

CREDIT CARD STATUS AMONG COLLEGE STUDENTS: A NATIONAL PERSPECTIVE OF MISUSE

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ABSTRACT

With our nation's financial future at stake, the topic of credit card misuse among college students has become a significant concern. This study explores students' current credit card status and explores misuse characteristics based on demographics. Proven and reliable scales assessing credit card misuse behavior are used to survey a random sample of 240 college students across 15 states. Results indicate a variety of significant relationships relating to demographic characteristics and the propensity of credit card misuse. This result makes theoretical contributions in refining, improving, and using theoretical scales in empirical context. In practical terms, the findings of this study have serious implications not just for students in college but for those engaged at the crosscurrents of marketing, social responsibility, and public policy.

INTRODUCTION

Our research strives to identify causes to the rising credit card debt among college students and can provide colleges, universities and public policy makers with ideas on what needs to be monitored more closely. The paper is organized as follows.

First we discuss secondary data relating to credit card usage by college students. We then introduce a brief literature review on the current status of credit cards among college students throughout the United States, followed by our theory development and methodology. Subsequently, we discuss the methods for data collection and provide a sample profile. Along with the sample profile, we introduce the key findings on credit card usage alongside credit card misuse based on demographics. In the succeeding section we explain present further discussion and conclusions on key findings. Finally, we explain limitations and possible future research and provide some concluding remarks.

Credit Card Usage in College Populations

Undergraduate college students are carrying credit cards in record numbers. In 2001, 83% of undergraduates had at least one credit card (Nellie Mae 2001). Some experts approximate the average credit card debt of a college student to be in close proximity to \$3,000, with 23% of students carrying balances between \$3,000 and \$7,000 (Weiss 2003). As a result, some students even open up new cards to pay off existing debt. The increasing number of outstanding balances among college students appears to have a number of causes.

Research indicates that students have a propensity to carry an inordinate amount of credit card debt as they progress through college. One study conducted by Qvisory, a nonprofit online advocacy and service organization that supports the financial well-being of young adults, found that students are growing more concerned about their financial standing. Results from their 2008 study showed that financial concerns top the list of problems facing students in their lives today. Out of their sample, 55% of respondents claimed this to be their number one concern, a 10-point increase from 2007 (Greenberg 2008).

Qvisory's study showed that young people feel a significant amount of stress and worry towards their financial status, with 48% of respondents saying they frequently worry about having enough money to pay their bills (Greenberg 2008). With the increase in debt and financial anxiety, students with higher consumer debt usually work more, resulting in poorer grades. As a result, these students often suffer from depression and sometimes even have to withdrawal from school (Manning 2000; Miller 2000; Roberts and Jones 2001).

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In relation to Nellie Mae's study, Qvisory's study showed that two thirds of its participants surveyed reported having a credit card, and over half of the participants surveyed said that they have credit card debt. The study also showed that 41% of young adults with credit cards are more likely to have accumulated debt in the last year than the 29% of young adults who do not have a credit card (Greenberg 2008).

College students represent a key customer base for many different types of organizations as well as serve as an intricate part of the future of our nation. The key issue, however, is how "America's future" is being shaped into a debt collecting society. From an economic perspective, students accumulating such high debt and trying to pay it off essentially cuts off revenue streams in other markets (Pirog & Roberts 2007). Roberts & Jones (2001) Credit Card Misuse Scale, which we introduce more thoroughly later, becomes my instrument in evaluating misuse in relation to student's current credit card status.

INTEGRATED THEORETICAL FRAMEWORK

Theory Development

In the review of past literature, we discussed specific findings compiled by a variety of researchers who focused on the overall status of credit cards with college students. Our main goal is to evaluate misuse characteristics in conjunction with a student's actual behavioral tendencies with their credit cards. To do so, we turn to Roberts & Jones (2001), who took previous findings into consideration and developed a scale to assess one's credit card misuse.

Methodology

A pretest survey was conducted on the campus of a small, private, liberal arts school in the Northeast to identify and correct potential errors. Each respondent was notified that the survey was completely confidential and to be used for academic purposes only. Upon reviewing the results, necessary adjustments were made for the national sample.

The new version, which was now segmented into more specific sections, was designed to determine the current status of credit cards among college students as well as any relationships in terms of misuse behavior. The first section (Credit Card Debt Status) was designed to accomplish the tasks of identifying current behaviors. This section was inspired by questions from Nellie Mae's survey of students conducted in 2004. The second section presented Roberts & Jones (2001) Credit Card Misuse Scale, which served as the method of identify tendencies towards credit card misuse. We asked participants to rank their responses using a modified Lichert scale with 1 being "strongly disagree" and 5 being "strongly agree" with the proposed statement.

Data Collection

After thorough testing, the survey was administered online (surveymonkey.com) from July to October 2008. Each respondent was made aware that the research was for academic purposes and that their responses were confidential. To generate responses, advertisements were positioned on popular student websites such as Facebook and distributed through e-mail on specific college networks. Facebook allowed us to target 18-24 year olds in the United States at a cost of 26 cents per 1,000 impressions with \$5 being the maximum balance per day.

We conducted a Google search to obtain e-mail addresses of colleges across the United States and sent an e-mail to their admissions department requesting them to forward our request to the appropriate parties. The response rate was particularly low and we decided to go to the root of the source. We then Google searched "marketing faculty" and it provided e-mail addresses at random of marketing professors across the United States. We sent an e-mail requesting they forwarded the email to the students and that they participate in the study. Many universities responded to proclaiming that they don't allow mass e-mails to be sent to their students. Although this

was disheartening for our study, it was understandable that these colleges were just protecting their students. Our efforts yielded an effective sample size of 240 students.

RESULTS AND DISCUSSION

Sample Description

The sample includes students from 15 states: California, Connecticut, Florida, Georgia, Maryland, Massachusetts, Montana, Missouri, New Hampshire, New Jersey, New York, Ohio, Rhode Island, Texas and Vermont. The majority of students were from the Northeast, which is not surprising given the location of the researching institution. Of the 240 students surveyed, approximately 40% (97) were in the age range of 18-20 with the most frequent age being 21 comprising around 20% (47) of the sample. The remaining one fourth was made up of students 22 years and older (62). In relation to this, there was a fair representation of each class level with seniors, juniors and graduate students being the most frequent participants, representing approximately half of the sample. The remaining half was comprised of freshmen and sophomore students.

The sample was split about 64% to 23% in favor of females. Some respondents did not specify their gender while responding. Approximately 7% of respondents worked 21-30 hours, 7% worked 31-40 hours and 10% worked 40 or more hours per week. In relation to this, we found that about 35% of the sample made between \$1-\$500 per month and about 16% actually did not have an income. Taking into consideration that only approximately 17% of respondents are graduates we weren't surprised that around 9% reported making over \$2,000 per month with about 5% reporting between \$1,001-\$1,500 and about 3% claiming between \$1,501 and \$2,000.

Credit Card Debt Status Analysis

Results based on 240 participants show a range of one to five (or more) credit card ownerships while the majority reported between 2 and 4 cards. Out of the students who reported not owning a card, approximately 40% reported their reason as being afraid of collecting debt. Considering credit card companies' willingness to give students credit in hopes of acquiring a lifetime customer, we were surprised to see that 40% reported their reason being not able to get approved. For those who did own credit cards, the majority (approximately 78%) either acquired them before entering college or as college freshmen with approximately 40% getting help from their parents in making the decision. However, one fourth of participants reported making their decision based on a direct mailer sent from the vendor themselves.

More importantly, there was a split in terms of credit balances the students were carrying, both showing positive and negative outlooks. One fourth of students reported having a current balance between \$0-\$200 which is respectable. However, 15% of students have a current balance of over \$1,000 dollars with almost a third of respondents having carried a maximum balance of over \$1,000 at one point in time. Perhaps our main concern should regard their payment behavior.

Almost 40% of the sample reported paying off their credit card balances in full each month which is most likely pertaining to those with lower balances. A little over 15% said that they make more than the minimum payment but always carry a balance. This 15% is more likely made up of those who owe over \$1,000 and if this is case, they are most likely collecting sizeable amounts of interest, which supports the data Nellie Mae found back in 2001.

When we saw these vast amounts of balances occurring we shifted the focus to what the students were actually buying. Over 50% of students reported spending between \$0-\$1,000 on educational related expenses in the past year with textbooks and school supplies being the primary purchases. The amount of money students were spending on non-education related items was noticeably higher. Over half of the sample reported gasoline and

clothes as their main items with approximately 40% charging travel expenses, music/movies, and food. Slightly over half reported spending between \$0-\$1,500 with 14% charging over \$3,000 in the past year.

Credit Card Misuse and Student Characteristics

First, an ANOVA was performed using demographic information collected alongside the credit card misuse scale. We decided to focus only on outputs at the 0.10 or lower level of significance. For all of the calculated means, the highest possible could be 5. After viewing the results it was discovered that there is a relationship at the 0.029 level in regards to a student's age and how often they fail to make their payments on their credit cards. In relation to this, we found this to also be true based on the student's year in school (0.014 significance). The means for both age and year in school showed an increasing trend, with students at the age of 18 having a mean of 3.67 and the highest age category of 23+ having a mean of 4.66. As for the student's year in school we had calculated means of 3.15 for freshmen and a combined average of 4.18 for seniors and graduate students. This could suggest that students become more financially responsible in terms of paying their debt as they get older both from an age and educational standpoint.

After viewing the number of hours per week that the students worked, we felt it was appropriate to assess their level of income per month. The data showed an increasing trend in means with students reporting having no income at all with a mean of 2.56 and students having an income between our highest value of \$1,500 and \$2,000 having a mean of 4.00. This trend suggests that as students make more money, they charge more on their credit cards. Although this logically makes sense, the problem results from how much they are charging. Many times the increase in income and credit card spending are not proportional, which causes students to find themselves in growing debit.

LIMITATIONS & FUTURE RESEARCH

Although the study expands our knowledge of the current status and misuse characteristics, there are certainly limitations. First, the sample size is relatively small at 240 and because of this, may not accurately portray all students across the country although we do have 15 states represented in the sample. Also, the findings are in tune with the Nellie Mae Studies (2001), which lend credibility to the robustness of our sampling.

This smaller sample may have resulted because we sent out surveys toward the end of August. We felt sending them out then would be ideal considering students would be arriving back at school. What we failed to take into account was that students would have a decreased amount of free time because of school work and interactions with friends they have been apart from since May.

The reader is cautioned that although the sample was relatively diverse with a variety of students from different states participating, one should still be cautious in generalizing our findings to all students at the national level. When we say diverse, we are speaking of the particular characteristics and backgrounds of each student. We cannot claim total diversity considering two-thirds of our sample was made up of females. One should also be aware of participants having the tendency to boast about themselves and provide us with inaccurate data. For example, almost 80% the sample reported having a GPA between 3.1 and 4.0. Although it is entirely possible that this is the case, it could well be an inflated response. This also relates to a participant's honesty in their credit card behavior and tendency to downplay a problem.

Utilizing Roberts and Jones (2001) Credit Card Misuse Scale allowed us to identify misuse characteristics but didn't allow us to test what was actually driving the misuse. It would be interesting to explore topics that could potentially drive credit card misuse. For example, it would be interesting to see if an individual's level of materialism influences their credit card misuse. It would also be interesting to see if the problem arises from a student's inability to effectively process the risks of using their credit cards.

CONCLUDING REMARKS

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Our study can have a significant impact on college students as well as on credit card companies to reevaluate their standards. Furthermore, this research can assist policy makers and school officials on assisting college students with this issue. It's imperative that students realize the severity of poor credit card management now so they can avoid hardships in the future. With the current financial crisis and instability of the economy, it's important that our nation's youth exhibit responsible behavior with their credit cards.

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