

## Credit Card Use by College Students

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Credit cards have become an acceptable means for purchasing goods and services in the United States (Bloom & Steen, 1987; Canner & Cyrnak, 1986; Hendrickson, 1972). Total charge volume of general purpose credit cards in the United States has increased from \$67 billion to \$371 billion in 10 years (Shapiro, 1992). Also increasing is the amount of credit card debt, rising from \$49 billion in the 1980s to \$194 billion in the early 1990s (Boston Company Economic Advisors, 1992).

Major credit card companies compete to sign up college students, one untapped market in their industry (American Demographics, 1991; Duffy, 1990; Schram, 1991). Presently 9 to 13 million college students spend about \$60 billion a year, including \$13 billion in discretionary spending (American Demographics, 1991; Schlossberg, 1993). Credit cards companies recognize that college students can develop lifelong credit card brand preferences (Lefton, 1992).

The College Track Study (Punch, 1991) found that ownership of credit cards among undergraduates increased 29% from 1988 to 1989 and another 6% from 1989 to 1990. Schram (1991), however, contends that only about half of all applications from college students are accepted, and credit cards issued to students generally are given low credit limits.

In general, younger consumers tend to favor borrowing and are more likely to charge purchases than older consumers (Bloom & Steen, 1987; American Demographics, 1987; Otten, 1989). Ford (1990) has expressed a concern that students emerging into adulthood do not have the knowledge and experience to manage credit efficiently. Because their prior payment transactions have been primarily with cash, students' limited experiences with credit may relate to credit and debt problems later in life.

Paralleling these developments in credit card use, consumer education for high school students was mandated in Illinois (Illinois State Board of Education, 1986) to provide students with financial knowledge. Management of credit cards may be included under the mandated content area of installment credit. Students must take a

designated course in consumer education, or their school may elect to incorporate mandated content into all course subjects or within selected courses. The requirement may also be met through a proficiency examination.

### **Purpose of the Study**

There were three major purposes of this study. First, the researchers wanted to describe college student ownership and use of credit cards, such as number owned, amount of balance carried, and payment practices. A second purpose was to examine the relationship between participation in high school consumer education experiences and management of credit cards. The third objective explored preferred credit education options.

### **Methodology**

The sample included 243 undergraduate college students from a large midwestern state university who volunteered to participate in this study. They represented a variety of majors and classification levels of students. Participants were enrolled in one of five different courses selected for researchers' convenience including Aviation Management, Advanced Technical Studies, and General Education. None of the courses taught credit card management or installment credit concepts.

The researchers developed a 24-item survey instrument with open-ended and forced-choice questions. Questions were designed to obtain information about student use of credit cards, typical payment practices, and selected demographic information. Credit card use items were designed to measure the number, types, and frequency of card use; status of current balances carried; general method of paying balances due; and knowledge of interest rates on most frequently used cards. This instrument was pretested for content validity with 32 students enrolled in an upper level consumer economics course.

Age, gender, race, income status, and high school consumer educational experiences were used to develop a demographic profile of the sample. Descriptive statistics were used to summarize credit card use and preferences for educational practices. Frequencies and percentages were used to describe ownership and use of credit cards. T-tests were employed to determine whether there were differences

between students who had a consumer education class and those who did not. Chi-square analysis was employed to examine the two groups for differences in their typical payment practices when credit balances are due. Payment options were categorized as: (a) Pay Full Balance, (b) Pay Minimum Balance, (c) Pay Partial Balance, and (d) Other.

### **Findings and Discussion**

Of the 243 respondents, 62% were males, 81% were Caucasian, and 87% were age 25 or younger. Over half reported annual incomes of \$4,000 or less and one-fourth had incomes \$4,001 to \$8,000. The majority (83%) of this college sample graduated from Illinois high schools, but only 64% reported having a consumer education course in high school. Possible reasons for this discrepancy could be that students did not recall studying consumer education in high school, had taken proficiency examinations, or that they had attended schools where consumer education content had been incorporated into other courses. Therefore, in those cases students might report not taking "a consumer education course."

#### *Credit Card Ownership and Use*

Seventy-four percent of the total sample owned at least one credit card and 71% reported having more than one. This high rate of ownership is consistent with other studies of the general public (American Demographics, 1991; Bloom & Steen, 1987; Ford, 1990; Lindley, Rudolph & Selby, 1989).

Students who reported owning credit cards were asked to state each type of card they owned (See Table 1). The most prevalent type of cards were bank cards, Visa and MasterCard, followed by department store cards.

Some respondents in this sample reported owning more than one of the same type of credit card. For students owning credit cards, 70% had at least one Visa and 39% had at least one MasterCard, which is consistent with marketing studies that reported cardholders possessed both Visa and MasterCard. Together, these cards dominated the credit card market and accounted for 90% of all credit cards issued (Economist Newspaper, Inc., 1990).

Table 1. Types of Credit Cards Owned.

<u>Credit Card</u>	<u>n (180)</u>	<u>%</u>
Visa	127	70.6
Department Stores	94	2.2
MasterCard	71	39.4
Telephone	63	35.0
Discover	44	24.4
Gas Company	26	14.4
American Express	12	6.7
Miscellaneous	9	5.0

Note. Percentages exceed 100% because students could indicate more than one choice.

Is there a difference in number of credit cards owned between students who reported taking a high school consumer education course and students who did not? The underlying assumption of this question is that the potential for mismanagement of credit cards exists with ownership of several cards. The number of credit cards held by students in this study ranged from 1 to 25, with a mean of 3.17 ( $SD = 2.8$ ). A t-test analysis found a statistical significant difference ( $t = .046, p < .05$ ) in number of cards owned by students. Students who reported taking a consumer education course had fewer cards ( $M = 2.26, SD = 2.96$ ) than those who did not report taking a high school class in consumer education ( $M = 2.54, SD = 2.43$ ).

### *Payment Practices of Credit Card Holders*

Forty-four percent of all students who own cards said that they usually pay the full amount of the credit card balances each month. However, only about one-third reported a current outstanding balance of zero. About 40% reported balances of \$600 and under, and 32% had balances between \$601 and \$1600. Eight students (4%) reported that they did not know their current outstanding balance.

The results of a t-test analysis showed no significant difference ( $t = 1.20, p > .05$ ) in the amount of outstanding balances due on credit cards between those students who reported taking a consumer education course in high school and those who did not.

Are there differences in payment methods for credit card balances due for the two groups of students? Payment method choices included paying the balance in full, paying some amount between the minimum and full balance, and always making the minimum payment. Forty-four percent of the students reported their usual practice was to pay their credit card balance in full, which is consistent with previous studies of credit card owners in general (Dunkelberg, 1989; Mountain America Credit Union, 1992; Quint, 1993; Wooley, 1991).

Seventeen percent reported they always paid the minimum balance due, while 36% more often paid some amount above the minimum. Only a few students (3%) reported that parents paid their bills. A chi-square analysis revealed no significant difference ( $X^2 (3, N = 178) = 5.90, p < .05$ ) in payment methods used by students who reported they had a consumer education class in high school and those who did not.

Almost half (48%) of students who owned cards reported they knew the current interest rate on the card they used most often; however, 41% did not know the interest rate charged and 11% were unsure. Quint (1993) and Shapiro (1992) also observed that 30% to 60% of credit cardholders did not know the interest rates of credit cards they used.

### *Preferences for Credit Education*

Nearly half, 45% of the sample, said that they would consider attending a program on credit management. As shown in Table 2, preferred choices by rank order of educational services are: a college course (35%); newsletter (22%); newspaper column (20%); or a

workshop at their place of work (14%). The least popular choice was a radio show (.8%).

Table 2. Preferred Consumer Credit Educational Programming.

<u>Educational choice</u>	<u>n (243)</u>	<u>%</u>
Class on campus	86	35.4
Newsletter	54	22.2
News Column	48	19.8
Workshop at work	34	14.0
None needed	17	7.0
Radio show	2	.8
Required for financial aid	2	.8

Two students suggested that credit education be a college requirement for receiving financial aid. Brobeck (1992) reports that 81% of respondents to a credit card attitude survey conducted by Opinion Research Corporation feel it is important to receive information on credit card rights. That study finds that young persons, blacks, and those with large credit card balances are most likely to want this information.

### Implications for Consumer Educators

A college student inexperienced with credit has the potential of building a sizable consumer debt if more than one credit card is owned and balances are owed on each credit card. Many students are already in debt due to student loans and other installment credit plans, such as auto loans.

High school consumer education courses have been suggested as a means to teach students about the management of credit and resulting problems with indebtedness. Formal consumer education should prepare students for their potential future interactions with credit use. The number of students reporting they did not take a consumer education class in high school was surprising. Future studies need to determine whether this anomaly is due to poor recall, failure to take

a course, or success in passing the proficiency examination. Schools that incorporate consumer education into courses should clearly identify the consumer education content.

This study found that consumer education in high school was related to the number of credit cards but was not related to management of credit cards among the students sampled in this study. This finding calls for examination of other factors related to credit card management and an assessment of high school curricula. Teachers may want to place more emphasis on credit card management. Practical experience activities or project simulations with credit card purchases would help students transfer classroom learnings to practice. Students could be challenged to determine the real costs of credit by monitoring balances using various payment schedules (from minimum to maximum rates) and following interest rates across time.

Findings of this study also support the need for consumer education beyond high school. College courses were identified as a preferred method of education on credit management, possibly because of the opportunity to receive college credit. Student organizations and campus newspapers could also be used for education. Counseling services on financial management located on campus also could be essential for students who are already experiencing financial difficulty.

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