

College Students and Credit Cards

College students will be greatly affected by the recently signed Credit Card Accountability, Responsibility, and Disclosure Act of 2009. New provisions limit marketing of credit cards on college campuses and the ability of all consumers under the age of 21 to get a credit card:

- Card issuers may not offer tangible items on or near college campuses, or at an event sponsored by the college as an inducement to apply for a credit card.
- Applications for credit cards by young adults who are not at least 21 years of age must include the signature of a co-signer or must be accompanied by information demonstrating that the person has an independent means of repaying any debts.
- Limits prescreened offers of credit to young consumers by prohibiting consumer reporting agencies from furnishing reports in connection with firm offers of credit that are not initiated by consumers under age 21.
- Card issuers are now required to disclose the details of agreements made with any institution of higher learning or alumni organization. This information includes terms and conditions of all business, marketing and promotional deals and payments made to the schools.

Credit Cards Provide Important Financial Training for Students

- Understanding financial matters is a critical part of success in life and part of this is learning how to use credit wisely.
- General-purpose credit cards with low limits show students how to use a versatile financial tool successfully. Most banks that issue credit cards are engaged in a wide variety of financial literacy and school education efforts, and many of these programs include training for young people using credit for the first time. More can be done in this area and the industry is actively working to enhance its financial education efforts.
- The U.S. Department of Treasury is also actively engaged in a nationwide, coordinated effort on financial literacy through the National Literacy and Education Commission. That Commission encourages government and private sector efforts to promote financial literacy as well as develop a national strategy on the subject.
- Significant Congressional efforts to promote financial literacy have also been undertaken, the most recent example involving the efforts by the Financial and Economic Literacy Caucus, co-chaired by Representatives Ruben Hinojosa (D-TX) and Judy Biggert (R-IL).
- The American Bankers Association (ABA) is very involved in all aspects of financial education. For instance, the ABA Education Foundation's mission is to create programs and products that increase bankers' financial education efforts. In the past 10 years, nearly 2 million young people have received financial education through our banker-led

programs, National Teach Children to Save Day and National Get Smart About Credit Day.

College Students Generally Manage Credit Cards Well

- The Government Accountability Office and three private sector educational and financial entities studied the use of credit cards by college students from 1998-2001. Taken together, the studies found that about 77% of students use credit cards for routine personal expenses, such as food, clothing and entertainment. A majority are convenience users, paying their bills in full every month.
- Credit cards provide a flexible and convenient way to buy books and other student essentials, purchase airline tickets, rent cars and pay for medical and other emergencies. For example, the studies found that about 67% of students used credit cards for occasional and emergency expenses, 57% used them to buy books and school supplies, 12% used them for tuition and fees and 7% used them to pay room and board.
- The studies found that student accounts generally have lower balances, lower credit limits and use them less than the general population.
- For example, more than half of students have limits of \$2,000 or less (about 59%). The rest have higher limits, but it is important to remember that these statistics include “non-traditional” students (approximately 29% of all students) who attend part-time, are older, frequently married and/or financially independent and, thus, more likely to have higher limits.
- About 64% of college students have a credit card. Of those, about 59% pay their bills in full every month – this is higher than the general adult population.
- Among the 41% that do not pay their balances in full every month, the average balance is \$577 and between 71-77% had a balance of less than \$1,000. This is lower than the general population and is reflective of the lower credit limits and lower usage rates of college students.