

## Exploring College Students' Awareness of and Use of Credit

Lauren J. Leach, *State University of New York College at Oneonta*  
Celia R. Hayhoe, *University of Kentucky*

### Abstract

There is abundant anecdotal evidence from parents, students, and popular press about students' misuse of credit (Harris, 1996; O'Connell, 1996; Whitehead, 1996). Today's students are dependent on credit. The Guaranteed Student Loan program, which provided about 17% of all student aid in the 1970s, has become a major portion of students' educational funding (Kramer & Van Duesen, 1986). Credit card companies aggressively solicit new cardholders from among college students, offering various incentives and low introductory rates. MasterCard International estimates that 80% of all college students carry a credit card by their senior year (Bryce, 1995). Some college town offices of the Consumer Credit Counseling Service have estimated that 5% of their clientele are students with at least \$5,000 in credit card debt. Despite this anecdotal evidence, there has been little research to confirm levels of student debt.

In addition, little is known about students' knowledge of credit or factors that contribute to a student's misuse of credit. This pilot study provides educators with information on the magnitude of college students' credit use, students' beliefs about credit, and their exposure to credit education in high school or college.

### Literature Review

Various sources in trade magazines and the news media have reported on the widespread use of credit among college students. In 1996, an estimated 64% of the nation's eight million college students had at least one credit card (Lowe, 1996). Nearly two-thirds of all college students received credit cards on or before their freshman year (Susswein, 1995). Susswein confirms that most information about students' credit use is anecdotal and that there is a need for research in this area.

In America, the average person has nine credit cards (Office of Financial Responsibility, 1994). Armstrong and Craven (1993) found that students in their study had from one to 25 cards. Student cardholders who reported having more than one card often had several cards of the same type (i.e., two or more VISA cards).

Only 30% of cardholders pay their balances in full each month

(Detweiler, 1993). Students with limited incomes can make minimum payments—usually only 2% of the outstanding balance. Thus, a student may be paying for goods and services for many years after the goods and services have been consumed. In one student's budget in a personal finance course, 10 minimum payments were listed for a total of \$400 a month (C.R. Hayhoe, personal communication, May 24, 1997). When a student already has this much consumer debt and also shows receipt of student loans, he/she has severely limited the ability to meet other financial obligations upon graduation.

Student credit card use places a financial burden on the students' parents as well as the students themselves. Parents who bail their children out of overspending problems caused by credit misuse face the burden of unplanned expenses. Susswein (1995) states that default rates stated by credit card companies do not accurately reflect default rates of students because they do not include students whose parents repaid the debt. With technology and use of credit cards increasing (Norton, 1995) it is important that consumer educators emphasize to students the ramifications of credit use.

Brito and Hartly (1995) stated that even though interest rates are higher on credit cards, rational consumers still use them because using a credit card is easier than applying for other types of credit and because credit cards lower the need to keep large sums of money available for emergencies. Students do not have the income or credit history to apply for other types of financing and have little, if any, funds saved for emergencies. The easy access to funds makes credit cards all the more tempting to use, especially to the student of limited means. Ford (1990) suggests that peer pressure for material possessions and low income encourage young adults aged 18-21 to view credit use as a necessity.

### Methods

Data were collected by self-administered questionnaires in summer and fall semesters, 1996 in various classes on a southeastern university campus. Questions covered demographics, credit card possession and use, and beliefs about credit and money.

Specific questions about credit card possession and use included how many credit cards students held, how many of these cards carried a balance and how many cards carried the maximum balance. Students were asked how many times a month they used the most often used card and how much they charged on it monthly. For the most often used cards, students were asked to report the credit limit, annual interest rate, and grace period. Students also were asked how

often parents paid the student's credit card bills, whether parents agreed to pay the bill before or after the purchase was made, how much of the bill parents paid, and whether the student had agreed to repay parents. Questions on financial management practices included whether students received past-due notices, whether they were currently behind on rent or utility payments, and whether they had a loss of income or large unexpected expenses in the past year. Students who reported loss of income or unexpected expenses were asked how they handled these. Students were asked whether they had taken a personal finance class in high school.

Students also were asked about their beliefs and behaviors about money and their financial well being. Students indicated the extent to which they agreed that statements applied to themselves using a five-point scale from 1 (*strongly disagree*) to 5 (*strongly agree*). Statements included "I am proud of my ability to save money" and "I often use money as a weapon to control and intimidate those who frustrate me." Answers for these questions were developed into a modified version of Furnham's Money Beliefs and Behaviors Scale (Furnham, 1984; Hayhoe & Leach, 1997) using factor analysis. T-tests were used to examine differences in specific financial behaviors and beliefs among students with no credit cards, those with one to three credit cards and those with four or more credit cards.

Descriptive and summary characteristics were calculated. The typical respondent was a 23-year-old unmarried female undergraduate. She was likely to be in the College of Human and Environmental Sciences and a Family Resource Management and Consumer Studies major. Although the typical respondent was not representative of the student body as a whole, this study is exploratory in nature and the preliminary to a larger study. The sample of 59 reflected a 37% response rate.

Forty-two percent of the students had student loans. Forty-four percent of them had a scholarship. Of the 39 students who worked, 11 worked fewer than 20 hours, 11 worked 20-25 hours, 13 worked 30-40 hours, and 4 worked more than 40 hours per week. Thirty-nine percent of the students had received a past due notice, but only 1 student reported being currently behind on rent or utility payments. Forty-one percent reported having unexpected expenses during the year. Eighteen percent of the total sample said they handled these unexpected expenses by putting them on their credit card.

In the sample, 49 of the 59 respondents reported having at least one credit card. Twenty-five of these reported that they used the card frequently or almost always. Twenty-one percent reported receiving their first card before they came to college yet only 2 students reported

having any financial planning in high school. Eighty percent of card users reported carrying a balance on at least one card and 49% carried a balance on more than one card. Approximately 22% of the students with credit cards had at least one credit card carrying the maximum balance. When questioned about the card they used most frequently, almost half (47%) did not know the grace period, 63% pay only the minimum amount or more than the minimum but not the full amount, and 39% said their parents frequently or almost always paid their credit card bill. Of the 19 students who said their parents paid the bill, six said that their parents agreed to pay the bill after the purchase was made. Nine of the students said they had agreed to repay their parents for most or all of the bill.

Students with one to three credit cards were more likely to borrow money from family members than students with four or more credit cards ( $t = 2.117, df = 47, p < .04$ ). They also were more likely to save regularly ( $t = -179.04, df = 47, p < .08$ ). They scored higher on the money belief characterizing obsession with money than did students with four or more cards ( $t = 2.025, df = 45, p < .04$ ).

Students with no credit cards were more likely to meet financial emergencies with money they had saved ( $t = 2.948, df = 57, p < .05$ ) or by borrowing from a bank or other financial institution than students with credit cards ( $t = 2.948, df = 57, p < .05$ ). They also were more likely to report that they had no money problems ( $t = 3.518, df = 56, p < .002$ ).

Students whose parents used money as a reward were more likely to use credit cards ( $t = -2.513, df = 57, p < .02$ ) than students whose parents did not. Those who received an allowance ( $t = -2.318, df = 57, p < .03$ ) were more likely to use credit cards than students who did not receive an allowance. Students with credit cards also were more likely to report that they worry where money will come from to pay bills ( $t = -1.8699, df = 57, p < .07$ ) than did students with no credit cards.

### Implications

Even though this was an exploratory study, results are important to consumer educators; they offer a glimpse into college student credit use. This sample confirms some of the anecdotal evidence mentioned in the literature review. Most of the students in this sample had at least one credit card with a balance, and 22% of the students had at least one card with the maximum balance.

Students are using credit cards without knowing the cost of the credit they use. Of the 80% who reported carrying a balance, most did

not know the interest rate or the grace period on the card they used most. Furthermore, as is evidenced from the number of students whose parents paid their credit card bills, students may not be getting full personal experience of credit use. College students may develop a credit history with their parents' help without learning good credit habits. Such a situation could result in financial trouble after graduation when their credit limit is higher due to increased income and the consequences of over-indebtedness are greater.

Of particular concern to educators is that students may not be getting access to credit education before they get access to credit cards. Although 41% of students who had a credit card received it before coming to college, only two students indicated that they had financial planning coursework in high school. Mandatory credit education courses in high school would expose students to information before college. Credit education for high school students which includes information on finance charges, annual percentage rates, grace periods, and financial ratios to determine over-indebtedness may prevent the overuse of credit by college students.

### References

- Armstrong, C. J. & Craven, M. J. (1993). Credit card use and payment among a sample of college students. In V. S. Fitzsimmons (ed.), *Proceedings of the Association for Financial Counseling and Planning Education* (pp.148-159). Urbana, IL: University of Illinois at Urbana-Champaign.
- Brito, D. L. & Hartley, P. R. (1995). Consumer rationality and credit cards. *Journal of Political Economy*, 103, 400-433.
- Bryce, R. (1995, April 30). Here's a course in Personal Finance 101, the hard way: Learning to swim in a campus sea of plastic debt. *The New York Times*, p. F11.
- Detweiler, G. (1993). Credit cards: What you don't know can cost you! *Advancing the Consumer Interest*, 5(2), 6-11.
- Ford, J. (1990). Credit and default amongst young adults: An agenda of issues. *Journal of Consumer Policy*, 13, 133-154.
- Furnham, A. (1984). Many sides of the coin: The psychology of money usage. *Personality and Individual Difference*, 5, 501-509.
- Harris, M. (1996). How to teach your kids the right way to use credit. *Money*, 25(11), 45, 47.
- Hayhoe, C. R. & Leach, L. J. (1997, June). An exploration of student credit use. Poster session presented at the annual meeting of the American Association of Family and Consumer Sciences, Washington, DC.

- Kramer, M. A. & Van Dusen, W. D. (1986, May/June). Living on credit. *Change*, 18(3),10-19.
- Lowe, J. (1996, September 30). Credit cards 101: Helping students manage easy plastic. *The Christian Science Monitor*, 13.
- Norton, C. M. (1995, July/August). Future speak: What lies ahead for consumer credit? *Credit World*, 83(6), 29-31.
- O'Connell, V. (1996, September). A new campus stalker: Credit card companies. *Money*, 49.
- Office of Financial Responsibility (1994). *Credit Wise: Coming to Terms*. New York: American Express Co.
- Susswein, R. (1995, May/June). College students and credit cards: A privilege earned? *Credit World*, 83 (5), 21-23.
- Whitehead, E. (1996, November). It's in the cards: Keeping your college kids out of debt. *Better Homes and Gardens*, 44.

*Lauren J. Leach is Assistant Professor, Department of Human Ecology, State University of New York College at Oneonta, Oneonta, NY 13820; (607) 436-2519; e-mail: leachlj@oneonta.edu.*

*Celia R. Hayhoe is Assistant Professor, Department of Family Studies, University of Kentucky, Lexington, KY 40506-0054; (606) 257-7745; e-mail: crhayh1@pop.uky.edu.*

