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Student Credit Card Debt in the 21st Century: Options for Financial Aid Administrators

By Mark Oleson

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Credit card debt and other financial problems permeate student life. The financial literature suggests that the severity of student credit problems are not only more intense than previously thought—indeed, they appear to be worsening with time. Although lack of financial education has been targeted as the culprit by most observers, to date the bulk of financial curriculum has been developed for younger groups and has neglected the college-age audience. This article provides multiple workable solutions financial aid offices can offer students throughout their college experience: preventive solutions for avoiding problems with credit card debt, holistic solutions for "other" related problems, and remedial solutions for existing problems. Many of the suggestions point to a possible reevaluation and redefinition of the traditional role of the financial aid administrator.

Knowledge, attitudes toward, and use of credit cards among college students have been important topics for researchers over the past decade (Xiao, Noring, & Anderson, 1995). More than ever, people are being bitten by the "plastic shark" (Ritzer, 1995). Total American credit card debt has reached astronomic proportions—$714 billion (Federal Reserve Board, 2001). The statistics surrounding student credit card debt are no less discouraging.

A recent study conducted by Nellie Mae (2000) found that 78% of undergraduate college students (ages 18-25) had at least one credit card. Among those—

- one third have four or more cards;
- the average number of credit cards was three;
- the average credit card debt was $2,748;
- 13% had credit card debt between $3,000 and $7,000;
- 9% had credit card debt greater than $7,000; and
- 90% obtained first card before the end of the first year.

To provide historical perspective, just two years earlier, a similar study by Nellie Mae (1998) yielded an average credit card debt among undergraduates that was 46% less ($1,879) than the amount reported in the 2000 study. Furthermore, the percentage of students owning credit cards in 2000 was up 16 percentage points from the 1998 study (Nellie Mae, 1998).

Graduate students are often left out of studies examining the financial challenges facing students, even though research has shown that graduate students carry added debt burden and responsibility. In the Nellie Mae study of 2000, 95% of graduate students had at least one credit card.

In addition—

- the average number of credit cards was four;
- the average credit card debt was $4,776;
- 20% had credit card debt between $6,000 and $15,000; and
- 6% had credit card debt greater than $15,000.

How can students afford to handle this type of debt? The literature suggests that in many instances they cannot (Blair, 1997; Manning, 2000; Nellie Mae, 2000). Students from affluent families who accumulate large debts typically are bailed out by parents, while students with unmanageable debt from modest-income families are more often forced to cut back on their coursework and get a job, or increase time on an existing job (Blair, 1997). In some cases, these students are forced to drop out of school and work full-time. Many university administrators believe more students are dropping out of school due to credit card debt and other financial problems than due to academic failure (Manning, 2000).

While the financial problems resulting from unmanageable debt are unfortunate, the emotional and psychological problems resulting from financial strain are often more severe (Manning, 2000). These problems can range from stress and anxiety, poor academic performance, and strained relationships to crises ultimately ending in suicide. Such was the case with Mitzi Pool, a University of Central Oklahoma freshman who had lost her part-time job as a telemarketer and was afraid she would not be able to support her debt payment any longer. Her mother had tried to reassure her over the phone the same night the police called to tell her that Mitzi had hung herself with a bed sheet. What Mitzi's mother had not known was that her daughter had received three credit cards and run up $2,500 in debt (her weekly income rarely exceeded $65). Credit cards and bills were spread out across her bed.

Solutions and Recommendations

The financial literature (e.g., Blair, 1997; Manning, 2000; Nellie Mae, 1998, 2000) is replete with evidence implicitly suggesting the need for "something" to combat the financial problems students face. Yet, while the financial data argue for such implementation, no uniform list of workable suggestions has been offered. The intent of this article is to provide solutions through the discussion of direct interventions, as opposed to demonstrating the relationship between financial problems and attitudes or examine other findings that may be difficult to relate to an applied setting.

While some recommendations, such as banning credit card solicitors and advertising from campuses, have been proffered, the final outcome seems dubious. It appears that such a ban only accomplishes the removal of blame that might be placed on the university for being the direct cause of student financial problems. Data (Nellie Mae, 2000) suggest that students would simply find a different avenue to obtain credit cards. Therefore,

although such actions by a university may be commendable, financial problems would still abound. No enduring change would result without the addition of financial education.

The recommendations provided can be viewed as general approaches to possible solutions: remedial, preventive, and holistic.

- A remedial approach makes services or resources available to students to help them deal with existing financial problems.
- A preventive stance provides services (typically in the form of workshops, seminars, and counseling sessions) to help forestall the need for remediation and ultimately to tackle the potential problem before it occurs.
- A holistic philosophy attempts to understand the situation or problem, as well as the person, as a whole, without separating factors independently.

Although several colleges offer personal finance-type courses, students are often unaware of their availability because they are offered through unlikely sources, as opposed to departments such as business or finance.

Preventive Solutions

Education. Educational intervention has continually been characterized as the primary hope for addressing students' financial problems (Jumpstart Coalition, 1997). The most recently published evaluation of a high school financial planning curriculum showed marked gains in financial knowledge, behavior change, and increased confidence in handling money among students following the four-week financial planning course (Danes, Huddleston-Casas, and Boyce, 1999).

Financial Curriculum. Perhaps the greatest educational strides in the past few years in the financial arena have been in the development of curriculum. Very few of these advances, however, have been made with college students in mind; most have been designed for high school audiences. Although several colleges offer personal finance-type courses, students are often unaware of their availability because they are offered through unlikely sources (e.g., human development or family life programs, etc.) as opposed to departments such as business or finance.

It was with this in mind that Iowa State University developed, in spring semester 2001, a one-credit introductory financial literacy "survival" course designed to teach essential financial principles to students at the beginning of their college experience. The course was designed to help students avoid many of the financial mistakes that are commonly made. The Office of Financial Aid and the Financial Counseling Clinic collaborated in developing the course. Course content included information on credit (credit scoring, credit cards, etc.), good versus bad loans, common financial mistakes, eliminating and avoiding debt, effects of finances on well-being, budgeting and planning, setting goals, Internet resources, financial planning

and investing, general financial aid and student loan options, repayment tips, and scholarship and student employment opportunities.

Early indications based on student evaluations are that the course was extremely helpful and personally relevant, as well as enjoyable. Follow-up research is planned to attempt to quantify the usefulness of the course by addressing such questions as:

- Do participants have fewer loans and other forms of debt than "typical" students?
- Do participants have higher GPAs and other indicators of academic success?
- Do participants save and invest more (i.e., save and invest more money as well as more regularly)?
- Do participants have a written budget?
- Do participants have written goals?
- What is the student loan default rate for the participant group?

Student reactions indicated that the topic [personal finance] is of crucial necessity and relevance to all students; many felt the course should be mandatory.

Surprisingly, freshmen were the smallest proportion of students enrolled in the introductory personal finance course. It was expected that the course participants would be primarily first-year students. Student reactions indicated that the topic is of crucial necessity and relevance to all students; many felt the course should be mandatory. Many students enrolled in the course because they were approaching graduation and anticipated needing to make important financial decisions.

Financial Workshops. Workshops are a useful way to disseminate information directed to a captive audience. An example of workshops targeted at helping students with financial concerns is a program offered by the University of Georgia in Athens (UGA). The Georgia Student Finance Commission, Equifax, Consumer Credit Counseling Service of Atlanta, and the Cooperative Extension Service of the University of Georgia collaborate to conduct peer-provided educational workshops for UGA students (Pilcher and Haines, 2000). Peer instructor teams consisting of student volunteers majoring in marketing, evaluation, and financial planning and management deliver four one-hour sessions. Sessions cover budgeting, credit and debt, savings and investments, and student loans. The goal of the program is to empower students to develop financial management skills that will lead to a lifetime of financial security (Pilcher and Haines, 2000). Similar financial workshops are available at many campuses across the country. Financial counseling clinics, financial aid offices, and student groups (classes, volunteers, etc.) typically provide this type of educational service to students at no cost.

Cooperative Extension. The Cooperative Extension Service is the delivery system for the teaching and research activities of 103

land-grant universities with the mission of helping individuals improve their lives by putting knowledge to work. Family resource management extension specialists use their expertise in consumer issues to provide workshops, courses, and broadcast and print media. Although the thrust of the Extension effort is preventive in nature, some offices also assist individuals and families in financial crises with one-on-one financial counseling. Information about Extension services is available at *www.reeusda.gov/1700/statepartners/usa.htm.*

Use of Technology. Perhaps the easiest way to disseminate the greatest amount of information in the quickest amount of time while reaching the largest audience is through technology. The Internet, e-mail, and distance education have opened windows of learning opportunities that several years ago seemed unimaginable. In terms of financial intervention strategies, the only limitations may be our own creative barriers.

The Internet is a tremendous way to offer select information to students; they can absorb the information in a non-threatening environment at their own pace.

The Internet is a tremendous way to offer select information to students; they can absorb the information in a non-threatening environment at their own pace. One creative example of using technology to spread financial literacy is weekly financial tips offered by the Iowa State University (ISU) financial counseling clinic. With the permission of the Registrar, the clinic broadcasts an e-mail to newly admitted ISU students outlining the specific financial services and resources available at the clinic. The message also contains instructions for interested students to sign up to receive weekly financial tips. Over the past 18 months, the list has grown to over 17,000 recipients, many of whom are non-ISU students. Each semester the clinic acquires an e-mail list of new students (transfer and first-year students) and sends a message with a similar "tip offer." These e-mail lists have proven a cost-effective way to provide students with useful financial advice, information about services, deadlines, courses and workshops, and notices about other available learning opportunities.

Remedial Solutions

Financial data on students underscore the need for remedial solutions to existing financial problems (e.g., Manning, 2000; Nellie Mae, 2000). Several strategies exist to offer assistance for financial troubles.

Debt Management Programs. Perhaps the best known nationwide agency that provides debt management is Consumer Credit Counseling Services (CCCS), a non-profit agency that helps individuals with credit problems and needs. CCCS is undoubtedly the most frequent referral by financial aid or other student service offices for students with financial concerns. The most common service provided by CCCS is its debt management pro-

gram (DMP), a service established for individuals struggling to make monthly credit card payments. In most instances, a lower interest rate and payment are obtained. CCCS serves as financial liaison between the creditor and the client. All payments are made to the CCCS counselor who disburses them to creditors. For this arrangement, creditors provide a "fair-share" payment, generally between 6% and 15% of the client payments. This fair-share is essential because it is typically the primary source of funding for the CCCS office.

As CCCS is a primary referral for students with debt problems, it seems appropriate to address recent concerns about the agency raised by consumer advocates. A recent *Consumer Reports* article (2001) pointed out problems consumers commonly encountered when dealing with unqualified counselors. Many counselors are trained to deal with credit card and other credit issues, but not other prevalent financial concerns. High fees have become essential to the functioning of some credit counseling agencies due to cutbacks in fair-share. Set-up fees and ongoing monthly fees are typical. For a student, a $10 to $35 monthly agency fee that otherwise could be going toward debt may defeat the benefits that the DMP could provide. During 1999, *Consumer Reports* (2001) examined the results of 1,300 CCCS agencies. The results of this review showed that only 21% of clients in DMPs had successfully completed a debt management plan, while 47% stopped payments and disappeared from view; 21% decided to administer their own payback plans; and 4% filed bankruptcy.

In the two years since the financial counseling clinic began using self-administered Debt Management Programs, no one who has entered a self-administered DMP has defaulted.

Self-Administered Debt Management Programs. Obviously, lower interest rates and payments are economically beneficial to individuals who are struggling with finances. Even a small drop in interest rate can dramatically affect the repayment time of debt. In many cases, students may take advantage of these benefits while avoiding the costs of traditional DMPs by setting up a self-administered DMP. Plans can be set up by most counseling offices (even financial aid offices). Generally, little needs to be done to initiate the creditor relationship. When a plan is set up by an office not reliant on fair-share, payments can be maintained by the individual instead of the agency because fair-share is not provided unless the agency makes client payments. Setting up a plan simply involves sending a proposal to the creditor with specific client information: account information, proposed payment, payment date, etc. With a self-administered DMP, the client retains responsibility for payments but avoids charges for monthly fees because the client is doing the work. This nontraditional approach has been found to be highly effective by units that have attempted it. At ISU, in the two years since the financial counseling clinic began using self-administered DMPs, no one (student or non-student) who has entered a self-administered DMP has defaulted.

Software Programs. Getting out of debt is usually the best investment a person can make. It is a risk-free investment that will likely produce double-digit returns by reducing the amount of interest paid; it also shortens the overall period of repayment. Being debt-free provides flexibility that allows individuals to decide how to use their money rather than being obligated to creditors. Many software programs—too numerous to list here—have been developed to help individuals eliminate debt, minimize student loans, etc. Such programs can educate and provide students insight into the use and misuse of credit, time management, saving, investing, and making financial decisions. Although many institutions use these programs, many others do not use them simply because they are unaware of their availability.

Being debt-free provides flexibility that allows individuals to decide how to use their money rather than being obligated to creditors.

One notable software program is PowerPay, a debt reduction software program developed by Utah State University Extension. The program has three premises: (a) stop borrowing or charging new debt until current debts are paid; (b) as soon as one debt is paid off, the monthly payment from that debt is applied to the next debt (i.e., debt with highest interest rate); and (c) never decrease the total payment; only change the distribution of payments.

PowerPay requires four pieces of information: creditor, current balance, monthly payment, and interest rate. From this information, the software generates repayment information (in the form of time and interest paid). Most borrowers are appalled to see the interest costs and the length of time it takes to repay debts, especially if they are only making minimum payments. This approach also serves as a strong preventive solution—students are often deterred from additional borrowing when they see the actual costs involved. In addition, the software depicts potential savings from making "PowerPayments" to creditors according to different scenarios:

- Paying off creditors with highest interest rate first.
- Paying off creditors with lowest balance first.
- Paying off creditors with shortest term first.
- Individualizing the repayment situation (e.g., allow students to repay loans to parents first).

In addition to determining savings in interest costs and time required to repay on loans, credit cards, and other debts, PowerPay can examine the impact of adding extra amounts to the total monthly payment, calculate savings from making a lump sum payment at a specified date (e.g., a tax refund), explore possible savings from consolidating debt, illustrate the pitfalls of making only minimum payments, calculate amortization schedules, and work with up to 99 creditors.

Institution-wide Programs. Perhaps even more impressive than the implementation and use of tools in the financial aid office are institution-wide programs and initiatives to help students.

In 1997, concern about student debt levels prompted Brigham Young University (BYU) to develop and implement an institution-wide program, "The Financial Path to Graduation." The Path is a seven-step computer exercise (also available in booklet format) that encourages students to develop both an academic and financial plan. After developing a realistic academic plan, the participant must engage in several activities to determine an appropriate level of borrowing given his or her individual situation. This planning process is designed to look at the entire college experience and avoid the recurring query, "How do I pay for this semester?" The program has resulted in a reduction of the number of student borrowers by more than 24% in the last two years; a 4% decrease in the average indebtedness for graduating seniors; and a 50% decrease (from 1.6% in 1997 to .8% in 1999) in the university's default rate (Finlinson, 2001).

Perhaps our greatest opportunity to influence the lives of students in a lasting and meaningful way is by understanding the complexity of their lives and providing comprehensive services to meet those needs.

Holistic Solutions

Perhaps our greatest opportunity to influence the lives of students in a lasting and meaningful way is by understanding the complexity of their lives (academic, social, financial, etc.) and providing comprehensive services to meet those needs. As discussed earlier, technology can serve a major role in educating students. However, regardless of the advances that are made, there will always be a need for one-on-one services; nothing will ever be more effective than personal interaction.

Financial Counseling Clinics. Some universities currently offer students financial counseling services. Financial aid offices are often the campus hub for providing financial counseling. Some view this approach as sufficient; others have taken a multi-pronged approach. Utah State University, Texas Tech University, and Iowa State University have developed clinics that operate outside of the financial aid office by collaborating with other departments. The Family Life Center at Utah State University, established in 1993, offers financial and housing counseling, in association with the College of Family Life. The "Red to Black" initiative at Texas Tech University, established in fall 2001, offers one-on-one financial planning services along with financial workshops. The financial counseling clinic at Iowa State University, established in 1986, collaborates with the Department of Human Development and Family Studies to offer financial counseling, housing counseling, financial planning, and nutritional counseling. Marriage and family therapy services are separately available in the same location.

Financial Planning. Consumer Reports (2001) points out that one of the primary deficiencies of credit counseling agencies is a lack of financial planning services. Iowa State and Texas Tech have supplemented their counseling to include financial plan-

ning services to students by providing educational, non-biased investment information.

Counseling Services. For many aid administrators, it is no secret that financial problems are often attended by other problems. For this reason, close ties to other types of counseling services (e.g., psychological, marriage/family therapy, etc.) can be invaluable resources to the financial aid office and to students in need of such assistance.

Awareness of Other Indicators. Students often use student loans to consolidate credit card and other high-interest debt. If counselors are looking for credit cards as an indication of student financial problems, they may be overlooking escalating student loan burdens. Other indicators may help to identify and determine the extent of financial problems. Some common indicators are high debt in student loans and other loans; depression, anxiety, and other personal and emotional problems; conflict with family, with roommates, and in other social and intimate relationships; and poor academic performance. Many other issues may also surface as a result of financial problems.

Many financial aid administrators feel that they do not have the staffing or resources needed to implement financial services initiatives. Outsourcing for financial services is a potential solution.

Training of Financial Aid Administrators. Various tools, programs, technological aids, and educational information are available for financial aid administrators. Unfortunately, many aid administrators may feel uncomfortable outside the realm of student scholarships, grants, and loans. With the growing number of students who are applying for financial assistance and the resulting increased visibility of the aid office, there is a tremendous opportunity to do more to assist students with matters beyond financial aid. This may entail redefining the traditional roles of the financial aid administrator.

BYU has been an innovative institution in the field of financial aid for several years. In addition to their "Path" initiative, the financial aid office has required additional "outside" counselor training for their financial aid counselors. The Accredited Financial Counselor (AFC) is a nationally recognized designation that requires completion of counseling experience, coursework, and testing in personal finance, financial counseling, and credit issues. The AFC program is offered by The Association for Financial Counseling and Planning Education (*http://www.afcpe.org*).

Outsourcing Services. Many financial aid administrators may feel that they do not have the staffing or resources needed to implement financial services initiatives. Outsourcing for financial services is a potential solution. An example of this is Des Moines University - Osteopathic Medical Center (DMU). DMU Student Services staff recognized the need for financial services for their medical students. After discussing a possible

partnership with other organizations, they decided to outsource services to Iowa State University's financial counseling clinic. This outsourcing provides comprehensive, professional financial services and monthly seminars to DMU students, who have free access to all of the clinic's services.

Conclusion

Although many students look to financial aid offices as a hub for financial services and a place to obtain comprehensive services that can address individual financial problems and concerns, financial aid offices are often ill-equipped to provide such services. For financial aid administrators interested in providing these services, however, various programs and tools using preventive, remedial, and holistic approaches are available. While these approaches appear to provide valuable and important services to students, further examination of financial aid offices that have implemented such services is necessary to understand better the long-term implications for student well-being, both financial and personal.

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