THE STUDENT-LOAN FINANCIAL CRISIS: A CASE OF CREDIT-CARD USAGE AMONG AFRICAN-AMERICAN COLLEGE STUDENTS

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Abstract

There is current concern about a student-loan crisis, as student-loan debt, which now exceeds $1 trillion, has surpassed credit-card debt for the first time. The level of student-loan debt (and the related cost of a college degree) is one of main concerns among "Occupy Wall Street" participants. Some are concerned that a "student-loan bubble" or "education bubble" may be the next to "pop." We provide some historical perspective and insights by exploring one relevant case -- credit-card and student-loan usage among African-American students -- to contribute to efforts in understanding and managing this crisis. Credit card usage by the student population is steadily on the rise and the proportion of students with credit cards on the upswing. American college-students have been raised in a credit-card society where debt is commonplace. Using an exploratory approach, this study investigates the usage of credit cards within a sample of undergraduate African-American college students, and compares results to Nellie Mae results for the college-student population, overall. Findings suggest that African-American student use of credit cards and student loans is somewhat different than that of the general undergraduate population, but that both African-American and majority college-students exhibit a potentially-disturbing trend in their use of credit cards. Study results have important public policy and marketing implications for both African-Americans and majorities alike.

Keywords: student-loan crisis, credit card, African American, debt

INTRODUCTION

The financial crisis during the recent "Great Recession" nearly brought about a collapse in the US economy. The financial trigger for this problem was the too-easy flow of credit in the form of mortgages to home buyers who, as came to the fore after the housing-bubble burst, could not afford these loans! Unfortunately, the economic crisis has resulted in a substantial increase in non-business bankruptcies, to more than 1.5 million in 2010 from a bit more than 800,000 in 2007 (2007 BAPCPA, 2008; 2008 BAPCPA, 2009; 2009 BAPCPA, 2010; 2010 BAPCPA, 2011). The persistence of a high unemployment rate – a jobs problem -- has compounded the housing and mortgage-lending problem. In a somewhat similar vein, there is current concern about a student-loan crisis, as student-loan debt, which now exceeds $1 trillion, has surpassed credit-card debt for the first time (Olympian, 2011; Pilon, 2011).

The level of student-loan debt (and the related cost of a college degree) is one of the main concerns among "Occupy Wall Street" participants (Pilon, 2011). Some are concerned that a "student-loan bubble" or "education bubble" may be the next to "pop" (Pope, 2011). This concern did not come out of nowhere. And, hopefully, this crisis can be resolved satisfactorily and in a way such that its effects do not result in substantial long-term damage to the US economy. We provide some historical perspective and insights to contribute to efforts in understanding and managing this crisis by exploring one relevant case, that of credit-card and related student-loan usage among African-American students.

A Case of Credit-Card Usage Among African-American Students

Credit-card usage is not unusual for today's teens and young adults. US culture has, nearly, hard-wired it into their minds. Credit cards not only facilitate purchasing behavior, but also allow consumers to expand their buying power over both the short and long term. In addition, the consumer culture that preceded the "Great Recession" of 2007, and still persists to a reasonable degree today, motivates consumers to desire, consume, pursue, and display goods and services that are valued for non-utilitarian reasons. Credit is the norm, as everyone wants to be a member of the consuming culture. Latent wants to consume are seductive and result in a "want to consume" mentality (Roberts and Jones, 2001; Denegri-Knox and Molesworth, 2010).

In this paper, we use data from a fairly recent (2008) random sample of African-American college students who attend a private, historically black, university. We report specifically on the credit-card (and related student-loan) usage of African-American undergraduate students. We interpret observed differences between a group of African-American students and the Nellie Mae study of the college-student population overall, as reflecting both changes in how college students, in general, and how African-Americans students, in particular, use credit cards. We also obtain insight into the level of college-loan debt among African-American students. Our survey uses the same questions posed in the 2004 Nellie Mae study to compare results from this, a separate minority student segment, to the 2004 general student-population results. The purpose of this paper is to expand the Nellie Mae results to more specifically measure a subset of the overall college population and contribute to a process that may partly explain and help address the current student-loan crisis. The results have important implications for public policy, marketing and future-research.

The College Consumer

Youthful buyers in general, and college students specifically, have been raised in a "credit card society;" growing up with debt and using credit freely (Manning, 2005). In prior generations, debt was reserved for only certain types of purchases: cars, houses, vacation trips, etc. However, the demand of today's materialistic, "now," society has changed the usage and application of credit instruments. The mantra of "buy now, pay later," is portrayed in the mass media and popular culture as values of the "Just Do It!" generation. Too often, financial irresponsibility is portrayed as a benign rite of passage as youth make the transition to the personal responsibilities of adulthood. In reality, many youth find their personal relationships and professional careers ruined without an informed view of the power of plastic (Manning, 2005).The use of credit cards facilitates two distinct services: 1) a convenient transaction- facilitating vehicle and 2) a debt or borrowing vehicle, which allows a purchase to be made immediately, instead of waiting until the cash (buying power) is accumulated. According to Bird, Hagstrom and Wild (1997), credit-card holders who have an outstanding credit-card balance after the most recent monthly payment, are known as *revolving credit-card users*. Credit-card users who pay the entire outstanding balance of their credit-card balance and have zero forwarding balances to the next month billing cycle are called *convenience credit-card users*.

BACKGROUND AND LITERATURE REVIEW

The Nellie Mae Studies

In 1998, Nellie Mae conducted a study of undergraduate college students' credit-card usage. This initial study – later Nellie Mae studies were also conducted in 2000, 2001, and 2004 - was prompted by concern over increasing credit activity among college students applying for Nellie Mae credit-based, alternative student-loans. As part of the Nellie Mae study, a credit bureau report for each student applicant was obtained from one of the major credit-reporting agencies. The main goal was to ascertain the level of credit-card activity among all college students. The ethnic makeup of this survey was not reported.

The 2004 Nellie Mae credit-card usage study examined the behavior patterns of credit-card usage rates and trends of college students. A survey of a random sample of 1260 students across all races was administered through an online survey about their credit-card usage.

The Fertile College Credit-Card Market

The college-student market is a large and growing target market. The number of credit cards on university campuses has seen an explosive level of growth in the past decade. More than 18 million undergraduate students were enrolled in U.S. higher-education institutions in 2009 according to the U.S. Department of Education - National Center for Education Statistics. Over 11.9 million students enrolled in four-year colleges and universities were studying full-time. Part-time students in four-year and two-year schools and graduate schools made up the balance of enrollees. Approximately 14% (2.37 million) of this student population were African-Americans. Today's college campuses are populated by more women than men - women comprising 57% of the overall undergraduate enrollment (Southern Regional Education Board, 2009).

The combination of lucrative and exclusive marketing/licensing contracts between credit-card companies and higher-education institutions results in millions of dollars per year for the largest public institutions. The increasing cost of an undergraduate education, together with intensifying competitive consumption pressures, has fostered a credit/debt-dependent environment that typifies the current undergraduate college experience (Manning, 1999; Manning 2000; Hystad & Heaver, 2004).

Up to the mid-to-late 1980's, unemployed students under 21 were required to obtain parental consent (co-signage) before obtaining a credit card. Since the onset of banking deregulation in 1980, the increasingly concentrated U.S. financial-services industry has become more dependent on high-interest revolving credit-card loans, which are about three times more profitable than the average banking product. In 2009, the top 10 banks controlled about 77% of the credit-card market compared to less than 25% in the late 1970s and 57% in the early 1990's (Nilson Report, 2009). As profits from revolving debt escalated in the late 1980's into the 1990's, institutional pressure to expand credit-card portfolios intensified. Banks began strategizing over how to penetrate the highly desired, but risky, college market. Financial institutions learned that excluding parents from the credit-approval process was a lucrative policy that increased students' discretionary purchases, leading to mounting finance charges and fees.

By the beginning of the 1989-91 recession, about one-half of college students at four-year institutions had their own credit cards, but few had accumulated over $5,000 in revolving debt. This quickly changed, as banks marketed credit cards to college juniors and sophomores. By the late 1990s, over 70 percent of college students at four-year institutions had credit cards with banks that commonly marketed to freshmen. With more time to accumulate debt, and much higher lines of credit, students began amassing much larger debt burdens, with $15,000 to $20,000 in cumulative "plastic" balances not an uncommon experience. In 2009, three-fourths of all college students had bank-issued credit cards. Eighty-four percent of the college students had at least one credit card, even if only for gasoline purchase, an increase of approximately 11 percent since the fall of 2004. (Sallie Mae, 2009**).**

College students are bombarded with pre-approved applications, granting them credit-worthiness without having a job. In most cases, the cards are being granted on the presumption that, in the future, these students will be gainfully employed and financially successful members of the consuming society. A key factor in college marketing-campaigns is that adolescence and early adulthood are the formative periods for shaping and developing consumer attitudes, as well the development of consumer tastes for specific products and services.

Planting the early seed that grows into corporate brand-loyalty is also important. Credit companies see this as an early opportunity to start a relationship, by introducing the college student to a financial provider. Being part of the "now" generation, who is unwilling to wait or save for a wanted purchase or lifestyle, makes credit transactions even more likely. Often, "cross-marketing" campaigns, in which banks join with corporate retailers in marketing to college students through credit-card advertisements, are implemented. Not surprisingly, the social pressure on college students to circumvent parental authority, giving status to young, less-savvy students, is an attribute to be leveraged. The ability to acquire credit cards without parental consent increases the likelihood that extravagant spending behavior will result. In many instances, students, with credit cards provided by their parents, are also acquiring their own credit card in order to conceal their social, sexual, and consumption activities. In the 2004 Nellie Mae study, it was found that 76% of all college students began the year with a credit card.

College students of today also have large student loans. Students may commonly use their college loans (whose repayment schedule is deferred until after graduation) to pay down their monthly credit-card balances. This is an example of a perverse form of a "savings account"/resource! This trend is encouraged by the largest credit-card issuers and student-loan providers (e.g., Citibank), which essentially reduces the risk of the financial institution by encouraging students to shift their high-interest credit-card debt into low-interest, federally- guaranteed college loans. It should not be surprising, then, that combined student-loan and credit-card debt levels are ascending to new heights. In the 2004 survey of its student loan- borrowers, Nellie Mae found that the average combined student debt was $20,402 — including $17,140 of student loans and $3,262 of credit-card debt (Manning and Kirshak, 2005). Student-loan debt for the class of 2010 exceeds $25,000 (Pope, 2011).

How Credit Card Companies Make a Connection to the College-Student Market

An interesting issue concerns the "seduction" of college and university administrators by the credit-card industry. College administrators have not been passive bystanders. Marketing agreements have proliferated on college campuses, as academic institutions grant credit-card companies exclusive promotional access to students in exchange for *millions* of dollars. This is especially common at public institutions, since the largest 250 public universities account for nearly two-thirds of the students attending four-year institutions. Visa, MasterCard, and other card providers develop a relationship pact that includes sponsoring school programs, funding student activities, renting on-campus solicitation tables, and paying "kick backs" for exclusive marketing agreements, such as college or alumni "affinity" credit cards.

Colleges often profit enormously from these relationships with credit-card companies. Institutions that allow the companies to use the college logo typically get a percentage of every charge made on those accounts, ranging from one-fourth to three-fourths of one percent. As a result, rather than protecting the economic and financial interests of their students, one can argue that many college administrators are playing an active, and often disingenuous, role in promoting the societal acceptance of consumer debt, along with the prominence of credit cards in collegiate life. In other instances, the use of bank-sponsored "smart" (computer chip) cards, such as student IDs with "stored value," is the culprit. The combination of the absence of direct parental-control, and a social environment that promotes immediate gratification, increasingly puts students in a financially precarious position well before their salary-earning years.

One might wonder if the financial education of American college students is being auctioned by universities to the highest corporate bidders. According to the Federal Reserve, in 2009, 17 credit-card issuers made payments of $83.5 million to colleges and universities for the privilege of marketing their products to students, staff, faculty, and alumni (Singletary, 2010). Since this practice has begun, over 2 million credit-card accounts have been opened. The largest "player" in this area is FIA Card Services, a subsidiary of Bank of America Corporation; it made payments of $62 million to schools and affiliates in 2009. This practice has begun to be seriously questioned. In New York State, schools can no longer conclude deals in which the school earns a percentage of *finance charges* imposed on students (Singletary, 2010). Still, this new law does not reduce the general practice of arrangements between card issuers and schools. Thus, it is certainly possible that these credit-card practices may negatively impact the future lives of college consumers, as excessive credit-card usage results in shaping exorbitant spending activities.

Credit Card Usage

Credit-card use stimulates spending and, when compared to cash, credit cards lead to increased spending. Credit-card payments, including online commerce, now account for about 50% of the spending among consumers 18-24 years old, with cash and checks contributing about 41% of the spending (Kasavana, 2006). The fast-food industry provides a convenient example of the effect of usage of credit cards in a retail area previously untapped. Each of the largest fast-food restaurant chains — McDonald's, Burger King and Wendy's — readily accepts card payments at POS counters and drive-through locations (n.b., they accept debt cards also, of course, but the dynamics of debit-card use is very different than credit-card use, and does not have a material impact on the primary aspects of this paper.). They all reported increased sales that they associated with the permitted use of credit cards.

Several studies have examined the behavior and attitudes of students with respect to credit card usage. Armstrong and Craven (1993) were among the first to examine college students' credit usage and payment practices, finding gender and race as significant predictor variables. They found that women are more likely to both own and carry credit cards.

With respect to race, they found that black students were less likely than white students to own credit cards. Joo, Grable and Bagwell (2001) examined the factors associated with students' attitudes toward credit cards, as well as students' actual credit-card usage. Using a sample of students taken from a large southwestern university, they found that 71% of the students sampled had at least one credit card, with more than 10% holding five or more credit cards. Almost half of those with credit cards (49%) paid their credit-card bills in full each month, with only 10% of those with credit cards making just the minimum payment each month. In another study, Staten and Barron (2002) drew a random sample from 300,000 active accounts and compared consumer behavior across three types of credit-card accounts: those accounts opened through student-marketing programs, those accounts opened by young adults 18-24 through conventional-marketing programs, and those accounts opened by adults 25 or older through conventional-marketing programs. They found that credit accounts marketed specifically to college students through a student-marketing program had smaller balances and lower credit limits than accounts opened by young adults and those adults 25 and older through conventional-marketing programs.

As students matriculate through school they are more likely to use a credit card, regardless of gender and race. In the spring of 2008, only 15 percent of freshmen had a zero credit-card balance, down dramatically from 69 percent in the fall of 2004. The median debt freshman carried was $939, about two-and-a-half times the $373 median in 2004. Students graduated in 2009 with an average credit-card debt of more than $4,100, up from $2,900 in 2005. Close to one-fifth of college seniors carried balances greater than $7,000 (Sallie Mae, 2009).

Undergraduates overall, not just freshmen, are carrying record-high credit-card balances. The average balance in 2009 was $3,173, much higher than in any of the years the Nellie Mae study was conducted. Median debt grew from 2004's $946 to 2009's $1,645. Twenty-one percent of undergraduates had balance of between $3,000 and $7,000 (Sallie Mae, 2009). Pinto and Mansfield (2006) found that there are significant differences in the number of credit/debit cards, and the balances carried, between students at private and public colleges. Students at public colleges tended to carry a higher number of credit/debit cards and higher balances. They found that private-institution students averaged 2.00 cards, while public-institution students averaged 2.31 cards. A significant positive correlation was found between credit-card balances and student-loan debt. Indeed, higher credit- card balances and higher levels of student-loan debt were found to be associated. Pinto and Mansfield (2006) categorized students as being financially at risk (FAR) and non-financing at risk (NFAR). Differentiating the financially-at-risk student from the non-financially-at-risk student, the Pinto and Mansfield study identified that financially-at-risk students had an average credit-card balance of $2,025 compared to only a $131 average credit-card balance for those who were identified as non-financially-at-risk. In terms of student-loan debt, they found that the financially-at-risk student had an average student-loan balance of $16,682 and the non-financially-at-risk student had an average balance of $14,339.

Lyons (2004) developed a profile of financially-at-risk students based on the characteristics of students who have mismanaged or misused their credit cards. Her results indicated that financially-at-risk students tend to come from low-to-middle-income families who are disproportionately racial/ethnic minorities. This seems plausible, since many minorities are not as familiar with credit-card practices and, in many instances, are new to the nuances of financially matriculating through college. In many cases, they are first-generation college-students and may have underestimated the financial demands of college. These findings support the findings by Zhou and Su (2000) that suggest that students from families with lower family-incomes are likely to have higher student-loan amounts and credit-card debt than students from families with higher family-incomes. In particular, for many young African-Americans and Hispanics, financial savvy is not even on the radar screen. Adolescent minorities see their role models—mainly athletes, entertainers and others in the public eye—in nice clothes and nice cars.

Thinking about securing a future is not considered; having all that they see is the norm. Credit cards facilitate purchasing power by providing a vehicle to increase their buying power, but, in many instances, the students, unfortunately, lack financial foresight. That lack of foresight is magnified as the student matures into adulthood. In addition, minority students (like all college students of today) are faced with some, if not all, of the following: A decrease in PELL grants and scholarships; An increase in both tuition and the cost of room and board; An increased availability of loan dollars from outside, and higher interest-rate loan-providers; An increase in the need to work while matriculating a full time program (this may necessitate taking fewer hours per semester and hence, a longer time before graduation)

AFRICAN-AMERICAN-2008 SURVEY METHODOLOGY

A survey was administered in the spring of 2008. For identification, the survey is labeled AA-2008. The purpose of this survey was to provide in-depth insight into African-American undergraduate student credit-card behavior in comparison to the overall undergraduate population surveyed in the Nellie Mae studies. This study, like the Nellie Mae studies, requested the completion of a survey on behavior related to credit-card use.

A convenience sample of college students was selected from the school of business of a private, historically black, university in a southeastern state with an enrollment of 4,000 students. There were one hundred and thirty-eight completed student responses; 99% of the respondent pool was African-American (n.b., the study was intended to consist entirely of African-American students; however, unintentionally, one student who filled out the questionnaire was not African-American and his/her questionnaire was not able to be identified after the fact). The questionnaire was pretested with both student groups and faculty to ensure the clarity of the questions and that few, if any, ambiguities existed. The survey included questions regarding card usage, demographic characteristics, student debt and other credit-card usage factors. Questions were adopted from the 2004 Nellie Mae study.

While there is an ongoing debate over the use of student samples (e.g., Wells 1993), a college-student sample in this case is deemed appropriate. Indeed, the primary objective of the present study was to assess the use of credit-cards specifically among African-American *college-students*.

FINDINGS AND DISCUSSION

Descriptive statistics for the present sample are as follows. The sample consisted of 138 college students of which about sixty-one percent were female, with an average age of about twenty-one years old. The majority of student respondents were juniors and seniors (32% juniors and 41% seniors, respectively), with twenty-seven percent being freshman and sophomores (17% freshmen and 10% sophomores, respectively). Students were given an online web address and asked to go to that location to complete the questionnaire. The one hundred thirty-eight responses represented approximately 3.5% of the total undergraduate enrollment. Because of the small percentage of respondents, this study should be considered exploratory in nature, a first step in better understanding the issues presented.

African American Undergraduate Students and Credit Cards (AA-2008)

The majority of African-American (AA) students in the AA – 2008 study had credit cards. Table 1 indicates that 78% of these African-American undergraduates had credit cards in 2008, slightly higher than, but not statistically significantly different from, the 76% national average reported in the Nellie Mae (NM) 2004 study. However, the average number of credit cards held by those surveyed (2.9) is statistically significantly lower ($p < .05$) than the national average (4.1) reported in the Nellie Mae 2004 study. Indeed, African-American students surveyed had fewer cards than the average in any of four Nellie Mae surveys.

Students with credit cards	**NM 1998**	***NM 2000***	***NM 2001***	***NM 2004***	***AA 2008***
Percentage who have credit cards	67%	78%	83%	76%	78%
Average number of credit cards	3.50	3.00	4.25	4.09	2.88
Percentage who have 4 or more cards	27%	32%	47%	43%	15%

Table 1: Percentage of students with credit cards and average number of cards by study.

Credit Card Acquisition

As indicated in Table 2, the modal number of African-American undergraduates with credit cards (37%) obtained their first credit card as a freshman in college. As is the case with all college students today, many students are being exposed to credit cards before they enter college (32%). Performing a Kolmogorov-Smirnov goodness-of-fit test on the data in Table 2, we reject the null hypothesis ($p < .05$) that the distribution for African-American students surveyed is equal to that for the Nellie Mae 2004 survey. A core reason for this is the large difference between the percentages obtaining their first card before entering college. Of course, this difference could be associated with the four-year time difference (i.e., 2004 to 2008).

If we examine only the relative values for the four years of college (i.e., ignore the "before entering college," and rescale for the four years *of college*), there is no significant difference in the distributions, and we can conclude that the acquisition of credit cards on black college-campuses is consistent with their acquisition on college campuses, in general, at least in terms of when their first credit card is acquired.

When students with credit cards obtained their first card	*Nellie Mae 2004*	*African American 2008*
Before entering college	*23%*	*32%*
As a freshman	*43%*	*37%*
As a college sophomore	*22%*	*16%*
As a college junior	*9%*	*10%*
As a college senior	*2%*	*5%*

Table 2: Percentage of students in Nellie-Mae-2004 study and African-American-2008 study: The educational point at which they obtained first credit card.

In terms of age (see Table 3), there is a significant difference ($p < .05$) in age distribution between the African-American-2008 study and the Nellie-Mae-2004 study. Clearly, the African-American distribution indicates a receipt of their first credit card at a later age than those respondents to the Nellie Mae study. This may seem like it is a bit inconsistent with the previous finding, but what is indicated is that African-Americans in the sample were older than their Nellie Mae counterparts during their college years.

Credit card ownership by age	**18**	**19**	**20**	**21**	**>21**
Percentage who obtained first credit card – Nellie-Mae-2004	*56%*	21.4%	15.5%	4.8%	2.4%
Percentage who obtained first credit card – African-American-2008	51%	14.6%	15.5%	5.8%	13.7%

Table 3: Percentage of students in Nellie-Mae–2004 study and African-American–2008 study: The age at which they obtained first credit card.

The Nellie Mae survey responses indicate that, as age increases, the percentage of the population obtaining a first credit card decreases. Unlike the Nellie Mae survey, however, a meaningful number of African-American college students opted out of securing a credit card until they were at least 22 years old. It is uncertain as to the reasons that these students did not obtain credit cards sooner. Possibly, creditors did not see them as credit worthy, or the students simply chose to secure a credit card earlier, but *with their parents' assuming the responsibility*. It is also possible that they were purposely waiting to secure a credit card in their name until after they finished their undergraduate degree.

Purchasing Trends: Direct and Indirect Education Expenses

Credit-card usage by college students is of concern to many retailers who are trying to tap into this growing and influential group. College students use their credit cards for some expenses that are directly related to their education and some expenses that are not related to their education. Tables 4 and 5 illustrate the purchasing behavior of African-American students compared to college students in general. The usage of a credit card for both direct and indirect education purchases was assessed.

Purchasing trends – Direct education expense	*Nellie Mae 2004*	*African American 2008*
Tuition	24%	9.3%
Room & Board	5%	3.4%
Fees	29%	7.2%
Textbooks	71%	42.3%
General School Supplies	74%	28.9%
Commuter Costs	29%	11.3%
Computer	19%	8.3%
Other	5%	8.3%
None	15%	45.4%

Table 4: Percentage of students in Nellie-Mae-2008 study and African-American-2008 study: How they spent their money for direct educational items

Relative to credit-card usage for direct-education purchases, the African-American college students in this survey used their credit card less than students as a whole. In every category, a smaller percentage of African-American students used their credit cards. For most categories, the difference was statistically significant at $p < .05$. Specifically, this is true for Tuition, Fees, Textbooks, General School Supplies, Commuter Costs, and Computer Purchases. For the category, "Other," the African-American students had a higher percent, although the difference is not significant at 5% significance level (i.e., $p > .05$). Indeed, 45% of the African American students stated that they did not use their credit card for *any* direct-education-related purchases.

When looking at indirect purchases (Table 5), there are significant differences ($p < .05$) in the usage of credit cards by African-American student users and the college population in general for five out of the fourteen categories. These categories include Rent, Cable TV, Other Entertainment, and Internet Services, four out of the five categories in which the African-American students used less than the general student population; the one category of the significant five in which the African-Americans spent more is "Other." The highest two categories for both groups are Food and Clothing. Using a credit card for food purchases is, possibly, more because of the convenience of using the card, as opposed to just having limited cash.

Purchasing trends – Indirect education expense	***Nellie Mae 2004***	***African American 2008***
Rent	8%	14%
Food	71%	64%
Cosmetics	49%	41%
Travel (non-commuting)	30%	33%
Music	37%	23%
Cable television/videos	22%	16%
Other Entertainment	24%	16%
Clothing	68%	70%
Telephone	30%	28%
Internet Service	10%	4%
Medical	12%	11%
Gifts	39%	33%
Other	8%	21%
None	10%	11%

Table 5: Percentage of students in Nellie-Mae-2004 study and African-America-2008 study: How they spent their money for indirect educational items

Credit-Card Debt

Nellie Mae's credit bureau analysis showed that the average outstanding credit-card debt of surveyed college students for 2004 was $2,169 with a median debt of $946. The African-American students who were surveyed had results that compare favorably to the Nellie Mae results, in that their average credit-card debt was $1,586 with a median debt of $501. That is, the African-American students surveyed carried lower credit-card balances on the whole (see Table 6). When we analyze the distribution of the credit card balances (see Table 7), we see that more than three-fourths (78% = 23 + 20 + 35) of the students have balances under $500.00. There are a few high-balance "outliers" who heavily contribute to the determining of the *mean* balance. Three percent of the card holders had balances of at least $3000. In addition, the percent of African-American cards holders with balances under $500 (the aforementioned 78%) is quite high in comparison to the percent (40%) with balances under $500 in the Nellie Mae 2004 study.

Credit card balances	**NM 1998**	**NM 2000**	**NM 2001**	**NM 2004**	**AA 2008**
Average credit card debt	$1,879	*$2,748*	*$2,327*	*$2,169*	*$1,586*
Median credit card debt	$1,222	*$1,236*	*$1,770*	*$946*	*$501*

Table 6: Average and median credit-card debt, Nellie Mae 1998-2004 studies, and African-American-2008 study.

Distribution of credit-card balances	*Nellie Mae 2004*	*African American 2008*
$0	14%	23%
$1 - $99	4%	20%
$100 - $499	19%	35%
$500 - $999	14%	5%
$1000 - $1999	16%	9%
$2000 - $2999	10%	4%
$3000 - $7000	16%	2%
> $7000	7%	1%

Table 7: Nellie-Mae-2004 study and African-American-2008 study: Distribution of credit-card balances

From these data we might infer that the African-American students surveyed have their credit-card debt more "under control" than the general student population. There is, however, a caveat. Total student-loan debt in the 2004 Nellie Mae survey averaged $20,402 - including $17,140 of student loans and $3,262 of credit card debt. However, for African-American-2008, total student-loan debt was $28,752 – including $27,166 of student loans and $501 of credit-card debt (see Table 8).

Student Loan balances	*Nellie Mae 2004*	*African American 2008*
Average student loan debt	$17,140	$27,166
Median student loan debt	$12,000	$17,000

Table 8: Nellie-Mae-2004 study and African-American-2008 study: Student-loan indebtedness

Student-Loan Debt

The Nellie Mae credit-card studies of 1998-2004 primarily concerned themselves with the credit-card debt of undergraduate students. Concern with student-loan debt was not explicitly researched in these particular studies. Numerous articles have been written about the increase in student-loan debt of both undergraduate and graduate students.

The findings suggest that the rising cost of obtaining a college education may be playing a key role in the use of credit-card usage on black-college campuses. One apparent trend indicated by the results of the study is the transference of credit-card debt to an increase in student-loan debt. Seventy-eight percent of the African-American students surveyed indicated that they had student loans. The range of debt of those students surveyed was $5,000 to $100,000 with the average, as noted earlier, being just above twenty-seven thousand dollars (again, see Table 8). While we accented the fact that the credit-card debt of the African-American students surveyed compares favorably to that from the Nellie Mae and other studies (i.e., is lower), the *student-loan debt* is far greater for the African-American students.

Still, inasmuch as 71% of those surveyed were junior and senior students, the student-loan debt on average is not as overwhelming as it may seem. In addition, graduating business students are more likely to secure salaries that will allow them to repay their student loan debt more quickly than those committed to less financially-rewarding careers.

CONCLUSIONS, IMPLICATIONS, AND DIRECTIONS FOR FUTURE RESEARCH

Credit card misuse by college students is a real problem. College students today have grown up in a culture of indebtedness. American college students have been raised in a "credit-card"/borrow society where debt is used freely. There is little dispute that a remarkable culture change is behind America's appetite for debt. In 2008, the average U.S. household owned thirteen charge or credit cards and carried $7,500 on credit-card balances, up from $3,000 in 1990 (Zuckerman 2000; U.S. News and World Report, 2008). Also in 2008, according to Experian, the average American with a credit file was responsible for $16,635 in debt, excluding mortgages (U.S. News and World Report, 2008). The present study's findings regarding the role of credit-card use among college students, and African-American college students, specifically, have several important implications for consumer policy. One possible interpretation of this research is that African-American college students are leveraging school-loan debt power for short-term debt flexibility.

By increasing student-loan amounts, credit cards take the place of cash and allow the college student flexibility and spending power. Although the majority of students may use their credit cards responsibly, many African-American students are precariously on the edge when it comes keeping their debt under control. Credit-card abuse may also affect college students after they have left school. Late payments and delinquencies can impact a student's credit report and may inhibit his/her ability to secure a job or attend graduate school. In today's work environment, prospective employers routinely look at credit histories of potential candidates for hire. Graduate schools often require student loans to cover the cost of education. Without good credit, a student may be denied access to, or find significant challenges in obtaining, student loans needed to finance his or her future (i.e., graduate) education, or meaningful employment.

We believe that programs teaching students the responsible use of credit should begin in high school – indeed, perhaps in middle school. Students must be taught the proper use of credit and be provided with strategies to counteract the emotional messages of credit advertising. Results of a study conducted by Munro and Hirt (1998) support these findings. Munro and Hirt found that college students who had credit cards before entering college were more responsible in their use. The reality of the situation, however, is that few high schools help prepare students for living on their own, whether working or attending college. As an analogy, it is said that adults in France have fewer incidents of drunkenness, ascribed to their being introduced at a very early age to drinking wine and responsible drinking in general. African-American college students may need this preparation even more than majority students, simply because their unawareness may lead them to take on more debt than they should take on. That is, they may not realize that the debt they incur today will be the burden that they will have tomorrow. A few colleges, but only a few, determined several years ago that orientation programs should include survival skills, such as learning how to budget one's money and to use credit cards responsibly.

One question still remains: Do college students, in general, and African-American college students, in particular, really understand the cost of misusing credit, or do they simply choose to ignore it? The present study was further proof of the relationship between various monetary attitudes and compulsive buying among a group of people (in this case African-American college students) who have been identified as members of a highly materialistic generation (Roberts 1998). The increase in personal bankruptcies and debt among those under twenty-five suggest that the "choose to ignore it" hypothesis may be the case. For many young adults, bankruptcy appears to be an acceptable debt-management technique. Research is needed that investigates the relationship between credit knowledge and credit use.

The relationship between credit-card usage and consumer spending habits merits additional research. The present study's findings, combined with those of Feinberg's (1986) and others, suggest that credit cards can facilitate dysfunctional behavior, such as compulsive buying. However, results are far from conclusive. More careful experiments and research are needed to help better understand the role credit cards play in consumer spending. Research that investigates the impact of financial education on credit-card use is needed. Financial education has been identified as the solution to the problem of credit-card abuse on college campuses, but little research has been done to test this proposition. Mounting credit-card debts, dwindling savings, and the integral role credit plays in furthering the consumer culture make this a critical area of research. Longitudinal studies that examine monetary attitudes after intervention (e.g., financial education) are needed to fully understand the complexity of the African-American student-debt issues – *a primary finding of this study being that African-Americans differ from the overall college-student body along many dimensions in measuring credit-card use and abuse.*

Future research efforts should also attempt to improve upon several of the limitations of the present study and others in the area of monetary attitudes and compulsive buying. The attempt here was to examine the differences between African-American and majority college students in general. First, more representative samples are needed. The use of a single institution for data collection potentially limits the generalizability of the results. A good sampling-frame from a cross section of college students and other young adults would improve the ability to better formulate policy to address this growing problem. Longitudinal studies are also needed to assess the potential interaction of age, consumer spending and family income. The bottom line is that any opportunity to minimize debt (both credit card and school loan) can only enhance the ability of students to manage their credit in the future.

Finally, we hope that this study will help in addressing the student-loan crisis and debt-burden of relatively recent college graduates.

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