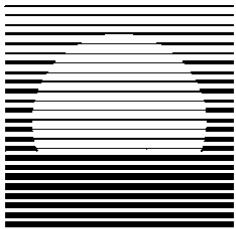


Undergraduate Students and Credit Cards in 2004

An Analysis of Usage Rates and Trends

This report was developed and produced by Nellie Mae.

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**N E L L I E
M A E**

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Executive Summary

- **Seventy-six percent of undergraduates in 2004 began the school year with credit cards.** This is an 8% decrease from the 83% with cards reported in 2001.
- The **average outstanding balance** on undergraduate credit cards was **\$2,169**, a reduction of 7% from 2001 when the average balance was \$2,327, and the lowest average balance reported since 1998.
- **More than half** the undergraduates with credit cards carried balances **lower than \$1,000**.
- Undergraduates reported **freshman year** as the most prevalent time for obtaining credit cards, with **56%** reporting having obtained their **first card at the age of 18**.
- **As students progress through school, credit card usage swells.** Ninety-one percent of final year students have a credit card compared to 42% of freshmen. Fifty-six percent of final year students carry four or more cards while only 15% of freshmen carry that many. Final year students carry an average balance of \$2,864 while freshmen carry an average balance of \$1,585.
- Undergraduates reported **direct mail solicitation** as the primary source for selecting a credit card vendor; the second most common source was referral from parents.
- **Seventy-four percent** of undergraduates reported using credit cards for **school supplies** (paper, notebooks etc.), the number one reported use of cards; the second most common usage of credit cards reported by undergraduates was a tie between **textbooks and food**, with 71% reporting these as charged expenses. Slightly less than 24% reported using credit cards for tuition.
- **Twenty-one percent** of undergraduates with credit cards reported that they **pay off** all cards each month; 44% say they make more than the minimum payment but generally carry forward a balance; **11%** say they make **less than the minimum required payment** each month.
- Students **estimating** their outstanding credit card balances in a survey reported lower average balances than the average credit card balance outstanding at the credit bureaus.
- Students from the **Northeast** region had the **lowest** outstanding average balances while students from the Midwest had the highest balances.

Introduction

Nellie Mae's 2004 credit card usage study is the fourth in a series conducted since 1998. The first study was prompted by concern over increasing credit activity among college students applying for our credit-based, alternative student loans. As part of Nellie Mae's student loan approval process, a credit bureau report for each student applicant is obtained from one of the major credit reporting agencies. In each of our previous three studies, we extracted data directly from the credit bureau reports for a randomly selected group of student applicants. We did not survey our students directly, and did not use any self-reported data.

For the 2004 study, in addition to analyzing the credit bureau data on the student applicants, we added a survey component. Student applicants who were placed in the study pool were sent e-mails requesting that they complete an online survey on behavior related to credit card use. A total of 1,413 students between the ages of 18 and 24 attending public and private four-year undergraduate institutions were included in the credit bureau analysis. The online survey was sent to 1,260 students and 132—approximately 10%—responded.

Although this is not a significant response rate, we are including the results alongside the statistical information gleaned from the credit bureaus. The survey responses show some insights into undergraduate students' behaviors, serve as a benchmark for future analysis and reveal relevant information that should interest professionals concerned about credit behavior.

Each table and figure included throughout identifies whether the data source is the credit bureau reports or the self-reported surveys.

Undergraduate Students and Credit Cards 2004

The majority of undergraduate students between the ages of 18 and 24 hold credit cards. However, the sharp increases previously reported are beginning to level off, with possession in 2004 showing a decline from the highest level reported in 2001. Table 1 shows 76% of undergraduates had credit cards in 2004, similar to levels in 2000 and a decrease of 8% from 2001 when 83% of undergraduates had cards. The leveling off of card ownership among the undergraduate

student population is also reflected in the decreased average number of cards held, from 4.25 in 2001 down to 4.09 in

2004, and in the percentage of students who hold four or more cards. Forty-three percent of students with credit cards have at least four cards, down from 47% in 2001.

Students with credit cards	1998	2000	2001	2004
Percentage who have credit cards	67%	78%	83%	76%
Average number of credit cards	3.5	3.0	4.25	4.09
Percentage who have four or more cards	27%	32%	47%	43%

Table 1: Percentage of students with credit cards and average number of cards by study year; source: credit bureau data

It is possible that this consumer segment has reached its market saturation point, and that credit card usage among undergraduates will hover within a few points of the 80% range. On the other hand, education and pressure from external sources could be affecting the decision-making of this consumer group. The concern over the past four years among those who care about students—including elected officials, creditors, financial aid professionals, economists, and parents—have all contributed to a heightened awareness of undergraduates and credit card use which in turn have led to calls-to-action on slowing the epidemic growth of credit cards in the hands of college students. It is likely that the financial literacy programs designed to educate students on the dangers and responsibilities associated with credit card use are having a positive effect, resulting in fewer students taking credit card offers and, of those who do take cards, taking fewer cards.

Most Undergraduates with Credit Cards Obtain Cards as Freshmen

The self-reported statistic on card ownership is slightly lower than that pulled from the credit bureau data; 72% of those responding to Nellie Mae’s survey said they have credit cards (versus the 76% pulled from credit bureau data).

Of the 72% with cards, 43% said they obtained them as a college freshman, while almost a quarter of the population had obtained a card before entering college (Table 2).

When students with credit cards obtained a card	
Before entering college	23%
As a college freshman	43%
As a college sophomore	22%
As a college junior	9%
As a college senior	2%

Table 2: Percentage of students in 2004 reporting the college grade level at which they obtained first credit card; source: self-reported survey data

Nellie Mae’s credit bureau analysis shows, in Table 3, card ownership by grade level: 42% of freshmen and 72% of sophomores had cards—a 71% growth

rate between freshman and sophomore year. The jump in card ownership between those grade levels was the steepest, affirming the self-reported statistic that freshman year in college is the

prime time for obtaining one's first credit card. The growth slowed to 15% between sophomore and junior year, then to 8% between junior and senior year.

Credit card ownership by grade level	01	02	03	04/05
Percentage who have credit cards	42%	72%	83%	91%
Average number of credit cards	2.26	3.44	4.0	5.07
Percentage who have four or more cards	15%	34%	41%	56%

Table 3: Percentage of students in 2004 with credit cards and average number of cards by grade level; source: credit bureau data

Not surprisingly, based on the fact that most undergraduates said they obtained a card during their freshman year and almost a quarter reporting they had their first card prior to entering college, 56% of survey respondents said they obtained their first card at age 18. The survey responses in Table 4 illustrate that, as age increases, the percentage within the population obtaining a first credit card decreases: just over 21% were 19 years old; less than 16% were 20, less than 5% were 21; and less than 3% were over age 21.

Credit card ownership by age	18	19	20	21	>21
Percentage who obtained first credit card	56%	21.4%	15.5%	4.8%	2.4%

Table 4: Percentage of students in 2004 reporting the age at which they obtained first credit card; source: self-reported survey data

Unlike our credit bureau analysis that shows the average number of cards in an undergraduate's wallet as 4.09 (Table 1), those responding to the survey who carry credit cards said they had, on average, 2.6 credit cards. This lower average could be indicative of this subset of respondents; on the other hand, students may not have counted cards they don't use regularly (for example, emergency only) or cards that provide a limited type of purchase, such as department store and gas cards. However, all open cards, whether used or not, are "counted" by creditors who are reviewing an applicant's credit history.

Direct Mail is the Primary Avenue for Finding a Credit Card Vendor

Although on-campus credit card solicitors have received a preponderance of publicity related to their methods, this marketing approach reaches only about half as many students as direct mail.

How students chose first card vendor	
Direct postal mail from vendor	34.5%
Direct e-mail from vendor	1%
Vendor booth/table on campus	18%
Searched web and applied online	11%
Telephone solicitation	3.5%
Referral from friend	6%
Referral from parent	26%

Table 5: Percentage of students in 2004 that obtained first credit card through the identified source; source: self-reported survey

Over one-third of students carrying credit cards said they obtained their first credit card based on a direct mail solicitation from the credit card vendor. Parents—who appear to be increasingly concerned about their children's ability to finance extras at college while also using credit wisely—were the source for 26% of first cards among undergraduates.

Purchasing Trends

The most commonly asked question from readers of our previous credit card studies is, “Are students using credit cards to pay for their education?” Students use their cards for some direct education-related costs and also for non-direct education costs as well as other items not related to their education. Figure 1 illustrates that the most common direct education expenses that are charged by students—74% of them—were general school supplies (such as paper, notebooks, writing utensils, lab supplies, calculator, etc.), followed by textbooks at 71%. The next most commonly charged expenses, charged by almost 29% of the student population, were fees and commuter costs. Just less than 24% charged a portion of their tuition on credit cards.

Students who used credit cards for direct education expenses estimate that, on average, they charged \$942 of direct education expenses in the 12 months preceding the survey.

Approximately 15% of the respondents with credit cards said they had never charged direct education expenses to a credit card.

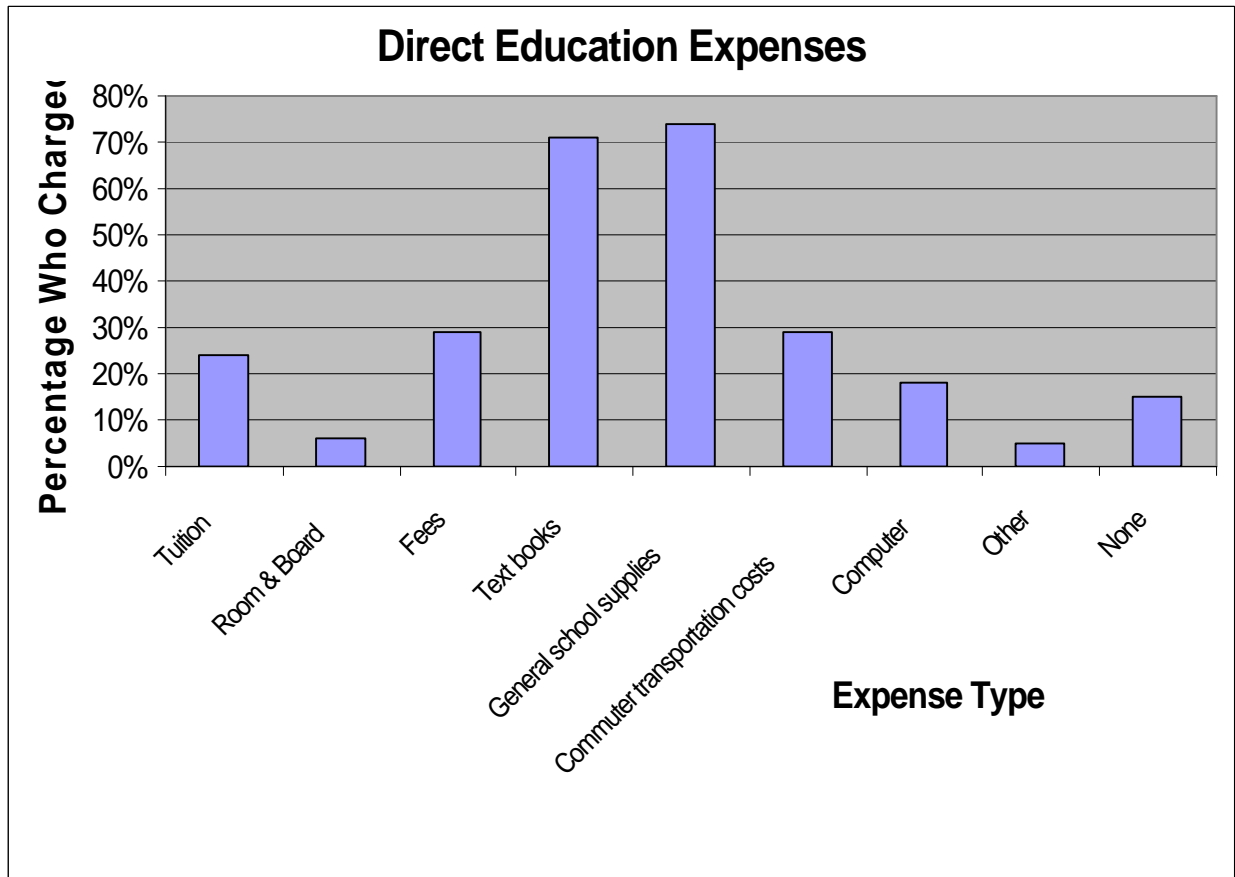


Figure 1: Percentage of students in 2004 who used credit cards to pay for direct education costs by expense type; source: self-reported survey data

Figure 2 illustrates the percentage breakout of students’ use of credit cards for non-direct education or other expenses. More than 71% of students said they used their credit cards for food; the second leading expense was clothing, charged by 68%, and number three was cosmetics/toiletries, charged by 49%. Ten percent of the respondents with credit cards said they had not charged any non-direct education expenses to their credit cards in the past year.

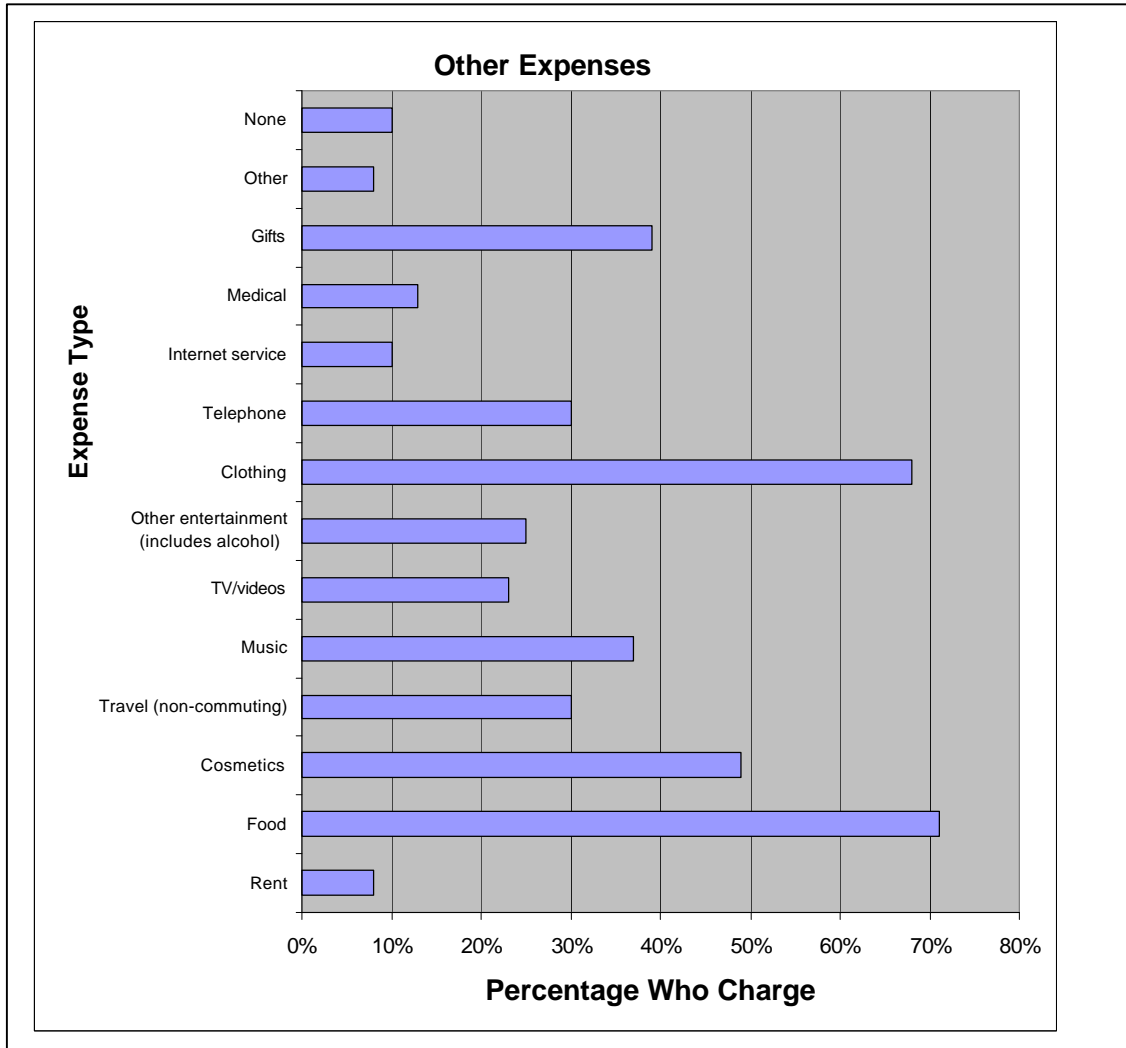


Figure 2: Percentage of students in 2004 who used credit cards to pay for non-direct education or other costs by expense type; source: self-reported survey data

Outstanding Balances

Nellie Mae’s credit bureau analysis showed that the average outstanding credit card debt in 2004 has declined 7% from 2001 to \$2,169 and by 21% from the high reported in 2000. Additionally, the median was at the lowest rate reported, \$946.

Credit card balances	1998	2000	2001	2004
Average credit card debt	\$1,879	\$2,748	\$2,327	\$2,169
Median credit card debt	\$1,222	\$1,236	\$1,770	\$946

Table 6: Average and median credit card debt by study year; source: credit bureau data

The lower average balance and lower median were effected by the overall number of students carrying balances lower than \$1,000. When analyzing the distribution of credit card balances (Table 7A), we see that, although almost a quarter of the undergraduates had balances in excess

of \$3,000, more than half the students carried balances lower than \$1,000 with 14% carrying no outstanding balance.

The percentage of students with low balances indicates a positive trend regarding responsible credit behavior; however, there is a danger that students may be underestimating the actual amount of debt they carry, which can negatively impact their decision-making in using credit cards.

When asked in the survey to estimate their current outstanding credit card debt, student responses ranged from zero up to (but not exceeding) \$7,000 (Table 7B). The average outstanding balance based on self-reporting fell just below \$1,150 with the median balance at \$750. The self-reported average balance is 47% lower than the average balance calculated on the credit bureau data; the self-reported median is 21% lower. Asked to estimate their monthly average balance over the past year, the respondents reported much lower average balances than the current average balance estimated, ranging from zero to \$3,000 with the average falling at \$501 and the median balance at only \$200.

Distribution of credit card balances-credit bureau data	
\$0	14%
\$1-99	4%
\$100-499	19%
\$500-999	14%
\$1,000-1,999	16%
\$2,000-2,999	10%
\$3,000-7,000	16%
>\$7,000	7%

Table 7A: Distribution of outstanding credit card balances in 2004; source: credit bureau data

Distribution of credit card balances-self reported data	
\$0	13%
\$1-99	5%
\$100-499	22%
\$500-999	17%
\$1,000-1,999	22%
\$2,000-2,999	7%
\$3,000-7,000	14%
>\$7,000	0%

Table 7B: Distribution of outstanding credit card balances in 2004; source: self-reported survey data

Payment Trends

Asked about repayment behavior, most students claim to adhere to credit-safe payment guidelines, making at least the minimum payment each month. Only 21% of students said they paid off all cards each month while most carry forward a balance. Surprisingly, only 4% of respondents relied on their parents to pay their bills. Eleven percent, however, engaged in financially unsound behavior—making less than the minimum required payment each month.

Credit card payment behavior	
Pay off all credit card balances on all cards each month	21%
Make the minimum monthly payment on all cards every month	12%
Pay off some cards in full each month but make only the minimum payment on others	8%
Make more than the minimum payment but always carry a balance	44%
Make less than the minimum payment on some or all cards each month	11%
My parents pay my credit card bills	4%

Table 8: Percentage of students in 2004 representing identified payment behavior; source: self-reported survey data

In addition to selecting the payment behavior that most closely resembled theirs, students were also asked to rate to what extent they felt anxious about their ability to pay their monthly credit card payments. The rating scale was one through five, with one being equal to “extremely anxious” and five being equal to “not at all anxious.” Twenty-one percent said they did not feel at all anxious about making their credit card payments, the same amount who pay their cards in full each month. While 79% appear to carry a balance each month, less than half that amount, approximately 37%, said they felt very or extremely anxious about their ability to make their monthly credit card payments.

At first glance, it appears as if the level of anxiety directly corresponds to amount owed and we should not be surprised that those with the highest outstanding balances felt the highest levels of anxiety and those with the lowest amounts owed felt the least anxious about making payments. When viewing the extreme ends of the distribution range, the corresponding anxiety level meets expectations—those with the lowest balances (less than \$100) reported, on average, feeling the least anxiety and those with the highest balances (between

Distribution of credit card balances-self reported data		Average anxiety
\$0	13%	3.7
\$1-99	5%	4.0
\$100-499	22%	2.9
\$500-999	17%	3.2
\$1,000-1,999	22%	2.5
\$2,000-2,999	7%	3.3
\$3,000-7,000	14%	2.3
>\$7,000	0%	n/a

Table 9: Distribution of outstanding card balance and associated average anxiety level in 2004; source: self-reported survey data

\$3,000 and \$7,000) reported feeling the most anxiety. However, the scale of anxiety does not correspond in a direct trajectory to the increase in average balances. The average levels of anxiety, for example, are similar for those who owe \$500 and \$2,500. Factors other than outstanding balance contribute to worry over making monthly credit card payments.

Student Employment

Table 10 shows that the majority of our student respondents work during the school year, presumably to reduce borrowing and increase disposable income. This also puts them in a position to pay down expenses that may have been charged to credit cards as a convenience, and may also grant a level of comfort in using credit cards.

Employment situation	
Do not work during school year but work during summer/vacations	18.5%
Work 1-10 hours per week during school year	12%
Work 10-20 hours per week during the school year	34%
Work more than 20 hours per week during the school year	30.5%
Do not work at all	5%

Table 10: Percentage of students by identified employment situation; source: self-reported survey data

However, students who worked more than 20 hours per week experience the most anxiety about paying down their credit card bills, followed by students who didn’t work at all. Students who worked the most—more than 20 hours per week during the school year—carried the highest

average credit card balances and also reported the highest levels of anxiety about paying their monthly credit card bill. On a scale of one through five, with one being equal to “extremely anxious” and five being equal to “not at all anxious,” these students’ average anxiety rate was 2.4. Students who did not work at all carried the lowest average balance but also reported feeling very anxious about paying their credit card bills. Those who did not work at all may be expected to experience some anxiety as they may not have had the income to pay off their credit cards. Why weren’t undergraduates working in excess of 20 hours per week comfortable with their ability to make their monthly credit payments? We should be concerned about these students who appear not to have a sound financial footing—highest average balances and the highest levels of anxiety about making payments. They are likely distracted from their studies and, in fact, could be creating for themselves a cycle of anxiety related to balancing school and work: facing expenses, charging expenses, then working to pay the credit card bills.

Employment situation	Average balance	Average anxiety level
Do not work during school year but work during summer/vacations	\$942	3.3
Work 1-10 hours per week during school year	\$782	3.0
Work 10-20 hours per week during the school year	\$926	3.4
Work more than 20 hours per week during the school year	\$1,661	2.4
Do not work at all	\$714	2.8

Table 11: Average credit card balance and average anxiety level about making monthly payments by identified employment situation; source: self-reported survey data

Regional Trends: Northeastern Residents Borrow Less than the National Average; Midwesterners Borrow Most

As was the case when we reviewed statistics by region in 2001, students who reside in the Northeast tended to be more conservative with using credit cards than students in other regions of the country. Northeasterners had the lowest percentage of students who possessed a credit card (71%); tied the West for the lowest average number of cards (3.90) and the lowest percentage of students with four or more cards (40%); had the lowest average credit card balance (\$1,850); and had the lowest median credit card balance (\$774). Finally, students with high-level balances of \$3,000 or more represented 20% of that region’s population, while the next lowest region in that category was the West with 23% carrying high balances.

Credit card use by student's region of residence*	NE	MW	S	W	Nation
Percentage who have credit cards	71%	82%	78%	82%	76%
Average number of credit cards	3.90	4.76	4.06	3.90	4.09
Percentage who have four or more cards	40%	50%	42%	40%	43%
Average credit card debt	\$1,850	\$2,498	\$2,373	\$2,069	\$2,169
Median credit card debt	\$774	\$1,207	\$1,197	\$890	\$946
Percentage with balances between \$3,000- \$7,000	15%	20%	16%	16%	16%
Percentage with balances exceeding \$7,000	5%	8%	8%	7%	7%

Table 12: Usage statistics in 2004 by region of the country; source: credit bureau data

*Regions as defined by the U.S. Census Bureau

Students who reside in the Midwest were less restrained than other undergraduates when using credit cards. They had the highest average number of cards at 4.76 and the highest percentage, 50%, who carried four or more cards. They also carried the highest average balance of \$2,498, which was driven by the highest percentage of students with high-level balances of \$3,000 or more, 28%.

Conclusion

Purchasing goods and services on credit is an accepted, commonplace practice in the United States. Although students generally aren't employed full time, they are increasingly being extended credit by credit card vendors and student loan companies in the expectation that they are good credit risks and will repay their debts. Credit cards, used responsibly, are convenient and provide easy access to money. Used irresponsibly, the convenient, easy access to *borrowed* money can get students into financial trouble.

Students should be encouraged to develop fiscal responsibility, including budgeting and planning to save and spend wisely, especially when there is limited income from constrained employment. Furthermore, the fact that using credit is “borrowing,” —complete with the financial ramifications of interest accrual, capitalization and penalty fees—should be reinforced. Finally, students particularly need to understand that there are other, less-costly financing options for purchasing big-ticket items, especially for costs associated with college attendance.

The fact that average credit card usage—outstanding debt, the percentage of students with cards and the average number of cards—has declined among undergraduates in the past three years can be viewed as a sign that the message to use credit responsibly is reaching its intended audience. The education community has been offering financial literacy programs—required at some campuses, optional at others—as a way to combat excessive credit card usage among college students. Whether such programs are developed by universities, sponsored by credit card companies or student loan lenders, hosted by independent financial management experts, or by a combination of efforts, they need to continue to reach students. The key to financial health for students during school and after graduation is their awareness of what they borrow, when they borrow, and how much they borrow, and understanding the costs and responsibilities associated with all types of borrowing including credit cards.

Background and Methodology

Nellie Mae's 2004 credit card usage study is the fourth in a series conducted since 1998. We selected the pool of undergraduate alternative loan applicants during the final week of August 2004, ages 18 to 24, attending four-year public or private colleges and universities. This resulted in a sample population of 1,413 students. Credit bureau data pulled in the loan application process was analyzed for the study. Of the population sample, 8% had no credit history and 16% had a credit history but no credit cards.

Of the total population, 16% were freshmen, 28% sophomores, 25% juniors, and 31% seniors (fourth- and fifth-year students). The breakout by age was: 13% were 18 years old; 17% were 19; 23% were 20; 21% were 21; 15% were 22; 9% were 23; and 2% were 24. The breakout by

region of the country showed 40% residing in the Northeast, 37% in the South, 14% in the Midwest, and 9% in the West.

The same methodology was used in the earlier studies, 2001, 2000, and in 1998 but we used smaller sample populations in the earlier segments and the previous samples were pulled from a longer application submission date range of August through October.

Additionally, for the first time, we sent via e-mail, requests to the majority of the student population, 1,260, to complete an online survey related to their credit card history. The survey requests were sent within several days of the credit application in an attempt to keep current self-reported data in line with the credit bureau data. The survey response window given was up to three weeks after the send date. The survey response rate was 10%.

Of the survey population, 8% were freshmen, 31% sophomores, 31% juniors, and 30% seniors (fourth- and fifth-year students). The breakout by age was: 5% were 18 years old; 23% were 19; 21% were 20; 25.5% were 21; 12% were 22; 10% were 23; and 3.5% were 24. The breakout by region of the country showed 38% residing in the Northeast, 33% in the South, 18% in the Midwest, and 11% in the West.

Since 1982, Nellie Mae has focused exclusively on providing education financing for undergraduate and graduate students and families. Programs include Federal Stafford, PLUS and Consolidation Loans, as well as private, credit-based loans. Online services include loan pre-approval, a loan information center, and debt management tools to help students be brilliant borrowers before, during and after college. Visit www.nelliemae.com for more information. Located in Braintree, Massachusetts, Nellie Mae is a wholly owned affiliate of Sallie Mae, the nation's largest provider of education funding. SLM Corporation and its subsidiaries are not sponsored by or agencies of the United States.

Appendix A

Survey Questions

1. Which of the following best describes when you acquired your first credit card in your name only (not co-signed by your parents)?
 - Before entering college
 - As a college freshman
 - As a college sophomore
 - As a college junior
 - As a college senior
 - My only credit card(s) is co-signed by my parent (skip to question 12)
 - I don't have any credit cards (skip to question 12)

2. Which of the following best describes how you chose your first credit card vendor?
 - Direct postal mail from vendor
 - Direct e-mail from vendor
 - Vendor booth/table on campus
 - Searched web and applied online
 - Telephone solicitation
 - Referral from a friend
 - Referral from parent

3. What age were you when you first acquired a credit card?
 - 18
 - 19
 - 20
 - 21
 - 22
 - 23
 - 24+

4. How many credit cards do you have now? (include national cards such as MC or VISA and store cards, gas cards other)
 - 0 (I had a card once but have since cancelled it)
 - 1
 - 2
 - 3
 - 4
 - 5
 - 6
 - 7
 - 8
 - 9
 - 10
 - More than 10

5. What would you estimate is the combined outstanding balance on all your credit cards *today*?
 - Write in _____

6. What would you estimate is the *average* combined *monthly* balance on your credit cards during the past year?
 - Write in _____

7. Which payment behavior best describes you?
 - Pay off all credit card balances on all cards every month
 - Make the minimum monthly payment on all cards every month
 - Pay off some cards in full each month but make only the minimum payment on others
 - Make more than the minimum payment but always carry a balance
 - Make less than the minimum payment on some or all cards each month
 - My parents pay my credit card bills

8. To what extent do you feel anxious about the ability to pay your monthly credit card payments?

Extremely Anxious					Not at all anxious
1	2	3	4	5	

9. Which direct education-related expenses have you *ever* charged on your credit cards? (check all that apply)
 - Tuition
 - School-billed room & board
 - Fees
 - Text books
 - General school supplies (paper, pencils, calculator, etc...)
 - Commuter transportation-related costs
 - Computer
 - Other _____
 - None

10. What would you estimate is the total amount you have charged for direct education expenses during the past year?
 - Write in _____

11. Which non-direct education or other expenses have you charged on your credit cards during the past year? (check all that apply)
 - Rent
 - Food
 - Cosmetics, toiletries, other personal items
 - Travel (other than commuting costs)
 - Music (CDs, playing devices)
 - Cable television/videos/DVDs
 - Other entertainment (includes alcohol)

- Clothing
- Telephone
- Internet service fees
- Medical
- Gifts
- Other _____
- None

12. What year in school are you now?

- College freshman
- College sophomore
- College junior
- College senior/4th year
- College 5th year+
- I am no longer in school

13. How old are you now?

- 18
- 19
- 20
- 21
- 22
- 23
- 24+

14. What would you estimate is the combined outstanding balance on all your student loans today?

- Write in _____

15. Which best describes your employment situation?

- Do not work during the school year but work during the summer/vacation
- Work less than 10 hours per week during the school year
- Work 10-20 hours per week during the school year
- Work more than 20 hours per week during the school year
- Do not work at all

16. In which region of the country do you live?

- Northeast
- South
- Midwest
- West