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Thank you Congresswoman Maloney and the members of the Subcommittee for inviting me to testify this afternoon concerning credit card marketing to college students. I commend Congresswoman Maloney's tremendous work on behalf of consumers in this area.

I. College Students and Credit Card Debt

Last year, the New York State Attorney General's Office began an investigation of conflicts of interest and deceptive practices in the student loan industry. The investigation revealed that many lenders paid colleges and universities in return for placement on the schools' lists of recommended lenders, and that some lenders provided gifts, payments, or perks to financial aid officers in order to secure placement on recommended lender lists. Our Office developed a Code of Conduct for lenders and colleges that addressed these conflicts of interest and deceptive practices. The largest lenders in the country, as well as many colleges and universities, committed to this Code of Conduct, and the Code served as the model for new state and federal legislation.

During our investigation of the student loan industry, we learned that the average debt of college graduates has grown dramatically in the past ten years. One study by a student loan company found that average student loan debt has grown 66% in the last decade.[1] The average college student now graduates with $21,000 in debt, and many students graduate with much higher debt loads.[2] This student loan debt is, in many cases, compounded by high interest credit card debt.

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[1] Nellie Mae, *College on Credit: How Borrowers Perceive Their Education Debt*, 4 (Feb. 2003), available online at http://www.nelliemae.com/pdf/nasls_2002.pdf (last visited June 23, 2008).
[2] Project on Student Debt, *Student Debt and the Class of 2006*, 6 (Sep. 2007), available online at http://projectonstudentdebt.org/files/pub/State_by_State_report_FINAL.pdf (last visited June 23, 2008).

Undergraduate students now graduate with an average of more than $2,000 in credit card debt. Students with student loan debt carry a higher-than-average amount of credit card debt -- on average, $2,785.[3] A significant number of students graduate with debt in excess of these averages -- one study found that 23% of students graduate with credit card balances over $3,000.[4] Furthermore, 24% of students responding to one survey reported using credit cards to pay for part of their college tuition.[5]

A. Consequences of Student Credit Card Debt

The image of a graduating college senior striding off the stage at commencement with a degree in his hand is an image of hope and possibility: the new graduate is about to embark on his adult life, finding his first full-time job, setting up his first household, and perhaps buying his first car. But for many young graduates, this time of "firsts" is not a fresh start. Instead of starting adult life with a blank slate, many college graduates are beginning their adult life with a heavy burden of debt and an already marred credit history.

Most students now graduate with significant student loan debt. When high interest credit card debt is added to that student loan debt, the combined debt load can be crippling for young adults who are just joining the work-force.

Heavy credit card debt has serious short-term and long-term consequences for college students. In the short-term, studies report that credit card debt and repayment problems affect students' academic lives, leading to slower progress toward achieving degrees and to lower grade point averages. According to one survey, more than 30% of students reported that credit card debt affected their ability to concentrate on their coursework, and more than 30% reported

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[3] U.S. PIRG Education Fund, *The Campus Credit Card Trap: A survey of College Students and Credit Card Marketing*, 6 (Mar. 2008), available online at http://www.uspirg.org/uploads/ym/ir/ymirZbG5OLxH2NPUxQENdA/correctedthecampuscreditcardtrapmar08all.pdf (last visited June 23, 2008).
[4] Nellie Mae, *Undergraduate Students and Credit Cards in 2004: An Analysis of Usage Rates and Trends*, 8 (May

that credit card debt led to decisions to reduce their course load and obtain a job in order to make credit card payments.[6] Another study found that a significant percentage of students with credit card debt reported that they neglected academic work as a result of incurring credit card debt or that they dropped out of school, considered dropping out of school, or reduced their course load due to the financial pressures attendant to heavy credit card debt.[7]

Oppressive credit card debt can also lead to serious repayment problems for college students. When students fall behind on payments, they incur fees and penalties that compound their existing debt and lead to ever-increasing debt levels. In addition, repayment problems lead to damage to students' credit history that has serious and far-reaching ramifications. Renting an apartment may become more difficult for students with damaged credit, since landlords will consider a student=s credit history and may reject or charge higher security deposits to students with damaged credit. Automobile insurance companies, mortgage lenders, and utility companies also consider a student=s credit history and may reject or charge higher rates or premiums to students and graduates with poor credit. In addition, a poor credit history can jeopardize students' employment prospects, since many employers routinely consider credit reports during the hiring process.

Heavy debt loads may also constrict college graduates= choice of career, discouraging students from choosing public sector and non-profit paths. High levels of credit card debt can also hamper graduates= efforts to become self-sufficient and impede progress towards milestones such as purchasing a car or home.

2005), available online at http://www.nelliemae.com/pdf/ccstudy_2005.pdf (last visited June 23, 2008).

[5] Nellie Mae, *Undergraduate Students and Credit Cards*, *supra* note 4, at 6.

[6] David L. Tan, Ctr. for Student Affairs Research, Univ. of Okla., *Oklahoma College Student Credit Card Study*, 25 (Oct. 2003), available online at http://www.ou.edu/education/csar/credit_card/credit_card_report.pdf (last visited June 23, 2008).

B. College Students are Attractive Targets for Credit Card Companies

College students, unlike working adults, do not typically have significant income or assets. However, credit card issuers aggressively market credit cards to college students and regularly extend credit to college students. In addition, credit card companies frequently offer students periodic, automatic credit limit increases that are not tied to increases in students' income or assets.

Despite their typical lack of significant income or assets, college students are an attractive target for banks and credit card issuers for several reasons. First, college students represent one of the only unsaturated markets for credit card issuers. Students entering college are the only adult group in the United States in which the majority does not already have a credit card. One study found that 55% of college students get their first credit card in their freshman year of college.[8] Banks and credit card issuers who successfully market to college students establish an early relationship with students that may last for years. Indeed, one study reports that consumers keep their first credit card for an average of fifteen years.[9]

College students, being less financially savvy than the average consumer, are far less likely to understand the terms of the cards they are offered. Several studies have found that many college students are unaware of the typical fees, including finance charges and over-limit fees, associated with credit cards. One survey, conducted in 2003 at the Ohio State University, concluded that the majority of college freshmen surveyed: (a) did not understand their financial responsibilities for credit card debt, and (b) did not understand that repayment problems would lead to impaired credit histories.[10] Students' financial literacy is significantly deficient in

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[7] *Id.*
[8] Creola Johnson, *Maxed Out College Students: A Call to Limit Credit Card Solicitations on College Campuses*, 8 N.Y.U. J. Legis. & Pub. Poly=y 191, 220 (2004).
[9] Johnson, *supra* note 7, at 200.
[10] *See* Johnson, *supra* note 7, at 227-30.

comparison to the general population of adult consumers.[11] For example, the Ohio State survey found that only approximately 40% of OSU freshmen knew that missed or late payments would negatively affect their credit history, as compared to 87% of adult participants in a General Accounting Office survey.[12]

Students= lack of financial literacy makes them more likely to complete credit card applications without considering the consequences of credit card debt and more susceptible to choosing cards with less competitive rates and terms. In addition, students' financial inexperience, together with their lack of regular income, leads student to incur late fees and over-limit fees. Students are more likely than other segments of the population to be delinquent in payments,[13] leading to fees and penalties. Such fees result in significant profits for card issuers.

II. Credit Card Marketing to College Students

A. Direct Mail, Email Solicitation, and Telemarketing

College students, especially first-year students, are inundated with credit card offers. Direct mail solicitations are the most popular way for college students to obtain credit cards.[14] One study reports that college freshmen receive an average of eight credit card offers during their first week of college alone.[15] Another study reports that college students receive an average of nearly five mailed solicitations per month.[16] A significant number of students report receiving multiple telephone solicitations per month from credit card companies.[17]

Banks and other credit card issuers sometimes purchase lists of students= contact information directly from colleges and universities. In other cases, banks and credit card issuers

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[11] *Id*. at 229-30.
[12] *Id.* at 227-28.
[13] Johnson, *supra* note 7, at 224.
[14] General Accounting Office Report, *Consumer Finance: College Students and Credit Cards*, June 2001, at 19.
[15] Johnson, *supra* note 7, at 193.

obtain students' contact information from colleges and universities by entering into agreements with college and university alumni associations that provide the companies with access to current students' information. In some cases, colleges or universities agree to provide continuously updated lists of students= contact information as a term of an exclusive marketing agreement between a credit card issuer and the college or university. These marketing agreements are discussed in greater detail below.

B. Aggressive On-Campus Marketing

Many colleges and universities permit credit card issuers to market to students on campus. Some studies indicate that between 15% and 24% of students with credit cards obtained their credit cards from on-campus representatives or displays.[18] Credit card marketers set up tables in high-traffic spots on campus, such as cafeterias, student unions, bookstores, and other campus buildings. Credit card marketers also set up tables at campus events including freshmen orientation, activity fairs, athletic events, and graduation fairs. Credit card companies pay marketers according to the number of completed applications from students.[19] Some colleges and universities have placed restrictions on campus credit card marketing in response to instances of overly aggressive credit card marketing practices.[20] These restrictions include limitations on the times and locations of credit card marketing on campus. Other schools require on-campus credit card marketers to hand out credit education information along with credit card applications, or to register with the school prior to marketing on campus.[21]

Some colleges and universities provide exclusive on-campus marketing rights to particular banks or credit card issuers in return for payments to the college or university. In

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[16] U.S. PIRG, *supra* note 3, at 4.
[17] *Id.*
[18] GAO Report, *supra* note 14, at 19.
[19] GAO Report, *supra* note 14, at 27.
[20] *Id.*

some cases, a college or university sells exclusive marketing rights to a bank or credit card issuer to an entire campus building, such as the student union. In those cases, the bank or credit card issuer has exclusive rights to market credit cards in the school=s student union or other campus building. In other cases, colleges and universities sell banks or credit card issuers the exclusive right to telemarket or use other means of promoting credit cards to current students.

C. Offering "Free Gifts" in Return for Credit Card Applications

On-campus marketing to college students deliberately employs marketing methods that influence financially unsavvy students with little or no credit experience, such as providing free gifts including tee-shirts, sweatshirts, caps, frisbees, calculators, or food, usually in return for filling out a credit card application on the spot. One credit card company offered college students free rides across campus in Abicycle-taxis@ in return for watching a DVD pitching the company=s credit cards. Most on-campus marketers require students to turn in an application on the spot in order to obtain the give-away. Some on-campus marketers encourage students to fill out applications even when students indicate that they are not interested in a credit card, telling students that they can simply cut up the card after they get their free gift.

Credit card companies' offers of free gifts distract financially unsophisticated students from considering the terms of the credit cards offered and the risks and costs of incurring credit card debt. The majority of college students sign up for credit cards with on-campus solicitors simply because they want the free gifts.[22] Furthermore, this type of on-campus marketing targets the least financially savvy students. Freshmen are more likely than upperclassmen to be motivated to fill out a credit card application by a free gift offer. Furthermore, several studies have found that students who obtained credit cards as a result of on-campus solicitation are more likely to have repayment problems, carry higher unpaid balances, have higher debt-to-income

[21] *Id.* at 28.

ratios, and/or have more credit cards than students who did not obtain their cards from on-campus vendors.[23] In addition, studies have shown that many students who are approached by credit card marketers on-campus mistakenly believe that their school supports the credit cards in some way or that the school screens credit card companies that solicit on campus.[24]

D. Using Students to Market Credit Cards to Peers On Campus

Credit card companies frequently use college students to market credit cards to their peers on campus. Credit card companies often reach out to fraternities, sororities, and other student groups and pay student marketers based on the number of applications that the students collect from their peers. This marketing method relies on peer pressure and leads to credit card marketing in dormitories, dining halls, fraternity houses, and other student spaces where there is little or no oversight of the marketing practices employed.

E. Exclusive Marketing Agreements with Colleges and Universities

Hundreds of colleges and universities across the country have entered into confidential, exclusive agreements with credit card issuers under which the credit card issuer is given exclusive rights to market its credit card to students at that college or university. These contracts can be extremely lucrative, leading to payments of millions of dollars at some colleges and universities. Several of the nation=s largest public universities, as well as a number of prominent private colleges and universities, have entered into such agreements. In some cases, credit card companies enter into exclusive marketing agreements with college and university alumni associations that include exclusive rights to market credit cards to current students as well as alumni. In addition, some college and university athletic departments have entered into

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[22] *See* U.S. PIRG, *supra* note 3, at 3; Johnson, s*upra* note 7, at 220.
[23] Johnson, *supra* note 7, at 224.
[24] Johnson, s*upra* note 7, at 224-25; Jill M. Norvilitis and Phillip Santa Maria, Cr*edit Card Debt on College Campuses: Causes, Consequences, and Solutions*, College Student Journal, Volume 36, Sept. 2002.

agreements with credit card companies that grant credit card companies rights to market at sports events and, in some cases, to market cards bearing the sports= team name and/or logo.

In many cases, exclusive marketing agreements between schools and credit card issuers include a requirement that the college or university provide continuously updated student information to the credit card company for use in credit card marketing, including students= dormitory telephone numbers and addresses, permanent addresses, email addresses, or other information. The agreements also may include terms whereby the college or university agrees to promote the bank or credit card issuer=s credit cards to its students in the college or university=s own mailings to students, to permit the bank or credit card company to send direct mail and/or to telemarket to students, and to permit the bank or credit card issuer access to campus and/or athletic events for marketing.

Under many exclusive agreements, the college or university also grants the credit card issuer a license to use the college or university=s name and logo in connection with the marketing of credit cards. The cards may be marketed as AThe X University Card,@ and are often branded with the college=s or university=s name, colors, and logo. These Aco-branded@ or Aaffinity@ cards foster the generally false impression that the college or university evaluated the terms of the cards offered and determined that the co-branded credit cards offer the best, or among the best, rates and terms for the college or university=s students.

The Attorney General=s investigation of the student loan industry revealed that students and families rely heavily on recommendations from their colleges when they choose borrowing options. We found that the vast majority of students select a student loan provider based on their school=s financial aid office=s recommendations. Students trust their schools and believe that their schools recommend particular lenders based on an evaluation of the lender. Similarly, students trust their schools= recommendations concerning credit cards and believe that the student credit cards that bear their college=s or university=s name and logo have been vetted by their college or university and that the cards offer the best rates and terms. However, colleges or universities are entering into exclusive marketing agreements without evaluating the rates and terms of the credit cards marketed to students pursuant to the agreements. In many cases, colleges or universities enter into marketing agreements based on the payments to the college or university, not because the cards offered the best, or among the best, terms for students. Furthermore, these co-branded cards may incorporate troubling terms such as provisions that interest rates can be increased at any time and for any reason, universal default, or high late or over-limit fees.

Colleges and universities are often paid significant sums, sometimes millions per year, under these “co-branding” or “affinity card” agreements. In some cases, schools receive a set dollar amount for each student applicant as well as additional payments based on credit card usage.

Exclusive marketing agreements between colleges and universities and credit card issuers are not, in and of themselves, detrimental to college students. In fact, exclusive marketing agreements between schools and credit card issuers that limit marketing of credit cards to a particular credit card issuer may benefit students at that school, as long as the credit cards marketed pursuant to that agreement offer competitive rates and fair terms. In fact, there is an opportunity here for schools to play an important “gate keeper” role: if colleges and universities evaluate the interest rates and other terms of the cards offered and choose cards that offer the best or among the best rates and that do not incorporate problematic contractual terms and conditions, students could actually get safer credit cards through their school affinity credit card programs than through other marketing channels.

III. Curbing Aggressive Marketing to College Students

The New York Attorney General=s Office is currently investigating credit card companies' aggressive marketing practices with respect to college students and the relationships between colleges and universities and credit card companies. The Office is currently working to develop a Credit Card Marketing Code of Conduct for colleges and universities that will resolve certain conflicted practices that we uncovered and will provide best practices related to exclusive credit card marketing agreements between schools and credit card companies and other on-campus credit card marketing.

Federal legislation could have a significant positive effect in this area by requiring colleges and universities to place restrictions on credit card marketing on campus, such as limiting credit card marketing to appropriate times and locations (*e.g.*, prohibiting credit card marketing in dormitories or classrooms) and prohibiting the practice of offering free gifts in connection with credit card marketing to college students. Federal legislation could also require colleges and universities to provide students with the opportunity to opt out of having their contact information shared with credit card companies for marketing purposes. In addition, federal legislation could require colleges and universities to provide effective consumer education courses to students concerning the costs and risks of credit card debt. Finally, federal legislation could address the problems related to exclusive marketing agreements between credit card issuers and colleges and universities by requiring colleges and universities who enter into such agreements to adhere to standards such as those that will be set out in our office's Credit Card Marketing Code of Conduct.