customers experiencing financial difficulty by reducing interest rates and payments. Two issuers had a partnership with Consumer Credit Counseling Services, to which both students and nonstudents had access and which would attempt to work out a no-interest payment schedule. One issuer said that the company also connected customers with financial counseling organizations such as Myvesta (formerly Debt Counselors of America) that could help work out a budget for the student and negotiate a payment schedule.

All six card issuers told us that they provided financial education information in various formats, including television commercials, magazine articles and advertising, brochures, and Web sites. Some of these credit education efforts were conducted in conjunction with Visa or Mastercard, and the information was directed at both college students and others with little credit experience. 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.

Although we were unable to determine the effectiveness of these credit education efforts and the extent to which they led to responsible credit behavior in college students, the information appeared to be widely accessible. Literature was disseminated in several ways. One issuer published a series of credit education brochures on topics such as money management, the cost of credit, and developing a credit history. College students received this information with their monthly billing statements every 3 months. Another issuer included a brochure on responsible credit use in "welcome packages" that were mailed to college students who received credit cards. An industry association official also told us that the association had worked with university officials to disseminate money-management literature at freshmen orientation.

Other educational efforts relied on computers and presentations. Several of the issuers sponsored Web sites that had credit education components directed at college students, and one sponsored a Web site of the credit education program of the National Consumers League. Another issuer had an interactive CD-ROM that the company had developed with Visa to help consumers learn about personal finance, budgeting, money management, and decisionmaking. A third issuer maintained a full-time employee who traveled around the country conducting free financial literacy and responsibility seminars at universities. A fourth issuer had developed credit education seminars for educational institutions. Finally, a fifth issuer and a credit card association provided financial support for the Jumpstart Coalition, an organization that teaches young adults about personal finance.[42]

Conclusions

Studies we reviewed have shown that most college students have at least one credit card. In two nationwide studies, most students reported being able to manage their credit card debt—that is, they said they paid off their balances in full each month or carried a balance of between $1 and $1,000. However, one of the studies we reviewed showed that around 20 percent of students reported carrying a monthly balance of more than $1,000. A third smaller study of students seeking a particular type of loan reported an average balance of more than $2,700. Credit card debt combined with the expenses associated with leaving college and finding a job, including making payments on student loans, could lead those who leave college to debt repayment problems in the future.

Credit cards were not a new phenomenon for most college students. More than one-third of students had credit cards before they entered college, and another 46 percent acquired them during the first year. Except for charges for tuition and fees, their spending patterns resembled those of nonstudents. University officials and credit counseling organizations worried that as inexperienced users, students would not understand the dangers of accumulating debt. In addition, one study suggested that students with four or more credit cards, with relatively high levels of debt and who charged their tuition and fees, could have trouble managing their credit card debts.

We did not find a uniform response to the controversial issue of on-campus credit card marketing among the universities we visited. In response to complaints about aggressive marketing techniques, a few universities had adopted policies restricting credit card solicitation on campus. Several state legislatures had considered legislation limiting on-campus credit card marketing, and one legislature had passed such a bill.

[42]See Lewis Mandell, *Our Vulnerable Youth: The Financial Literacy of American 12th Graders*, Washington, D.C., Jumpstart Coalition, 1998.

But many universities we visited allowed nonacademic entities, such as student unions and bookstores, to set their own policies. In many cases, alumni associations received significant income from credit card solicitation. The universities offered varying levels of educational information on managing finances and support for college students with credit card debt problems. Financial factors are one of many possible reasons that students leave college prior to graduation.

The credit card issuers that responded to our inquiries participated actively in the student market, but again they did not have a uniform set of policies or practices. In general, college students were seen as a profitable market over the long term, with some issuers marketing to high-end schools. Some card issuers treated college students as a special category, while others did not. Many issuers adjusted their underwriting standards for students, enabling college students with little or no employment income to obtain credit cards. The card issuers that responded to us were also willing to work with students who had trouble managing their credit card debt, offering options that ranged from credit counseling to reduced interest rates and extended payment plans.

Credit cards offer clear advantages to college students because they provide an interest free loan for students until the payment is due and a convenient noncash payment option for both routine transactions and emergencies. If used responsibly, credit cards allow students to build up credit histories that will facilitate increased access to credit in the future. However, if college students have not learned financial management skills in their secondary education or from their parents and misuse their credit cards or mismanage their credit card debt, the disadvantages can outweigh the advantages. Many college students are responsible for making important financial decisions for the first time in their lives and are naïve about managing a budget. As is true with any credit card user, using credit cards to make impetuous purchases can lead to extended repayment periods and high interest charges. Because of inexperience with credit and finance, some college students may not be financially literate and may be at greater risk of substantial debt burdens than more experienced consumers. Consistent misuse of credit cards by college students—particularly combined with student loan debt—could lead to substantial debt burdens.

Agency Comments and Our Evaluation

We obtained comments on a draft of this report from representatives of the credit card issuers and Visa and MasterCard officials; Student Monitor, TERI/IHEP, and Nellie Mae officials; Board of Governors of the Federal Reserve System's Division of Consumer Affairs, the Federal Reserve Bank of Philadelphia, the Office of the Comptroller of the Currency; and the 12 universities we visited. The credit card issuers and their association officials raised three points, which we summarize below. First, the credit card industry officials said that the report conclusions, based on the opinions of university officials, students, and credit counseling representatives, were not necessarily an accurate reflection of all students' experiences on that campus or the broader experience nationwide. Our research at universities was designed to obtain information about how 12 selected universities were dealing with credit card issues, as we stated in the draft, and not intended to be a sample projectable to universities as a whole. The sample included a variety of 4-year universities around the country based upon various criteria. We stratified universities according to whether or not they were public or private, geographic region, admissions policies, size and composition of their student body, cost of attendance, and the existence of any affinity relationship with a credit card issuer. University officials spoke to us in their official capacities. Many of the university officials we spoke with had experience at other universities prior to assuming their current position. Our fieldwork showed university officials struggling to find an appropriate balance between a university as a marketplace of ideas and a marketplace for commerce. We spoke with the presidents of five state student associations, two of whom were from some of the largest states in the country with many universities and college students. We also spoke with representatives of three consumer groups in three geographically different sections of the United States.

Second, the card issuers and their association representatives questioned our focus on the Nellie Mae study of credit card usage because it was not based on a random sample representative of the U.S. student population. Our draft report noted that the Nellie Mae study was limited to a subset of students who applied for a certain type of student loan. We expanded language about the study's limitations to the Results in Brief section of this report.

Third, the card issuers and their association representatives objected to references in the draft to increased bankruptcies among 18 to 25 year olds, on the grounds that there is no reliable information indicating that the decision to file for bankruptcy resulted from credit card debt incurred while these individuals were college students. We agree with the representatives and the draft did not state that the increased bankruptcies among 18 to 24 year olds are the result of credit card debt. Our report does state that none of the potential sources of bankruptcy data that we contacted were able to provide or direct us to data indicating the number of college student bankruptcy filings. We understand that many bankruptcies are associated with significant life events such as a job loss or medical issue. However, it is reasonable to assume that in some, if not many cases, credit card debts are a portion of the debts on which bankruptcy filings are made. Whether or not credit card debt is a cause of bankruptcy filings has been the subject of academic research. The card issuers and their representatives also gave us a variety of technical suggestions, which we incorporated, as appropriate.

Officials from the 12 universities we visited reviewed the university section of the report. All agreed with our presentation of the information they provided and agreed that we accurately reported the views they shared based on their experiences. We have incorporated their suggestions and technical comments, as appropriate.

Student Monitor, IHEP, and Nellie Mae officials reviewed portions of this report that reported on the methodology and results of their studies. They made technical suggestions concerning our reporting of their results, which we incorporated.

We also obtained comments from officials of the Division of Consumer and Community Affairs of the Board of Governors of the Federal Reserve System as well at the Federal Reserve Bank of Philadelphia, and the Office of the Comptroller of the Currency. All of these officials gave us technical comments on selected pages concerning how federal bank regulators view college student credit card portfolios in the context of a risk-based bank examination, the advantages and disadvantages of credit cards for college students as well as current law and legislation. We are not making recommendations in this report.

As agreed with your offices, unless you publicly release its contents earlier, we plan no further distribution of this report until 30 days from its issuance date. At that time we will send copies to congressional committees and copies will be made available to others upon request.

Major contributors to this report are listed in appendix VI. If you or your staff have any questions about this report, please contact me or Katie Harris, Assistant Director on (202) 512-8678.

Davi M. D'Agostino
Director
Financial Markets and Community Investment

Appendix I: Scope and Methodology

We were asked to respond to several concerns surrounding college students' use of credit cards. To meet this request, we examined (1) the advantages and disadvantages credit card use presents to college students and available bankruptcy data, (2) the results of key studies showing how college students acquire and use credit cards and how much credit card debt they carry, (3) universities' policies and practices related to on-campus credit card marketing, and (4) the business strategies and educational efforts credit card issuers direct at college students. We could not address some specific questions posed by the requesters because we were not able to obtain access to the account data of major credit card issuers or specific information on the underwriting policies and practices. As noted below, we are continuing negotiations with a group of credit card issuers in an effort to develop a mutually agreeable arrangement regarding access to appropriate data.

To describe the advantages and disadvantages of credit card use for college students, we interviewed officials from universities and credit card issuers, as well as representatives of student groups. We also collected and analyzed information from the credit card industry, universities, student groups, and consumer groups including Myvesta, the Public Interest Research Group, Auriton Solutions (affiliated with the Association of Independent Consumer Credit Counseling Agencies and other organizations), and the National Consumer Law Center. To identify data on college student bankruptcy filings, we contacted officials at the U.S. Department of Education, Administrative Office of the U.S. Courts, U.S. Office for Trustees, and an academic who has conducted empirical research on consumer bankruptcy issues.

To learn how college students acquire and use credit cards and how they manage credit card debt, we searched for studies on college students' experiences with credit cards—how students acquired and used cards and paid their credit card bills. We selected and analyzed three studies to highlight in this report. Two of them (one by the nonprofit, nonpartisan groups The Education Resources Institute and Institute for Higher Education Policy and one by a marketing research firm, Student Monitor) were selected because their surveys were based on random, statistically valid samples of larger and broadly defined populations of college students in the United States. These two studies were limited by the fact that their surveys relied on self-reporting from the students, and research suggests that respondents tend to underreport information that could reflect badly on them—for example, indebtedness.[1] We selected a third survey done by Nellie Mae—a national provider of higher education loans for students and parents—because its research was based on credit reports and not self-reported data. This study was limited by sample selection bias, as the sample was drawn from only those students who applied for a certain type of private loan. These students either did not qualify for federal student loans or had already received the maximum amount available to them. It is not clear how those who apply for such private loans from Nellie Mae are similar to or different from other college students in the United States. We discussed the methodology and results of these three studies with officials of the sponsoring organizations. We also discussed some or all of these studies with an academic expert, officials of the American Council on Education, and the USA Group, a guarantor and administrator of student loans.

The three studies share limitations common to this kind of research (fig. 14 provides details of the studies' methodologies). Two of the studies relied on self-reports of personal financial information and may suffer to some degree from errors in lack of memory, poor estimates, and underreporting of credit card balances owing to the social stigma of being in credit card debt. The practical difficulties of conducting such surveys—such as obtaining a sample that covers the entire population under consideration and gaining the cooperation of enough of the sample to make it representative—may also limit the usefulness of these results. Response rates of the two surveys were not reported. A low response rate may jeopardize the representativeness of a sample survey. The Nellie Mae study, which relied on credit bureau reports, avoided the problems that are common to surveys that rely on reports from individuals. But it is restricted to a special subpopulation of loan applicants, and the results are probably not representative of a larger and typical college-student population as a whole.

[1]See David G. Gross and Nicholas S. Souleles, "An Empirical Analysis of Personal Bankruptcy and Delinquency" Working Paper 98-28-B (University of Pennsylvania, The Wharton School, Financial Institutions Center, 98-28-B, Nov. 11, 1999).

Figure 14: Three Studies on College Students and Credit Cards

Survey component\ study	TERI/IHEP	Student Monitor	Nellie Mae Corporation
Population	List of 2 million graduate and undergraduate students with at-school phone numbers, obtained from American Student List Company.	Full-time undergraduate students present on campuses of 100 4-year colleges and universities.	1,065 undergraduates applying for Student EXCEL loans in January-September 2000.
Sample	Systematic random sample of students, stratified by school size, status (public or private, 2 to 4 years), and student status (undergraduate or graduate).	Quota sample of 1,200 students (12 at each of 100 universities), stratified by school size, location, and status (public or private), and by students' year in school and gender.	Simple random sample of 256 applicants attending 4-year public and private colleges and universities.
Data collection	Telephone survey, yielding 750 completed interviews.	In-person campus intercept.	Credit card information obtained from Experian and TransUnion.
Study period	March to April 1998	April 2000	January to September 2000

Source: GAO analysis of three studies.

We identified other studies on credit cards and college students, but these reports used methodologies that did not include random sampling techniques (app. III). We could not draw inferences from these reports about the student population as a whole or even about a specific subset of students. For this reason, these studies were not included in the main part of this report.

To describe universities' responses to credit card marketing, we judgmentally selected and visited 12 colleges and universities and conducted about 100 structured interviews. We also collected documentation at universities including university policies, credit education materials, and credit card applications. We observed tabling and other marketing directed at college students on these campuses. We compiled a list of colleges and universities chosen for their status as public or private institutions, their geographic region, their admissions policies, the size and composition of their student body, the cost of attendance, and the existence of an affinity relationship with a credit card issuer. We attempted to visit a varied sample of 4-year colleges and universities. Nine of the 12 universities we selected were public and 3 were private.[2] Five had more selective or most selective admissions standards, according to college entrance test scores, and seven were less selective. Six of the universities had small- to medium-sized undergraduate student body populations—10,000 or fewer students—and 6 were large universities—greater than 10,000 students. Three of the universities had substantial minority student populations—Hispanic, Asian, and others—and one of the colleges was a historically African American school.

We interviewed about 100 university officials from a number of university administrative offices (the dean of students and heads of student affairs, bursar, comptroller, and financial aid), as well as officials from student unions, alumni associations, athletic departments, bookstores, student governments, and others including some credit union officials. On campuses, we collected credit card applications from various locations, including student unions, alumni association offices, credit unions and other private financial service providers, and bookstores. We obtained and analyzed university documents relating to policies on credit card solicitation on campus, financial education at freshman orientation, and other issues. We did not verify the accuracy of the testimonial and documentary information university officials provided.

To describe the business strategies and practices of credit card issuers—marketing, underwriting, and educational efforts—we selected 12 of the 20 largest credit card issuers in the United States. With one exception, all the issuers marketed credit cards to college students. We included two credit card companies that issued affinity cards through university alumni associations and athletic departments and a regional financial services company that did not market nationally. In October 2000, we sent the issuers a letter requesting data and an opportunity to discuss issues related to college students and credit cards. This letter included a draft pledge of confidentiality that we were prepared to sign, a signed pledge of confidentiality from our requesters, and a request for aggregate account data from college students and other consumer group accounts.

[2] We included more public universities in our sample, because most college students attend public schools. Thirty-four percent of 4-year institutions of higher education in the United States are private nonprofit or proprietary, and 66 percent are public, according to the National Center for Education Statistics. Because public institutions tend to be larger than private institutions, more students attend public universities than these percentages suggest.

Card issuer participation in our study was strictly voluntary; we have no legal right of access to their account data or other business information. Several card issuers chose not to meet with us, and after 4 months of attempting to arrange meetings, we had met with only five. The issuers that did agree to meet with us would generally discuss their marketing and educational efforts and were not inclined to discuss their underwriting practices, citing the proprietary nature of the information and issues of "business competition." One card issuer declined to meet with us or answer our questions. Due to confidentiality concerns, all of the issuers declined to allow us access to data on their college student accounts in a manner that would allow us to verify authenticity. In January 2001, we asked 10 of the 12 card issuers to provide written answers to questions about their business strategies and educational efforts directed at college students; six responded.[3] (App. V lists the questions we asked the nine issuers.) To address the educational efforts of the credit card industry, we also met with Visa and MasterCard officials and reviewed documentation they provided. We did not verify the accuracy of the testimonial and documentary information that credit card issuers provided and some information issuers provided did not respond precisely to our questions.

In declining to provide us direct access to data about college student credit cards, the issuers cited their concerns about the proprietary and confidential nature of their data. However, after we addressed these concerns, in January 2001, eight credit card issuers expressed willingness to participate in a study of account data that would compare college students with other groups. Coordinating through the Consumer Bankers Association, these issuers offered to have a third party of their choosing do a study based on their data. We accepted the idea of a third-party contractor assembling a database drawn from the issuers' account data. To meet our auditing standards, it will be necessary for us to retain and supervise a contractor independent of the credit card industry. Government auditing standards require that "in matters relating to the audit work, the audit organization and the individual auditors, whether government or public, should be free from personal and external impairments to independence, should be organizationally independent, and should maintain an independent attitude and appearance."[4] As of May

[3]Two of the issuers had either sold their credit card portfolios or were in the process of selling them during our study, and we dropped them from our sample.

[4]Comptroller General of the United States. *Government Auditing Standards*. Washington, D.C., Government Printing Office, June 1994.

2001, we are continuing to explore the feasibility of using an independent contractor to create a database with verified data provided by the eight credit card issuers that we can analyze.

We also met with federal bank regulatory officials from the Board of Governors of the Federal Reserve System, the Federal Reserve Bank of Philadelphia, and OCC. We met with OCC and the Federal Reserve Board because they oversee most of the large credit card issuers. We discussed with the Federal Reserve and OCC the credit card industry in general and the issue of credit cards and college students in particular, as well as applicable laws, disclosure requirements, and examination practices. We also spoke with officials from the Federal Trade Commission, Associated Credit Bureaus, American Bankruptcy Institute, VISA, and MasterCard. The Federal Trade Commission has enforcement responsibility for lenders that are not under the supervision of another federal agency. We obtained comments on a draft of this report from representatives of the credit card issuers who participated in this study and the Consumer Bankers Association, and from officials of the Board of Governors of the Federal Reserve System and the universities we visited. We incorporated technical comments as appropriate.

We conducted our review at credit card issuers and universities in various cities and states around the United States. To maintain the confidentiality of the issuers and universities, we are not disclosing the names of the states and cities where we did our field work. We conducted our work between July 2000 and April 2001 in accordance with generally accepted government auditing standards.

Appendix II: State Legislation Regarding Credit Card Solicitation at Institutions of Higher Education, 1999 to 2001

This appendix presents information about state legislation related to credit card solicitation on college and university campuses.[1] We obtained basic information about legislative activity from the National Conference of State Legislatures, secured additional information about individual bills from sponsors or other knowledgeable sources in the individual state legislatures, reviewed current information published by state legislatures, and reviewed information on state legislation found in Lexis databases.

Proposed legislation and resolutions were introduced in at least 24 states from 1999 through Mid-May 2001. Legislative provisions range from requests to study the effects of credit cards on college students to proposals limiting solicitation on campuses. Three bills, one in Arkansas and two in Louisiana were enacted. Legislators we spoke with told us that the impetus for their proposed legislation included complaints from parents of college students and from student groups, as well as negative media reports about credit card solicitation on college campuses. Legislatures in five states proposed studies of credit cards on college and university campuses.

The proposed legislation in several states would regulate credit card solicitation in a variety of ways including

1. a ban on the use of incentives to entice students to apply for credit cards;
2. a requirement that a student's parent or legal guardian give written consent to the student's credit card application;
3. a provision to protect parents of college students from the debt collection actions of credit card issuers;
4. a requirement that credit card issuers register with the college or university before soliciting on campus;
5. a requirement that credit card issuers, universities, or organizations provide debt education materials or a program for students;

[1]The described legislation is a partial listing of proposed or enacted state legislation aimed at regulating credit card solicitation at institutions of higher education and reflects the most current available information. Bills that were withdrawn or that initially failed and were reintroduced at a subsequent session are excluded from this presentation. The most recently amended version of proposed legislation may not be presented.

6. a provision that colleges, universities, or education departments set policies and procedures for controlling credit card solicitation on campus; and

7. a prohibition against the dissemination of information on students to credit card issuers or extenders of credit for compensation.

Table 2: Proposed or Enacted State Legislation on Credit Card Solicitation at Institutions of Higher Education from 1999 to 2001

State	Year introduced	Status	Summary of law, bill or resolution
1. **Arkansas** Act 1328 House Bill 1147 A.C.A. 4-104	January 1999	Enacted 4/12/99	Enacted: 1. Prohibits face-to-face offers of gifts or promotional incentives to persons under age 21 on the campus of an institution of higher education to entice them to apply for credit cards. 2. Requires that, prior to any personal solicitation in which gifts or other promotional incentives are being offered, the credit card issuer verify the identity and age of the person to be solicited by review of credible means of identification. 3. Prohibits the issuance of a credit card whose application was obtained in violation of Act 1328. 4. Requires a credit seminar be provided at freshman orientation if institution of higher learning permits solicitation of credit cards at athletic events. 5. Provides that violation of section will be a misdemeanor and imposes a fine of $500 to $1000. 6. Exempts solicitation by banks and credit unions located on campuses if solicitation is done in the office. 7. Applies to public and private universities, colleges, technical colleges, and community colleges located in Arkansas.
2. **California** Senate Bill 796	February 25, 1999	Passed the Senate 8/25/00; Passed the Assembly 8/22/00; Vetoed by governor 9/18/00	Proposed: Requests the University of California and the governing boards of public and private institutions of higher education, and requires the California State University and Community Colleges to adopt policies, in accordance with specified requirements, to regulate marketing practices used on campuses by credit card companies. In adopting the policies, the intent of the legislature is that the following requirements be considered: a) That sites at which credit cards are marketed be registered with campus administration and consideration be given to limiting the number of sites allowed on a campus. b) That marketers of credit cards be prohibited from offering gifts to students for filling out credit card applications unless the student has first read a credit card education brochure prepared either by the college or university or by a nonprofit credit card or debt education organization. c) That credit card and debt education materials be included in brochures inserted in shopping bags at campus bookstores. d) That credit card and debt education and counseling sessions become a regular part of campus programs, including those relating to new student orientation.

State	Year introduced	Status	Summary of law, bill or resolution
Assembly Bill 521	February 21, 2001	Approved by Committees on Higher Education Banking and Finance, Re-referred to Committee on Appropriations, 5/3/01	Proposed: 1. Defines student credit card as a credit card provided to a student at a public or private college or university and provided to the student solely based on enrollment and not based on his or her income. The definition does not include a credit card issued to a student who has a cocardholder or cosigner who would otherwise qualify for a credit card other than a student credit card. 2. Requires that student be issued a credit limit of $500 and authorizes raise in credit limit to $1000 if student cardholder demonstrates a good payment record for 12 months. 3. Requests governing body of private or independent colleges or universities and requires the trustees and board of governors of the state universities and community colleges to adopt policies regulating the marketing practices used on campuses by credit card companies. These policies are to address: a) That sites at which credit cards are marketed be registered on campus and consideration be given to limiting the number of sites allowed on campus, and b) The prohibition of gifts to students for completing credit card applications, and provision of credit card and debt education and counseling sessions as a regular part of campus orientation of new students.
Senate Bill Number 43	December 8, 2000	Approved by Committee on Education, Re-referred to Committee on Appropriations, 4/25/01	Proposed: Every public or private institution of postsecondary education is prohibited from disclosing to anyone not employed by the institution any directory information concerning a current or former student without disclosure to the student of the purposes for which the information will be used and the written permission of the student to disclose the information. Directory information includes name, address and dates of enrollment.
3. **Delaware** Senate Bill Number 95	April 3, 2001	Referred to Committee on Natural Resources and Environmental Control, 4/3/01	Proposed: Prohibits credit card institutions and other persons from soliciting credit cards or similar loan products on the campuses of educational institutions in Delaware that receive all or part of their operating budgets from State appropriations. Provides civil penalties for violation of the prohibition.
Senate Bill Number 87	March 22, 2001	Referred to Senate Committee on Natural Resources and Environmental Control, 3/22/01	Proposed: Prohibits credit card institutions and other persons from issuing a credit card or similar loan product with a credit limit or loan amount that exceeds $2,500 to a person under the age of 21 unless the person can demonstrate sufficient income for the limit or the person's parent or guardian cosigns for the account.
4. **Hawaii** House Resolution Number 32 H.D. 1	February 17, 2000	Adopted 4/24/2000	Adopted: 1. Requests the Board of Regents of the University of Hawaii and the governing bodies of private colleges and universities to: a) study the direct solicitation of students on campus for credit card accounts; and b) offer consumer credit and money-management seminars as part of freshmen orientation to ensure that students are well-informed about the principles of credit and sound money management.

State	Year introduced	Status	Summary of law, bill or resolution
5. Kansas House Bill Number 2153	January 24, 2001	To House Committee on Appropriations, 1/25/01	Proposed: 1. No credit card issuer, while on any campus of an institution of postsecondary education, shall solicit any individual to apply for a credit card. 2. Shall not apply to solicitation of a credit card application by an officer, agent or employee of a financial institution that has its place of business located on campus and the solicitation occurs during normal business hours. 3. No officer, agent or employee of the institution of postsecondary education shall knowingly allow any credit card issuer to make any solicitation that violates the section, or knowingly sell or give to any credit card issuer any list of names or addresses of persons who are students at or employed by the institution. 4. Fines of between $500 and $5,000 shall apply to violations.
6. Kentucky House Bill 384	January 18, 2000	Regular Session Adjourned 4/14/00; no carryover	Proposed: 1. Requires credit card issuer to register with university before soliciting students on campus. 2. The interest rate and annual fee must be prominently displayed at the site on campus where the credit card issuer solicits students. 3. If the institution permits the solicitation of students on campus for credit cards, the institution is to include a credit seminar with freshman orientation. 4. Prohibits the offer of gifts or any other promotional incentives on campus to students to entice students to apply for credit cards. 5. Prohibits any debt collection by a credit card issuer against parent or legal guardian of the student unless the parent or guardian has agreed in writing to be liable for credit card debts of the student. 6. Directs that the credit card issuer is guilty of a misdemeanor and is to be fined from $500 to $1,000 for each violation.
Senate Resolution Number 43	January 19, 2000	Adopted 3/8/00	Adopted: The governing board of each institution of higher education in the Commonwealth is urged to provide a credit seminar in each institution's freshman orientation and to provide its students with counseling on how to use credit wisely.
7. Louisiana House Bill 1353 Act 1110 L.R.S. 9.3578.1 through 3578.5, Campus Credit Card Solicitation Act	March 26, 1999	Enacted 7/15/99	Enacted: 1. Requires credit card issuers to register with the educational institution prior to engaging in solicitation of college students on a college campus. 2. Prohibits a credit card issuer from taking any debt collection action against the parent or legal guardian of the student, unless the parent or guardian has agreed in writing to be liable for the debts. 3. Provides for fines of up to $1,000 for each violation.
House Bill 195 Act 934, L.R.S. 17:3351.2, Dissemination of Certain Information by Public Postsecondary Institutions	February 1, 1999	Enacted 7/15/99	Enacted: 1. Prohibits a public post secondary educational institution from permitting the dissemination of solicitations, advertisements, application or information concerning consumer credit cards on campuses to undergraduate students during registration for classes. 2. Prohibits an institution from permitting any of its employees to

State	Year introduced	Status	Summary of law, bill or resolution
			disseminate solicitations, advertisements, application or information concerning consumer credit cards to undergraduate students at any time. 3. Prohibits the institution from providing information on any student to the extender of credit for compensation.
House Study Request No. 45	May 21, 1999	Approved 5/27/99[a]	Approved: 1. Study by House Committee on Commerce to address: a) the practicality of requiring credit card companies soliciting on college campuses to register with the college before soliciting; b) the practicality of requiring college students to receive parental consent to obtain a credit card; and c) prohibiting debt collection against parents or guardians of college students. 2. Study to report findings to the House of Representatives before the convening of the 2000 session. No such report was issued.
House Resolution 23	April 12,1999	Adopted 4/26/99	Adopted: 1. Urges and requests Board of Regents to encourage institutions of higher education to provide information on consumer credit and the dangers of credit card debt to college students and their parents, and to disseminate such information on campus in any other manner deemed appropriate. 2. Information provided shall include consumer awareness information regarding good credit, sound money management, and the potential impact of credit card debt on personal finances and future employment, information about obtaining student loans to complete undergraduate, graduate, and professional school, as well as reputable resources, which offer consumer credit information or counseling without charge or for a modest fee.
8. Maryland House Bill 875	February 9, 2001	To Committee on Commerce and Government Matters, 2/9/01	Proposed: 1. Requires the Maryland Higher Education Commission (MHEC) to establish and update written guidelines concerning the solicitation of students by a credit card issuer on the campus of an institution of higher education. 2. Requires a higher education institution that permits the solicitation of students by credit card issuers on its campus to comply with the MHEC's guidelines. 3. Requires that established guidelines of the MHEC on solicitation of credit cards at higher education institutions not be construed as permitting solicitation of credit cards.
House Bill 959	February 9, 2001	Unfavorable Report by Committee on Commerce and Government Matters, 3/12/01	Proposed: 1. Requires credit card issuers that conduct marketing activities on a campus of an institution of higher education to provide a program of education on the responsible use of credit to students on that campus and their families. 2. Prohibits the issuance of a credit card to a student enrolled in the institution of higher education unless the application submitted by the student includes certain proof that the applicant has attended the education program. 3. Prohibits credit card issuers from offering gifts in exchange for the completion of a credit card application under certain circumstances.

State	Year introduced	Status	Summary of law, bill or resolution
			4. Prohibits credit card issuers from purchasing from an institution of higher education certain information about students at the institution of higher education.
House Bill 45 Senate Bill 470	July 2000 prefiled for 2001	H.R. 45: Unfavorable Report by Commerce and Government Matters, 2/12/01; S.B. 470 was withdrawn from further consideration, 2/27/01	Proposed: 1. Limits the total amount of credit that may be extended by credit card issuers to students under the age of 23 years at institutions of higher education. 2. Prohibits a credit card issuer from increasing the amount of credit that may be extended to the students under specified circumstances. 3. Prohibits a credit card issuer from opening a credit card account for or issuing a credit card to the students under specified circumstances.
House Bill 764	February 10, 2000	General Assembly adjourned 4/10/00, no carryover	Proposed: 1. Prohibits credit card issuers from purchasing or obtaining from an institution of higher education the names and addresses of students at the institution. 2. Prohibits credit card issuers from offering gifts or other promotional incentives to a student at a higher education institution in connection with an application for a credit card. 3. Requires credit card issuers that solicit credit card applicants on campuses of higher education institutions to provide opportunities for students at the institution of higher education to become educated about the proper use of credit cards, methods to avoid excessive indebtedness, and how to manage debt responsibly. 4. Prohibits a credit card issuer from taking legal action against the parent or legal guardian of a student at a higher education institution for the student's credit card debt unless the parent or legal guardian agrees in writing to be liable.
9. Massachusetts House Bill Number 3665	January 3, 2001	Held in Joint Committee on Banking and Commerce, 5/17/01	Proposed: Rules and regulations prescribed by the Commissioner of Banks shall provide that no solicitation shall be made to a consumer under the age of 21 years on any college campus.
House Bill Number 3664	January 3, 2001	Held in Joint Committee on Banks and Banking, 5/17/01	Proposed: No application for credit shall be provided or distributed in any manner to any person under the age of 25 if such rate, finance charge or credit limit is greater that the rate, finance charge or credit limit being offered at that time to persons 25 years of age and older.
House Bill 2866	January 3, 2001	In Joint Committee on Education, Arts and Humanities, 3/13/01	Proposed: The Massachusetts Board of Higher Education shall create rules and regulations governing credit card company access to all Massachusetts public higher education institutions and suggest rules and regulations to all Massachusetts private higher education institutions.
10. Missouri House Bill 683	February 7, 2001	From House Committee on Education, 3/7/01	Proposed: 1. Every public institution of higher learning in Missouri that collects personal information from students, including but not limited to names, campus or home addresses, telephone numbers or other identifying information in student or campus

State	Year introduced	Status	Summary of law, bill or resolution
			directories, shall include in any forms, telephone services or computer services used in the student's registration for each fall semester a provision in which the student shall indicate whether the student wishes to receive solicitations, offers or other advertisements based on such directory listing. Such forms, telephone services or computer services shall also include a provision in which the student shall choose whether to have his or her name listed in the directory, and the institution shall not list any student who chooses not to be listed. 2. If the student chooses not to be included in the directory and not to receive solicitations, the institution shall not knowingly sell or distribute the name of such student to any entity that uses such information either to engage in advertising, trade or commerce or for offers of credit. 3. The coordinating board of higher education shall adopt policies to provide for dissemination of information to all public institutions of higher education in Missouri regarding the responsible use of credit by the students at such organization. Such policies shall, at a minimum, provide the following: a) If an institution conducts a new student orientation program for students, parents or both, the institution shall include in such session information on the responsible handling of credit and shall strongly encourage full attendance by incoming students; b) All institutions shall provide an educational seminar on the responsible handling of credit and the consequences of its abuse, which shall occur not less than once each semester; and c) All institutions shall include within their student conduct guide or comparable standards manual a chapter or section on the responsible use of credit. 4. Every public institution of higher education in Missouri shall adopt and enforce a policy governing the solicitation and marketing of commercial and noncommercial products and services, including but not limited to credit-related products to its students, faculty, alumni, provided that such policy shall: (1) be nondiscriminatory; (2) protect the best interests and welfare of its students. 5. Every public institution of higher education in Missouri that receives either money for the distribution of credit cards to its students or any percentage of money from the use of credit cards bearing the college or university name or logo, shall report the amount of such moneys or any such percentage that it received, as well as how such monies were expending during the previous fiscal year, to the coordinating board of higher education; and use at least 50 percent of the moneys received pursuant to this subsection toward individualized credit counseling programs at such school.
11. New Hampshire House Bill 1364	December 1999	Failed to pass House 2/17/00	Proposed: Establishes a study committee on the impact of student credit card debt and to determine if oversight and regulation of credit card solicitation on college campuses is recommended.
12. New Jersey	March 29, 2001	Referred to	Proposed:

State	Year introduced	Status	Summary of law, bill or resolution
Senate Bill Number 2283		Senate Commerce Committee 3/29/01	Requires a public institution of higher education to establish a financial management program for its students if the institution enters into an agreement for the direct solicitation of credit cards to its students. The financial management program is to be funded by the credit card issuers and is to conform to the guidelines for the program established by the Department of Banking and Insurance. If a student has not successfully completed the financial management program prior to entering a credit card agreement pursuant to a direct solicitation, the student would not be liable for any interest on the debt.
Assembly Bill 1136	January 11, 2000	From Assembly Committee on Education, 2/28/00	Proposed: Prohibits public institutions of higher education from entering into any agreement, or permitting any of its agents or student organizations from entering into any agreement for the direct merchandising of credit cards to any students.
13. New Mexico Senate Memorial 7[b]	January 1999	Approved 2/25/99	Approved: Requests state educational institutions to eliminate or curtail on-campus solicitation of credit cards.
14. New York Senate Bill 1232 Assembly Bill 6706	S.B. 1232, January 18, 2001; AB. 6706, March 6, 2001	In Senate Committee on Higher Education, 1/18/01; Assembly Committee on Higher Education, 3/6/01	Proposed: Prohibits the State University of New York (SUNY) and the City University of New York (CUNY) from entering into any agreement for the direct merchandising of credit cards to any enrolled student.
Assembly Bill 1793 Senate Bill 36	January 2001	Referred to Assembly Judiciary Committee, 1/16/01; Recommitted to Senate Judiciary Committee, 3/12/01	Proposed: Requires parental approval before a credit card may be issued to an unemancipated child (defined as a person less than 22, who remains a dependent or in the custody of a parent or legal guardian) without the express written consent of the child's parent or legal guardian.
15. North Carolina Senate Bill 800	April 3, 2001	Referred to Committee on Rules and Operation of the Senate, 4/3/01	Proposed: Authorizes a research commission to study the issue of credit card solicitation, including the study of whether the University of North Carolina and private colleges and universities should adopt policies that restrict direct credit card solicitation of students who reside on campus.
House Bill 1107	April 1999	General Assembly adjourned 7/13/2000, no carryover	Proposed: 1. Requires credit card issuers to obtain the written consent of parents or legal guardians of any student that they solicit for a credit card who submits a credit card application. 2. Provides that parents or guardians who give their consent will not be liable under the credit card agreement unless they specifically agree to be liable.

State	Year introduced	Status	Summary of law, bill or resolution
			3. Makes it an unlawful trade practice for the credit card company to take any debt collection action against a parent or guarding who did not agree to be liable under the credit card agreement. 4. Provides for civil and criminal penalties.
16. North Dakota Senate Concurrent Resolution 4040	February 15, 2001	Failed to pass House 3/20/01	Proposed: Resolves that the Legislative Council study the problems associated with credit card companies marketing credit cards to college students and report legislation to implement the findings and recommendations to the legislature.
Senate Concurrent Resolution 4041	February19, 2001	Failed to pass House 3/20/01	Proposed: Resolves that the Legislative Council study the financial impact of credit card fees imposed on public institutions of higher education and the social effect of credit card debt on young adults and report its findings and recommendations to the legislature.
17. Oklahoma Senate Concurrent Resolution 1	December 2000	To Senate Committee on Appropriations, 2/6/01	Proposed: The Oklahoma State Regents for Higher Education and any organizations associated with state-supported higher education institutions are requested to terminate any existing contracts with credit card issuers, and to cease entering into any contracts in the future, to cease any practices that allow credit card issuers to use space or facilities of a state-supported higher education institution for the purpose of taking applications for credit cards, issuing credit cards, providing inducements or otherwise merchandising credit cards, to persons under 21 years of age, who are not financially independent, without the express written approval of such person's parent or legal guardian.
Senate Concurrent Resolution 3	March 22, 1999;	Adopted, May 28, 1999	Resolved: The Oklahoma State Legislature requests that Oklahoma public institutions of higher education include a consumer credit education program as part of new student orientation.
18. Pennsylvania Senate Bill 137	January 29, 2001	Passed Senate, sent to House, 5/8/01; Motion to reconsider in Senate granted, 5/8/01	Proposed: 1. The state board of education shall require public and private institutions of higher learning to adopt a policy to regulate the marketing practices used on campuses by credit card companies. In adopting a policy, the educational entities shall consider the following requirements: a) registering on campus credit card marketers; b) limiting credit card marketers to specific college campus sites designated by the administration; c) prohibiting credit card marketers from offering gifts to students in exchange for completing a credit card application unless the student has read a credit card debt education brochure; d) providing a credit card debt education brochure with campus bookstore purchases; and e) developing a credit card debt education presentation to be incorporated into orientation programs offered to new students.
House Bill 27	January 8, 1999	Referred to House Committee on Education, No	Proposed: 1. Requires a credit card issuer to register with an appropriate official of the institution of higher education its intent to solicit the student before engaging in the solicitation of a student on a

State	Year introduced	Status	Summary of law, bill or resolution
		action by committee 1/20/99	college campus. "Student" means a person under age 21 at an institution of higher education on a full-time or part-time basis. 2. Requires the registration to include the principal place of business of the credit card issuer and be in a form as required by the Department of Education. 3. Renders the application for a credit card executed by a student who was solicited for the credit card on a college campus to be void and unenforceable unless the parent or legal guardian of the student consents in writing to the student's submission of the application to the credit card issuer. 4. Establishes that parental consent given is not to be construed as consent to be liable under the credit card agreement unless the parent or legal guardian specifically agrees in writing to do so. 5. Prohibits the credit card issuer from taking any debt collection action against the parent or legal guardian of a student for whom a credit card has been issued unless the parent or legal guardian has agreed in writing to be liable for the debts of the student under the credit card agreement.
19. Rhode Island House Bill 5780	February 6, 2001	Passed House, referred to Senate Committee on Corporations 5/9/01	Proposed: 1. Prior to engaging in any credit card marketing activity on any campus, a credit card issuer shall register with the educational institution. 2. Makes it unlawful to offer gifts on campus in connection with the solicitation of credit cards. 3. If an institution permits credit card solicitation, it must require all new students to attend a comprehensive seminar on the responsible use of credit. The seminar should include the following: a) A full explanation of the financial consequences of not paying off credit card balances in full within the time specified to avoid interest charges, including an explanation of how the credit card issuer computes interest on unpaid balances; b) A full explanation of the impact of a shift from an introductory or initial interest rate to an ongoing interest rate that is higher, including the exact time when the higher ongoing interest rate takes effect, and the description of the acts on the part of the cardholder that will cause an immediate shift to the higher interest rate. c) A full explanation, with examples, of how long it would take to pay off various illustrative balance amounts by paying the minimum monthly payment required under the credit card agreement; d) A full explanation of credit related terms, including fixed rates, variable rates, introductory rates, balance transfers, grace periods, annual fees, and any other fees charged by the credit card issuer. e) A full discussion of the generally accepted prudent uses of credit, and the consequences of imprudent uses, as presented by recognized credit counseling agencies. 4. All qualifying students shall be issued a certificate of successful completion of the credit seminar. 5. A person violating the provision is guilty of a misdemeanor. Any

State	Year introduced	Status	Summary of law, bill or resolution
			person or firm shall be prohibited from maintaining any civil action for the recovery of debt created through the use of any credit card obtained in violation of the provisions.
20. South Carolina Senate Bill 922	January 11, 2000	Sent to Committee on Banking and Insurance, 1/11/00	Proposed: Prohibits the distribution of applications and advertising and any other form of solicitation for ownership of a seller credit card by a credit card issuer on the campus of a public institution of higher learning.
House Bill 3595	February 15, 2001	Passed House, to Senate Committee on Banking and Insurance 5/17/01	Proposed: 1. A public institution of higher learning in South Carolina must develop, maintain, and enforce a creditor-marketing policy regulating the distribution of applications, promotion, marketing, and other forms of solicitation for ownership of a credit card by a credit card marketer on its campus. This creditor-marketing policy must be filed with the South Carolina Commission on Higher Education. The Commission on Higher Education must maintain a master file of all policies and make the information available for public inspection. 2. In preparing and adopting the policy, the board of trustees or its designee must consider: a) registering on-campus marketers; b) providing a credit card debt education brochure with each campus bookstore purchase; c) developing a credit card debt education presentation as a part of orientation programs offered to new students; and d) prohibiting credit card marketers from offering gifts to students in exchange for completing a credit card application unless the student has been given a credit card debt education brochure. 3. A public institution of higher learning in South Carolina that has not adopted this policy may not allow a credit card marketer to distribute applications or promotional or marketing materials, or otherwise solicit for ownership of a credit card on its campus. A credit card marketer is prohibited from distributing applications or promotional materials, or otherwise soliciting for ownership of a credit card on the campus of a public institution of higher learning in South Carolina that has not adopted a policy. 4. The section does not apply to solicitation by a financial institution physically located on a campus where normal banking activities are conducted if the solicitation takes place within its offices, solicitations by E-mail, or telephone, or contracts between institutions and creditors in existence on the date of the act. 5. The section does not apply if the solicitation occurs in the campus offices of the card marketer.
21. Tennessee House Bill 993 Senate Bill 1554	February 2001	H.B. 993 to House Committee on Education 2/12/01; S.B. 1554 to Senate Committee on Commerce, Labor and	Proposed: 1. Requires the institutions of state board of regents and the University of Tennessee that collect identifying information from students for publication in student or campus directories, to supply a form allowing students to indicate they do not want to receive solicitations based upon the directory listing. 2. Prohibits any credit card issuer from recruiting potential student cardholders on campus or at college or university facilities, or through student organizations.

State	Year introduced	Status	Summary of law, bill or resolution
		Agriculture, 4/24/01, Indefinitely postponed	3. Requires the institutions to report annually any funds they receive or any percentage they receive from the distribution of credit cards to students or any percentage from the use of credit cards bearing the school logo as well as how such funds were expended during the previous fiscal year to the Joint Oversight Committee on education. 4. Prohibits credit card issuers offering gifts to students as an incentive for applying for a credit card. 5. Prohibits the institutions from using state or federal revenue to offset or replace any funding from credit card issuers that is lost due to the provisions of this bill. 6. Requires the institutions to use revenues received from the credit card issuer to fund any increase in state expenditures resulting from the implementation of this bill.
House Bill 538 Senate Bill 436	February 11, 1999	General Assembly adjourned 6/28/00, No carryover	Proposed: 1. Prohibits institutions of higher education from selling or distributing student lists to credit card issuers. 2. Prohibits credit card issuers from recruiting potential student cardholders or customers on campus, through student organizations or through alumni groups. 3. Prohibits offers of gifts or any promotional incentives to students to entice such students to apply for credit cards or any other instruments of credit.
House Bill 2958; Senate Bill 2592	February 2000 January 2000	General Assembly adjourned 6/28/00, no carryover.	Proposed: Requires any institution of University of Tennessee or state board of regents system that receives funds from credit card distributions to students or the use of school logos to report amount of funds received and how such funds were used to joint oversight committee on education.
House Resolution 15	February 8, 2001	To House Committee on Education, 2/11/01	Proposed: Creates a Special House Committee to study bankruptcy in Tennessee, including bankruptcy rates, particularly among young adults, bankruptcy laws, credit marketing regulation.
22. Virginia House Bill 1451	January 2000	No action by committee To be continued to 2001	Proposed: Every educational institution shall have the power to: 1. Establish policies regulating the direct solicitation, marketing, and distribution of credit cards to students on the institution's campus property and grounds. 2. Requires that the policies shall not restrict the right of credit card vendors, financial institutions, or other commercial consumer credit companies to contact students by mail, telephone or electronic means.
House Joint Resolution Number 735, Amendment in the Nature of a Substitute	Proposed by the Senate Committee on Rules on February 19, 1999	Adopted, February 25, 1999	Resolved: The State Corporation Commission, the Department of Agriculture and Consumer Services, the State Council of Higher Education, and the Virginia Cooperative Extension Service are requested to develop a plan for providing consumer credit information to college students, and for monitoring complaints regarding unsolicited offers of credit, and credit cards and incentives. The plan shall address providing information to college students and their parents, and to institutions of higher education, upon request, regarding: (1) the rights of consumers, including the right to make inquiries of institutions and

State	Year introduced	Status	Summary of law, bill or resolution
			credit card companies; (2) the maintenance of good credit; (3) how to obtain and interpret credit history information; (4) how to file a consumer complaint. The plan shall also establish procedures and determine the cost of collecting and providing data regarding consumer complaints by college students about credit offers and credit card companies. In addition, the plan shall address ways to disseminate the consumer information on campus in the least intrusive and most cost-effective manner.
Senate Joint Resolution Number 421	January 21, 1999	Adopted February 17, 1999	Resolved: That institutions of higher education be requested to provide consumer credit information to college students and their parents. Along with other notices, bills, and information provided students and their parents during freshman orientation, institutions of higher education are requested to include consumer awareness information regarding good credit, sound money management, the potential impact of credit card debt on personal finances, future employment, obtaining student loans to complete undergraduate, graduate, and professional school, as well as reputable resources which offer consumer credit information or counseling without charge or for a modest fee. Institutions are also requested and encouraged to disseminate this information on campus in a manner deemed appropriate by the institution.
23. Washington Senate Bill 5476 (Substitute)	February 16, 2001	No action by committee March 2001	Proposed: 1. Requires that credit cards not be issued to persons under 21 without obtaining a written application that includes a statement by the applicant listing all existing available credit; that available credit must be listed by source and amount; and the applicant qualifies for credit under reasonable and prudent industry standard. 2. Failure of credit card companies to comply with the requirements constitutes an affirmative defense to the collection of debt incurred by using the card or credit issued. 3. Prohibits credit card issuers from offering gifts for the completion of credit card applications, except for educational material on the responsible use of credit. 4. Prohibits colleges and universities from selling or transferring lists of student names and addresses to credit card issuers.
Senate Bill 6258	January 11, 2000	To Senate Committee on Commerce, Trade, Housing and Financial Institutions, 1/12/00	Proposed: 1. Requires credit card issuers that conduct a credit card marketing activity on campus of any institution of higher education in Washington to provide to students and their families on that campus a program of education on responsible use of credit. 2. Prohibits the issuance of a credit card to students enrolled in a college or university located in Washington unless the application submitted by a student includes a certificate or other reasonable proof that the applicant has attended the education program. 3. Prohibits credit card issuers from offering gifts in exchange for the completion of a credit card application as part of a marketing program conducted on any campus of a college or university located in Washington.

State	Year introduced	Status	Summary of law, bill or resolution
			4. Provides civil penalties for violation of these provisions.
24. West Virginia Senate Bill 588 (substituted)	March 26, 2001	Passed Senate 4/5/01, to House Committee on Judiciary 4/6/01	Proposed: 1. Every person who solicits applications for the issuance of credit cards on the property of any institution of higher education must first register with the institution before soliciting students on campus. Every registration shall include an agreement that the credit card issuer will not provide an application to a student unless the student has signed a credit card education information sheet designed by the governing board of the institution. 2. No person who solicits applications for credit cards may offer any gifts or any other promotional incentives to students while on the property of an institution of higher education. 3. Every institution that permits the solicitation of credit card applications to its students shall include within its freshman orientation program a seminar regarding credit and related topics. 4. Unless a student's parent or guardian has agreed in writing to be liable for credit card debts of the student, no person may initiate a debt collection action against the parent or guardian regarding any credit card debt incurred by the student if the student applied for the credit card while enrolled at an institution of higher education and the application was solicited by the company on the property of the institution. 5. No person may purchase or otherwise obtain from an institution of higher education specified information about the students that the institution of higher education, including student lists, for the purpose of soliciting applications for credit cards. 6. No institution of higher education may enter into any agreement for the direct merchandising of credit cards to its students. 7. A person who violates any of the provisions is guilty of a misdemeanor and shall be fined an amount not to exceed $500.
Senate Bill 538	February 15, 1999	Referred to committee 2/15/99; Legislature Adjourned 3/20/99, No carryover.	Proposed: 1. No action by a creditor for a debt owed on a credit card transaction by a person who is a full-time student at any college or university located in this state, may be brought while that person is a full-time student. The action may not be brought until 6 months have elapsed from the time the person graduated or ceased to be a full-time student. 2. Judgments against full-time students for debts owed on a credit card transaction may not be enforced while that person is a full-time student. A full-time student may not be threatened with, or denied the right to graduate because of credit card indebtedness or a judgment based on credit card indebtedness.

[a]A study request is approved when no more than one-third of the members of the Louisiana House of Representatives filed a written objection to the study request.

[b]A memorial in New Mexico represents a request that a voluntary action be taken and does not require passage in both state houses to be effective.

Source: GAO analysis.

Appendix III: Additional Studies of College Students and Credit Cards

To better understand how students acquire and use credit cards, we conducted a literature search. In addition to the studies we used in our report, we found three studies that reported survey results on how students acquire credit cards, how they use them, and how much debt they incur.[1] We did not include the results in our report because the survey methodology of these studies did not employ random sampling techniques that would allow us to draw inferences about the student population as a whole or even about a specific subset of students. For example, the sample size may have been too small, or the observations may have come from populations that were not random, such as students at a particular college or members of a particular organization. We briefly describe these studies below.

In 1998, the U.S. Public Interest Research Group[2] (PIRG) published a survey of 1,260 undergraduate students.[3] PIRG student volunteers on campus asked students with credit cards to fill out surveys in student centers. In addition, over the summer a survey was randomly distributed to students working in PIRG offices around the country. Among the findings PIRG reported were:

- Students responsible for their own credit cards who obtained cards at campus tables had more cards (2.6) and higher unpaid balances ($1,039) than those who did not (2.1 and $854).
- Among students responsible for their own credit cards, more of those who obtained cards at campus tables reported carrying unpaid balances (42 percent) than those who did not (35 percent).
- Most students surveyed (69 percent) obtained credit cards in their names, and the others (31 percent) said their parents paid their primary bills or

[1]Two other studies that survey credit card usage did not meet the needs of this report. The Federal Reserve System, with the cooperation of the U.S. Department of the Treasury, sponsors an extensive survey of family finances every 3 years. The latest survey, completed in 1998, provided comprehensive statistics on 4,309 families, including credit card usage and debt, but it did not distinguish college students from other credit card users. See Arthur Kennickell, et. al., "Recent Changes in U.S. Family Finances: Results from the 1998 Survey of Consumer Finances," *Federal Reserve Bulletin*, Vol. 86, Jan. 2000. Also, the American Bankers Association *Bank Card Industry Survey Report: Eighth Edition* (Washington, D.C.,1999) compiles statistics from card issuers but does not address issues of student credit card use.

[2]The U.S. PIRG is the national lobbying office for the state Public Interest Research Groups. PIRGs are statewide, nonpartisan, nonprofit consumer and environmental watchdogs with members in communities and on college campuses around the country.

[3]"The Campus Credit Card Trap," Sept. 1998. See www.pirg.org/student/consumer/credit98.

were cosigners on at least one of their cards. Of those students who obtained cards in their names, only 15 percent reported holding a full-time job when they applied.

In 1999, Robert D. Manning of Georgetown University reported the results of a study of students from four universities in the Washington, D.C. area.[4] The report covered more than 350 interviews and 400 surveys; some of the surveys were from students walking past one campus building, and others were given to students taking an Introduction to Sociology class. The study, which reported results by school, found that 91 to 96 percent of the students had credit cards and that 53 percent had revolving credit card debt.

In the spring of 1998, the Boynton Health Service of the University of Minnesota, Twin Cities Campus, conducted a mail survey of 1,000 undergraduate and graduate University of Minnesota students on a variety of subjects, including credit cards. About 57 percent of the recipients responded to the survey. Most respondents had at least one credit card. Nearly 25 percent of respondents had credit card debt in excess of $1,000. The researchers found that students who used alcohol and tobacco and who worked more than 40 hours a week had more credit card debt than those who did not.

[4] "Credit Cards on Campus: Social Consequences of Student Debt," and "Credit Cards on Campus: Current Trends and Informational Deficiencies." See www.creditcardnation.com.

Appendix IV: Card Issuer Code of Conduct

"Code of Conduct" for On-campus Credit Card Solicitation

The financial institutions listed below are committed to responsible marketing practices on college campuses and to encouraging the responsible use of credit among college students. This Code of Conduct has been developed to ensure that tabling companies and their representatives understand and comply with these standards. A copy of this Code will be distributed by the financial institutions to the tabling companies with whom they work. The tabling companies will sign this code and will ensure their representatives sign the code. A copy will be kept on file. Credit card companies will continue to audit the practices of these vendors and, if a breach of this code is identified, will take appropriate action up to and including dismissal.

* * * * * * * * * * * * * * *

Tabling companies are responsible for ensuring that their representatives comply with these standards.

Tabling companies will provide financial education materials supplied by the issuer to students who inquire about credit cards.

Students will fill out their own applications; representatives of tabling companies will not tell a student what to put on the application, beyond giving general explanations.

Representatives of tabling companies will be respectful of a student's wishes not to fill out an application if the student indicates that he or she is not interested in acquiring a credit card, or if the student walks away from the table. Representatives are strictly prohibited from following students away from the tabling area.

Representatives of tabling companies will maintain a professional appearance and manner.

Representatives of tabling companies will carry identification and a letter of authorization from the tabling company and/or the credit card company. The letter of authorization should be valid for a specified period of time and should include contact information for the tabling company and the credit card company that the individual is representing.

To ensure accountability, all tabling company representatives will have a unique code, which they will put on applications submitted for processing.

Vendor:______________________________
Representative Name:____________________
Representative Address:__________________
Representative Code:____________________
Issuer:_______________________________
Date:________________________________

# # # # # # #

American Express
The Associates
Capital One
Citibank
Discover Financial Services
Household Credit Services
MasterCard International
MBNA America
Visa U.S.A.

Source: MasterCard International.

Appendix V: GAO Letter to Card Issuers

GAO
Accountability • Integrity • Reliability

United States General Accounting Office
Washington, DC 20548

January 18, 2001

Dear :

As you know, at the request of three members of Congress, GAO is in the process of developing one or more reports on college students and credit cards. In October 2000, we wrote to your firm requesting data on college student and other credit card accounts. We continue to negotiate with several card issuers concerning access to this account data. Our work at universities and other research is substantially complete and we plan on reporting this work in May 2001.

Whether or not our negotiations concerning access to account data are successful, we still want to offer you the opportunity to share information with us about how your firm markets credit cards to college students, how it informs students about the risks of borrowing, how it identifies good credit risks, how it manages accounts, and any other information you deem important.

We have enclosed a list of questions based on the issues Congress asked us to study. Representatives of several credit card firms have already discussed responses with us informally, and one provided written documentation. We believe that a summary based on written responses to these questions from credit card firms would be an important contribution to our report. In keeping with our policies, we will not identify individual respondents in our report. Our pledge of confidentiality, and that of our requestors, will apply.

In order to provide a balanced report to the Congress, we feel it is essential to include some general information from credit card issuers in the May report. We are requesting that you provide a written response to the enclosed questions by February 13. Please reply to the address above or fax to (202) 512-3642. You can contact Davi D'Agostino or Katie Harris at (202) 512-8678 with any questions.

Sincerely yours,

Thomas J. McCool
Managing Director, Financial Markets
and Community Investment

Enclosure

GAO STUDY ON COLLEGE STUDENTS AND CREDIT CARD DEBT QUESTIONS FOR CREDIT CARD ISSUERS

1. How do the terms (e.g., interest rates, late fees, initial credit limit, and other fees) for any credit cards you market specifically to students compare to those for non-students? (It may be helpful to provide copies of application forms for your products, if you have not done so previously.) What factors are considered in deciding to raise a students credit limit?

2. What underwriting standards do you apply to college student applications? How important are employment history, salary, credit report, credit needs, and ability to pay? What other issues do you consider? What are your underwriting standards for other customers with characteristics similar to those of college students, e.g., income, credit history? How does the risk adjusted performance of student portfolios compare with non-student portfolios?

3. What means of solicitation do you use to attract college student applicants (direct mail, on-campus marketing, etc.)? Which is most productive for your firm?

4. What disclosure guidelines does your organization follow when soliciting college students? Do they differ from non-students?

5. Describe some typical arrangements your firm has with universities regarding solicitation for or issuance of your credit card to students or alumni? For example: guidelines for on and off campus solicitations, credit limits, formulas for increasing and decreasing credit limits, interest rates charged, late payment fees, payments between the card issuer and the universities.

6. Do you use subcontractors for marketing to college students? If so, what policies or procedures do you set for them regarding campus solicitation, disclosure of card terms, any efforts to ensure students' understanding of terms and their responsibilities? Do you allow subcontractors to use campus groups to solicit?

7. If aggregate transaction data is available for your college student customers, what were the top categories of spending during the most recent 12-month period available?

8. What consumer education efforts aimed at college students do you sponsor or participate in? (If you have not done so previously, it would be helpful to provide sample copies of materials.)

9. What financial literacy issues are particularly important for college students? How do your educational efforts for students differ from those for non-students?

10. What kinds of intervention could be taken to assist college students who have trouble managing debt? Who should take those actions? What actions does your firm take?

1

Appendix VI: GAO Contacts and Staff Acknowledgements

GAO Contacts

Davi M. D'Agostino, (202) 512-8678
M. Katie Harris, (202) 512-8415

Acknowledgements

In addition to those named above, Patrick Dynes, Janet Fong, Elizabeth Olivarez, and Robert Pollard made key contributions to this report.

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