

Marketing Practices of Credit Card Issuers:
Implications for Regulatory Policy and Education

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College students are deluged with credit card offers, resulting in unprecedented credit card usage. In this study, credit card practices of students enrolled in undergraduate business courses at one Midwestern university were examined. Findings indicate that most students use credit cards and a majority of them have concerns making their credit card payments. Given that nearly all survey recipients stated they would benefit from additional credit card education, it is likely that business school educators could do much to instruct students on the pros and cons of credit card usage. At a macro-policy level, clearly credit card issuers should be monitored to their solicitation practices targeting America's youth.

Introduction

Today, marketers of consumer products have shown unparalleled success in attempting to reach target markets. For example, financial institutions have been known to target teenagers with offers of credit cards with pre-approved spending limits which grossly exceed their current income.

Clearly, the increased number of credit card solicitations to teenagers in America is problematic. This has been brought into national attention by the recent testimony of college student Michele Bedell regarding "ruined" credit at a U.S. Congressional hearing on possible marketing abuses by credit card issuers. The session, chaired by Massachusetts Congressman Joseph Kennedy II and officially referred to as the "Credit Card Hearing," documented the relentless manner in which students are pressured into obtaining credit cards (Belden, 1999).

Credit card companies are attracted to U.S. college students because full-time undergraduates annually account for over \$13 billion in discretionary spending (Cutler, 1991). Credit card companies target the collegiate crowd with special mailings, brochures, and easy-to-use application forms, often with pre-approved credit limits. College students are lured into signing up for credit cards by credit card issuers through such techniques as personal on-campus visits, door-to-door dorm room solicitations, classroom wall displays, and up-front signing bonuses (Buttenheim, 1990; Dodge, 1991).

Credit card issuers have clearly been successful in marketing credit cards to college students. Credit card ownership among college

has increased by nearly 40% since 1988, according to CollegeTra York based marketing research firm (Himmelfarb, 1992). Industr MasterCard reported recently that over eighty percent of colleg have credit cards, most by their sophomore year (Schlossberg, 1

Consumerists have recently questioned credit card marketers for doing enough to educate consumers, especially teenagers and col students, about the dangers of overusing credit (Lucas, 1993). of credit card marketers argue that direct mail solicitations a aggressive promotions are too effective, hooking vulnerable you on easy credit.

The Chronicle of Higher Education recently reported that as a r easy access to credit, many students are piling up high debts (1991). In the same article, Gary Stroh, executive director of Angeles office of the Credit Card Counseling Service, a nationa financial counseling organization, criticized university instru failing to give students "an education in how to use credit wis According to Stroh, nearly 150 college students end up arriving office each month with serious problems resulting from credit c overuse, and for some, the only solution is to declare bankrupt

Undergraduate business students are not exempt from the constan bombardment of credit card solicitations directed at the colleg population. One credit card executive, speaking under the prot of anonymity revealed that business students were more likely t targeted by credit card companies and granted credit cards than liberal arts and sciences majors (Himmelfarb, 1992).

The purpose of our study was to assess whether undergraduate bu students are receiving adequate credit card education from the they are attending. Germane to that investigation, we were als interested in determining the level of student understanding on credit card particulars as interest rates and prudent debt mana

Methodology

Three hundred and two undergraduate business students enrolled large Midwestern AACSB - accredited business school participate study. Data collected included descriptive data (142 females, median age = 21) as well as participants' perceptions of their card education, expertise, activity and debt concerns. General majors (i.e. marketing, management, information systems) accoun slightly over half the sample, accounting and finance majors re another third, and non-business majors made up the remaining th percent.

The survey instrument employed in this study was designed to capture participants' perceptions regarding their history with credit cards as well as their attitudes towards them. Questions pertaining to attitudes toward credit cards included five-point Likert type agree-disagree scales matched to corresponding statements (i.e. "I have concerns about making my monthly credit card payments"). The scales ranged from strongly agree, agree, neither agree nor disagree, disagree, and strongly disagree. Credit history and respondent background information were obtained through a series of dichotomous categorical questions. Given the preliminary nature of this study, descriptive statistics were used to report the key findings.

Results and Discussion

Student Credit Card History

Ninety-five percent of our student sample were holders of at least one major credit card (e.g., MasterCard, Visa, Discover). Nearly half possessed two or more major credit cards. Sixty-one percent were holders of major retail store credit cards (e.g., Sears, Penney's, Dayton's). Thirty-eight percent held more than one retail store credit card.

Sixty percent of the sample had never been refused a credit card which they applied for. Reasons for credit card application rejection included inadequate income (53% of refusals), no credit history and poor credit history (11%).

Eighteen percent of the sample who have credit cards did not know the type of interest rate they were being charged on the credit card used most often. Of those credit card holders in the sample who indicated they knew what type of interest rate they were being charged, two-thirds stated the rate was fixed (on the card they used most often) and the other one-third stated the rate was variable.

Table 1. Student Credit Card Attitudes and Perceptions

	Strongly Agree	Agree	Neither Agree or Disagree	Somewhat Disagree
I have a right to credit cards even if my income is insufficient to cover my current expenses	5%	23%	9%	37%

I should be the one to determine what my credit limit is	4%	17%	5%	38%
Credit cards are issued based on their current annual income	9%	21%	15%	28%
Credit card companies are more likely to issue a credit card to college students than they are to others in similar financial situations	42%	42%	11%	3%
Credit card companies assign higher credit limits to college students than they do to non-college students in similar financial situations	19%	32%	33%	10%
It is the issuer's ethical responsibility to let me know how their credit card works before I start using their credit card	68%	24%	3%	3%

Table 2. Student Credit Card Knowledge and Exposure

	Strongly Agree	Agree	Neither Agree or Disagree	Disagree	S D
I believe I understand all that I need to know about credit cards	12%	55%	8%	22%	
I have concerns about making my monthly payments	10%	29%	13%	18%	
If necessary, I would					

take on more than one job to meet my monthly payments	14%	23%	18%	19%
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Student Credit Card Attitudes and Experiences

As indicated in Table 1, ninety-two percent of the sample held belief that it is the credit card issuer's ethical responsibility to let them know how their credit card works before they start using the card. Only sixteen percent of the sample disagreed with the statement that credit card companies assign higher credit limits to college students than they do to non-college students in similar financial situations.

Only thirty percent of the sample held the belief that credit card companies issue credit cards to students based on the students' income status. Ninety-five percent of the sample had no disagreement with the statement that credit card companies are more likely to issue cards to college students than they are to others in similar financial situations.

Only twenty-eight percent of the sample held the belief that they have a right to possess credit cards even if their income is insufficient to cover their current expenses. Nearly three quarters of the sample disagreed with the statement that they should be the ones to decide what their credit card limits should be.

Student Credit Card Knowledge and Exposure

As depicted in Table 2, two-thirds of the sample (67%) were of the opinion that they understand all they need to know about credit cards. This is somewhat surprising since less than half (48%) disagree with the statement that they have concerns about making their monthly credit card payments and a large percentage (over 80%) stated they would like to receive more credit card education.

Less than half of the student sample (45%) disagreed with the statement that, if necessary, they would take on more than one job to meet their credit card obligations.

Summary

It is clear from the results presented that a large majority of school students in this study believe they would benefit from more credit card education. Given that the institution where our data was collected recently reported it has the lowest student loan default rate,

in the nation for comparable public universities (Hoffman, 1994) likely that students in our sample are no less knowledgeable about credit cards than typical college students around the country. This suggests that business students attending other institutions of learning, if queried, might also cite the need for additional credit card instruction.

Similarly, our sample included nearly 100 finance and accounting students, the very people within a student population one would think most to be familiar with how credit cards work. Since this subsample is likely as knowledgeable as the non-finance/accounting group to believe credit cards are another form of income, this suggests that undergraduate business students of all majors might benefit from additional credit card education.

Our study was designed to enable us to learn more about student credit card perceptions and experiences. With this as a backdrop, the issues at hand are what, if anything, should society be doing to regulate credit card issuance practices, and what should business educators do regarding students' credit card education?

At a minimum, our study was intended to raise the awareness of the business profession to an existing student need for further credit card instruction. Within the undergraduate business curriculum, discussions about credit and credit cards topics could logically be deemed appropriate in courses pertaining to principles of finance, marketing, and even business law. It could be argued, for instance, that a thorough understanding of credit applications is necessary to fully grasp the critical "time value of money" concepts embedded with financial management. Similarly, business students need comprehensive exposure to credit theory since the extension of creative credit offerings by modern day marketers is growing in importance.

On the macro-public policy level, additional research on the ethical dimensions of credit card offerings to both the general and college students is clearly warranted. Evidence that may be forthcoming from on-going U. S. Congressional Hearings on this topic, suggests that Congress may be ready to take a more active role in regulating credit card issuance practices.

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