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Hearing on Problem Credit Card Practices Affecting Students

**Before the Subcommittee
On Financial Institutions and Consumer Credit
Of the Financial Services Committee,
U.S. House of Representatives
Honorable Carolyn Maloney, Chair**

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Chairwoman Maloney, Ranking Member Biggert, and members of the committee:

I am Erica L. Williams, Policy and Advocacy Manager of Campus Progress Action. Campus Progress Action is part of the Center for American Progress Action Fund. Along with our sister organization, Campus Progress, which is part of the Center for American Progress, we work to help young people make their voices heard on issues that matter. Through grassroots issue campaigns, public events, an online magazine, a blog, and student publications, we act to empower new progressive leaders nationwide as they develop fresh ideas, communicate in new ways, and build a strong progressive movement.

First, let me thank you for the opportunity to testify on behalf of the young people on over 500 campuses and communities with whom we work.

The issue of credit card debt is one that impacts many Americans, and much already has been presented to the committee about the important role that Congress should and must play in mandating fair credit card practices.

My testimony this afternoon will not only reinforce that point, but will also seek to convince you of two things: First, that young people, especially students, are uniquely impacted by credit card debt and the abusive practices of credit card companies. Second, that this negative impact can only be made better through an approach with legislative action at its center.

Two years ago, Campus Progress began engaging students around the country in a discussion about debt in higher education through our "Debt Hits Hard" campaign. The campaign focused primarily on rising college costs and student loans.

But as we began that work, something else became increasingly evident. We realized that credit card debt and the process through which it is incurred is an equally important part of understanding the financial lives and burdens of young people.

If there is one common experience that college students share, it is the experience of living in debt. Compared to previous generations, today's young adults have not only been forced to borrow for their education but also for their expenses while in college.

According to Nellie Mae, the average undergraduate has $2,200 in credit card debt. That figure jumps to $5,800 for graduate students. Since so many student credit cards have high annual percentage rates, often at higher rates than the rest of the population given their thinner credit files, the longer these students wait to pay the cards off, the more money they'll pay in the form of interest.[1]

As organizations like Center for American Progress, U.S. PIRG, and Demos began producing the evidence of this growing and unique student problem through reports, statistics, and solid research, Campus Progress Action continued to do what we do best: talk withstudents and give

[1] Nellie Mae, "Undergraduate Students and Credit Cards in 2004: An Analysis of Usage Rates and Trends," 2005, available at http://www.nelliemae.com/pdf/ccstudy_2005.pdf.

them the tools to make their voices heard about the issues that affect them the most. And they spoke out about predatory credit card practices and the overwhelming weight of that debt loudly and clearly.

Through a series of public forums around the country, from Broward Community College in Fort Lauderdale, Florida to Purdue University in Indiana, we brought together students and experts to discuss the growing problem of credit card debt on college campuses. At each event we heard the same: Banks and lenders are profiting off of young people's financial inexperience, partnerships and relationships with universities, and strategic and deliberate targeting.

As a young professional myself, not yet 5 years out of college, I can trace my relationship with credit card debt back to my freshman year. I had been warned by my mother about credit cards and tried to stayed away from them at all cost. Mail solicitations jammed my tiny dorm mailbox and fliers on bulletin boards greeted me every day as I walked out of the building. Because of my lack of faith in the integrity of the credit card industry and a feeling of vulnerability, I had a fear of credit cards that fortunately kept me away from accumulating an exorbitant amount of debt. But there were indeed nights when, after my meal plan was overextended, the burden of student debt was so great and the money from my work-study job so low, that I desperately wanted and needed to use a credit card for meals and social activities.

For every story like mine, there are thousands of stories like that of Kali Dun, a student from the University of Virginia. Now a young professional with over $7,000 in credit card debt, she shared with Campus Progress her experience with credit cards in college. When asked about the presence of companies on campus she said, "They were everywhere…like vultures. Outside of my dorm, at football games, and in the quad. I took their teddy bears, free pizza, tote bags, and complicated, convoluted sign up forms." By her junior year, Kali had opened three credit cards, all on campus, and had incurred nearly $3,000 in debt. Along with the giveaways and incentives, she took also too high fees, heavy interest rate burdens, and complex terms, three credit card practices that have been proven to heighten the risk of default. And default she did. As a senior, Kali graduated with over $5,000 in credit card debt.

Kali's story is but one of many that we continue to hear from students. It illustrates the key challenges that college students face with regard to credit cards:

1. Aggressive marketing and targeting by credit card companies.

With regard to marketing, companies use a variety of aggressive techniques, from buying lists from schools and entering into exclusive marketing arrangements with schools to marketing directly to students through the mail, over the phone, on bulletin boards and through aggressive on-campus and near-campus tabling—facilitated by so-called "free gifts."[2]

2. High fees, heavy interest rates, and complex terms.

The credit card debt that students incur from these credit experiences tends to carry substantially

[2] Tamara Draut and Javier Silva, "Generation Broke: The Growth of Debt Among Young Americans," Demos, 2004, p. 7.

higher costs than other forms of credit due to myriad fees in addition to high interest rates. The result is that many students unwittingly slide deeper and deeper into debt as they fall prey to the lack of transparency in credit cards.

But credit card companies are notorious for aggressive marketing and fine print. Why is this situation particularly damaging for students?

Here is a snapshot of college-age young people at 18-24 years of age:

- According to a 2004 study by Nellie Mae, 76 percent of undergrads have credit cards, and the average undergraduate has $2,200 in credit card debt. Additionally, they will amass, on average, almost $20,000 in student debt.[3]
- Another study found that 18- to 24-year-olds in 1989 devoted 13 percent of their income to debt payments. Today's 18- to 24-year-olds devote 22 percent of their income to servicing their debt.
- One-fourth of the students surveyed in US PIRG's 2008 Campus Credit Card Trap report said that they have paid a late fee, and 15 percent have paid an "over the limit" fee. Credit card companies will often impose a "penalty rate" of 30 percent or more after just one or two late payments, and this interest rate will often last for six months or more. Sometimes, customers are charged a penalty rate because they were late on a different loan (this is called "risk-based re-pricing" or "universal default"), and some banks manipulate the due dates from one month to another to rack up late fees.[4]

Major borrowing from credit card companies is like visiting a Las Vegas casino—it's a gamble and the odds are against you. But as college students, the analogy goes a step further. Imagine that you entered the casino every time you walked out of class, or out of the cafeteria. Or if fliers for the casino were taped on the walls of every bathroom, and blackjack dealers were calling your dorm room with promises of free casino chips—all during the most important time in your financial life. The casino wants college students, and needing the money, they don't realize that this gamble is one that has implications for the next 5, 10, or 20 years.

To be clear, this accumulated credit card debt is not always the result of irresponsible spending and late night pizza runs—it is also the result of academic fees and textbooks. U.S. PIRG's research[5] has shown that some students use their credit cards to pay for their core tuition. Credit cards are increasingly being used for academic fees and textbooks. In exchange for using this form of payment for academic needs, students are rewarded with high interest rates, high debt-to-credit ratios, low credit scores, and blemishes in the infancy of their credit history that will haunt them for years. Young people who become delinquent on credit cards due to the lack of transparency can damage their credit score and run the risk of paying a higher rate on their car loans, home loans, and other loans in the future.

Not only are college students and other young people in perhaps the most vital and vulnerable point of their financial lives, their future economic health often depends on decisions made

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[3] Nellie Mae, "Undergraduate Students and Credit Cards in 2004: An Analysis of Usage Rates and Trends.".
[4] U.S. PIRG, "Campus Credit Card Trap," available at http://www.truthaboutcredit.org/campus-credit-card-trap.
[5] Ibid.

during this period. Students saddled with credit card debt upon graduation can pay up to 25 cents of every dollar they earn servicing their debt: their credit cards, student loans, and other loans.[6] To add to this, today's young adults are joining the job market during a time when incomes have been stagnant and when costs for health care and retirement benefits are increasingly being shifted from employers to employees. Recent graduates also find that the job market is changing rapidly, so much so that the career paths that their education prepared them for may soon disappear. This generation—which is the future middle class of workers—can ill afford to be financially compromised. These and other factors paint the following harrowing picture of life after college:

- A 2006 poll of 3 million twentysomethings from *USA Today* and Experian, the credit-reporting agency, found that nearly half of twentysomethings have stopped paying a debt, forcing lenders to "charge off" the debt and sell it to a collection agency, or had cars repossessed or sought bankruptcy protection.[7]
- A poll of twentysomethings by *USA TODAY* and the National Endowment for Financial Education found that 60 percent feel they're facing tougher financial pressures than young people did in previous generations. And 30 percent say they worry frequently about their debt.[8]
- The Boomerang Effect, young adults returning to live with their parents, is quickly growing. The 2000 Census found that more than 25 percent of 18- to 34-year-olds had moved back in with family at the time the Census was taken. In 2006, Experience Inc., which provides career services to link college grads with jobs, found that 58 percent of the twentysomethings it surveyed had moved back home after college. Of those, 32 percent stayed for more than a year, according to its survey of 320.[9]
- Debt has forced some young people to change their career plans. Of those surveyed in the 2006 *USA Today*/NEFE poll, 22 percent say they've taken a job they otherwise wouldn't have because they needed more money to pay off student-loan debt. Twenty-nine percent say they've put off or chosen not to pursue more education because they have so much debt already. And 26 percent have put off buying a home for the same reason.[10]
- Average credit card debt among indebted young adults increased by 55 percent between 1992 and 2001, to $4,088.[11]
- The average credit card indebted young adult household now spends nearly 24 percent of its income on debt payments, four percentage points more, on average, than young adults did in 1992.[12]
- Among young adult households with incomes below $50,000 (two-thirds of young households), nearly one in five with credit card debt is in debt hardship—spending over 40 percent of their income servicing debt, including mortgages and student loans.[13]

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[6] Tamara Draut, *Strapped: Why America's 20- and 30-Somethings Can't Get Ahead* (New York: Doubleday, 2006).
[7] Mindy Fetterman and Barbara Hansen, "Young people struggle to deal with kiss of debt," Mindy, *USA TODAY*, November 19, 2006, available at http://www.usatoday.com/money/perfi/credit/2006-11-19-young-and-in-debt-cover_x.htm
[8] Ibid.
[9] Ibid.
[10] Ibid.
[11] Draut and Silva, "Generation Broke: The Growth of Debt Among Young Americans."
[12] Ibid.
[13] Draut and Silva, "Generation Broke: The Growth of Debt Among Young Americans."

- Young Americans now have the second highest rate of bankruptcy, just after those aged 35 to 44. The rate among 25 to 34-year-olds increased between 1991 and 2001, indicating that this generation is more likely to file bankruptcy as young adults than were young Boomers at the same age.[14]

As a result of over-the-top credit card marketing on campuses, terrible credit card terms and conditions, and an economy that no longer provides as many well-paying jobs with good benefits as it once did, young adults, post-college, are facing overwhelming odds to achieve financial health, in large part as a result of the credit card debt from their undergraduate years. We are, as Anya Kamenetz's book of the same name labeled us, Generation Debt. Significant, unmanageable credit debt and a cycle of post-graduation payments, default, and potential bankruptcy, impacts our families (due to limited options for living arrangements and delayed marriage rages) and our communities (due to job decisions made strictly with debt payments in mind).

So we now know the scope of the problem. College students are in trouble, and credit card companies are partly to blame. But what about the solution?

First, students will continue their campaigns on the state and campus level to not allow credit card marketing on campus, to keep colleges and universities from sharing students and alumni lists to credit card marketers, and to improve financial literacy among young adults.

But Congress also has its role to play. We submit two policy ideas. First, we urge Congress to take the extra step and, with young people in mind, **mandate a higher level of fairness in credit card terms and conditions by banning several of the most abusive credit card practices**. Currently, young people who want to use credit cards responsibly have a difficult time determining their terms and conditions, and have difficulty cost-shopping among different credit cards. And further, those who endeavor to read their voluminous cardholder agreements often find a clause to the effect of: "We reserve the right to change the terms at any time for any reason." Congress should mandate that card issuers give cardholders at least 45 days notice of any interest rate increases and the right to cancel their card and pay off the existing balance before the increase takes place.

Second, the Federal Reserve's proposed changes to Regulation Z would go a long way to improve the effectiveness of the marketing disclosures, account opening statements, and billing statements that young adults receive. This would ensure that information is provided in a timely manner and in a form that is readily understandable. Congress could go a step further by enacting more creative ways of disclosing the most important information. This can be done by requiring disclosure of the length of time it will take to pay off an account if only the minimum payment is made. In this way, students could better gauge the long-term costs of putting debt on their credit cards.

[14] Ibid.

Legislative action to protect against abuses by credit card companies is a fundamental issue of fairness and protection of America's future – young Americans – when they are arguably in the most vulnerable and important phase of their financial lives.

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