



 THE UNIVERSITY OF IOWA

CREDIT CARDS ON COLLEGE CAMPUSES

This Iowa Civic Analysis Network report focuses on credit card solicitation on collegiate campuses. Specifically, it examines credit-card use among undergraduate and graduate students, explains the solicitation policies at Iowa's three public universities, and reviews successful and unsuccessful attempts to regulate credit-card marketing to students at the federal, state, and university levels.

Credit Card Use Among Students

As postsecondary education costs continue to rise at a rate greater than inflation, many studies indicate that students nationwide have turned to credit cards to assist with personal expenses or, in some instances, to pay for tuition and books. A 2001 study by the Sallie Mae Student Loan Company compiled data about student credit-card debt based on surveys of Sallie Mae loan applicants. The study found that 78 percent of undergraduate students own at least one credit card and when compared to previous studies, the percentage of cardholders with debt has risen.¹ The table below summarizes the study's findings about undergraduate credit debt.

Table 1: UNDERGRADUATE Student Credit-Card Use at U.S. Universities, 2001²	
<i>% of all students with 1 or more cards</i>	78%
OF STUDENTS WITH ONE OR MORE CARDS:	
<i>Avg. # of cards per cardholder</i>	3
<i>% of cardholders with 4 or more cards</i>	32%
<i>Avg. total card debt per cardholder</i>	\$2,748
<i>Median total card debt per cardholder</i>	\$1,236
<i>% of cardholders with balances \$3,000 - \$7,000</i>	13%
<i>% of cardholders with balances > \$7,000</i>	9%

According to a September 2007 Sallie Mae study, credit cards are even more popular among graduate students: 92 percent of graduate students applying for loans with Sallie Mae have at least one card, and the average cardholder's debt has grown substantially since 2003. The study showed that 94 percent of all graduate students use credit cards to finance their direct educational expenses.

¹ "2000 Credit Card Usage Analysis," Sallie Mae Foundation, 2001.

http://www.nelliemae.com/library/research_8.html

² Sallie Mae Foundation, 2001.

While most of these students use credit cards for textbooks and other miscellaneous expenses, 28 percent have used them to cover tuition.³ The table below summarizes these trends.

Table 2: GRADUATE Student Credit-Card Use at U.S. Universities, 1998-2006⁴				
	1998	2000	2003	2006
% of all students who have 1 or more cards	95%	95%	96%	92%
OF STUDENTS WITH ONE OR MORE CARDS:				
Avg. # of cards	6	4	6	5.25
Avg. total card debt	\$4,925	\$4,776	\$7,831	\$8,612
Median credit card debt (all cards)	\$2,834	\$3,068	\$3,730	\$3,874
% with balances \$6,000 - \$15,000	22%	20%	25%	24%
% with balances > \$15,000	6%	6%	15%	15%

Effects of On-Campus Solicitation

A 2007 Penn State University study surveyed 1,441 undergraduate students (all under the age of 24, predominately single and Caucasian, and all attending college in Pennsylvania) about the number of credit cards each possessed, the outstanding balance on the card(s), and the manner in which they received their card(s). The purpose of the study was to determine if on-campus solicitation resulted in more credit problems (increased debt, etc.) among students, and, subsequently, if legislative action might be helpful. The results indicated that the three most common places students received credit cards were: 1) direct mail offers; 2) retail stores; and 3) parents. Overall, just 4.8 percent of students received their card(s) as a direct result of on-campus solicitation (bulletin boards, bookstore inserts, booths). Students at colleges that permit on-campus solicitation were found on average to carry a larger amount of debt, and generally owned more credit cards, than students at campuses with solicitation bans.⁵ The tables below compare credit-card sources, average credit-card debt, and number of cards owned on campuses that allow direct solicitation and on those that do not.

Table 3: Statistical Comparison of the Total Number of Cards Owned and Credit-Card Balance on College Campuses⁶

	Schools that ALLOW On-Campus Solicitation	Schools that DO NOT ALLOW On-Campus Solicitation
Number of Cards Owned	Mean = 2.21	Mean= 1.99
Credit Card Balance per Card per Cardholder	Mean = \$611	Mean= \$462

³ "Graduate Students and Credit Cards: An Analysis of Usage and Trends," Sallie Mae Foundation, 2007 http://www.nelliemae.com/pdf/ccstudy_2006.pdf

⁴ Sallie Mae Foundation, 2007.

⁵ Mansfield, Phylis & Pinto, Mary Beth. "Marketing Credit Cards to College Students: Will Legislation Protect them from Excessive Debt?" *Marketing Management Journal*. Spring 2007. Retrieved by request from Penn State University.

⁶ Mansfield, Phylis & Pinto, 2007.

Table 4: Sources of Credit Cards on College Campuses (Statistical Comparison)⁷

Source of Card	Schools that ALLOW On-Campus Solicitation	Schools that DO NOT ALLOW On-Campus Solicitation
Parents gave it to student	27.8%	24.4%
Internet offer	5.7%	6.1%
Direct Mail offer	29.7%	32.9%
Television offer	0.0%	0.0%
Campus bulletin board	0.0%	0.0%
Campus bookstore insert	0.6%	0.0%
Booth/table on campus	1.9%	1.2%
Telemarketing offer	1.9%	2.4%
Retail Store	10.1%	9.8%
Bank	11.4%	13.4%
Other	10.8%	9.8%

Note: Students could attain a credit card offer through a direct mail offer sent to their campus address as the result of a mailing list attained by a credit card solicitor from campus sources or a blind mailing.

Iowa's Public Universities

The University of Northern Iowa (UNI) has no formal solicitation policy. The University of Iowa (UI) and Iowa State University (ISU) restrict direct credit-card solicitation on campus, but the alumni associations of both schools have contracts with creditors who provide them funding in exchange for student data and marketing access.⁸

On-Campus Solicitation

At ISU, "Credit card application solicitation is prohibited on campus."⁹ The UI has formulated its rules around its *de facto* contract with Bank of America, one of the nation's largest credit-card providers. In the UI's Iowa Memorial Union (IMU), a crowded on-campus gathering center, Bank of America periodically occupies one of the six solicitation-designated booths that abut the facility's cafeteria. The company is allowed to market its cards only at the request of one or more of the 400 university-recognized student organizations. The student organizations benefit because small gifts (e.g. Frisbees, pens, and hats), paid for by Bank of America and doled out by the student groups, often attract other students to the organization's booths. The following UI policy outlines the extent and limitations of Bank of America's access¹⁰:

⁷ Mansfield, Phylis & Pinto, 2007.

⁸ Kauffman, Clark. "University data deals shroud money." *The Des Moines Register*. Sept. 24, 2007, page 1A. <http://desmoinesregister.com/apps/pbcs.dll/article?AID=/20070924/NEWS/709240331/1001>

⁹ ISU solicitations policy. <http://www.sac.iastate.edu/Resources/Online/Funding.htm>

¹⁰ UI solicitations policy. http://imu.uiowa.edu/guest_services/event_policies/solicitation_tables.php

[Bank of America] is the exclusive vendor for student organizations who conduct credit-card solicitation...The University of Iowa Alumni Association is the University contact for [Bank of America] and is located at 100 LCUA.5.7.

Alumni Associations as Conduits

The Iowa press corps recently revealed that the alumni associations for the UI and UNI offer data regarding the student-body and individual students, through the alumni associations, to Bank of America in exchange for money and other resources that are eventually funneled back into the universities. The contracts also provide Bank of America access to university trademarks, e.g., permission to issue a Bank of America card emblazoned with the UI's Tigerhawk logo. ISU's contract was made public prior to the newspaper articles that revealed these contracts. Officials at the UI and UNI had previously resisted publicizing their contracts, asserting that because the alumni groups, rather than the university, comprise the actual parties in the contracts, they are not subject to public-disclosure laws that a university-Bank of America contract would otherwise be bound by.¹¹

However, in the face of public pressure after the articles, the UI's and UNI's alumni associations received authorization from Bank of America in early October 2007 to release the reports. According to press releases by the alumni associations, the money given to them in exchange for the marketing data "support a significant portion of the programs and activities of the Association that benefit the entire [UNI or UI] community, including alumni, students, and friends." Highlights of the "affinity" credit-card agreements between the university alumni associations and Bank of America are summarized below. Full-text PDFs of all three contracts can be viewed from the Iowa Board of Regents web site.¹²

University of Northern Iowa Alumni Association (UNIAA)¹³:

- Under a contract that expires in 2008, the UNIAA gives Bank of America data used to target students for marketing purposes in exchange for royalty and sponsorship payments, which last year netted the UNIAA \$652,000. Part of that total came from royalties garnered every time alumni, faculty, staff, or students open a credit-card account.
- The UNIAA must provide, at the request of Bank of America, "Mailing Lists," a term that encompasses names, postal addresses, and telephone numbers of UNI students, alumni, and faculty and staff, all "segmented by zip codes or reasonably selected membership characteristics" where applicable; the contract's original mailing list included more than 75,000 names.
- As of Sept. 30, 2007, 9,600 alumni and 68 students hold a Bank of America/UNI credit card
- Students are offered a specific type of card, the Student Member Credit Card, which carries a variable interest rate of prime plus 9.9 percent (as of October 2007, the prime rate was 7.75 percent, which would place the students' variable rate at 17.74 percent); the average balance for the 68 card-holding students was \$1,148 as of Sept. 30, 2007.
- During 2007, Bank of America's student-aimed marketing included at UNI included three direct mailings, no telemarketing campaigns, and no on-campus "tabling" (direct marketing).

¹¹ Kauffman, 2007.

¹² UI, ISU, and UNI contracts with Bank of America:

<http://www2.state.ia.us/regents/News/Email%20Communications/2007/Agreements/agreements.htm>

¹³ UNI/Bank of America contract:

<http://www2.state.ia.us/regents/News/Email%20Communications/2007/Agreements/uni101207.pdf>

University of Iowa Alumni Association (UIAA)¹⁴:

- Under a contract that expires in June 2013, the UIAA gives Bank of America student data in exchange for payments that last year netted the UIAA roughly \$1 million. Royalties are accumulated every time alumni, faculty, staff, or students open an account.
- At the outset of the contract, the UIAA provided Bank of America with: more than 22,000 names, postal addresses and, when available, telephone numbers of students. It provided similar information for 205,000 alumni, 80,000 additional supporters of the university, 10,000 faculty or staff, 23,000 parents of students (tabulated by household), and 50,000 athletics tickets purchasers (the e-mail addresses of the last group could also have been provided under the contract).
- As of Oct. 12, 2007, 37,000 “alumni, fans, and University supporters” and 209 students carry a Bank of America/UI credit card; the average balance for the 209 students is \$1,054.
- The contract stipulates special privileges for Bank of America's biggest-spending cardholders; perks include special access to coaches and student athletes, including a luncheon with the UI football team and a ticket to a UI sports banquet, where the cardholder sits “next to the player of their choice.”¹⁵
- During 2007, Bank of America’s UI student-aimed marketing campaign included three direct mail campaigns, one telemarketing campaign, and two days of tabling on campus, plus direct marketing at football games.

Iowa State University Alumni Association (ISUAA)¹⁶:

- Under a contract that initially expired in June 2000 but has been continually amended and renewed, the ISUAA gives Bank of America data in exchange for payments. Between 2000 and 2005, the ISUAA was guaranteed \$5,075,000 in royalties per an amendment to the agreement. The current agreement guarantees the ISUAA \$3,590,000 between 2005 and 2012.
- ISU has been under obligation to provide Bank of America access to market their products at athletic events, and provide the company with:
 - Names, postal addresses, and telephone numbers of ISU’s football and basketball (men’s and women’s) season ticket holders, as well as individual football and basketball game ticket purchasers
 - An eight foot by four foot marketing booth at every ISU athletic event where Bank of America representatives pitch their cards
 - Three “message board announcements” promoting Bank of America products during every athletic contest
- In the original contract, students are offered a Student Customer Credit Card with a variable interest rate of prime plus 9.9 percent (17.74 percent total, as calculated using the October 2007 prime rate of 7.75 percent); average balances of card-holding students had not been released as of October 2007

¹⁴ UI/Bank of America contract:

<http://www2.state.ia.us/regents/News/Email%20Communications/2007/Agreements/sui101207.pdf>

¹⁵ Kauffman, 2007.

¹⁶ ISU/Bank of America contract:

<http://www2.state.ia.us/regents/News/Email%20Communications/2007/Agreements/agreements.htm>

Legislative Attempts to Limit Campus Solicitation

Federal Legislation

The Student Credit Card Protection Act, first proposed by Representatives John Duncan (R-Tenn.) and Dian Slaughter (D-N.Y.) in 1999, has been unsuccessfully reintroduced during each U.S. House session since by Representative Slaughter. The bill, which as of October 17 is pending after being reintroduced in August 2007, would “limit the maximum amount of credit extended to students to up to 20 percent of their total income if they have a co-signor, like a parent, or \$500 without a co-signor.” It would also require creditors to rigorously review a student’s credit-card history and proof of income before issuing a card. Senators Richard Durbin (D-Ill.) and Herb Kohl (D-Wis.) have co-sponsored a similar bill in the U.S. Senate and the Senate has planned a number of hearings regarding credit-card industry practices.¹⁷

State Legislation

In the last five years, legislators in at least 14 states—Arkansas, California, Hawaii, Louisiana, Maryland, Massachusetts, New Jersey, New York, Oklahoma, Pennsylvania, Tennessee, Texas, Virginia, and West Virginia—have introduced measures that would regulate credit-card solicitation on campus and require a wide variety of credit-education initiatives.¹⁸

Most state legislation addresses a common set of concerns such as those elaborated below:

(1) Direct marketing of credit cards on college campuses: While restriction on the amount and types of solicitation permitted varies greatly, nearly all states address at least on-campus, direct marketing to students. Many universities permit solicitation, but marketers must meet a number of criteria (e.g., they must register, sign a contract with the school, etc.). In other cases, solicitors are not permitted to market in particular locations. In New York and other states, for example, credit cards cannot be solicited through residence-hall mailboxes or at university-sponsored bookstores.¹⁹

(2) Mandatory credit education: Some states require higher-education institutions to implement a wide variety of debt- and credit-management educational initiatives. For example, Arkansas requires schools that allow solicitation on campus to provide a mandatory credit-education course to all incoming students.²⁰

(3) Gifts in exchange for credit-card applications: A recent issue has been the practice of some credit-card marketers to offer food or other free gifts in exchange for completed credit-card applications. In September 2007, the Ohio Attorney General and lawyers from The Ohio State University sued Citibank N.A., Potbelly Sandwich Works (campus sandwich restaurant), Campus Dimensions, Inc., (a marketing/advertising firm) and La Bamba Inc. (campus Mexican restaurant) for violation of Ohio’s Consumer Sales Practices Act. The lawsuits assert that the parties listed above engaged in deceptive advertising practices by offering students at The Ohio State University free

¹⁷ Silver-Greenberg, Jessica. “Fixing the College Credit-Card Mess.” *Business Week*. 7 September 2007. http://www.businessweek.com/bwdaily/dnflash/content/sep2007/db2007096_936550.htm

¹⁸ Mansfield, Phylis & Pinto, 2007.

¹⁹ Mansfield, Phylis & Pinto, 2007.

²⁰ Mansfield, Phylis & Pinto, 2007.

food and beverages in exchange for a completed credit card application.²¹ Credit-card companies have employed a similar tactic in Iowa City; at the Pita Pit, a restaurant adjacent to the UI campus, creditors have marketed free sandwich-wraps to students via posters throughout campus, only to explain upon arrival at Pita Pit that credit-card applications must be filled out to receive the food. Several states, including Arkansas, New York²², and California, have banned companies from offering gifts in exchange for credit-card registration.²³

Policy Considerations: Pennsylvania passed legislation in late 2004 requiring institutions of higher education to establish a policy for the regulation or prohibition of the marketing of credit cards on campus, and the legislature specifically mandated that higher-learning institutions target the following five areas:

- (1) Requiring registration of on-campus credit-card marketers
- (2) Limiting marketers to specific campus sites
- (3) Prohibiting marketers from offering gifts in exchange for completing an application, unless the solicited student has been provided with credit-debt education
- (4) Providing, at a minimum, quarterly credit-card debt education brochures with each campus bookstore purchase
- (5) Incorporating a credit-card education presentation into general orientation programs²⁴

A full record of all related state legislation proposed or passed through 2001 can be found within the United States General Accounting Office's report, "College Students and Credit Cards," at <http://www.gao.gov/new.items/d01773.pdf>.

²¹ Ohio Attorney General's Office, "Damn and OSU Crack Down on Credit Card Solicitors." 19 September 2007. < <http://www.ag.state.oh.us/press/07/09/pr070919b.asp>>

²² Mansfield, Phylis & Pinto, 2007.

²³ Silver-Greenberg, Jessica. "Selling Students into Credit-Card Debt." *Business Week*. 2 October 2007. < http://www.businessweek.com/bwdaily/dnflash/content/oct2007/db2007101_961199.htm?chan=search>

²⁴ Mansfield, Phylis & Pinto, 2007.