

CREDIT RISK *or* CREDIT WORTHY?

College Students
and Credit Cards

A NATIONAL SURVEY

June 1998

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INTRODUCTION

Credit cards have become common in the daily lives of most Americans. Accessing credit cards is relatively easy, with regular mailings, television commercials, phone solicitations, and other marketing devices frequently employed by credit card issuers. In addition, as more and more vendors have begun to accept payment by credit card, consumers have come to use them for an increasingly broad range of purchases.

At the same time that credit card use has increased, college prices have climbed rapidly and student loan volumes have skyrocketed. This combination has fueled concern that college students are accumulating high levels of debt by the time they graduate. One important component of this debt is the purchases and cash advances charged to credit cards. Students may be using credit cards solely for convenience and paying off the balance each month. They also may be charging purchases in order to maintain a certain standard of living, thereby adding to their cumulative debt if they carry an ongoing credit card balance. In addition, students may be using credit cards to finance their education rather than relying on lower-cost alternatives such as student loans and other financial aid.

Unfortunately, current knowledge of national trends in students' reliance on credit cards is fairly limited. Several studies have attempted to describe the use of credit cards by college students, for the most part concluding that the majority of students now have credit cards, and many carry substantial monthly balances. Their findings on the extent of student credit card use have stimulated new questions about the "how and why" of such use. For what reasons are students using credit cards? Are students charging because of convenience, because they can earn bonuses such as frequent flyer miles, or because they are waiting for their student loans to be disbursed? What proportion of their usage is for education-related expenses as opposed to routine living expenses? Are students paying off their balances or carrying them over?

To address such issues, The Institute for Higher Education Policy and The Education Resources Institute (TERI) commissioned a computer-assisted telephone survey of college students in March and April 1998. Students were drawn from a nationally representative listing of two million college students, including graduate students, using a stratified random sampling method. A total of 750 surveys were completed, yielding a margin of error of approximately plus or minus 3.5% at the 95% confidence level. The results of the survey as presented in this report are divided into two groups: major findings, and other important findings. In addition, the report highlights issues raised by the survey that require further examination.

Reflecting special interest with their patterns of credit card use, the survey sample has high concentrations of traditional undergraduate students. Thus, 78% of all survey respondents are younger than 24 years of age, 67% are financially dependent on their parents, and 86% are full-time students. Further, 59% of survey respondents attend four-year institutions, 30% are enrolled in two-year institutions or trade schools, and 11% attend graduate or professional schools. In addition, 74% attend public institutions and 57% are in their first or second year of postsecondary education. Like the college student population as a whole, the majority of survey respondents have received financial aid and are working in paid jobs while in school.

Additional information regarding the survey methodology and the demographic profile of survey respondents can be found in Appendices A and B. In addition, selected tables with comprehensive data from the survey are contained in Appendix C.

MAJOR FINDINGS

The credit card survey produced various results that address how and why postsecondary students use credit cards. Areas of interest include ownership of credit cards, the frequency of their use, the basic purposes of credit cards, as well as the extent to which education-related expenses are charged. The following are major findings from the survey.

- Credit card use is a reality for today's college students.

Nearly two-thirds of college students have at least one credit card and one in five of those students have four or more credit cards with their name on it. Not only is credit card ownership common, but their use is also frequent. For example, 77% of students with credit cards report having charged routine personal expenses such as food, clothes, toiletries, and entertainment. In addition, 29% of those students say they used their credit cards often for such purposes, while 46% used them sometimes, and 25% used them rarely.

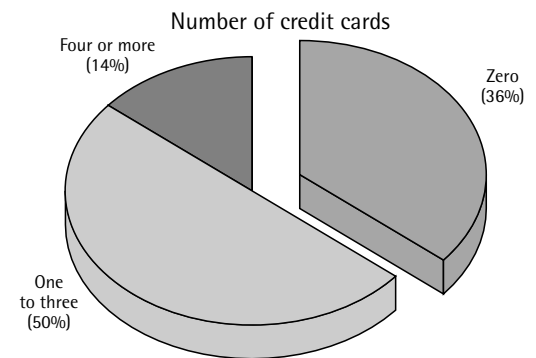
Students are getting into the habit of charging early in their lives. Fifty-five percent obtained their first credit card during their first year of college. A significant proportion obtained them even earlier—one-fourth of students received their first credit card while still in high school. A majority of students, 63%, received their credit cards by applying on their own, while 17% were given them by their parents, and 14% were sent credit cards in the mail (6% cited other methods).

- Most students have reasonable attitudes about how credit cards should be used.

One question frequently raised about college students is whether they understand the utility and basic purpose of having readily available credit. A common perception is that college students view credit cards as a means to purchase items they normally wouldn't buy or couldn't afford. However, the results of this survey indicate that college students have reasonable attitudes about how credit cards should be used.

Students with credit cards were asked to rate the importance of specific reasons for using them on a scale of 0 to 10. Responses were grouped according to high importance (8 to 10), medium importance

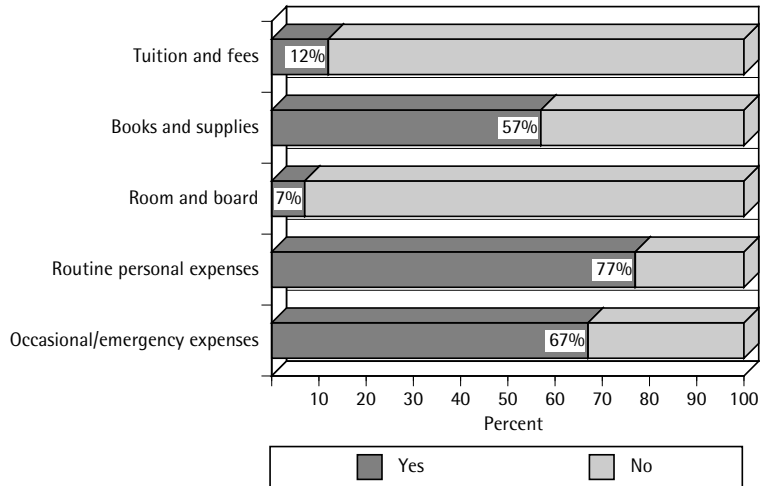
Student Credit Card Ownership
Of all survey respondents



SOURCE: The Institute for Higher Education Policy, Credit Card Survey, March/April 1998.

Credit Card Purchases in the Current Year

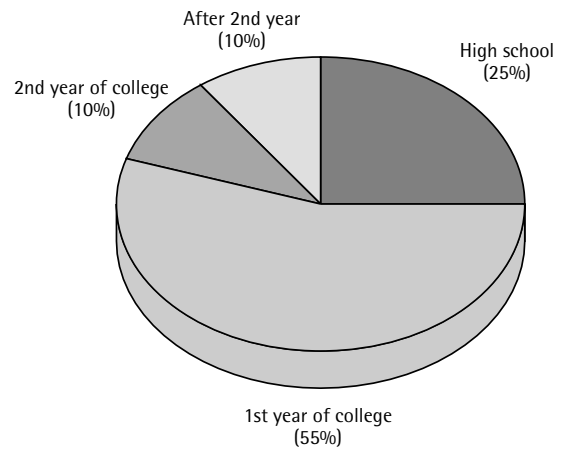
Of survey respondents with credit cards



SOURCE: The Institute for Higher Education Policy, Credit Card Survey, March/April 1998.

When Students Obtained Their First Credit Card

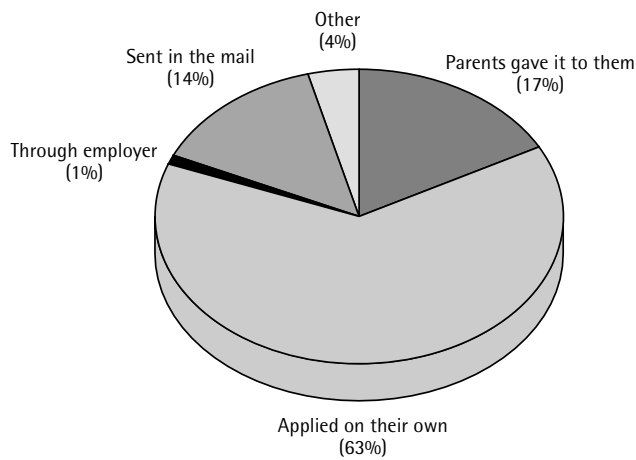
Of survey respondents with credit cards



SOURCE: The Institute for Higher Education Policy, Credit Card Survey, March/April 1998.

How Students Obtained Their First Credit Card

Of survey respondents with credit cards



NOTE: Totals may not add to 100% due to rounding.
 SOURCE: The Institute for Higher Education Policy, Credit Card Survey, March/April 1998.

(4 to 7), and low importance (0 to 3). Using a credit card to build a credit history received the strongest reaction, with 52% of students giving it high importance. The reason with the next highest percentage was using credit cards for emergency purposes only, with 45% of students.

In addition, most survey respondents believe that credit cards are not the ideal method of paying for education-related expenses. When asked how they would prefer to pay for tuition, fees, books, and supplies, 51% say that they would prefer to use their savings, while 18% would prefer to use their student loans, and 15% would prefer to use credit cards (the remainder would prefer job income and other sources).

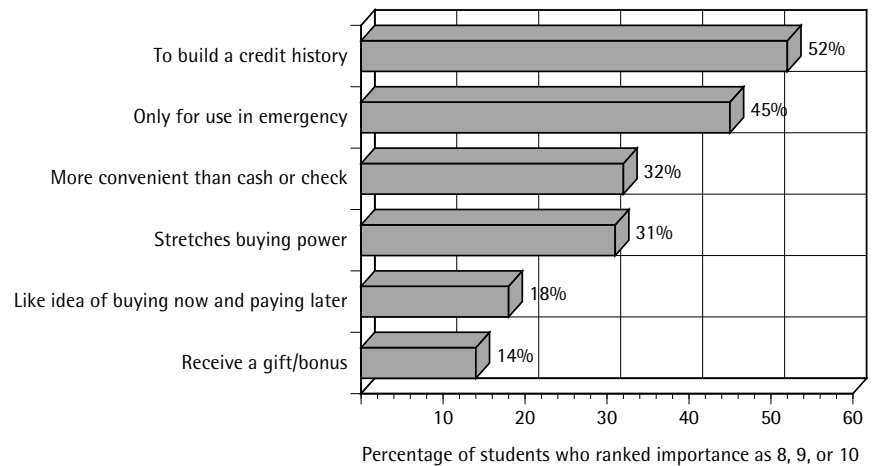
- The majority of students use credit cards responsibly and do not accumulate large amounts of credit card debt.

During discussions of credit card use in higher education, anecdotes about students' irresponsible behavior are common. Some of these stories portray college students as amassing large amounts of debt without regard to their ability to repay it. For example, a 1997 article in *U.S. News and World Report* cites a freshman at the University of Texas-Austin who went from having no credit cards to a balance of \$2,800 in one year (Shenk, 1997). Yet, the results of this survey indicate that a vast majority of students are managing their debt well.

The majority of students, 59%, typically pay off their monthly balances right away. Of the 41% who carry over their balances each month, 81% pay more than the minimum amount due. In addition, the overwhelming majority of students pay their own credit card bills; the 14% of students who do not pay their own bills receive assistance mostly from parents or spouses.

The average monthly balances reported by students also appear to be manageable. Eighty-two percent of students with credit cards who know their balance report average balances of \$1,000 or less,¹ and 9% have average balances between \$1,001 and \$2,000. In addition, slightly more than half of student credit card users report combined limits of \$3,000 or less. All of these factors indicate that the majority of students use credit cards responsibly.

Importance of Reasons Students Use Credit Cards
Of survey respondents with credit cards



SOURCE: The Institute for Higher Education Policy, Credit Card Survey, March/April 1998.

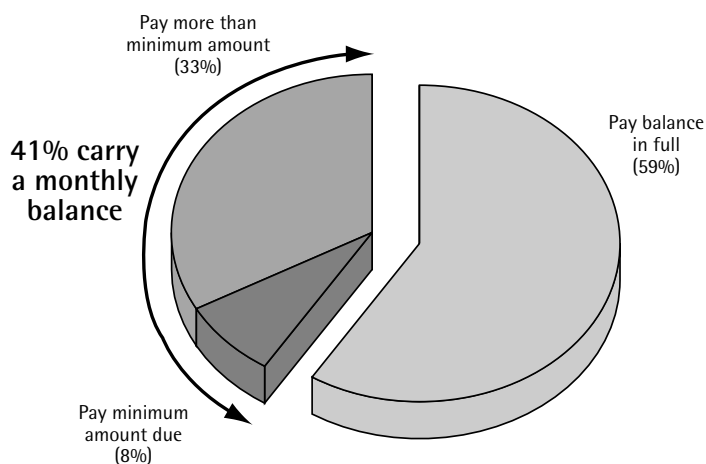
- A significant proportion of students with credit cards use them to pay for education-related expenses.

Students' potential reliance on credit cards to pay for education-related expenses, such as tuition and fees or books and supplies, is a source of concern. Some students use credit cards for these transactions because of convenience, but for those who do not, charging education-related expenses and carrying over the balance may result in the payment of high interest rates, increasing the cost of attending college.

One in every five survey respondents with credit cards indicate they have used credit cards to pay for tuition and fees at some time.² Of those students who have charged tuition and fees, 57% paid the balance off right away, while 43% carried over the balance of this transaction. An even greater percentage of students, 57%, have charged their books and supplies in the current year. As a result, all education-related expenses comprise a substantial proportion of students' credit card bills. Student credit card users report that, on average, 22% of their balance is for education-related purchases. In comparison, 44% is for routine living expenses and 24% is for large, occasional purchases.³ The results of this survey show that paying for education-related expenses by credit card is common, but it appears that by paying off their balances right away, students are not accumulating high-interest debt.

Payment of Monthly Credit Card Balances

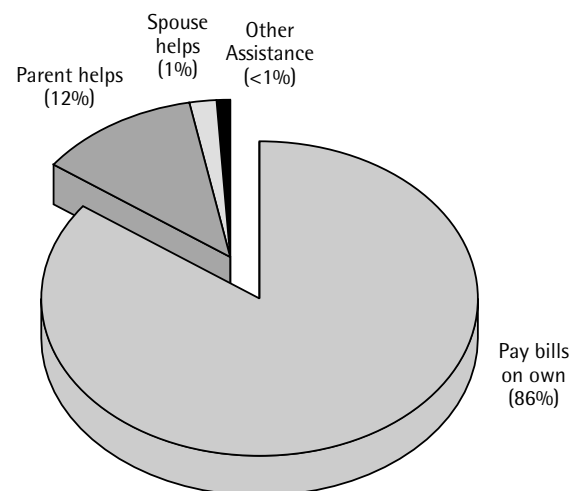
Of survey respondents with credit cards



SOURCE: The Institute for Higher Education Policy, Credit Card Survey, March/April 1998.

Payment of Credit Card Bills

Of survey respondents with credit cards



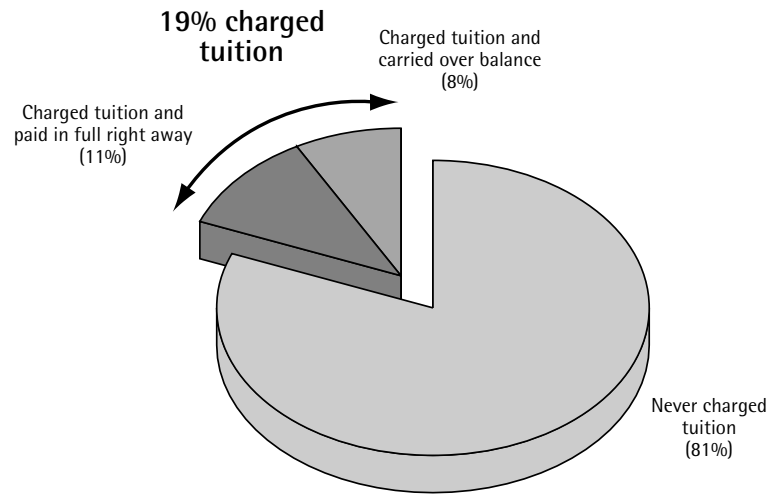
SOURCE: The Institute for Higher Education Policy, Credit Card Survey, March/April 1998.

■ Some students' credit card behavior could lead to high debt levels and misuse.

Although most students are using their credit cards responsibly, some appear to be having more difficulties. When students have certain characteristics of credit card use—having average credit card balances greater than \$1,000, owning four or more credit cards, carrying over a balance each month, or charging tuition and fees—the potential for the accumulation of high interest payments on large amounts of credit card debt increases. While no one of these factors may singularly warrant cause for alarm, the combination of these traits should raise warning signals, particularly among college students whose resources for repayment are often limited.

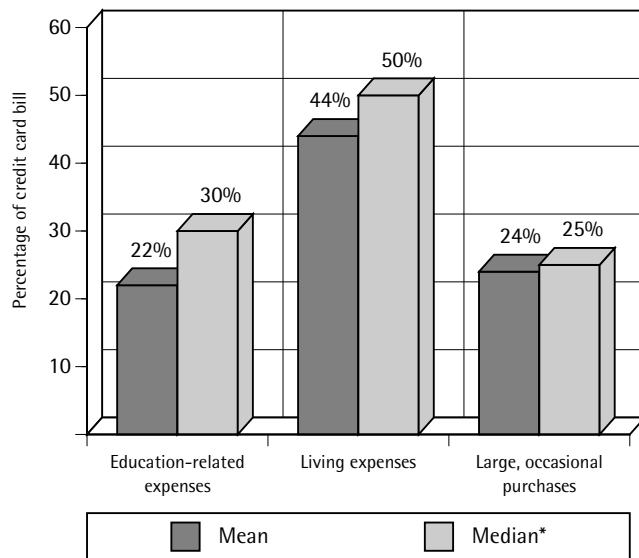
For example, of the almost one in five students who report average balances greater than \$1,000, 49% have four or more credit cards and only 18% pay off their outstanding balances each month. In addition, 48% of these students have other debt and nearly one-third have charged tuition and fees. Similarly,

Credit Card Payment of Tuition and Fees
Of survey respondents with credit cards*



* Does not include students who reported that their institutions do not allow credit card payment of tuition and fees
SOURCE: The Institute for Higher Education Policy, Credit Card Survey, March/April 1998.

Distribution of Credit Card Use
Of survey respondents with credit cards



* Medians do not include zero responses.
SOURCE: The Institute for Higher Education Policy, Credit Card Survey, March/April 1998.

Overlapping Characteristics of Potentially Problematic Credit Card Use

	Have four or more credit cards	Carry over a balance	Average monthly balance over \$1,000 (of those who know)	Ever charged tuition or fees*	Have other debt
Have four or more credit cards	n/a	60%	39%	20%	35%
Have one to three credit cards	n/a	36%	12%	19%	17%
Carry over a balance	32%	n/a	35%	21%	34%
Pay balance in full	15%	n/a	5%	18%	12%
Average monthly balance over \$1,000	49%	82%	n/a	31%	48%
Average monthly balance \$1,000 or less	17%	33%	n/a	15%	16%
Ever charged tuition or fees *	24%	46%	30%	n/a	33%
Never charged tuition *	22%	41%	15%	n/a	21%

Give high importance to reasons for credit card use:

	To build a credit history	Only for use in emergency	More convenient than cash or check	Stretches buying power	Like idea of buying now and paying later	Receive a gift/bonus
Have four or more credit cards	48%	33%	39%	46%	24%	21%
Have one to three credit cards	53%	48%	29%	26%	16%	11%
Carry over a balance	53%	47%	29%	39%	25%	14%
Pay balance in full	51%	43%	33%	24%	13%	13%
Average monthly balance over \$1,000	54%	47%	30%	41%	23%	24%
Average monthly balance \$1,000 or less	52%	44%	34%	29%	17%	12%
Ever charged tuition or fees *	54%	46%	39%	35%	19%	15%
Never charged tuition *	53%	44%	28%	30%	18%	12%

* Does not include students who say their institutions do not allow credit card payment of tuition and fees

"SOURCE: The Institute for Higher Education Policy, Credit Card Survey, March/April 1998."

39% of students who have four or more credit cards report average monthly balances greater than \$1,000, compared to 12% of those students with fewer credit cards. Students who have charged tuition and fees also are more likely to have higher balances than those who have never charged tuition and fees: 30% versus 15% have average monthly balances exceeding \$1,000.

Students with these characteristics also appear to hold different attitudes toward credit card use. For example, 39% of students with four or more credit cards give high importance to using credit cards because they are more convenient and 46% rank stretching their buying power as important, compared to 29% and 26%, respectively, of students with one to three credit cards. In addition, 39% of students who have ever charged tuition and fees feel that using credit cards for convenience is an important reason, compared to 28% of those who haven't charged tuition.

- **Credit card use among non-traditional undergraduate students varies from that of the student population as a whole.**

Non-traditional undergraduates tend to be older, financially independent, and part-time students, and often are married and have children.⁴ It is not surprising that credit cards are a part of non-traditional students' lives, since they typically have more experience with credit and consumer debt than do other undergraduates due to their differing financial circumstances.

According to the results of this survey, non-traditional students—who comprise 29% of all undergraduates in the survey—are more likely than traditional undergraduates to have more than one of the characteristics of credit card use that can lead to financial difficulties. For example, non-traditional students tend to have more credit cards and larger credit limits. Twenty-one percent of non-traditional students say they have four or more credit cards, compared to just 9% of traditional students. Almost twice as many non-traditional students report credit limits exceeding \$3,000, 58% versus 31% of traditional students. Non-traditional students also are more likely to have higher average balances and are less likely to pay off their balances each month. Thirty-three percent of non-traditional students report average monthly balances greater than \$1,000, compared to 11% of traditional students. In addition, 60% of non-traditional students carry over their balances, versus 34% of traditional students.

How these students use their credit cards in the context of pursuing an education is of particular interest. Non-traditional students are more likely than their counterparts to have ever charged tuition and fees, 25% versus 14% of traditional students. One potentially troubling aspect is that it appears that more than half of these non-traditional students carry over the balance of their tuition and fees, adding the interest paid on the balance to the cost of attending college. This compares to 40% of traditional students who carry over the balance of tuition and fees. In addition, non-traditional students frequently must manage other debt than traditional students—41% of non-traditional students report having other debt, compared to just 10% of traditional students. Together, all of these factors suggest that non-traditional students' use of credit cards both before and during college should be explored further, especially the issue of whether postsecondary education has placed a burden on their resources, causing them to use their credit cards differently.

Non-traditional Undergraduate Students

	Have at least one credit card	Have four or more credit cards	Total credit limit over \$3,000 (of those who know)	Carry over a balance	Average monthly balance over \$1,000 (of those who know)	Ever charged tuition or fees **	Have other debt
Non-traditional	63%	21%	58%	60%	33%	25%	41%
Traditional	61%	9%	31%	34%	11%	14%	10%
Part-time *	65%	20%	59%	64%	33%	38%	52%
Full-time *	64%	13%	42%	37%	14%	15%	14%
Independent	59%	22%	64%	60%	38%	26%	46%
Dependent	62%	10%	31%	36%	11%	15%	11%

* Includes graduate students

** Does not include students who say their institutions do not allow credit card payment of tuition.

SOURCE: The Institute for Higher Education Policy, Credit Card Survey, March/April 1998.

OTHER IMPORTANT FINDINGS

Several other important patterns of credit card use that merit attention arose from the survey. Although they do not reflect the experience of the college student population as a whole, these patterns highlight significant aspects of students' credit card use. They include the combination of credit cards and student loans, the use of credit cards by graduate and professional students, and institutional policies regarding credit cards.

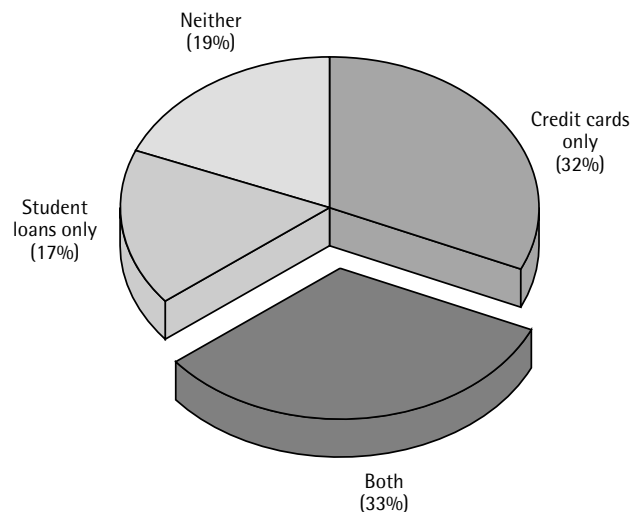
Student loans and credit cards

One specific issue regarding student credit card use is how it is combined with student loans. Loan recipients will graduate with debt, and their burdens may be compounded if credit card debt is accumulated during college. At the same time, there is a trade-off between the convenience of using credit cards to finance postsecondary education and the lower interest rates charged for student loans.

Approximately half of all survey respondents report having student loans; full-time students, traditional undergraduates, graduate students, and students at private institutions are relatively likely to have loans. Of students with loans, 50% also have one to three credit cards and 15% have four or more credit cards. These figures closely mirror the patterns of non-recipients. In addition, similar percentages of loan recipients and non-recipients who have credit cards report average monthly balances over \$1,000. However, loan recipients are more likely to carry over a balance—51% compared to 31% of non-recipients.

Perhaps due to the availability of funds from their student loans, only 14% of credit card users who are loan recipients have ever charged tuition and fees, compared to 24% of those who are non-recipients. In the current year, 8% of loan recipients with credit cards have charged their tuition and fees and 58% have charged books and supplies, versus 16% and 55% of non-recipients. Not surprisingly, more loan recipients prefer to use money from their loans for education-related expenses, 34%, whereas 13% prefer to use credit cards (more students still prefer cash from savings, 43%, while the remainder prefer job income, 9%, and other sources, 1%).

Overlap Between Credit Cards and Student Loans
Of all survey respondents



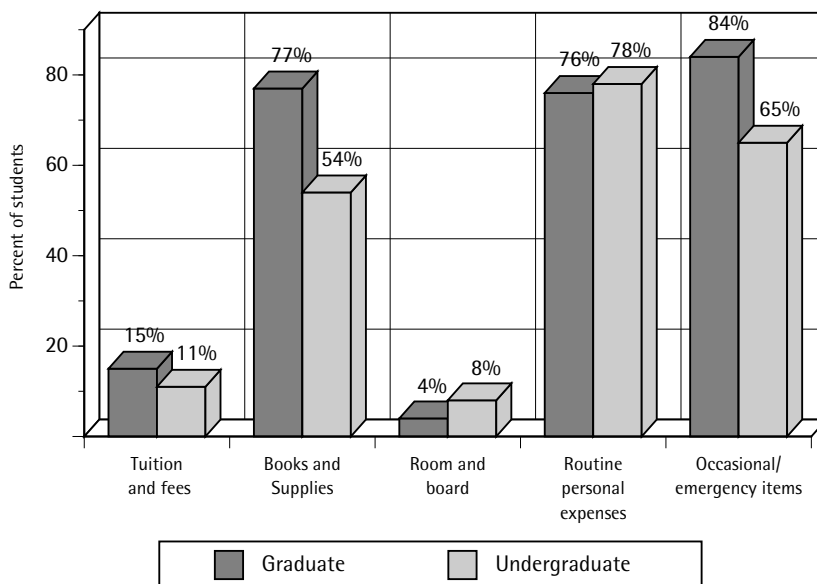
NOTE: Totals may not add to 100% due to rounding.
SOURCE: The Institute for Higher Education Policy, Credit Card Survey, March/April 1998.

Loan recipients who have borrowed relatively high amounts appear to have slightly different patterns of credit card use. Of loan recipients who know how much they have borrowed, 46% have borrowed \$7,500 or more; borrowers who are enrolled in private institutions or graduate school or who are independent are more likely to have borrowed \$7,500 or more. Seventy-five percent of loan recipients

who have borrowed \$7,500 or more have credit cards, versus 60% of those who have borrowed less. They are also twice as likely to have four or more credit cards, 21% compared to 11%, respectively. A greater proportion of loan recipients who have borrowed \$7,500 or more—27%—report average monthly balances over \$1,000, compared to those who have borrowed less, 16%. Finally, 49% of those who have borrowed \$7,500 or more have used their credit cards while waiting for their loan funds, compared to 30% of those who have borrowed less.

Graduate and Undergraduate Use of Credit Cards in the Current Year

Of survey respondents with credit cards



SOURCE: The Institute for Higher Education Policy, Credit Card Survey, March/April 1998.

student loans will be, while only 7% do not know their monthly credit card balances. In addition, 43% of these students do not know the repercussions of failing to repay their students loans, compared to 30% who do not know what would happen to them if they did not pay their credit card bills.

Credit cards and student loan disbursement

The impact of the financial aid process on students' ability to pay for college in a timely manner also is related to student credit card use. If students do not apply for or receive their financial aid promptly, they must either resort to other means of payment or discontinue pursuing an education altogether. The fact that some students charge education-related expenses—or general living expenses—may therefore be a sign that students have been temporarily caught without funds. This issue is especially salient for student loans, as the majority of students now depend on loans to pay for some portion of their education and living expenses. According to the survey, over one-third of students who have both credit cards and student loans have found themselves needing to use their credit cards while waiting for their student loan money to be disbursed. Using credit cards in this fashion is especially common among graduate students, independent students, students with higher average balances, and students who have four or more credit cards.

In general, survey respondents appear to have greater knowledge of credit card repayment than of student loan repayment. Of students who have both credit cards and loans, 41% do not know what their monthly payment on their

Graduate and professional students

As graduate and professional students frequently carry more substantial student loan debts and face different financial and family circumstances than undergraduates, their patterns of credit card use also can be viewed separately from college students as a whole. Although the low survey sample size makes it difficult to reach conclusions about this group, it appears that graduate students use credit cards frequently for education-related expenses as well as other needs. In particular, they may be charging to compensate for delays in their student loan disbursement.

Graduate students are more likely than undergraduates to have credit cards and have more of them: 87% have at least one card, compared to 62% of all undergraduates, and about 26% of graduate students have four or more credit cards, versus only 12% of all undergraduates. Of graduate students with credit cards, over half report total credit limits over \$7,000. Despite this combined potential for high credit card debt, most graduate students appear to have reasonable debt loads. Only 22% of graduate students report average monthly balances over \$1,000. In addition, only 36% of graduate students with credit cards carry over a balance, compared to 42% of undergraduates. Of those graduate students who carry a balance, 96% pay more than the minimum amount due.

More graduate students prefer to use credit cards for education-related expenses, as opposed to cash from savings, loans, or job income, than undergraduates—33%, compared to 17% of undergraduates attending four-year institutions and only 5% of those at two-year schools. In fact, 27% of graduate students who have credit cards have charged tuition and fees, compared to 17% of all undergraduates. Of all graduate students with credit cards, 15% have charged tuition and fees in the current year, 77% have charged books and supplies, and 84% have charged occasional or emergency items such as car repairs or health care. Undergraduates with credit cards are less likely to charge these items—11% have charged tuition and fees, 54% have charged books and supplies, and 65% have charged occasional or emergency items in the current year. About the same proportion of graduate and undergraduate students have charged routine personal expenses such as food and toiletries, 76% and 78%.

Perhaps most significantly, graduate students with both credit cards and student loans are more than twice as likely as undergraduates to have needed to charge various items while waiting for their loans to come through, 65% versus 31%. This represents a substantial proportion of all graduate students, as over half say they have student loans (52%). In addition, 78% of graduate students with loans who know their cumulative loan amounts have borrowed \$7,500 or more, compared to 43% of undergraduate borrowers.

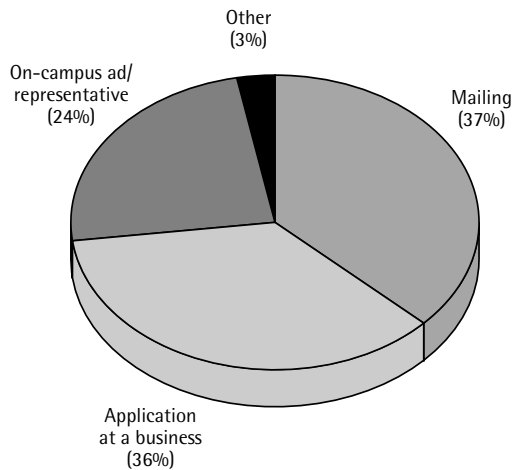
Institutional policies

The administrative policies adopted by colleges in recent years appear to have enabled significant proportions of students to gain access to credit cards and use them for education-related expenses. For example, many institutions now permit credit card companies to advertise on campus, and the majority accept credit cards for tuition and fees and other expenses (NACUBO, 1995). This survey allows a glimpse of such policies by asking respondents how they applied for credit cards and whether their institutions accepted payment of tuition and fees by credit card.

Almost a quarter of survey respondents who applied for credit cards on their own say they applied through on-campus representatives or advertisements; however, greater proportions still apply through a mailing or an application at a business. Traditional undergraduates and graduate students are more likely to apply through such on-campus methods—27% and 31%, respectively—than non-traditional undergraduates, 14%.

Method of Applying for First Credit Card

Of survey respondents who applied for their first credit card on their own



SOURCE: The Institute for Higher Education Policy, Credit Card Survey, March/April 1998.

In addition, 51% of students in the survey say their schools accept credit card payments for tuition and fees, while 19% report they do not accept credit cards, and 30% do not know. Students at certain institutions are more likely to be able to charge tuition and fees. For example, 55% of students attending public institutions say they can use credit cards to pay tuition, compared to 38% of students at private institutions. Moreover, 65% of students at two-year schools are able to charge tuition, versus 44% of students at four-year schools.

ISSUES FOR FURTHER EXAMINATION

This report provides a description of student credit card use and the attitudes of college students toward such use. While the survey results have painted a clearer picture of how and why college students are using credit cards, they also have identified issues that require further investigation—either because they are beyond the scope of this survey or because they could not be addressed conclusively due to the size of the sample. Issues that warrant further examination include the role of credit cards in society, institutional policies, and analysis of specific groups of students.

Role of credit cards in society

Students' use of credit cards does not occur in a vacuum. It is influenced by general societal trends and economic conditions in the United States. If these factors change, then it is likely that the credit card behavior of students will change as well.

- Credit card use in the population as a whole has been on the rise for many years. According to the most recent Federal Reserve Board Survey of Consumer Finances (Kennickell et al., 1997), by 1995, 67% of families had a bank-type credit card, 44% of these cardholders ran a balance, and the median balance for those who carried a balance was about \$1,500. Interestingly, as the age of the head of household increases, the percentage of families holding credit card debt decreases—in 1995, for example, 55% of families whose head of household is less than 35 years old held credit card debt, compared to 43% of families whose head of household is between 55 and 64 years of age. It is difficult to ascertain how, if at all, being enrolled in college influences general credit card behavior.
- This survey was conducted during a period in which continuing economic expansion has prevailed throughout the country. Inflation and unemployment have been consistently low, real wages have been inching upward again after many years of stagnation, and, according to recent media reports, prospects facing recent college graduates are fairly lucrative. This economic health may have affected students' expectations of credit card use and ability to pay monthly balances in full, among other things. In a weaker economy, more students might be forced to rely on credit, or they might be more wary of charging non-necessities.

Institutional policies

As the presence of credit cards grows on campus, the relationship between credit card companies and colleges and universities becomes increasingly complex. Institutional policies governing the acceptance of credit cards as payment, the marketing of credit cards on campus, and the availability of affinity cards are just some of the issues that require further investigation.

- Many institutions now allow students to charge tuition and fees, as well as other services. Over half of survey respondents say that their institutions allow credit card payment of tuition and fees, and one of every five students with credit cards have charged tuition and fees at some point. While the percentage of students having ever charged tuition may seem low, it is important to note that allowing credit card payment of tuition and fees is a relatively recent phenomenon. It is unclear whether this trend will increase, or what the benefits and disadvantages of this practice to students and postsecondary institutions are.
- Some colleges and universities have developed more direct relationships with credit card companies. Many institutions allow the marketing of credit cards on campus. Credit card representatives offer incentives to students to apply, such as free gifts, and some credit card companies pay students to solicit their classmates for new applicants. These efforts appear to be reflected in the survey results: almost one-quarter of all students who applied for their first credit card on their own applied through an on-campus representative or advertisement. In addition, some institutions are issuing affinity cards to alumni and students in hopes of making a profit. Colleges and universities contract with credit card companies to allow their institution's logo to appear on a credit card, and then market these cards to students and alumni. In return for increasing the credit card company's membership, the institution receives a percentage of each cardholder's balance from the credit card company.

Beyond the survey

The survey was designed to address how and why the general student population uses credit cards, especially regarding education-related expenses. While the survey sample allowed significant analysis of credit card use among many subgroups of students, the examination of others remains to be addressed.

- The results of the survey represent only a snapshot of the current behavior of college students and can only hint at the role credit card use and debt will play in the post-college lives of students. Despite much attention, not enough is known about the ability of recent college graduates to manage the debt they have accumulated throughout their academic careers, including student loan debt, credit card debt, and other debt such as a car loan or mortgage.
- No conclusions regarding differences in credit card use by income could be drawn from the survey results (see Appendix A for details). Family income is likely to have significant effects on the financial decisions of college students, and may also influence their attitudes toward credit

card use. For example, students from lower-income households may know more about their financial situation, including student loan repayment and credit card balances (ACE, 1997).

- Finally, although the ability of proprietary school students to manage debt is of concern to higher education policymakers, analysis of their use of and attitudes toward credit cards is inconclusive from this survey due to low sample size. Proprietary school students tend to be non-traditional students who are from low-income households. Relatively higher proportions default on their student loans—an indication that these students may have difficulty dealing with debt. In addition, as a result of federal policy changes, some proprietary schools lost eligibility to participate in the federal student loan programs, perhaps causing students to seek other methods to pay for their education. Further review of the extent to which credit cards have been one of the alternatives to student loan borrowing therefore is needed.

A P P E N D I X A :

METHODOLOGY REPORT

The Institute for Higher Education Policy, in partnership with The Education Resources Institute (TERI), commissioned Rickman Research & Communications (RRC) of Silver Spring, Maryland to conduct a national survey of postsecondary students about their use of credit cards. The purpose of the survey was to determine how and why students use credit cards, especially in regard to education-related expenses. The behavior of students, as well as their attitudes toward credit card use, can be described by their demographic and enrollment characteristics, including dependency status, class level, and type of institution.

Sample Design

The target population of the survey was all postsecondary students, including students with no credit cards. A list of currently enrolled students was obtained from the American Student List Company (ASLC) of Mineola, New York. The database consists of an address list of more than six million college students, including graduate students, with the at-school telephone numbers of more than two million students.

In order to help ensure that the sample reflected the reality of the college student population in the United States, a stratified random sampling of students was employed including the following guidelines:

1. undergraduate students 85%, graduate students 15%;
2. four-year institutions 60%, two-year institutions 40%; and
3. public institutions 80%, private institutions 20%.

More specifically, ASLC tallied the number of students in its database that fit each criterion, assigned each entry a number and used the “nth number” selection process to generate the specified number of listings per segment. The sample of survey respondents closely reflects these specifications. For further information on the demographics of the survey sample, see Appendix B.

Pretesting and Data Collection

A computer-assisted telephone (CATI) survey instrument was designed and pretested by a professional field service hired by RRC. The pretest was conducted under identical conditions to the eventual data collection. The pretest looked for problems with the clarity of the questions asked, the quality of the responses, and the logic and effect of skip patterns. It also confirmed the length of time needed to complete the survey. As is typical in survey research, some problems were found during

the first pretest that led to the rewording of some questions and the addition of new questions and skip patterns. A second pretest was performed that produced responses that validated the appropriateness of the changes made to the original instrument.

The survey was conducted by the field service during March and April of 1998. Each telephone interview averaged approximately nine minutes for students with credit cards and was considerably shorter for students with no credit cards. A total of 750 surveys were completed, yielding a margin of error of approximately plus or minus 3.5% at the 95% confidence level.

Data Limitations

The survey was designed to address the attitudes toward and use of credit cards in the general student population. In addition, it has allowed the analysis of subgroups of students based on certain characteristics. The analysis of other subgroups of students, however, remains inconclusive from the survey due to our decision not to over-sample for these students. Such groups include proprietary school students, graduate students, older students, and married students.

In addition, there are some limitations of the data resulting from the nature of self-reporting. The results of any survey are dependent upon the knowledge and honesty of the respondents. Self-reported data is more suspect for inaccurate responses than other forms of data collection, especially regarding financial information. In this survey, the difficulties associated with self-reported financial information occur primarily with the reported average credit card balances of students. Survey respondents were asked to choose a range that accurately reflected their average monthly credit card bill. According to the results, the majority of students had credit card balances of \$1,000 or less. These results may be underestimated in that they do not reflect the relatively larger balances reported in other surveys on student use of credit cards.⁵ One reason for this may be that data from the other surveys were collected in part from individual students' credit reports, resulting in more complete and accurate information.⁶

Finally, a technical error in the implementation of the CATI led to an inability to examine student credit card use by students' income level. During the administration of the survey, parental household income and personal income were categorized separately for both independent and dependent students. Instead of basing the differentiation on the students' dependency status, the CATI based it on whether or not the student received financial assistance from his or her parents. All attempts made to correct this error resulted in low sample sizes that rendered drawing conclusions based on income difficult. Rather than report information with such low sample sizes, we have chosen to eliminate all income-based analysis.

APPENDIX B :

CHARACTERISTICS OF SURVEY RESPONDENTS

(n=750)

Gender	Male	45%
	Female	55%
Age	Younger than 24 years old	78%
	24 or older	22%
Marital Status	Married	13%
	Unmarried	87%
Dependency Status	Dependent	67%
	Independent	33%
Attendance Status	Full-time	86%
	Part-time	14%
Institutional Level	Two-year	26%
	Trade	3%
	Four-year	59%
	Graduate	10%
	Professional	1%
Institutional Control	Public	74%
	Private	26%
Year in School	First	30%
	Second	27%
	Third	16%
	Fourth	13%
	Fifth or higher	15%
Financial Aid	Received financial aid	61%
	Received loans	50%
	No aid	39%
Work Status	Working	59%
	Not working	41%

Totals may not add to 100% due to rounding.

APPENDIX C :

SELECTED TABLES

DEFINITIONS

The following are terms used in the tables contained in this appendix.

- **Full-time/Part-time.** Students were asked whether they attend college full- or part-time.
- **Independent/Dependent.** Independent students are defined as having at least one of the following characteristics: graduate student, married, have children, 24 years of age or older, and is currently or has been a member of the armed services. Dependent students are defined as all other students in the survey.
- **Traditional/Non-traditional undergraduate.** Students are defined as non-traditional students if they are independent (but not a graduate student) and/or if they attend college part-time.
- **Graduate school.** The graduate school category includes both graduate and professional school students.
- **Average balance \$1,000 or less/Average balance over \$1,000.** These categories represent average monthly balances on all credit cards combined.
- **Pay off balance/Carry over balance.** Students were asked if they typically pay their credit card balances in full each month or if they carry some over.
- **Used credit cards for tuition/Haven't used credit cards for tuition.** Students who reported that their institutions accepted credit card payment for tuition and fees (and those who said they did not know), were asked if they had ever charged tuition and fees. Responses include both students who have charged tuition during the current year and those who have done so in the past.
- **No student loans/Received student loans.** Students were asked "Which, if any of the following (financial aid), [did] you receive?" and were given the following to choose from: grants, student loans, work study, or none. If they did not indicate through this question that they received student loans, they were asked more explicitly if they had any student loans. The positive responses were combined in the category "received student loans," and include student loans borrowed both in the current academic year and previously.
- **Loans less than \$7,500/Loans \$7,500 or more.** Responses represent cumulative student loan amounts.
- **Credit card and loans/Credit card no loans.** "Credit card and loans" represents students who indicated they have at least one credit card with their name on it and have a student loan. "Credit card no loans" includes only students who report having at least one credit card but do not have loans.

ENDNOTES

- 1 Reported average monthly balances do not include those students who indicated that they did not know their balances. This also occurs for figures on combined credit limits, and is true every time these statistics appear in the text.
- 2 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. This is the case each time the issue of students having ever paid for tuition and fees by credit card is discussed.
- 3 These percentages do not add to 100 because respondents were asked about the percentage of their credit card use for each category separately. Thus, the percentages reflect averages for each individual question.
- 4 In the survey, non-traditional undergraduates were defined as students who are independent or who are enrolled on a part-time basis.
- 5 See, for example, Nellie Mae, 1998.
- 6 Other factors also may help explain the differences in average balances. For example, other surveys may draw samples from regions of the country with relatively high costs of living, or from a specific subset of the student population, such as loan applicants and recipients.

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