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Majoring in Credit-Card Debt

Aggressive on-campus marketing by credit-card companies is coming under fire. What should be done to educate students about the dangers of plastic?

by [Jessica Silver-Greenberg](#)

This story is the first in a series examining the increasing use of credit cards by college students.

Seth Woodworth stood paralyzed by fear in his parents' driveway in Moses Lake, Wash. It was two years ago, during his sophomore year at Central Washington University, and on this visit, he was bringing home far more than laundry. He was carrying more than \$3,000 in credit-card debt. "I was pretty terrified of listening to my voice mail because of all the messages about the money I owed," says Woodworth. He did get some help from his parents but still had to drop out of school to pay down his debts.

Over the next month, as 17 million college students flood the nation's campuses, they will be greeted by swarms of credit-card marketers. Frisbees, T-shirts, and even iPods will be used as enticements to sign up, and marketing on the Web will reinforce the message. Many kids will go for it. Some 75% of college students have credit cards now, up from 67% in 1998. Just a generation earlier, a credit card on campus was a great rarity.

For many of the students now, the cards they get will simply be an easier way to pay for groceries or books, with no long-term negative consequences. But for Seth Woodworth and a growing number like him, easy access to credit will lead to spending beyond their means and debts that will compromise their futures. The freshman 15, a fleshy souvenir of beer and late-night pizza, is now taking on a new meaning, with some freshman racking up more than \$15,000 in credit-card debt before they can legally drink. "It's astonishing to me to see college students coming out of school with staggering amounts of debt and credit scores so abominable that they couldn't rent a car," says Representative Louise Slaughter (D-N.Y.).

Congressional Oversight Weighed

The role of credit-card companies in helping to build these mountains of debt is coming under great scrutiny. Critics say that as the companies compete for this important growth market, they offer credit lines far out of proportion to students' financial means, reaching \$10,000 or more for youngsters without jobs. The cards often come with little or no financial education, leaving some unsophisticated students with no idea what their obligations will be. Then when students build up balances on their cards, they find themselves trapped in a maze of jargon and baffling fees, with annual interest rates

shooting up to more than 30%. "No industry in America is more deserving of oversight by Congress," says Travis Plunkett, legislative director for Consumer Federation of America, a consumer advocacy group.

The oversight may be coming soon. With Democrats in control of Congress and the debt problems for college kids only growing worse, the chances of a crackdown have increased substantially. The Senate is expected to hold hearings on the credit-card industry's practices this fall. Representative Barney Frank (D-Mass.) has pledged to introduce tough legislation. And Slaughter introduced a bill in August to limit the amount of credit that could be extended to students to 20% of their income or \$500 if their parents co-sign for the card.

The major credit-card companies take great issue with the criticisms. Bank of America ([BAC](#)), Citibank ([C](#)), JPMorgan Chase ([JPM](#)), American Express ([AXP](#)), and others say they are providing a valuable service to students and they work hard to ensure that their credit cards are used responsibly. Citibank and JPMorgan both offer extensive financial literacy materials for college students. Citibank, for instance, says it distributed more than 5 million credit-education pieces to students, parents, and administrators last year for free. At JPMorgan Chase, bank representative Paul Hartwick says: "Our overall approach toward college students is to help them build good financial habits and a credit history that prepares them for a lifetime of successful credit use."

Questions About the Vetting Process

The banks also make the point that students have to be responsible for their own actions. They are the ones, after all, who sign up for cards and then choose to use them. The banks argue that they have to act like responsible parents, keeping credit cards out of the hands of students who are clamoring for them. A spokesman for Bank of America says that it denies half of the students who apply for cards.

But the experiences of Woodworth and other students raise questions about the rigorousness of the vetting process for getting a credit card. Ryan Rhoades, who graduated from the University of Pittsburgh last year with more than \$13,000 of debt, remembers his credit-card company's employees telling him not to worry about being unemployed. Lukasz Kozoil, formerly a student at DePaul University, says that Citibank's representatives told him to fill in his tuition on a card application where it asked for income. (A spokesman for Citibank says, "no representative from Citi is authorized to fill in tuition cost on a credit-card application.") Woodworth got his American Express card without a job, and it had a credit limit of \$6,000. "Within three months, they upped it to \$10,000," he says.

This is not common practice for the credit-card industry. In most cases, an unemployed person would have a hard time getting a credit card, especially one with a five-figure credit line. Consumer advocates say that banks have modified their practices for college students, because they're vulnerable and their parents will usually bail them out. "When you compare this to the way that credit is extended in the general population, there seems to be something wrong with this system," says Linda Sherry, director of national priorities at Consumer Action, a San Francisco consumer education and advocacy group.

Amex Restraint Draws Kudos

American Express would not comment specifically on Woodworth's situation. Kim Forde, a spokeswoman, says the company "has a number of sophisticated risk management tools in place to manage credit prudently. The specific criteria are proprietary, but there are number of factors that we

consider in our underwriting process before granting anyone credit. In terms of students in general, students eligible for approval are 18, and can typically show the means for paying the bill. But it's not a one-size-fits-all [approach]."

Unlike many other card companies, American Express does not market to college students on campus, a measure of restraint that has drawn kudos from consumer activists. However, the company does market to college kids online and has a special student card that it bills as "one of the best-looking cards on campus" and "in a class by itself." That is the card that Woodworth obtained.

Another unusual characteristic in the relationship between students and credit-card companies is that students are particularly susceptible to the complex fees and charges such companies employ. The practices attract plenty of criticism because few cardholders, in college or not, can understand them easily. For example, in a September, 2006, report, the Government Accountability Office said that bank disclosures "were too complicated for many consumers to understand. The required disclosures were poorly organized, burying important information in text or scattering information about a single topic in numerous places."

Vulnerable to "Universal Default"

Less well-known is that banks often change the rates they charge cardholders as their credit scores change. Students' credit scores can plunge particularly quickly, with one or two missed payments, because their track records are so short. One common practice is called "universal default." Under universal default, a student who has two credit cards and faithfully makes timely payments on one, but misses a payment on the other, can find that the interest rate he's being charged has been raised to 30% on both cards. At Senate hearings in April, several of the leading credit-card issuers pledged to eliminate universal default. But according to a 2007 Consumer Action survey, 8 of the 10 leading credit-card issuers still raise cardholders' interest rates based on information from credit reports.

All of this is disclosed in cardholder policies. But students, like many other people, don't read the fine print. "I had no idea that my interest rate would rise the way that it did because I missed one payment," says Woodworth. The average credit-card contract can be 30 pages long, and it's littered with legal jargon in tiny type. "You tell me how any college student can understand the terms of a card, and make rational choices when the agreements themselves are unreadable," says Elizabeth Warren, a law professor at Harvard University. "It's like selling toasters and handing a consumer wiring diagrams."

When Woodworth first applied for his American Express card, not having a job meant that money was scarce. His meals out consisted largely of trips to the student dining hall and the occasional late-night pizza. As he made the 71-mile trip between his home in Ellensburg and the school's campus in Moses Lake, he just hoped his bank account wouldn't empty before his gas tank. The Amex card was a blessing, at least at first. "I was really surprised that I could get a card," he says.

Using Plastic to Buy Gas and Food

The credit card helped him connect his wants and his means. Instead of scrounging quarters from the couch cushions, he could charge his meals to the card. "It's not like I was buying a 50-inch television," he says. "It was just basic things, and it was easier not to deal with cash." As Woodworth's balances grew, he kept on telling himself that he would pay it off when he got a better job, or managed to squirrel away some cash.

Like Woodworth, many college students have no fear about credit cards to temper their spending. They

tend to be optimistic about the future, anticipating that once they get out of school they'll have a good job and plenty of money. Credit-card ads often echo this optimism with some showing students smiling into the distance as if glimpsing the blissful days ahead.

Students also live in a culture of debt. Many of them are borrowing tens of thousands of dollars to go to school, tapping low-interest loans to pay tuition. "The primary way we help students pay for college is by telling them to take on more and more student loan debt," says Tamara Draut, director of the Economic Opportunity Program at Demos. The message is clear, she says: "Debt is O.K., and you are going to have lots of it." In that context, Woodworth and other students think little of charging another \$50 for dinner or groceries.

What Students Don't Know Can Hurt Them

What Woodworth didn't realize is that a \$500 card balance at the average interest rate of 16% can take nearly 3 years to pay off if only minimum payments are made. Even the minimums grew oppressive for Woodworth. The thought of the looming debt debilitated him: "I would stay up at night thinking about it," he says. "I couldn't get up in the mornings. I wasn't socializing, and sometimes I wouldn't eat, then other days I would eat too much. I felt totally alone."

Instead of tackling the debt immediately or asking for help, Woodworth procrastinated, letting the balance fester until it had spiraled out of control, and he had to return home. When that shiny new card came, he never read the fine print. "I should have read it, and I realize that," says Woodworth.

He didn't know that his interest rate could rise if he made a late payment, and then it did. He didn't know if he made a late payment on one account the rate on another card could be raised, and it was. And he didn't know that there are no regulations governing how hefty late fees can be. Then he got hit each month with a \$39 wallop.

Credit-card companies say that they put a heavy emphasis on financial literacy. They distribute materials and make information available online to help students become savvy consumers, while helping them to build a good credit score in the long term. "Each one of our new student account holders receives our Student Financial Handbook, an easy-to-use guide for understanding the basics of managing their finances, including how to balance a checkbook, how a credit card works, and so on," said Bruce Hammond, president of card services for Bank of America, in his testimony before the Senate earlier this year.

Long-Term Effects of Mismanaged Debt

But consumer advocates say such efforts aren't nearly enough. They contend that credit-card companies should be banned from marketing on college campuses, in the same way that tobacco and alcohol companies can't market to kids. "Education alone isn't going to solve the problem," says Plunkett, of the Consumer Federation of America. "Credit-card companies are subtly shifting the burden to students when they talk about credit education programs. The companies should not be targeting a population who are not in a position to handle credit wisely."

The learning curve with credit cards is steep, and there is little room for trial and error. Mistakes made in college can haunt students long after graduation. Their credit scores can have an impact whether they get their job of choice, whether they qualify for an apartment, and even whether they have to pay more

to get their utilities turned on.

As for Woodworth, he is finally headed back to school this fall after two years away from campus. He has learned from his experience with credit, but the lessons have a bitter tinge. "If I could do it over again, I never would have gotten a credit card," says Woodworth.

[Silver-Greenberg](#) is a reporter for BusinessWeek.com.

Further Optional Reading:

Part 2. Confessions of a Credit Card Pusher

http://www.businessweek.com/bwdaily/dnflash/content/sep2007/db2007094_967042.htm

Part 3. The Dirty Secret of Campus Credit Cards

http://www.businessweek.com/bwdaily/dnflash/content/sep2007/db2007095_053822.htm

Part 4. Fixing the College Credit-Card Mess

http://www.businessweek.com/bwdaily/dnflash/content/sep2007/db2007096_936550.htm

Credit Cards 101: Finding the Right Plastic

http://www.businessweek.com/bwdaily/dnflash/content/sep2007/db2007091_188371.htm