LEARNING THE HARD WAY: COLLEGE STUDENTS AMASS MORE CREDIT CARD DEBT

FAYETTEVILLE, Ark. – While the number of credit card offers students receive may not have increased, a weak economy may be encouraging more young people to respond to the offers, according to University of Arkansas researcher Norma A. Mendoza.

“We are also seeing credit card marketers targeting younger and younger populations,” said Mendoza, assistant professor of marketing and logistics in the Sam M. Walton College of Business. “Students 16, 15 or younger are now able to obtain credit cards, for which their parents may be ultimately responsible.”

Accumulation of credit card debt by college students has become an issue nationwide. Credit cards are easy to get, and students are acquiring and using credit cards at a greater rate than ever before. An Internet search revealed dozens of sites specifically targeting college students and offering unsecured credit cards. Sponsors ranged from AT&T and Chase to MasterCard, Visa and Discover, but all encouraged college students to “start building your credit today.”

The problem is not limited to college students, however. Mendoza explained that credit card companies are increasingly targeting high school students. Some researchers have found that patterns of compulsive buying begin in adolescence.

“It is becoming more apparent that we must start teaching children about credit and personal finances at an earlier age. By the time they get to the college level, they already have attitudes
and habits that are difficult to change,” Mendoza said. “We know that college students are being targeted by credit card companies. If students are responding differently from other populations, then we may need to be giving them different information about the problems associated with credit card debt or approaching the subject in different ways.”

A 2001 study by Nellie Mae, the leading provider of federal loans for college students, found that 83 percent of undergraduates have at least one card and their average balance was $2,327. Students having balances above $3,000 rose to 21 percent, an increase of 61 percent since 2000. And college students will double their credit card debt and triple the number of cards they have between the time they arrive on campus and graduation.

“With all of the discussion about credit cards and debt, it would seem that students would be more aware of the situation,” Mendoza added. “But year after year the issues don’t seem to change. They seem to be living in a suspended reality, a state of denial.”

Mendoza recalls a day in class when a guest speaker was talking to students about credit issues. One student confessed to having 20 credit cards, all with maximum balances. Other students in the class joined the discussion, expressing relief that they only had 5 or 6 cards maxed out.

“It is interesting to see the students’ reactions when they actually read the fine print and understand the terms that they agreed to for the first time,” said Mendoza. “Not only do they not realize how the credit card system works, they don’t understand how it can impact their prospects for employment when they graduate.”

She points out that background checks, including credit checks are increasingly common in employment situations, particularly for positions in banking, information technology or other positions where there might be a temptation or opportunity to steal money. “Bad credit or excessive credit card debt is considered a character flaw,” she explained.

Mendoza studies the debt and savings behavior patterns of college students. She has conducted numerous studies on credit card debt topics, including the impact of education about credit on college student’s use of credit cards and the relationship between personality and credit card use. In a recent study conducted with graduate student Hélène Cherrier, Mendoza found that college students that plan ahead accumulate more credit card debt than more spontaneous, live-for-the-moment students.
“Most people believe that credit card debt is caused by impulse spending or a lack of self control,” Mendoza explained. “But our research shows that students with a strong future orientation actually depend more on credit cards than students with an orientation to the present.”

The undergraduate students sampled in Mendoza's study were given a questionnaire to acquire demographic and financial information and determine their temporal orientation, the degree to which they focus on the present versus the future. Contrary to the argument that a present orientation leads to credit card overuse, Mendoza found that those students with a stronger future orientation tended to use more credit cards and to have higher number of credit cards with revolving balances.

Mendoza also expected to find that students who relied more on credit to finance their current spending would have a high debt-to-income ratio. This was not the case. Mendoza explained that credit card companies are luring young consumers by requiring them to pay only the minimum payment, usually 2 percent of the balance. So even though students are carrying a large debt burden, they don't perceive it as problematic because it is not a significant portion of their income.

“Unfortunately, this approach leads students to carry debt for longer time periods and to pay more in interest rates,” said Mendoza. “Students may borrow money to be able to achieve consumption levels they would otherwise be unable to achieve with their current income.”

The problem is that even those college students who understand the nature of debt have unrealistic expectations about their ability to repay. Their decisions to spend now may be driven by a future financial outlook that includes “drastically improved earnings.”

It is also possible that students with a future orientation don’t look far enough into the future to take advantage of it, Mendoza points out. And students may not have enough information to gauge the impact of debt and the problems it can cause in the workplace and family.

An employee with credit problems may be unable to use a credit card to travel on business and be forced to explain the situation to an employer. Or an unsuspecting fiancée may find herself married to, and responsible for, a huge credit card debt.