

College Seniors' Credit Use: Data from Credit Reports

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Introduction

College students' credit use has garnered much attention. While student loans are recognized as a way for students to finance the investment in their human capital that college is, the debt the students carry with them after college affects their ability to begin their financial life— to, for example, participate in retirement savings plans through their employers. Concern about college students' credit card access and use led to the passage of the Credit Card Accountability Responsibility and Disclosure Act (CARD Act) of 2009. As a consequence, today most college students are not able to acquire a credit card until they are 21. Until then, to secure a credit card, their parents must co-sign the credit card agreement, or young adults must establish that they have income to repay credit card charges (H. Res. 627, 2009).

Yet our knowledge about young adults' and specifically college students' credit use is quite limited in scope. Most of the information about student loan use comes from aggregate data which do not report students' other credit use. Nor has research about college students' credit card use consistently also reported student loan use. That research also has not distinguished between cards in the students' own names vs. those of their parents to which they have access. And, our knowledge of college students' credit use and debt is based largely on self-reported data, which may or may not be accurate.

Thus, the goal of this research is to describe the credit experiences of college seniors enrolled in a personal finance elective course, based on the students' own credit reports. Specifically, the research answers questions about the types of credit accounts on their credit reports, whether they are sole owners of these accounts or own them jointly with another adult (most often a parent), and the usage of the accounts (specifically whether there are collection actions). The research has implications for those who teach personal finance to college students.

Literature Review

The conventional wisdom about college students and credit cards from research was that most students *do* have credit cards, that many acquire them in high school or when they arrive on campus, and that the percentage with a card and with a balance increases with each year in college (see, for example, Hayhoe, Leach, Allen, & Edwards, 2005; Hayhoe, Leach, & Turner, 1999; Lyons, 2004; Palmer, Pinto, & Parente, 2001; Pinto & Mansfield, 2006; Robb, 2007). Prior to the Great Recession, at least 84% of undergraduate students had at least one credit card (Sallie Mae, 2009). However, recent reports suggest that a smaller proportion of college students have credit cards (Norvilitis, 2014). Two sources reported declines to the US GAO (2014) -- from 53% of college students with credit cards in 2004 to 49% in 2010 to between 29 and 33% in 2013. In 2013, most (72%) students with a credit card in their own name had only one card (US GAO).

However, student loan debt is on the increase. It is the only form of consumer debt that has risen since 2007, having doubled since the recession with a five-year average growth of 11% (The Vanguard Group, 2014). Outstanding student loan balances in the United States total roughly \$1 trillion (Federal Reserve Bank, 2013), making up 7% of U.S. Gross Domestic Product (The Vanguard Group, 2014).

In general, previous research about college students' credit use has relied on self-reported data, primarily reporting the number of credit cards a student has and only occasionally how the card is used. Researchers have made no distinction between different types of cards (e.g., banks vs. retail), ownership of the card (e.g., individual vs. authorized user), responsibility for the card (e.g., the student vs. the parent

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regardless of whose name is on the card), or even whether students are describing debit cards when they respond to a question about credit cards. Researchers rarely ask students about their debt load, perhaps because they question the validity of the responses.

Methodology

A required assignment for the college students enrolled in a university's one-credit hour personal finance course open only to college seniors is to acquire at least one of their three credit reports. (Students who have not used credit and have no credit report are given an alternative assignment.) Data from the credit reports of those students who sign the informed consent form are coded and entered into an Excel sheet. The data points coded parallel those used in research by Avery, Breevort, and Canner (2012) and include for each account the type of account, its ownership, its current status, the balance and limit (for credit cards), the balance and loan amount (for loans), and the payment history.

Results

A total of 643 students over eight semesters completed the assignment. Of those, 521 submitted a credit report that included a total of 2,263 accounts across all of the reports. Almost 900 of the accounts were debt-related (primarily student loans); the remainder were credit-related (primarily credit cards). More than two-thirds of students acquired their credit report from Experian (41.1%) or Equifax (39%). The students were predominantly 22 or younger (85%), female (60%), and unmarried without children (90%). The students represented 11 different colleges with the majority from Arts & Sciences (39%), Business (20%), and Journalism and Mass Communication (14%).

Highlights from the data are:

- 122 or 19% of students who chose to take the personal finance course had no credit report. While they appear on track to leave their undergraduate studies without debt, they also leave with no experience managing credit.

Among those with a credit report:

- 64% had at least one credit card in their own name.
- Nearly 26% did not have a credit card in their own name but did have at least one credit card account on their credit report for which the student was an authorized user and thus had no legal responsibility.
- 74% of the students had a balance on at least one credit card. On a credit report that means that the card had a balance when the credit card company reported the account to the credit bureau. This is not the same as having an unpaid balance at the end of the credit card billing cycle. Across all accounts, the average balance was \$805. On nearly one-half (47.7%) of these accounts the credit ratio (balance divided by credit limit) for credit cards was 0.1 or less. At the other extreme, the credit ratio on one-third of credit accounts was greater than 0.3, the upper limit recommended to maintain a "good" credit score.
- 47% of students had a student loan. The vast majority of these were deferred and around 20% of students had not made any payments to reduce their debt.
- 11% of students had an installment loan other than a student loan on their credit report. Most of these were auto loans, often joint with a parent.
- Across the 2,263 account on the credit reports, 71% were owned solely by the student.
- While the vast majority of accounts were coded as "pays as agrees," 8% of the accounts were in collection.

Logistic regression analysis was used to predict the odds of a collection action among students who had at least one individually owned account on their credit report. In the regression, the dependent variable was whether or not there was at least one collection action in a student's credit report. The independent variables were whether the student had a student loan (SLA), whether the student had a credit card account with a late payment (CCLA), and three binary variables based on the number of individual accounts on the credit report (NIA_3= 2 individual accounts; NIA_4=3-14 individual accounts; NIA_5=15-31 accounts). Having only one account was coded as zero for each binary variable. Results are reported in Table 1. The odds of a collection action for students with at least one individually owned account were 15.9% higher if a student had a student loan account (relative to a student without a student

loan account), 12.4% if a student had a late payment on a credit card (relative to students with no credit cards and those with a credit card but no late payments), and 14.6% higher if a student had more than 15 individual accounts (compared to 1) on his/her credit report.

Table 1
Results of Logistic Regression with Collection Action as Dependent Variable (n=417)

| Parameter | Estimate | Standard Error | Wald Chi-Square | P-value | Average Partial Effect | Odds Ratio Estimates | | |
|-----------|----------|----------------|-----------------|---------|------------------------|----------------------|----------------------------|--------|
| | | | | | | Point estimates | 95% Wald Confidence Limits | |
| Intercept | -4.499 | 0.765 | 34.577 | <0.001 | | | | |
| SLA | 2.432 | 0.788 | 9.513 | 0.002 | 0.159 | 11.380 | 2.427 | 53.363 |
| CCLA | 1.888 | 0.544 | 12.071 | 0.001 | 0.124 | 6.609 | 2.278 | 19.176 |
| NIA_3 | -1.162 | 0.911 | 1.629 | 0.202 | -0.076 | 0.313 | 0.052 | 1.864 |
| NIA_4 | 0.330 | 0.617 | 0.287 | 0.592 | 0.022 | 1.391 | 0.415 | 4.657 |
| NIA_5 | 2.233 | 0.921 | 5.876 | 0.015 | 0.146 | 9.324 | 1.533 | 56.694 |

Conclusions/Recommendations

This research has several implications. One is that colleges and universities that offer personal finance elective courses can expect students to enroll who have a range of credit experiences. At least 19% of the students in this study had no credit report and thus, presumably, no credit experience. Most wrote in the assignment that accompanied their report that they had not used credit because of parental financial support and/or parental opposition to credit use. The students whose only account on their credit report was a deferred student loan also have no practical experience in managing credit. Nor do the students who report that their parents have taken the responsibility even for the credit card and student loan accounts in the students' names.

On the other hand, in this sample there was a small proportion of students who had experience with credit **mis**management – 8% who had one or more collection actions (one student who had six) and 3% who had one or more credit cards with a late payment history.

The challenge for those who teach such courses is to find a way to meet the needs of all students when they come into the course with such a range of experience. However, experience does not mean that whatever the students have learned is necessarily useful information going forward. For example, some students reported that they “know” that their credit score will improve if they only make the minimum payment or if they miss a payment and make the next one to show that they can improve. Finding ways to listen to students to understand what they think they know may be as important as imparting information.

At least 25% of students had a credit report that would indicate to others that they were experienced credit managers when they were not. In their written assignments, students often recognized that their credit reports were a better reflection of their parents' ability to manage credit than their own. Yet a credit score *can* be calculated for anyone with a credit report. If that score is relatively high, it may generate a false sense of optimism for the student who views it as “permission” to use credit in the future. Having students view and conduct a detailed analysis of their own credit reports with feedback from the instructor is one way to create more realistic views among students of their own credit management experience and what they need to know and do to be successful in their future credit management.

Students who already have a poor track record of credit management present a unique challenge. They are unlikely to self-identify but are exposed via an assignment that requires detailed analysis of their credit report. In this professor's experience, some students with collection actions on their credit reports are oblivious to that; they did not know there was a collection action at the time and because they don't know what that means, they still do not understand it after viewing their credit report. Others were aware at the time but did not believe it was their responsibility to pay – the insurance

company or a roommate “should” have paid that bill. Others did not understand the implications of allowing a debt to be turned over to a collection agency. The entire class learns from the mistakes of a few (without details that would identify the student of course). The logistic regression suggested three variables that might serve as warning signs for potential financial mismanagement: having a student loan (which could indicate limited financial resources), having a credit card late payment (which could indicate management challenges), and having multiple accounts (which makes management more challenging).

College seniors are ready and in fact need credit management education that goes beyond the generalities often taught. This paper provides arguments for that position.

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