Credit Usage of College Students:
Evidence from the University of Illinois

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Introduction

In recent years, we have seen dramatic growth in credit card usage among college students. Increases in the number of students holding credit cards and incurring credit card debt have generated concern that students are becoming overextended and unaware of the long-term consequences associated with severe indebtedness. When other debt is added to this, such as educational loans, the concern becomes even greater.

If used responsibly, credit cards can provide a number of advantages to college students. Credit cards can be a convenient means of payment, a useful tool for learning financial responsibility, a resource in case of emergencies, a means to establishing a good credit history, and a way to gain greater access to credit in the future. However, if credit cards are mismanaged or misused, the disadvantages can result in severe financial consequences. The convenience of credit may tempt students to live beyond their means. Excessive credit card debt and late payments can damage a student's credit rating and make it more difficult for them to obtain credit on down the road. In addition, students who are financially inexperienced may not understand the cumulative effect that interest rates can have on the amount of debt owed. Inexperience with credit and a lack of personal financial knowledge is likely to place some students at greater financial risk for having large, and perhaps unmanageable, debt burdens when they graduate. For those students who are receiving financial assistance in the form of need-based grants, federal loans for education, and/or federal work-study, there may be an added risk of future financial difficulty. Are students accruing more debt than they can handle? The results are mixed.

Recent media reports seem to suggest that college students are accruing too much credit card debt. Unfortunately, these reports often focus on anecdotal horror stories about students who have incurred excessively large amounts of debt. The seriousness of student credit card usage has also been exaggerated by recent commentary from college officials and policymakers, who feel strongly that students should have more limited access to credit. For this reason, researchers have begun to question whether growing concerns over rising credit card debt levels are warranted.

Out of heightened concern about rising debt levels, several recent studies have attempted to determine whether college students are in fact incurring excessive amounts of credit card debt (Armstrong and Craven, 1993; Baek, 2001; Gutter and Kim, 2001; Hayhoe, 2002; Hayhoe, Leach, and Turner, 1999; Joo, Grable, and Bagwell, 2001; The Education Resources Institute and the Institute for Higher Education Policy, 1998; and the U.S. General Accounting Office, 2001). These studies examine students' use of credit including: credit card ownership, the amount of credit card debt incurred, the types of credit cards held, and students' attitudes towards credit usage. *In general, these studies find that while the majority of college students now have credit cards, they appear to be using credit cards responsibly and are not accumulating large amounts of debt*. However, there are some college students who *do* have excessive amounts of debt and *are* at risk of not being able to repay their debts, either because of a lack of financial experience or a lack of funds.

To summarize their key findings,

- Approximately, 70% of college students have at least one credit card.
- The vast majority obtain credit cards prior to college or during their freshman year.
- 6-14% have four or more credit cards.
- Over half repay their balances in full each month.
- Only 14-16% report balances over $1000 and about 5% report balances over $3000.

The findings seem to suggest that growing concerns over the rising debt levels of college students may be misplaced. However, with this said, it is important to point out the limitations of these studies:

- First, these studies focus on the credit card behavior of undergraduate students and do not examine credit card usage and attitudes towards credit of graduate students. Excluding graduate students may give a misrepresentation of credit card usage, especially on larger campuses.

- Second, and perhaps most importantly, these studies do not attempt to identify and characterize students who are at financial risk. While the majority of students do appear to use credit cards responsibly, there are students who carry several credit cards and large credit card balances. Who are these students, and how can they be helped?

- Third, these studies do not take into consideration the relationship between financial assistance, other types of borrowing such as for a house or car, and credit card debt. It may be the case that current levels of financial assistance are not enough to cover the rising costs of college. Thus, those students most in need of financial assistance may be forced to turn to other forms of borrowing to complete their college degree.

- This brings us to our fourth limitation--there may be some groups on college campuses that may be more at risk than others for experiencing financial strain (i.e. women and minorities.) Unfortunately, current research has not clearly identified these groups, and they may have a need for specific financial education programs to ensure that they are not at a financial disadvantage and are able to make informed financial decisions.

- The fifth, and final limitation, is that recent studies have not identified the personal financial topics most needed by college students who are at financial risk. They also have not identified the most effective modes of delivery for this type of financial education.

Aside from these limitations, previous studies do provide substantial insight into the usage of credit cards by college students. Are students incurring too much credit card debt and/or other debt? Who are the students most at risk? How can college campuses help at risk students better manage their finances while in school so that when they graduate they are able to repay their debts? What can the University of Illinois, or the Office of Student Financial Aid, do to offer the appropriate kinds of help? These are the issues that concern the Office of Student Financial Aid at the University of Illinois at Urbana-Champaign, and these are the issues we address in this report.

Research Objectives

In the Fall of 2001, the Office of Student Financial Aid (OSFA) conducted a survey of credit card usage among college students at the University of Illinois. The purpose of this report is to analyze the survey findings. Specifically, the main objectives are to:

- Provide a detailed description of credit card usage and financial practices of college students at the University of Illinois;
- Describe students' attitudes towards using credit;
- Compare the credit card behavior and attitudes towards using credit of undergraduate and graduate students;
- Develop an understanding of the relationship between credit card debt, financial aid, and other types of borrowing;
- Identify and characterize those students who are most at risk for experiencing future financial problems.

The college years are a time of transition from financial dependence to financial independence. While most students come to college with an academic plan in mind, few come with a financial plan. The financial knowledge and practices students develop during their college years affect their future financial well-being. Research indicates that formal financial education plays an important role in reducing the financial management problems of college students. Those who learn financial management skills at a younger age tend to do better financially than those who do not receive financial education (Baek, 2001; Weston, 2001; Varcoe et al, 2001; Doll, 2000; Pilcher and Haines, 2000). For this reason, another objective of this study is to:

- Identify resources and services that the OSFA and other campus and community organizations can offer students to help them better manage their credit card debt and other finances.

The ultimate goal is to make recommendations on the resources and services most appropriate for students both at the University of Illinois as well as other colleges and universities.

The next section describes the survey methodology and characterizes the student sample. The remaining sections provide detailed analysis of student credit card behavior, financial practices and attitudes towards credit usage. A description of the students who are financially at risk and recommendations about campus services that could help those most at risk are included at the end.

Survey Methodology

As previously mentioned, the Office of Student Financial Aid (OSFA) conducted a survey in the Fall of 2001 to obtain feedback regarding student experiences in using credit cards and the thoughts and concerns students have about credit card debt. OSFA was looking for ways to better help students to manage their finances, especially their credit card debt. They were also looking to identify students at financial risk so they could improve and/or add to their financial aid services.

The survey itself was an online survey that was designed using a software program called Infopoll Designer©.[1] The survey was divided into four sections: *Your Credit Card Experiences*, *Your Spending Habits*, *What Do You Think*, and *About You*. There were 54 survey questions, several of which had multiple parts. To comply with the guidelines of the Institute of Human Subjects at the University of Illinois, the OSFA completed a special permission form explaining the intent of the survey. Because of the sensitive nature of some of the questions on the survey, extra precautions were taken to insure no personal information would be connected with student names or e-mail addresses. A short-cut page was developed to display the survey's web address. When a student finished filling out the survey, they were directed to another short-cut page that was connected to a separate database, specifically developed to store the names of those who wished to enter an optional prize drawing.

A random sample of 2,650 students, or approximately 7.0% of the total student population (37,767 students), was selected from the UI Direct database.[2] The sample included undergraduate, graduate and professional students regardless of whether or not they were receiving financial assistance. Once the survey was published to the web, an e-mail message

[1] A unique feature of this software program is that it offers the option to view the data in real time. In addition, raw data is saved online and can be viewed in charts and graphs at any time even after removing the survey from the web. A disadvantage to using this type of online survey is that participants can skip questions or sections, thus the number of actual answers to each question varies and, of course, all survey information was self-reported.

[2] "Highlights" by Ruth A. Vedvik, Director of Admissions and Records, September 18, 2001.

with a formal description of the survey and a link to the short-cut page was sent to this random sample.

The survey went online at the beginning of November. At intervals, between November 9th and December 9th, 2001, the OSFA sent out a total of four mass e-mails to the sample group. (See the Appendix for a description of the survey response rates over this period.) As an added incentive for filling out the survey, students who completed the survey were directed to another web address, where they were given the option to participate in a prize drawing for a $150 book voucher. Five vouchers were awarded, the winners being randomly selected from the pool of students who submitted their names to participate in the drawing.

On December 9th, the survey was closed and the link to the website was removed. The response rate for the survey was approximately 34.0%, or 915 student responses. Of the 915 students who responded to the survey, only 835 were valid responses. 80 student observations had to be dropped, primarily due to missing information. Some of these observations were also removed because a few students had either submitted their completed survey information twice or submitted blank surveys.

Survey Limitations

Our description of the survey methodology would not be complete without a discussion of some of the survey's limitations. Most of the limitations result directly from the fact that students were notified via e-mail and the survey was conducted online.

- For example, while every student at the University of Illinois at Urbana-Champaign has an e-mail account, they may not check or use their e-mail regularly. Also, every student at the University has access to the Internet, but they may not have their own personal computer or may not have had the time to fill out the survey for one reason or another.

- Another limitation is that anyone who knew the web address of the survey, regardless of whether or not they were in the random sample, could submit the survey. This could enable anyone to corrupt the data. For example, participants could technically respond as many times as they wanted to the survey. We could have provided each prospective participant with an ID and password. However, given the sensitive nature of the survey topics and the guidelines set by the UIUC Institutional Review Board, the OSFA decided that no identifying elements would be used.

- This brings us to our third limitation. Since the survey dealt with sensitive issues concerning personal money matters, some students may have felt uncomfortable answering the survey and chose not to participate. Some may have also been concerned about whether or not the data would in fact be kept confidential. These factors along with the recent increase in the number of online surveys may have affected the student response rate.

- In addition, the timing of when the electronic survey was administered may have also resulted in a lower response rate. One of the four mass e-mails was sent to students just before Thanksgiving. Many students had already left campus and would not return until after break. Another e-mail was sent the last week of classes, the busiest time of the semester for most students.

- Finally, it is important to note that all of the survey questions were self-reported which could have resulted in the mis-reporting or under-reporting of credit card usage and other money management inquiries. In other words, the "actual" credit card usage, financial practices and behavior of students may be different than what they reported. Due to perhaps societal pressures or standards, some students may have reported what they *believed* to be was the "correct" answer rather than what *actually* was the correct answer. Also, some questions on the survey were very long and had multiple-choice answers. This may have created some confusion on the students' part if they did not take the time to read the questions thoroughly.

Overall, regardless of these limitations, the results from the survey provide significant insight into the credit card behavior, financial practices and attitudes of college students at the University of Illinois at Urbana-Champaign.

Student Demographics

Table 1 gives a descriptive overview of the 835 students who make up our working sample. Undergraduates comprise 73.4% of the sample. In addition, according to Table 1, 54.5% are female and 89.3% are single. With respect to ethnicity, 69.9% are white, 15.2% are Asian, 5.3% are black, and 5.1 % are Hispanic. 33.1% report being financially independent, and 44.0% report that they receive some form of financial aid, where financial aid includes need-based grants, financial aid loans, and/or federal work-study. With regards to employment, 44.3% of students report working and 23.0% report working 16 or more hours per week.

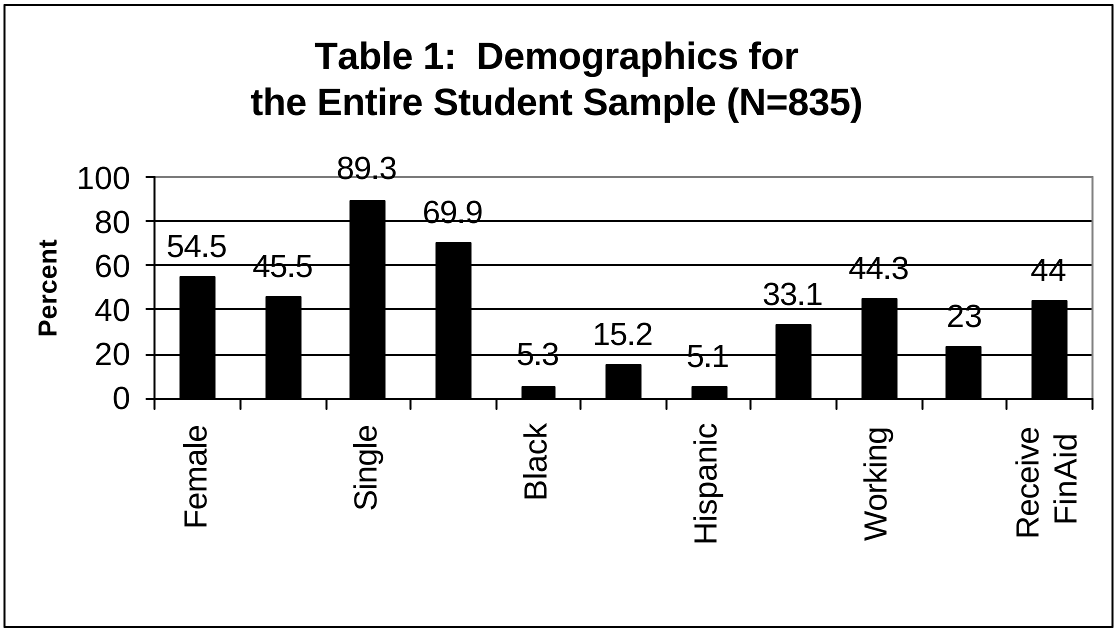


Table 2 focuses on the demographic differences between those with and without credit cards. Of the 835 students who comprise our sample, 446 are undergraduates who hold at least one credit card (53.4%), 212 are graduate students who hold at least one card (25.4%), and 177 are undergraduate and graduate students who hold no credit cards (21.2%). Out of the 177 students who report holding no credit cards, only 10 are graduate students.

As Table 2 shows, students with credit cards are less likely to be female, black, and Hispanic and more likely to be male and white than those with no credit cards. These findings may be capturing the possibility that women and minorities have unequal access to credit.

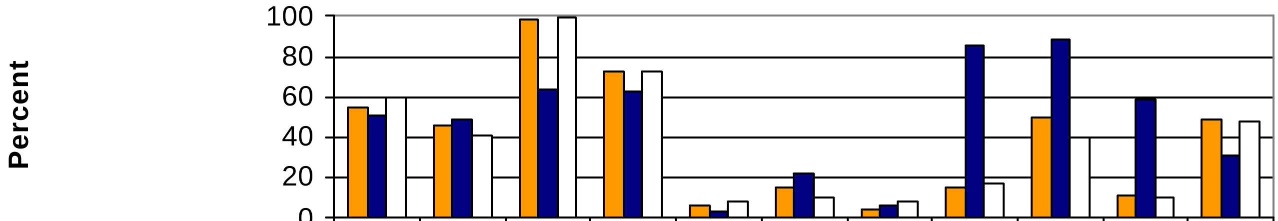
- 54.3% of the undergraduates and 50.9% of the graduate students with credit cards are female, while a larger percentage of the students with no credit cards, 59.3%, are female.

- 5.6% of the undergraduates with credit cards are black and 4.0% are Hispanic. 2.8% of the graduate students with credit cards are black and 5.7% are Hispanic. Of the students with no credit cards, 7.3% are black and 7.3% are Hispanic.

- 4.0% of undergraduates and 5.7% of graduate students with credit cards are Hispanic compared to a slightly larger percentage, 7.3%, of students with no credit cards.

- Interestingly, a higher percentage of students with credit cards are Asian. 14.3% of undergraduates and 21.7% of graduate students with credit cards are Asian. Only 9.6% of students with no credit cards are Asian.

TABLE 2: Demographics of Students With and Without Credit Cards (percentages)



	Female	Male	Single	White	Black	Asian	Hispan	Indepen dent	Working	Workg 16+ hrs	FinAid
(446) Undergrads w/ ccs	54.3	45.7	98	72.4	5.6	14.3	4	14.8	49.6	11.2	48.9
(212) Grad Students w/ccs	50.9	49.1	63.2	62.7	2.8	21.7	5.7	84.9	88.8	59	30.7
(177) All students w/No ccs	59.3	40.7	98.9	72.3	7.3	9.6	7.3	16.9	40.1	9.6	47.5

In addition to differences in gender and ethnicity, undergraduates with credit cards are less likely to be financially independent than those with no credit cards. Not surprisingly, graduate students are more likely to be financially independent.

- 14.8% of undergraduates with credit cards and 16.9% of students with no credit cards are financially independent compared to 84.9% of graduate students with credit cards.

With respect to employment, graduate students with at least one credit card are more likely to be working and the majority of these students are more likely to be working 16 or more hours per week.

- 88.8% of graduate students with credit cards are working while only 49.6% of undergraduates with credit cards and 40.1% of students with no credit cards report working.

- Not surprisingly, 59.0% of graduate students with credit cards are working 16 or more hours per week and is likely due to the fact that graduate assistantships are typically 20 hours per week. 11.2% of undergraduates with credit cards are working at least 16 hours, slightly higher than 9.6% for students without credit cards.

Finally, with regards to financial aid, graduate students are less likely to be receiving financial aid than undergraduates with credit cards and students with no credit cards.

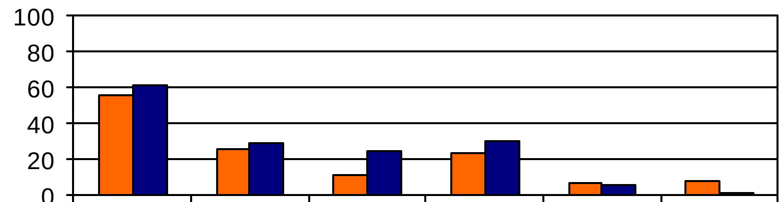
- 30.7% of graduate students with credit cards receive need-based financial aid compared to 48.9% of undergraduates with credit cards and 47.5% of students with no credit cards.

This last finding should not be surprising since financial aid is comprised of need-based grants, financial aid loans, and/or federal work-study and most graduate students depend on assistantships for financial support.

Credit Card Usage

There has been growing concern among some college and university administrators that the aggressive marketing of credit card companies on college campuses has substantially contributed to the recent rise in credit card debt on college campuses (The Education Resources Institute and The Institute for Higher Education Institution, 1998). A recent study by the U.S. General Accounting Office showed that 21-24% of students obtained credit cards by completing applications at campus tables. Another study conducted at Purdue University showed that 61% of students reported getting credit cards through campus vendors (Riggle, 2001). At the University of Iowa, researchers found that the "number one reason for the spreading problem of credit card debt among college-aged students is availability" (Brown, 2001). The University of Iowa and several other colleges and universities have limited credit card solicitation on campus. Our study shows that at the University of Illinois 11.2% of undergraduate students and 25.0% of graduate students acquired a credit card at a campus table. See Table 3.

TABLE 3: How Do Students Acquire Credit Cards? (percentages)



	Mail	Financial Institution	Campus Table	Retail Store	Phone	Online
Undergraduate w/cc (N=446)	55.8	25.6	11.2	23.1	7.6	8.1
Grad Studnt w/cc (N=212)	61.8	29.2	25	30.7	5.7	1.4

Undergraduate w/cc (N=446) Grad Studnt w/cc (N=212)

According to Table 3, filling out applications received in the mail is another popular way students acquire credit cards. This could be because credit card companies have been able to access lists of high school students and are able to send out mailings even before a student gets to college. Of the 658 students who have credit cards at the University of Illinois, 55.8% of undergraduate students and 61% of graduate students acquired them by filling out applications they received in the mail. This is a much higher percentage than reported by the U.S. General Accounting Office, where only 36-37% of surveyed students acquired cards by mail.

Other ways University of Illinois students acquire credit cards:

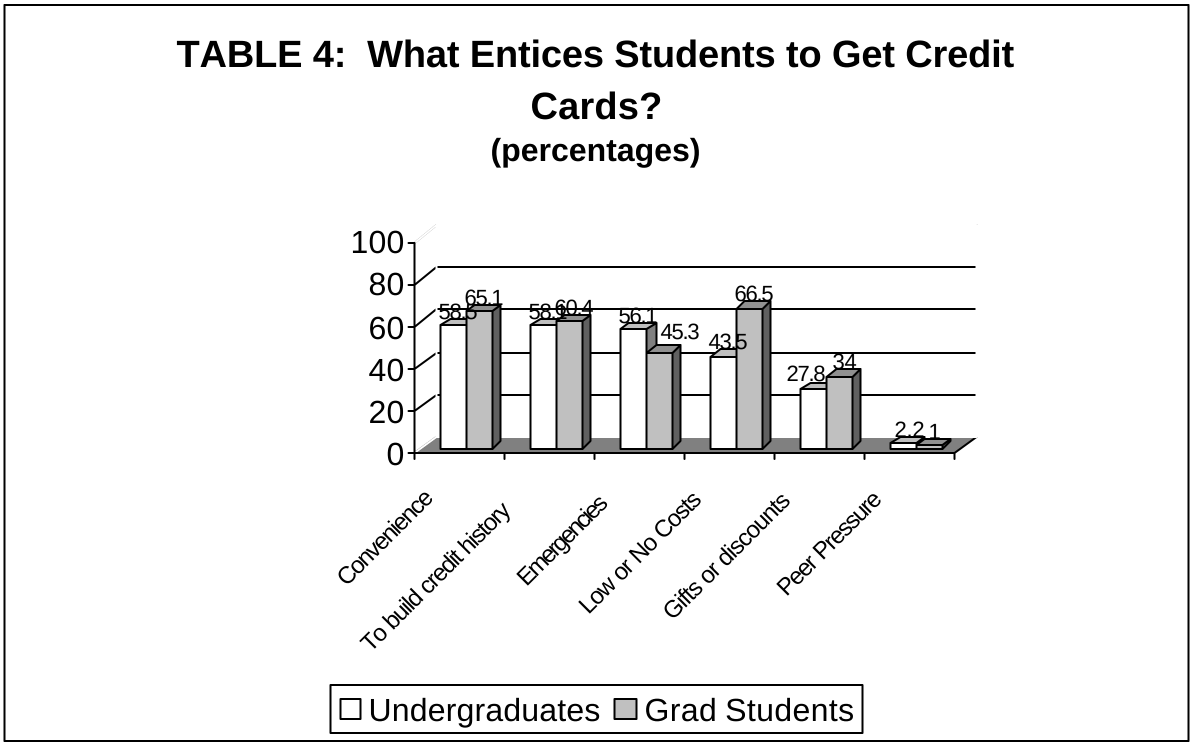
- 25.6% of undergraduate students obtained credit cards through their financial institution, and 23.1% acquired them at a retail store (i.e. Gap, Sears, etc.).

- A higher percentage of graduate students than undergraduates received their cards at retail stores and financial institutions. More specifically, 29.2% of graduate students obtained credit cards at a retail store and 30.7% from a financial institution.

- Less than 10% of both undergraduate and graduate students filled out applications over the phone, 7.6% and 5.7%, respectively. In addition, undergraduates were more likely than graduate students to apply for credit cards online. 8.1% of undergraduates acquired a credit card online compared to only 1.4% of graduate students.

What entices students to get credit cards?

The OSFA asked students on its survey, “What prompted you the MOST to sign up for a credit card?” This was a multiple-choice question and students could choose more than one answer and/or write in their own answer. See Table 4.



Note: Percentages do not sum to 100 percent since students could check all the factors that affected their decision to sign up for a credit card.

Results from the OSFA survey indicate that:

- Undergraduate students reported *convenience* as the most important factor in their decision to get a credit card (58.5%).
- Other influences for undergraduate students were to *build a credit history* (58.1%), for *emergencies* (56.1%), and *low cost or no costs* (43.5%).
- Graduate students reported that *low cost or no cost* for a credit card was the most important factor influencing them to get a credit card (66.5%).

- Graduate students were also heavily influenced by *convenience* (65.1%), *to build a credit history* (60.4%), for *emergencies* (45.3%), then *free gifts or discount coupons* (27.8%).

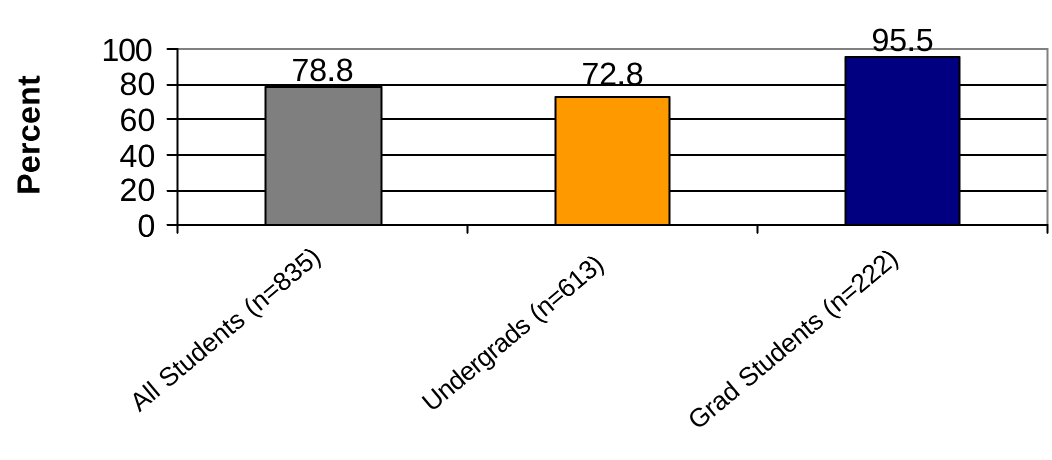
- Neither undergraduate nor graduate students cited *peer pressure* as having a significant affect on their decision to get a credit card.

These findings are consistent with other studies that cite the top reasons for needing a credit card to be for emergencies, convenience, and to establish a credit history (The Education Resources Institute and The Institute for Higher Education Policy, 1998 and Joo, 2001).

How many students have credit cards?

Recent studies indicate that the majority of college students have at least one credit card. According to the U.S. General Accounting Office (2001), one third of all student respondents stated that they acquired a credit card before they started college. Another 46% obtained a credit card in their first year of college. In yet another report on students and credit cards, Joo (2001) finds that 70% of those surveyed had credit cards and most received them as early as age fifteen and 55% got their first credit card during the first year of college. Table 5 shows the percentage of college students at the University of Illinois who have at least one credit card.

TABLE 5: Percentage of Students at UIUC With at Least One Credit Card



78.8% of all student respondents have at least one credit card. Of the graduate students, 95.5% have at least one credit card compared to 72.8% of undergraduate students. This finding is consistent with the findings reported by the Education Resources Institute and The Institute for Higher Education Policy showing that graduate students are more likely than undergraduates to have credit cards and more of them.

The U.S. General Accounting Office (2001) reports that on average college students hold three credit cards. Another recent study (Blaum, 2000) reveals that the average number of credit cards held by college students is 2.7. According to the results from the OSFA survey, the average number of credit cards held by students at the University of Illinois is 2.4, clearly in the range of other research studies. The results also reveal that there are some students at the University of Illinois who have as many as four or more credit cards. High numbers of credit cards may certainly increase students' spending power, however it may also increase their risk of having financial difficulties down the road. It is important to point out that credit card ownership does not necessarily imply that students will spend more or be more likely to use them irresponsibly. Blaum (2000) compares the number of cards owned by students with high materialism scores and those with low materialism scores and finds no significant differences. According to Blaum (2000), "card ownership per se does not point to a materialistic or consumerist mindset." A detailed discussion of students at the University of Illinois who may be at financial risk can be found in the section entitled, "A Profile of At-Risk Students."

What types of credit cards do students hold?

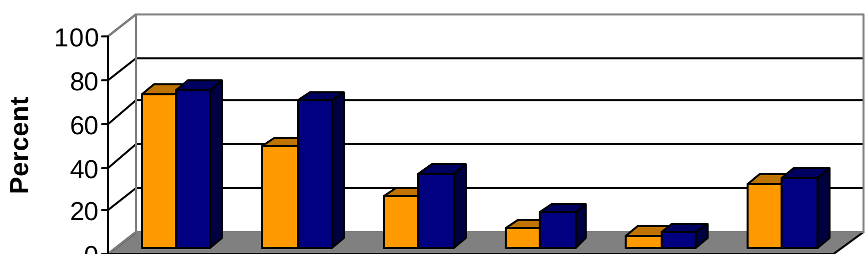
Before presenting the findings on the types of credit cards held by students, it is important to point out that some students at the University of Illinois appear to lack a clear understanding of key financial terminology. The types of credit cards students could report holding included: Visa, MasterCard, Discover, American Express, gas card (i.e. Shell, Amoco, etc.), retail card (i.e. Gap, Sears, etc.) and other, where students could type in the names of other credit cards not listed in the survey. One of the most common responses in the 'other' category was *debit card*, suggesting that students may not be aware of the differences between a credit card and a debit card. In addition, even though examples of retail cards were listed on the survey, students still seem to be confused about what a retail card is. For example, some students did not select retail card from the list, yet added the name of a retail store such as Lane Bryant in the "other" category. Nevertheless, a substantial number of students, about 30.0% of all undergraduate and graduate students, reported having at least one retail credit card.

There was also some confusion about what a credit card from a financial institution is. The confusion was perhaps due to the fact that banks sometimes issue a check card designed with a Visa logo on the front. The bank card works like a debit card instead of a credit card, withdrawing funds directly from your bank account. Some students added "fleet card" which may indicate a check card they acquired from a brand name credit card company, which is a check card, not a credit card. The confusion may also be due to the fact that students do not usually refer to their bank as a *financial institution*. Thus, student responses may be due *not* to a lack of financial knowledge, but to confusion over the wording of the survey question itself.

Table 6 shows the types of credit cards University of Illinois students hold. Since survey participants could choose more than one answer about the types of cards they hold, percentages reported for each type of card do not sum to 100 percent. Some students have one card, and some have multiple cards. Also, keep in mind that the specific types of credit cards held may be directly related to the specific credit card companies targeting teenagers and college students (The Power of Plastic, 2001). Credit card companies target campuses because of research that shows students develop card brand loyalty at this age (Jump$tart Coalition, 2002).

TABLE 6: Types of Credit Cards Students Hold

(Total Survey Respondents N=835)



	Visa	MastrCard	Discover	AmExpress	Gas Card	Retail Store
Undergrads w/cc N=446	70.6	46.4	23.5	9	5.4	29.4
Grad Students w/cc N=212	72.2	67.5	34	16	7.1	32.1

- Not surprisingly, Visa and MasterCard are the two major credit cards held by college students at the University of Illinois.
- Visa cards are held by over 70.0% of all undergraduate and graduate students.
- MasterCards are popular with 46.4% of undergraduates and 67.5% of graduate students.
- About 30.0% of all students report having at least one retail credit card
- Less than 10.0% of all students report having a gas card.
- 16.0% of graduate students and only 9.0% of undergraduates have an American Express card.

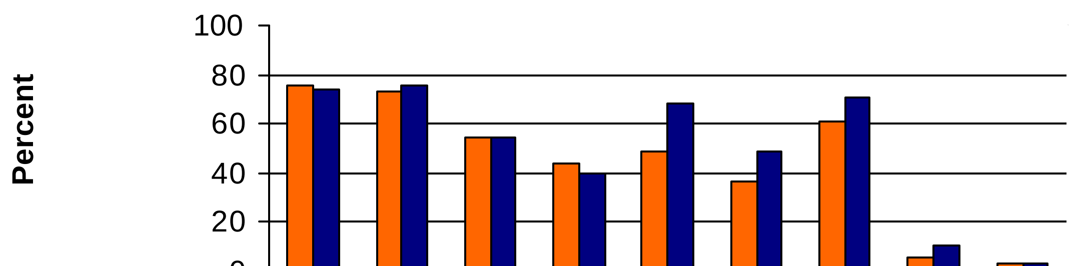
What do students purchase with their credit cards?

According to the U.S. General Accounting Office (2001), students use credit cards to purchase books and supplies, food, clothing, and entertainment. Students at some colleges also use their credit cards to pay for tuition fees. However, currently at the University of Illinois, students do not have the option to use their credit cards to pay for tuition or fees. Also, some students, who rely on financial aid, charge more of their general living expenses while they are waiting for their funds to be disbursed. This practice is especially common among graduate students, those carrying higher than average balances, and those having four or more credit cards (The Education Resources Institute and The Institute for Higher Education Policy, 1998).

A recent report by Blaum (2000) showed that students at Penn State do not use credit cards to "spend on luxuries or 'extras,' but necessities like computers, backpacks, designer jeans, high priced sneakers, etc." This statement clearly suggests that today's college students may have a very different view of what items are necessary compared to their parents or older generations viewpoints. The ease with which credit cards can be used today clearly influences students' spending behaviors. "Students today have more opportunities for making credit purchases to a far greater degree than any other generation of college students" (Blaum, 2000).

Table 7 shows that the most common items purchased with credit cards by college students at the University of Illinois are: books and supplies, clothing, groceries, personal items, eating out, entertainment, and gas and travel.

TABLE 7: What Do Students Purchase With Their Credit Cards? (percentages)



	Bks/Suppl	Clothing	Groceries	Personal	Eating	Entertain	Gas/Trav	Utilities	Rent
Undergrad Students (N=446)	75.4	72.9	54.4	43.9	48.7	36.8	61	5.4	3.1
Grad Students (N=212)	73.6	75.9	54.7	39.6	68.4	48.6	70.8	10.4	2.8

- Roughly three-fourths of all undergraduate and graduate students use credit cards to purchase books and supplies and clothing.

- 61.0% of undergraduates use credit cards for gas and travel compared to 70.8% of graduate students. This may be due to the fact that graduate students are more likely to have a car and thus more likely to spend money on gas and travel.

- Over half of all undergraduate students and graduate students use credit cards to purchase groceries, while 68.4% of graduate students use them for eating out compared to 48.7% of undergraduates. This may be explained by the fact that more undergraduates living in dormitories may have a food plan, decreasing their need to eat out. A smaller percentage of undergraduates than graduate students use their credit cards for entertainment, 36.8% and 48.6%, respectively.

- As far as rent is concerned, about 3.0% of undergraduate and graduate students use credit cards to pay their rent. Utilities is another area for less credit card usage by all students, as evidenced by the fact that less than 6.0% of undergraduates and about 10.0% of graduate students pay for these services with credit. These findings are not surprising since most apartment owners and utility companies only accept cash or check as payment.

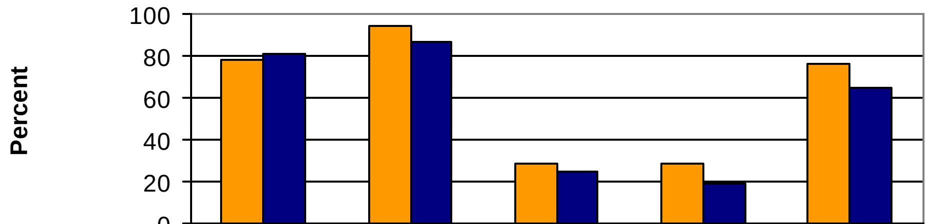
- Approximately the same percentage of undergraduate and graduate students use their credit cards to purchase personal items, 43.9% and 39.6%, respectively.

What are the advantages and disadvantages of having a credit card?

If used responsibly, credit cards offer several clear advantages to students. The U.S. General Accounting Office (2001) lists convenience, emergency use, plane tickets home, establishing a credit history and cashless transactions as some of the benefits of holding credit cards. The majority of students at the University of Illinois concur with the U.S. General Accounting Office about the top three advantages of having a credit card: for emergencies, for convenience, and to build a credit history. See Table 8.

Several students also indicated that financial independence and being able to postpone payments were advantages of having a credit card. More undergraduate students (28.7%) than graduate students (19.3%) believe that having a credit card gives them a feeling of independence. In addition, 28.9% of undergraduates and 24.5% of graduate students report that they believe it is an advantage to be able to buy now and pay later.

TABLE 8: The Advantages of Having a Credit Card (percentages)



	Convenience	Emergency Use	Buy Now Pay Later	Independence	Build Credit
Undergrad Students N=446	78.3	94.2	28.9	28.7	76
Grad Students N=212	81.1	86.8	24.5	19.3	64.6

Note: What entices a college student to get a credit card and what is perceived as an advantage of owning a credit card is often the same thing.

Students also had the option of writing in what they thought were the advantages associated with having a credit card. Write-in responses were often related to being able to purchase items online. Student responses included, but were not limited to: "You can order items from the Internet and catalogues;" "Ability to purchase items online and through mail order;" "Internet secure purchases." Other write-in answers had to do with the ease and convenience of credit cards such as: "I withdraw money anytime and also from any place where the facility (cash station) is available;" "Easier and faster than money. Don't have to worry about change. Just sign and go;" "foreign travel/good exchange rates." "It helps to meet the necessities when there are no other resources to turn to. Parking is $120 per month!"

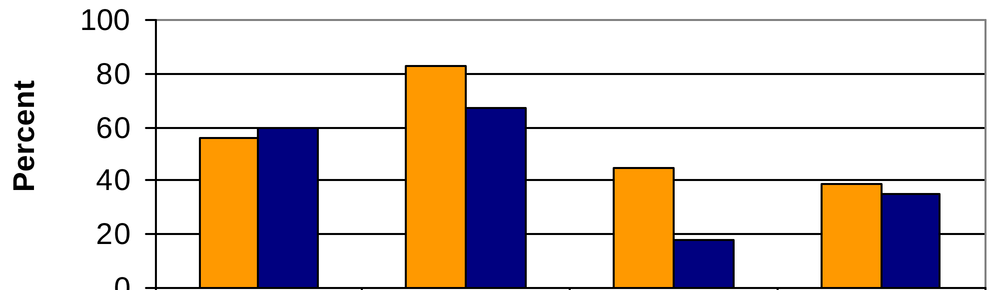
The biggest disadvantage of having a credit card that was cited by both undergraduate (82.7%) and graduate students (67.0%) was the temptation to overspend. Write-in answers included many variations on this same theme: "It's too easy to use and overspend;" "People get over their head in debt and credit card companies encourage this type of behavior;" "[It's] Too easy to justify emergency needs for cash;" "You get carried away; spend money you don't have;" "Sometimes [you] forget how much has already been charged on the card." See Table 9.

38.6% of undergraduates and 34.9% of graduate students believe that it is a disadvantage to be able to put off payments until later.[3] Other disadvantages had to do with the high cost of using credit cards and the responsibility associated with repaying credit card debt. 56.1% of undergraduates and 59.9% of graduate students responded that high interest rates are a disadvantage of having a credit card suggesting that students are well aware of the high costs

[3] Recall that nearly 30% of students cited being able to buy now and pay later as an advantage. Depending on whether credit cards are used responsibly, delayed payment can be seen as either a disadvantage or advantage.

associated with credit card debt. Almost 45% of undergraduate students felt that being held responsible for the credit card bill was a disadvantage of credit cards.

TABLE 9: The Disadvantages of Having a Credit Card (percentages)



	High Interest Rates	Tempted to Overspend	Responsible for Bill	Can Put off Payments
Undergrad Students N=446	56.1	82.7	44.8	38.6
Grad Students N=212	59.9	67	17.9	34.9

Attitudes Towards Using Credit Cards

Students were also asked about their attitudes towards credit usage. Table 10A shows the percentage of students with and without credit cards who believe it is all right to borrow money or use a credit card to pay for the following: spring break or other vacations, a car or to make car payments, educational expenses, entertainment, and/or shopping.

Several points are worth noting:

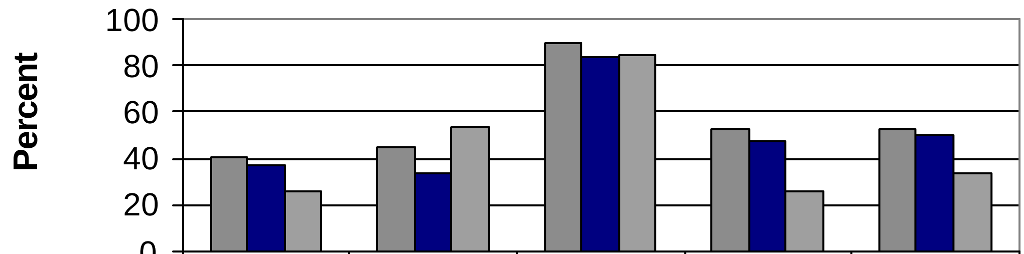
- Regardless of whether they hold a credit card, the majority of students strongly agree that it is all right to borrow money or use a credit card for educational expenses (between 83.0% and 90.0%).

- A higher percentage of students with credit cards than without credit cards believe it is all right, in general, to make purchases using credit. Specifically, a significantly higher percentage of students with credit cards than those without believe it is all right to borrow money or use a credit card for spring break or other vacations, for entertainment, and/or for shopping.

- Somewhat surprisingly, more students without credit cards believe it is all right to use credit to buy a car or make payments on a car than those with credit cards. However, it may be the case that those without credit cards are more likely to purchase a car and make car payments.

TABLE 10A: Attitudes Towards Using Credit Cards

Percentage of Students Who Believe it is All Right to Borrow Money or Use a Credit Card to Pay for the Following

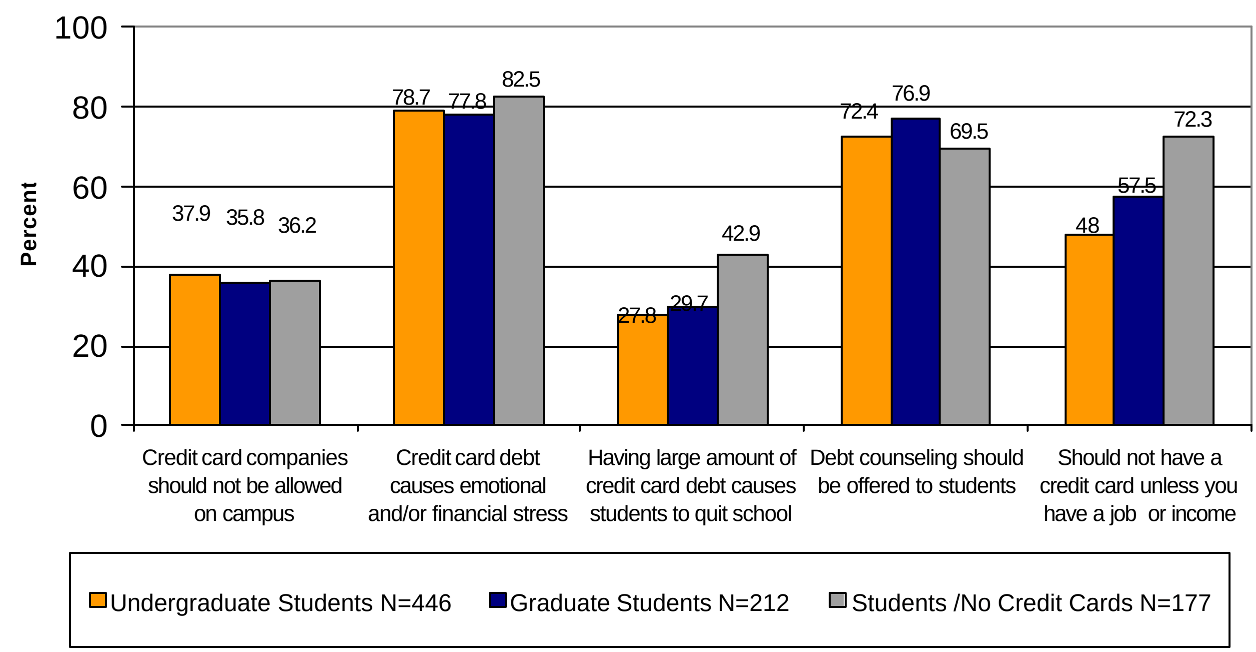


	Spring Break/ Vacations	Buy a Car/Car Payments	Educational Expenses	Entertainment	Shopping
Undergraduate Students	40.4	44.8	89.9	52.7	52.2
Graduate Students	37.3	33.5	83.5	47.2	50
Students With No Credit Cards	25.4	53.7	84.2	25.4	33.9

Table 10B shows the percentage of students who agree with the following statements: credit card companies should not be allowed to set up tables on college campuses; credit card debt causes emotional and/or financial stress; having a large amount of credit card debt causes college students to quit school prior to graduation; debt counseling should be offered to college students during the school year: and college students should not have a credit card unless they have a job or income to support it.

TABLE 10B: Attitudes Towards Using Credit Cards (conti.)

Percentage of Students Who Agree With These Statements



Again, several findings are of particular interest:

- Regardless of whether they hold a credit card, more than 70.0% of students agree that credit card debt causes emotional and/or financial stress and that debt counseling should be offered to college students.

- Slightly over a third of all students agree that credit card companies should not be allowed to set up tables on college campuses.

- A smaller percentage of undergraduate and graduate students with credit cards (27.8% and 29.7%, respectively) believe that having a large amount of credit card debt causes students to quit school prior to graduation. This is compared to 42.9% for students holding no credit cards.

- Finally, a significantly higher percentage of students without credit cards (72.3%) agree that students should not have a credit card unless they have a job or income to support it. Only 48.0% of undergraduates and 57.5% of graduate students with credit cards agree that students should not have a credit card unless they have income to support it.

Financial Practices of Students with Credit Cards

The previous sections provide a general overview of credit card usage and attitudes about credit cards on the University of Illinois campus. This section describes and compares in more detail the financial practices of students who use credit cards. The results from Table 11 indicate the following for undergraduates who use credit cards:

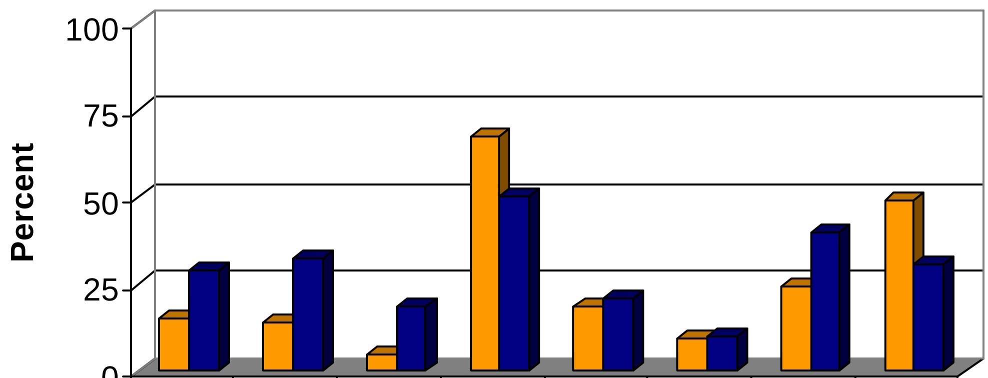
- 15.0% of undergraduates with credit cards have four or more cards.
- 13.7% owe $1000 or more in credit card debt, and 4.9% owe $3000 or more.
- Over half of undergraduates with credit cards pay their balances in full each month (67.3%).
- 18.6% "max out" their credit cards almost every month, and 9.2% have been late on their credit card payments by two months or more.
- 24.2% have been rejected or turned down by a credit card company.
- Of those undergraduates holding credit cards, 48.9% receive some type of financial assistance, where financial assistance includes need-based grants, financial aid loans, and/or federal work-study.

Interestingly, all of these results are consistent with previous studies that focus on the credit card behavior of undergraduate students.[4] These studies find that:

- Between 6.0 and 14.0% have four or more credit cards (15.0% for University of Illinois students.)
- Over half repay their balances in full each month (67.3% for University of Illinois students.)
- Between 14.0 and 16.0% report balances over $1000 and about 5.0% report balances over $3000 (13.7 and 4.9%, respectively, for students at the University of Illinois.)

[4] For more details, see Armstrong and Craven, 1993; Baek, 2001; Gutter and Kim, 2001; Hayhoe, 2002; Hayhoe, Leach, and Turner, 1999; Joo, Grable, and Bagwell, 2001; The Education Resources Institute and the Institute for Higher Education Policy, 1998; and the U.S. General Accounting Office, 2001.

TABLE 11: Financial Practices of Students Who Use Credit Cards



	4+ Cards	Owe $1000+	Owe $3000+	Pay Balance	Max Out Cards	Late Payments	Were Rejected	w/FinAid
Undergraduates	15	13.7	4.9	67.3	18.6	9.2	24.2	48.9
Grad Students	28.8	32.5	18.4	50	20.8	9.9	40.1	30.7

Overall, the financial practices of undergraduates who use credit cards at the University of Illinois seems to be very similar to other college campuses around the country. Unfortunately, past studies have not examined in detail the credit card usage of graduate students so we are unable to compare our findings for graduate students with those from other college campuses.

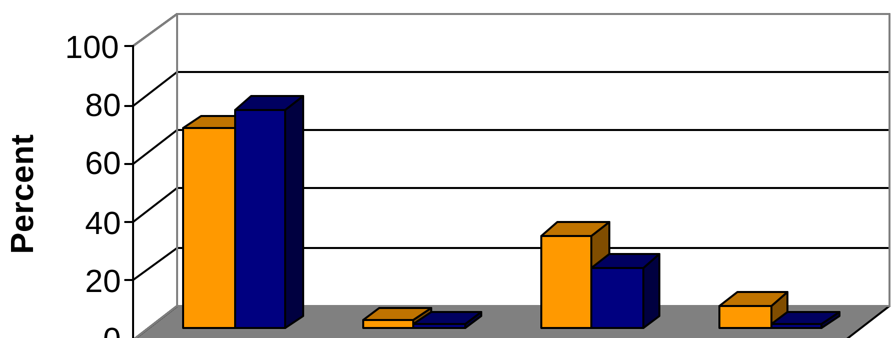
Compared to undergraduates, graduate students are more likely to hold four or more credit cards, to owe $1000 or more, and to owe $3000 or more.
.

- 28.8% of graduate students with credit cards hold four or more cards compared to 15.0% for undergraduates.
- 32.5% and 18.4% of graduate students owe $1000 or more and $3000 or more, respectively. Only 13.7% of undergraduates owe $1000 or more in credit card debt, and 4.9% owe $3000 or more.

Given that graduate students tend to have larger debt burdens than undergraduates, it should not be surprising that they are less likely to pay their balances in full each month and more likely to max out their credit cards, make late payments, and be turned down for credit cards. These latter findings raise concerns that graduate students at the University of Illinois may be at greater financial risk than undergraduates. However, it is important to keep in mind that graduate students are likely to have higher expected incomes when they graduate than undergraduates. Thus, they are likely to be in a better financial position to repay their balances. However, this does not explain why graduate students are more likely than undergraduates to max out their credit cards and make late payments.

Table 12 examines the level of financial knowledge of students with credit cards. It is interesting to note that while graduate students may have larger debt burdens than undergraduates, they are more likely to budget their money every month. 75.0% of graduate students report that they are likely to budget their money every month compared to 68.6% of undergraduates.

TABLE 12: Financial Knowledge of Students with Credit Cards



	Budget Monthly	Don't Know Balance	Don't Know APR	Don't Know Limits
Undergraduates	68.6	3.1	32.1	8.1
Grad Students	75	1.4	21.1	1.4

Graduate students are also more likely than undergraduates to know their credit card balance, annual percentage rate (APR), and credit card limit.

- 1.4% of graduate students and 3.1% of undergraduates do not know their credit card balance.
- A substantially large percentage of graduate students do not know what their annual percentage rate is, 21.1%. This percentage is even larger for undergraduates, 32.1%.

- Finally, 1.4% of graduate students do not know their credit card limit compared to 8.1% of undergraduates.

Overall, Table 12 presents some evidence to support the need for additional financial education on campus, especially for undergraduates with respect to budgeting. However, in general, most students at the University of Illinois know what their current credit card balance is as well as the annual percentage rate and borrowing limit.

Other Types of Borrowing

Up until now, this study has focused primarily on students who hold credit cards and have credit card debt. We now investigate the other types of debt held by students and develop an understanding of the relationship between credit card debt, financial aid, and other types of borrowing.

Besides credit card debt, some students incur other types of debt. See Table 13. Students who reported owing other debt indicated that they held private educational loans, car loans, mortgage debt, and/or other types of debt excluding credit card debt and financial aid loans.

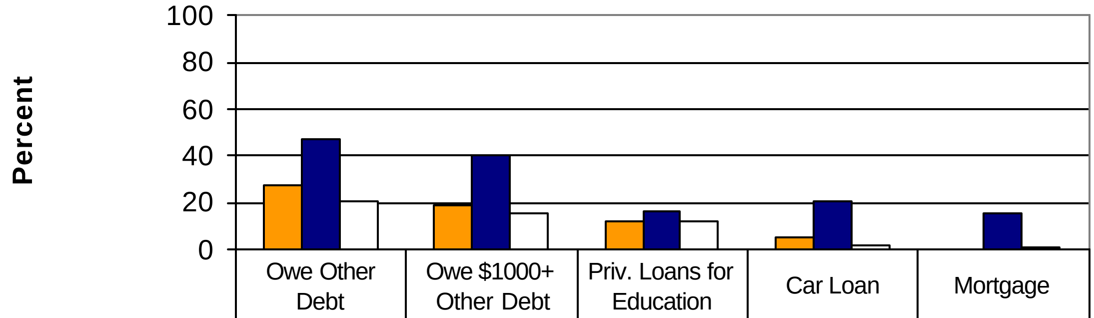
Table 13 reveals two important findings. First, students who hold credit cards are more likely to owe other types of debt as well.

- 27.8% of undergraduates and 47.2% of graduate students with credit cards owe some type of other debt. These percentages are compared to 20.3% of all students who do not have a credit card.

In addition, students with credit cards are also more likely to owe $1000 or more in other debt.

- 19.1% of undergraduates and 40.1% of graduate students with credit cards owe $1000 or more in other debt compared to 15.3% of students without a credit card.

TABLE 13: Other Types of Borrowing by Students



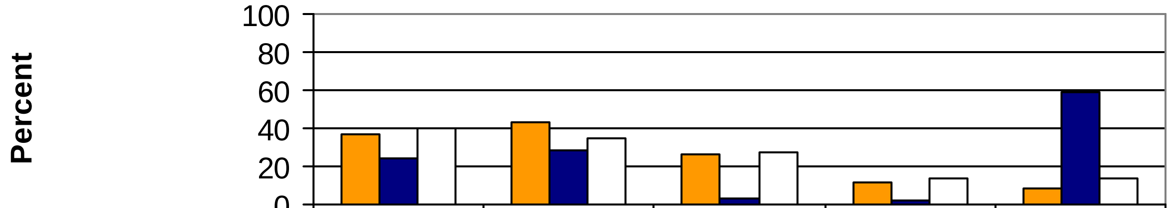
	Owe Other Debt	Owe $1000+ Other Debt	Priv. Loans for Education	Car Loan	Mortgage
Undergrads w/ccs	27.8	19.1	11.7	5.2	0
Grad Students w/ccs	47.2	40.1	16.5	20.3	15.6
Students w/no ccs	20.3	15.3	11.9	1.7	1

The second important finding is that, as with credit card debt, graduate students are more likely than undergraduates to owe some type of other debt and to owe $1000 or more of other debt. These findings again generate concern that graduate students may be taking on too much debt putting them at greater financial risk down the road.

Financial Assistance

Table 14 shows the types of financial assistance students receive. The three types of aid commonly received by undergraduates with credit cards are federal loans for education (42.8%), scholarships (37.2%), and need-based grants (26.5%). It should not be surprising that the type of financial assistance most received by graduate students with credit cards is tuition waivers (59.0%). 28.3% of graduate students also take out federal loans for education and 24.5% receive scholarships. The types of financial aid most received by students with no credit cards are the same as those received by undergraduates with credit cards--federal loans for education, scholarships, and need-based grants. However, students who do not have credit cards are *less* likely to take out federal loans for education than undergraduates with credit cards and *more* likely to be receiving a scholarship.

Table 14: Types of Financial Assistance Received

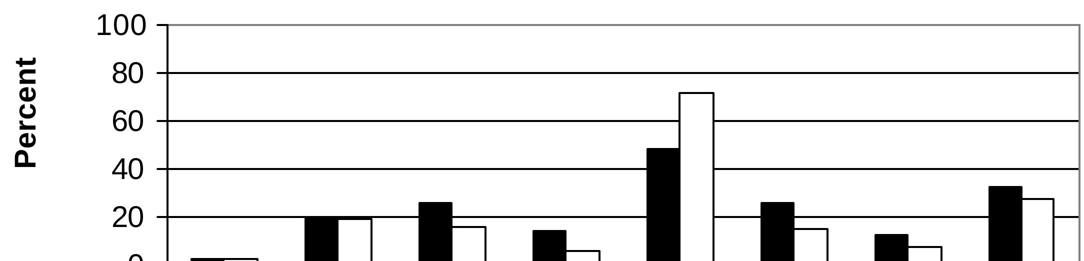


	Scholarships	Federal Loans	Need-Based Grants	Federal Work-Study	Tuition Waivers
Undergraduates N=446	37.2	42.8	26.5	11.4	8.1
Grad Students N=212	24.5	28.3	2.8	2.4	59
All Students N=835	39.5	34.5	27.1	13.6	14.1

Table 15 provides substantial insight into the usage of credit by students who are and are not receiving financial aid. In Table 15, all students are grouped together to include both undergraduates and graduate students. In addition, financial aid is defined to include need-based grants, federal loans for education, and/or federal work-study.

TABLE 15: Credit Card Use of Students With Credit Cards

(Students Receiving Financial Aid vs. Students With No Financial Aid)



	Ave. # of Cards	4+ Cards	Owe \$1000+	Owe \$3000+	Pay Balance	Max Out Cards	Delin-quent	Were Rejected
Cards & FinAid	2.4	20.1	25.4	13.8	48.4	25.4	12	32.2
Cards & No FinAid	2.3	18.9	15.5	5.9	71.7	14.7	7.5	27.2

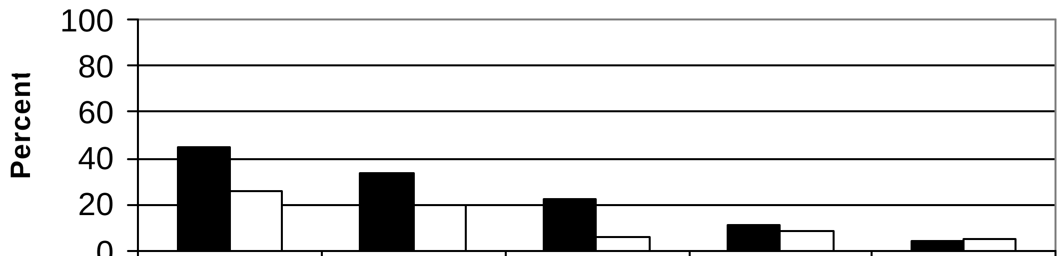
According to Table 15, students with credit cards who are receiving financial aid are more likely than those with credit cards who are not receiving financial aid to have 4 or more cards, owe $1000 or more in credit card debt, and/or owe $3000 or more in credit card debt. They are also more likely to max out their cards, make late payments, and to have been rejected for a credit card. They are less likely to pay their balance in full each month.

Students with credit cards who are receiving financial aid are also significantly more likely to owe some other type of debt. As a reminder, students who report holding some other type of debt include those who hold private educational loans, car loans, mortgage debt and any other type of debt excluding credit card debt and federal loans for education. According to Table 16,

- 45.2% of students with credit cards who are receiving financial aid owe some other type of debt and 33.9% owe more than $1000 in other debt. This is compared to 25.6 and 19.7% of those with credit cards who are not receiving financial aid, respectively.

In addition, those with credit cards who are receiving financial aid are more likely to have private education loans, a car loan, and/or a mortgage.

Table 16: Other Types of Debt Held by Students With Credit Cards by Financial Aid Status



	Owe Other Debt	Owe $1000+ Other Debt	Priv. Loans for Education	Car Loan	Mortgage
■ Cards & FinAid	45.2	33.9	22.6	11.7	4.2
□ Cards & No FinAid	25.6	19.7	6.1	8.8	5.6

Overall, the findings from Tables 15 and 16 suggest that students with credit cards who are receiving financial aid are more likely than those with credit cards to be at greater financial risk when they have to pay off their debts after graduation. As these tables indicate, these students are more likely to have difficulty managing their credit card debt. They are also more likely to hold large amounts of other debt.

Students who may be at risk financially are a focal point of this report and a major concern of the OSFA. The next section of this report identifies those students who are most at risk for experiencing future financial problems. It also describes possible resources and services that OSFA and other campus and community organizations can offer students to help them better manage their credit card debt and other finances.

A Profile of At-Risk Students

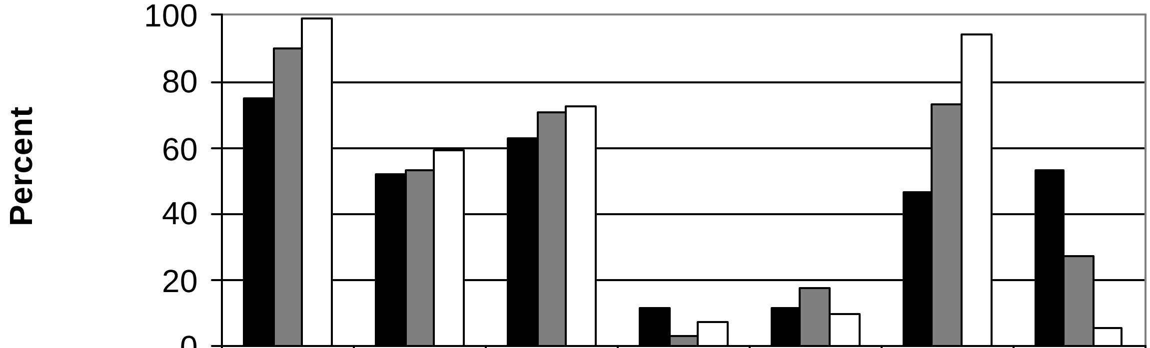
As previously mentioned, the majority of students at the University of Illinois appear to use credit cards responsibly and do not hold large credit card balances. However, there are some students on campus whose credit card usage puts them at financial risk, and an initial report on the findings from the OSFA survey would not be complete without a discussion of those students.

Students with certain characteristics of credit card usage are more likely to accumulate high interest payments and large amounts of credit card debt upon graduation. We identify students at the University of Illinois as being financially at risk if they have one or more of the following characteristics: credit card balances of $1000 or more, four or more credit cards, only pay off their credit card balances some of the time or never, max out their credit cards and/or are delinquent on their credit card payments by two months or more. These students are more likely than those not at risk to be receiving some type of financial aid in the form of federal loans for education, need-based grants, and/or federal work-study. They are also more likely to be less knowledgeable about the amount of credit card debt they hold, their annual percentage rate (APR), and/or their borrowing limit.

To gain a better understanding of those students who are at financial risk, we examine in detail the characteristics of those with credit card balances of $1000 or more and those with four or more credit cards. In this section, we group undergraduate and graduate students together.

Table 17 lists the demographic characteristics of students who have $1000 or more in credit card debt. Those with credit card balances of $1000 or more are *less* likely to be single, female, and white than those with less than $1000 of credit card debt. They are *more* likely to be black and/or a graduate student.

TABLE 17: Demographics of Students With Credit Card Debt of $1000 or More



	Single	Female	White	Black	Asian	Undergrad	Grad Student
Ccdebt >= $1000	74.6	52.3	63.1	11.5	11.5	46.9	53.1
Ccdebt < $1000	89.8	53.4	70.8	3	18	72.9	27.1
No credit cards	98.9	59.3	72.3	7.3	9.6	94.4	5.6

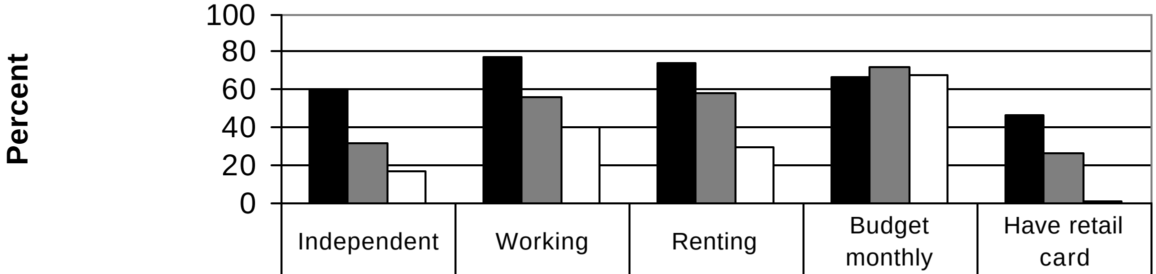
- 11.5% of students with $1000 or more of credit card debt are black compared to 3.0% of those with less than $1000 of credit card debt and 7.3% of those with no credit cards.

- A substantially large percentage of students with credit card balances of $1000 or more are graduate students, 53.1%. Only 5.6% of students with no credit cards and 27.1% of students with less than $1000 credit card debt are graduate students.

These findings provide further evidence that graduate students may be at greater financial risk than undergraduates. Minorities may be at greater financial risk as well.

Table 18 examines the financial practices of those with $1000 or more in credit card debt. Those students with credit card balances of $1000 or more are much more likely to be financially independent and to be working and renting. Thus, these students may have higher debt levels simply because they have the additional burden of having to support themselves. Interestingly, those with credit card balances of $1000 or more are also more likely to have a retail card.

TABLE 18: Students With Credit Card Debt of $1000 or More & Their Financial Practices



	Independent	Working	Renting	Budget monthly	Have retail card
Ccdebt >= $1000	60	76.9	74.6	66.9	46.2
Ccdebt < $1000	31.8	55.7	58.5	71.6	26.3
No credit cards	16.9	40.1	29.9	67.8	1

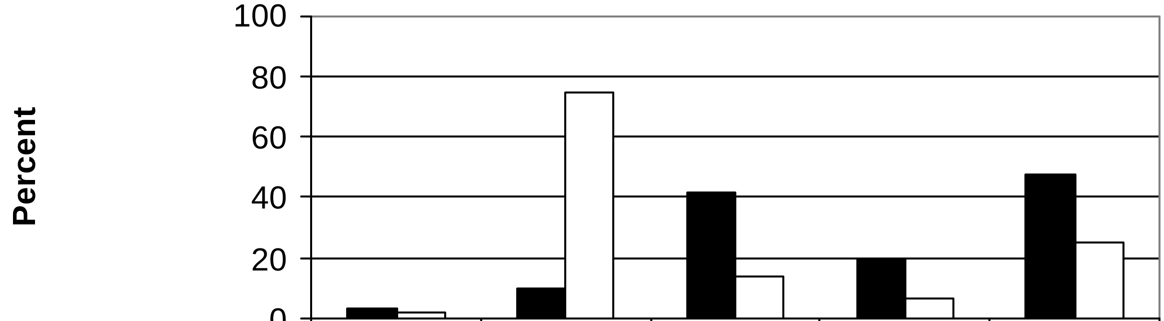
- 60.0% of students with $1000 or more of credit card debt are financially independent compared to only 31.8% of those with less than $1000 of credit card debt and 16.9% of those with no credit cards.

- It should not be surprising that 76.9% of students with $1000 or more of credit card debt are working, especially since such a large percentage are supporting themselves financially. 55.7% of those with less than $1000 of credit card debt and 40.1% of those with no credit cards are working.

- 46.2% of students with $1000 or more of credit card debt have a retail card compared to only 26.3% of those with less than $1000 of credit card debt and 1.0% of those with no credit cards. This finding is particularly interesting and warrants future investigation.

The results from Table 19 indicate that those students who hold $1000 or more in credit card debt are much more likely than those with less than $1000 in credit card debt to misuse their credit cards, causing them to be at even greater financial risk. Not surprisingly, those with credit card balances of $1000 or more, hold more credit cards, on average, and are much less likely to pay their balances in full each month.

TABLE 19: Students With Credit Card Debt of $1000 or More & Their Credit Card Usage



	Average # cards	Pay balance in full	Max out cards	Late payments	Were rejected
■ Ccdebt >= $1000	3.4	10	41.5	20	47.7
□ Ccdebt < $1000	2.1	74.4	13.8	6.8	24.8

- The average number of credit cards held by students with $1000 or more of credit card debt are 3.4 compared to 2.1 for those with less than $1000 of credit card debt.

- Only 10.0% of those with $1000 or more of credit card debt pay their balances in full each month compared to a surprisingly large, 74.4%, of those with credit card balances of less than $1000.

Moreover, as Table 19 indicates, students with $1000 or more of credit card debt are much more likely than those with less than $1000 of credit card debt to max out their credit cards, make late payments, and to have been rejected for a credit card. The differences are substantial.

- Of those students with $1000 or more of credit card debt, 41.5% max out their credit cards, 20.0% are delinquent by two months or more on their payments, and 47.7% have been rejected by a lender or for a credit card. Of those students with less than $1000 of credit card debt, only 13.8% max out their credit cards, 6.8% make late payments, and 24.8% have been turned down for a credit card.

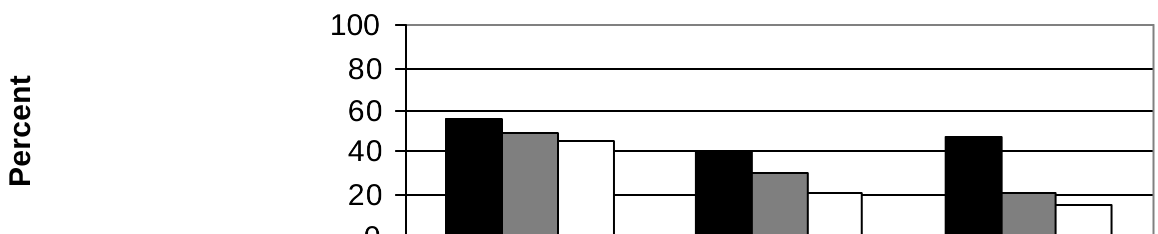
With respect to other types of borrowing, Table 20 shows that those with credit card balances of $1000 or more are also significantly more likely to hold other types of debt.

- Of those students with $1000 or more of credit card debt, 55.4% receive some type of financial aid and 49.2% owe some type of other debt. Of those students with less than $1000 of credit card debt and no credit cards, 40.0% and 47.5% receive financial aid and 30.3% and 20.3% owe some type of other debt, respectively.

- A substantially large percentage of students with credit card debt of $1000 or more, 45.1%, also owe $1000 or more in other debt compared to only 21.0% of students with less than $1000 in credit card debt and 15.3% of students with no credit cards.

Thus far, the findings provide strong *evidence that those with credit card balances of $1000 or more are at greater financial risk than those with credit card balances of less than $1000*. The results for those students with four or more credit cards are consistent with these findings suggesting that students who hold several credit cards are also at greater financial risk.

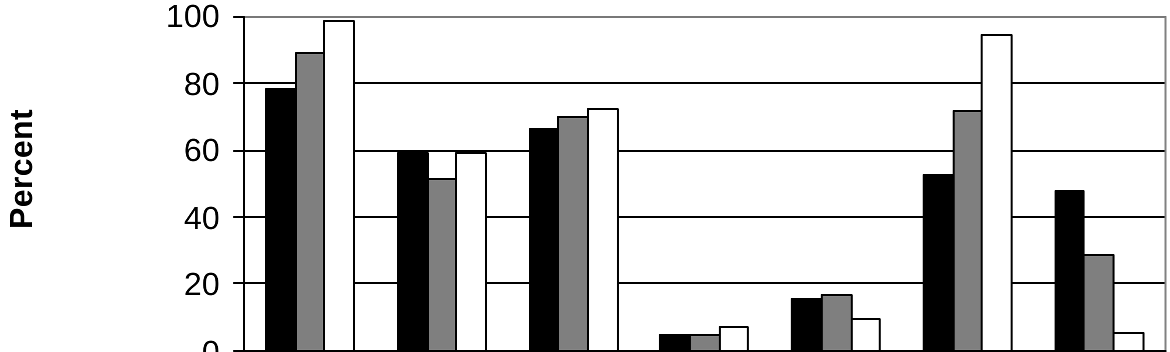
TABLE 20: Students With Credit Card Debt of $1000 or More & Other Borrowing



	Ccdebt >= $1000	Ccdebt < $1000	No credit cards
Receive FinAid	55.4	40	47.5
Owe other debt	49.2	30.3	20.3
Over $1000 other debt	45.4	21	15.3

Table 21 presents the demographic characteristics of those with four or more credit cards. Like those with $1000 or more in credit card debt, students with four or more credit cards are *less* likely to be single and white and *more* likely to be a graduate student than those with less than four credit cards or no credit cards. Unlike those with $1000 or more in credit card debt, students with four or more credit cards are slightly less likely to be black.

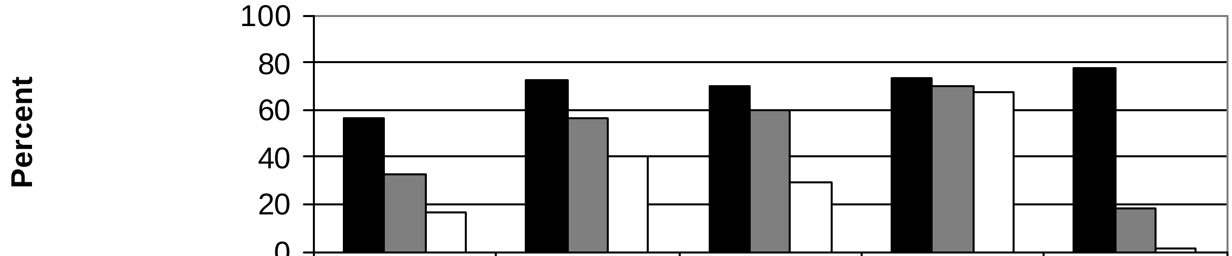
TABLE 21: Demographics of Students With Four or More Credit Cards



	Single	Female	White	Black	Asian	Undergrad	Grad Student
Students w/4+ cards	78.1	59.3	66.4	4.7	15.6	52.3	47.7
Students 1,2,3 cards	88.9	51.7	70	4.7	17	71.5	28.5
Students w/No cards	98.9	59.3	72.3	7.3	9.6	94.4	5.6

Not surprisingly, Table 22 shows that those with four or more credit cards are much more likely to be financially independent, to be working, to be renting, and to have a retail card than those with less than four credit cards or no credit cards. Once again, these findings are consistent the findings for those holding $1000 or more in credit card debt.

TABLE 22: Students With Four or More Credit Cards & Their Financial Practices



	Independent	Working	Renting	Budget monthly	Have retail card
Students w/4+ cards	57	72.7	70.3	73.4	78.1
Students 1,2,3 cards	32.6	56.8	59.6	70	18.7
Students w/No cards	16.9	40.1	29.9	67.8	1

With respect to credit card usage, Table 23 indicates that those students with four or more credit cards are more likely than those with fewer than four cards to misuse their credit cards. Those with four or more credit cards are *less* likely to pay their balances in full each month and *more* likely to max out their credit cards and be rejected for a credit card than those holding fewer than four credit cards. Regardless of the number of credit cards held, approximately 10.0% of students are delinquent on their credit card payments.

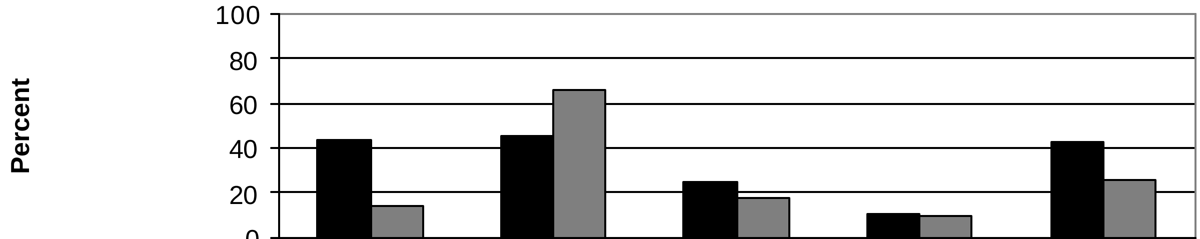
Table 24 shows that students holding four or more credit cards are more likely to not only hold other types of debt but to owe more than $1000 in other debt than those holding fewer than four credit cards or no credit cards.

- Of those students holding four or more credit cards, 42.3% owe some type of other debt. Of those students with fewer than four credit cards and no credit cards, only 32.1% and 20.3% owe some type of other debt, respectively.

- 32.8% of those with four or more credit cards owe $1000 or more in other debt compared to 24.2% of those with fewer than four cards and 15.3% of those with no cards.

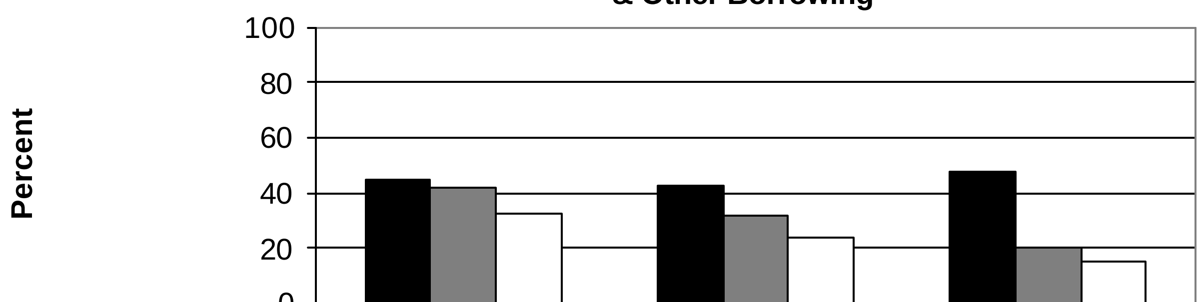
- Regardless of the number of credit cards held, about the same percentage of students receive some form of financial aid. 44.5% of students with four or more credit cards receive financial aid, and 42.6% of those with fewer than four cards and 47.5% of those with no credit cards receive some type of financial aid.

TABLE 23: Students With Four or More Credit Cards & Their Credit Card Usage



	Owe $1000 or more	Pay balance in full	Max out cards	Late payments	Were rejected
Students w/4+ cards	43.8	45.3	25	10.9	43
Students 1,2,3 cards	14	65.7	17.9	9.1	26

TABLE 24: Students With Four or More Credit Cards & Other Borrowing



	Students w/4+ cards	Students 1,2,3 cards	Students w/No cards
Receive FinAid	44.5	42.6	47.5
Owe other debt	42.3	32.1	20.3
Over $1000 other debt	32.8	24.2	15.3

Overall, the findings presented in this section provide strong evidence that those with credit card balances of $1000 or more are at greater financial risk than those with credit card balances of less than $1000. The findings further reveal that those holding four or more credit cards are also at financial risk. In general, *these at-risk students are more likely to hold substantial balances of other types of debt. They are also more likely to misuse their credit cards and to have the additional burden of having to support themselves financially*.

What types of services are useful to at-risk students?

To gain insight into the services and preventative measures that would be most helpful to University of Illinois students, the OSFA asked students if they would "make use of any of the following if they were made available through the University":[5]

- Pamphlets and informational handouts about credit card debt
- Pamphlets and informational handouts about money management
- Self-help online information and/or Internet links to sites about credit card debt
- Self-help online information and/or Internet links to sites about money management
- Seminars/workshops on credit card debt
- Seminars/workshops on money management
- Counseling services concerning credit card debt
- Counseling services concerning money management.

We focus on the responses of those students who are financially at risk. Based on the results presented in this section, we expand our definition of "at-risk" and examine the responses of the following six groups:

- students with credit card debt of $1000 or more
- students with four or more credit cards
- students who only pay off their credit card balances some of the time or never
- students to max out their credit cards
- students who report that they do not know their credit card balance, APR, and/or credit card limit
- students who are delinquent on their credit card payments by two months or more.

Table 25 identifies the services that at-risk students would use if made available on campus. Three findings are of particular interest.

- In general, students who are at risk would most prefer to have online access to financial information. According to Table 16, students rank online information on money management as their first choice, online information on credit card debt as their second choice, and materials on money management as their third choice.

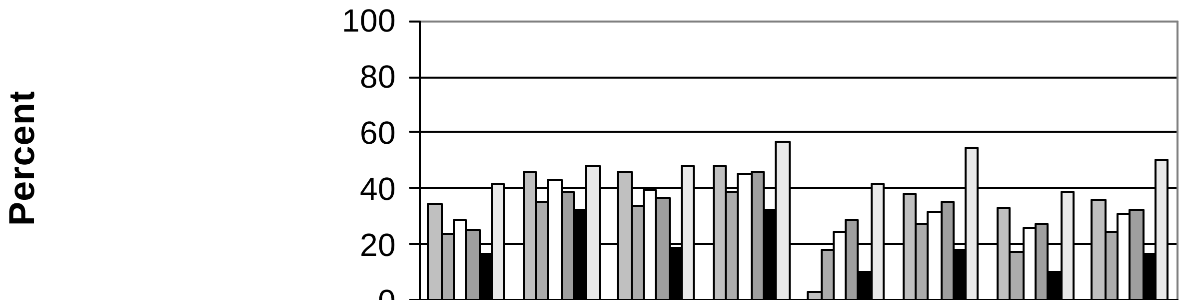
[5] Students could select more than one service so the percentages do not some to 100 percent.

- Regardless of the mode of delivery, at-risk students prefer to receive information on money management rather than credit card debt. This finding may be due to the wording of the survey questions. Perhaps, if the survey had asked students about "credit card management" rather than "credit card debt," students would have indicated that they would be equally likely to use services related to both credit card debt and money management.

- Interestingly, of all the at-risk groups, those students who report being delinquent on their credit card payments by two months or more appear to be more likely than other at-risk groups to use some type of service if offered by the University.

These findings provide substantial insight into the types of services and programs that the Office of Student Financial Aid and other campus organizations may want to offer to assist students who are financially at-risk. We make several recommendations at the end of this report. We also identify some of the preventative measures that are already underway to help students who are confronted with excessive credit card debt and/or other financial problems while attending the University of Illinois.

Table 25: At-Risk Students Who Would Use the Following University Services



	Pamph - cc	Pamph - mm	Online - cc	Online - mm	Seminar - cc	Seminar - mm	Couns - cc	Couns - mm
CCdebt $1000 or more	34.6	46.2	46.2	48.5	3.1	38.5	33.1	36.2
4+ Credit Cards	23.4	35.2	33.6	39.1	18	27.3	17.2	24.2
Pay sometimes/never	29	42.9	39.3	45.2	24.6	31.3	25.8	30.6
Max out cards	25.2	38.6	37	45.7	29.1	35.4	27.6	32.3
Don't know balance/APR/card limit	16.7	32.5	18.7	32	10.3	18.2	9.9	16.3
Delinquent on CCpayments	41.9	48.4	48.4	56.5	41.9	54.8	38.7	50

Summary of Major Findings

- Overall, the financial practices of undergraduates who use credit cards at the University of Illinois appear to be very similar to other colleges and universities around the country. The majority of students at the University of Illinois have credit cards. Some carry substantial balances. However, most students use credit cards responsibly and do not appear to accumulate large amounts of debt. The survey data indicate that the majority of students pay off their entire balances each month. In addition, average monthly balances held by students appear to be manageable. 86.3% of undergraduate students and 67.5% of graduate students with credit cards report average balances of less than $1000.

- Graduate students at the University of Illinois may be at greater financial risk than undergraduates. Graduate students are more likely than undergraduates to have credit cards and more of them. They also tend to have larger debt burdens than undergraduates, They are less likely to pay their balances in full each month and more likely to max out their credit cards, make late payments, and be turned down by a credit card company for a credit card. As with credit card debt, graduate students are more likely than undergraduates to owe some type of other debt and to owe $1000 or more of other debt. It is important to keep in mind that graduate students are likely to have higher expected incomes and be in a better financial position to repay their balances when they graduate than undergraduates. However, this does not explain why graduate students are more likely than undergraduates to max out their credit cards and make late payments. These findings raise concerns that graduate students may be misusing their credit cards and taking on too much debt putting them at greater financial risk down the road. Little research has been done to address the financial concerns of graduate students. Future research should examine these issues.

- Students with credit card debt are much more likely to hold student loans as well as other types of debt. Thus, those with credit card debt are more likely to borrow more in general. In addition, students with credit cards who are receiving financial aid are more likely than those with credit cards who are not receiving financial aid to have difficulty managing their credit card debt. They are not only more likely to hold other types of debt besides financial aid, but they are also more likely to hold larger amounts of other debt. The results suggest that students with credit cards who are receiving financial aid may be at greater financial risk when they have to pay off their debts after graduation. Again, this issue has not been adequately addressed in the research.

- Students lack a sense of financial reality. In examining the "write-in" survey responses, it became apparent that some students believe they are doing well managing their finances when in actuality they are not. In addition, some students appear to lack a clear understanding of key financial concepts. Student responses indicated that they were unsure of the differences between a credit card and debit card. They were also confused about retail cards and the definition of a financial institution. The confusion may have been due *not* to a lack of financial knowledge but to the wording of the survey questions. Regardless, there still appears to be some need for general financial education on campus.

- While most students at the University of Illinois use credit cards responsibly, there are some students on campus whose credit card behavior puts them at greater risk for high debt levels and misuse of credit after graduation. Students with certain characteristics of credit card usage are more likely to accumulate high interest payments and large amounts of credit card debt. We identify students at the University of Illinois as being financially "at-risk" if they have one or more of the following characteristics: credit card balances of $1000 or more, four or more credit cards, only pay off their credit card balances some of the time or never, max out their credit cards and/or are delinquent on their credit card payments by two months or more. These students are more likely than those not at risk to receive some type of financial aid in the form of federal loans, need-based grants, and/or federal work-study and to hold substantial balances of other types of debt. In addition, they are more likely to be less knowledgeable about the amount of credit card debt they hold, their annual percentage rate (APR), and/or their borrowing limit. They are also more likely to misuse their credit cards and to have the additional burden of having to support themselves financially.

- Students were asked about the financial services they would use if made available on campus. In general, at-risk students prefer to have online access to financial information. They rank online information on money management as their first choice, online information on credit card debt as their second choice, and materials on money management as their third choice. Regardless of the mode of delivery, at-risk students also prefer to receive information on money management rather than credit card debt. These findings are of particular importance as we think of ways to help students at the University of Illinois better manage their credit card debt and other finances.

Other Important Findings and Future Research

In conducting our analysis, a few additional observations were made. We do not discuss these issues in detail in this report. Instead, we point out their significance and save them for future research.

- First, we find that female college students are at greater financial risk than male college students. While males are more likely to have at least one credit card, females with credit cards are *more* likely than males with credit cards to hold 4 or more credit cards, to owe more than $3000 in credit card debt, to be delinquent on their credit card payments, to receive financial assistance, and to hold other types of debt. Female students with credit cards are *less* likely than males with credit cards to know their credit card balance, annual percentage rate, and/or their credit card limit. However, females are more likely than males to use financial services if offered by the University.

- Second, we also find evidence that blacks are at substantially greater risk than whites, Asians, and Hispanics. Black students at the University of Illinois hold *the largest* credit card balances on campus. They are also the *most* likely to receive financial assistance. In addition, they are more likely than other ethnicities to owe $1000 or more in other debt, to max out their credit cards, make late payments, and/or be turned down for a credit card by a credit card company. They are the *least* likely group on campus to pay their balances in full each month. While the sample of black students is small, there is clear evidence that they are perhaps the most at-risk for having large debt burdens and misusing credit cards. These findings clearly indicate a need for financial education programs that target financially at-risk groups such as female and black students to ensure that they are not at a financial disadvantage.

This report also points to the need for more in depth research and analysis in the area of student credit usage.

- Past studies have examined the credit card usage, attitudes towards credit, and financial knowledge and practices of college students. However, they have not attempted to identify and develop a clear understanding of those who are at financial risk. This report has focused on characterizing the credit card usage of students at the University of Illinois *and* identifying those students who are financially at-risk. However, this report still does not adequately address why more and more students are incurring excessive debt, and why some students are more "at-risk" than others. Special attention needs to be given to this issue, and more complicated analysis needs to be conducted. Currently, Angela Lyons, assistant professor at the University of Illinois, is working to address this issue in a series of research papers.

- Finally, recent media attention has focused on growing concerns that students are accumulating too much debt to the point that they are unable to repay these debts when they graduate. Despite this recent attention, very little is known about the actual ability of recent college graduates to manage their accumulated debt after graduation. This is primarily due to a lack of longitudinal data on students. Longitudinal studies are needed to examine the role that credit card usage and credit card debt play in the post-college lives of students.

Recommendations for the University of Illinois and Beyond

As we have indicated throughout this report, the majority of college students at the University of Illinois appear to use credit cards responsibly. However, there are some students on campus who are financially at risk for accumulating large amounts of debt and misusing credit cards after graduation. Because of their inexperience with credit, some students may not have the knowledge and confidence to manage their debts and other finances. For this reason, we should not be surprised that some college students are at a greater risk for having substantial debt burdens than more experienced credit consumers.

There is growing evidence that individuals who receive financial education and utilize financial management skills at a young age tend to do better financially than those who do not receive financial education (Stranger, 1997 and Varcoe et al., 2001). Most students come to college with an academic plan, but few come with a financial plan. In this section, we identify the resources and services that the OSFA and other campus and community organizations can offer to University of Illinois students to help them better manage their finances and use credit responsibly. Our recommendations are summarized below and are in no particular order of priority:

- We would like to see the University of Illinois require credit card vendors who come to campus to hand out materials on responsible credit card usage along with credit card applications. They could also conduct educational presentations.

- We would also like to see financial education instruction presented to incoming students along with their parents as part of freshman orientation. The financial instruction would include discussions on subjects concerning budgeting and responsible use of credit. Currently, efforts are underway to include some form of financial education as part of freshman orientation in Fall 2002.

- Seminars/workshops could also be given during the year to small groups of students on the subjects of money management and credit usage. These small group meetings would be ideal for targeting students who are at greater financial risk such as graduate students, female and black students, and possibly international students. Perhaps, these seminars/workshops could be offered through student organizations on campus.

- In addition, financial counseling services could be offered by the University, perhaps in conjunction with Student Services and the OSFA. At Brigham Young University (BYU), students are required to file a financial plan with the Financial Aid Office before their loan eligibility is certified (Weston, 2001). Filing a financial plan makes students aware of how much they will need to borrow to finance their education. It also helps students to identify whether or not they will be able to repay their loans after graduation and still maintain a comfortable standard of living. As a result of BYU's counseling program, Stafford Loan amounts have decreased by 27% since Fall 1998.

- Recall that the results of the OSFA survey indicate that students who are financially at-risk would prefer to receive information on money management and credit card debt online rather than in the form of informational materials, seminars, workshops, and/or counseling services. Providing online financial management services gives students the option to receive information on sensitive financial issues by themselves and at their own convenience.

Currently, there are efforts underway to provide online financial services and improve the financial know-how of students at the University of Illinois. To address questions related to financial assistance, the Office of Student Financial Aid at the University of Illinois has introduced a new web-based customer support site called "Ask Us," which can be accessed through their website at: http://www.osfa.uiuc.edu. "Ask Us" offers a 24-hour, online, easy-to-navigate, question and answer format that prospective students, parents, guidance counselors, and other interested visitors can use to find answers to their financial aid questions related to our university campus. Visitors may browse the list of most frequently asked questions or use financial aid keywords or phrases to search for information on a specific financial aid topic. Individuals search the knowledge base first and if they still need more information about a specific financial aid topic, they can submit their question to the OSFA. Financial aid administrators respond to all questions within 72 hours. An online folder called "My Stuff" is automatically created for the visitor to keep track of their questions and answers. They may view the contents of their "My Stuff" folder at any time and request to be notified if an answer is updated in the future. Initial feedback regarding this feature of "Ask Us" has been extremely positive.

To address the broader financial education needs of students, Angela Lyons, assistant professor of consumer and family economics at the University of Illinois is designing a web-based, financial literacy program for Illinois students called $tudent $marts. She and members of the University of Illinois Extension Consumer and Family Economics Team are beginning to work with various campus and community organizations around the state of Illinois to design and implement this web-based program. The program will target high school, college, and community college students between the ages of 18 and 21 who are financially at-risk in the state of Illinois. Information and hands-on activities will be developed on the following topics: budgeting, student loans, credit usage, interest payments, and savings and investment—special emphasis will be placed on credit usage. Upon completion of the website, materials will be developed and distributed to representatives at high schools, community colleges, and colleges and universities around the state of Illinois. Training sessions will be offered to representatives to prepare them for incorporating the materials into their institution whether it be in the classroom, campus workshops, freshmen orientation series, et cetera. Additional lessons will be developed for graduating college seniors on topics related to: retirement planning, investing, purchasing a house, repaying student loans, and choosing an insurance plan. The ultimate goal of this program will be to help students build financial knowledge, make informed financial decisions, use financial services responsibly, and develop a sense of financial independence.

Final Comments

The main objectives of this report have been to 1) provide greater insight into the credit usage of college students at the University of Illinois and 2) to encourage the University of Illinois, other campuses, and community and state organizations to identify ways in which they can help students to better manage their credit usage and avoid future misuse of credit down the road. This report provides some intriguing findings, especially with respect to those students who are most at risk financially. However, there is still much work to be done before our understanding is complete. We hope that other researchers and educators can use this report as a foundation for future research and curriculum development.

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Appendix

Survey Response Rates (11/9/01-12/9/01)

E-mails were sent to 2,650 students (approximately 7.0% of the student population.)

Date	Day	# of Responses	Notifications	Return Rate
11/8	Thur	Survey Online		
11/9	Fri	378	1st e-mail	10%
11/12	Mon	427		
11/13	Tues	430		
11/14	Wed	443		
11/15	Thur	536	2nd e-mail	14%
11/16	Fri	615		
11/19	Mon	632		
11/20	Tues	641		
11/21	Wed	656		
11/22	Thur	Thanksgiving Break		--
11/23	Fri	Thanksgiving Break		--
11/26	Mon	656		--
11/27	Tues	657		
11/28	Wed	805	3rd e-mail	30%
11/29	Thur	819		
11/30	Fri	831	4th e-mail	31%
12/3	Mon	899		
12/4	Tues	907		
12/5	Wed	907		
12/6	Thur	907		
12/7	Fri	915		
12/7/	Fri	Survey closes		
TOTAL	**31 days**	**915 responses**	**4 mass e-mails**	**34% return rate**
Total		**835 valid responses**		