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Consumer Affairs and Economic Protection
The Ohio House of Representatives, 128th General Assembly
Hearing on H.B. 12 – March 5, 2009 – Testimony of David Rothstein, Policy Matters Ohio

Chairman Lundy and members of the Committee, my name is David Rothstein and I am a researcher with Policy Matters Ohio, a nonprofit, nonpartisan research group that provides analysis on economic issues that matter to low- and moderate-income families. My work centers on tax and consumer issues in Ohio. Thank you for allowing me the opportunity to testify on this extremely important piece of legislation. I applaud your openness in holding hearings on credit card marketing on Ohio's campuses.

My colleague, Professor Creola Johnson, noted several years ago the spreading trend of credit card marketing and solicitation on campuses.[1] It is my understanding that she will present testimony on her findings to this body.

I am currently conducting a research study on credit card marketing and solicitation on college campuses. Included in this research, I surveyed 400 students and 20 residence life directors from Ohio's campuses.[2] I also made public information requests from the eight largest state colleges and several community colleges regarding their agreements with credit card companies. I am in the processes of gathering the data for the latter portion of this project and I am specifically presenting today on the survey portion of the project.

Before I discuss the survey results, I should highlight some troubling trends in the past year after Professor Johnson's research. The national Public Interest Research Group (PIRG) revealed its own survey results in 2008, indicating that the average college student in Ohio leaves with an average of $2,500 in debt. A PIRG survey found that more than 60 percent of a student's total debt after college is credit card debt. They also found that students are using one credit card to pay off another. The newest trend, according to the survey, is the use of student loans to pay credit card debt.[3]

I want to tell you a true story about a survey respondent, who I'll call Ryan Lane.[4] Ryan is a 2000 graduate of one of Ohio's largest public universities with a degree in business management and marketing. He has a middle-class background and went to a highly accredited high school in an Ohio suburb. His first year on campus he was solicited to sign up for a credit card on his way to a college football game in exchange for a football and blanket with the college's logo on them. He had no credit cards in his own name and asked if there were fees to sign up for the card. When he was told there not

[1] Creola Johnson. "Maxed Out College Students: A Call to Limit Credit Card Solicitations on College Campuses." *New York University Journal of Legislation and Public Policy* 8 (2005): page 151.
[2] This was not a random sample survey. Professors at 12 Ohio colleges were given the survey to disseminate to students elect4onically. Individual professors chose at their own discretion whether or not to participate in the research project. Students had the choice to fill out the survey. The results were submitted electronically to a database with no identifying information but the school name and class year of the student.
[3] Kurt Soller. "Majoring in Debt: Despite the Crunch, Credit-Card Companies Keep Targeting Undergrads." *Newsweek* (February 17, 2009): http://www.newsweek.com/id/185210.
[4] A fictitious name is used to protect the anonymity of the former student.

fees for using the card, he signed up, received his free gifts and stashed away the card when it arrived. Ryan was not asked for any proof of income, to provide a co-signer, or if he had any credit history. The entire process took Ryan five minutes or less. Ryan's plan was to only use the card for an emergency situation.

Ryan was shocked a month later when he received a bill from the credit card company with a $50 enrollment fee followed by a late fee. When he called the customer service number and explained to the agent that this charge was contrary to what he was told, the agent said they would waive the late fee but he needed to pay the enrollment fee. The agent did say that they would waive the fee if he transferred a balance from any account to this account. He did not transfer any balances, as he had none, but was convinced by the agent that he should be using the card because he would receive "bonus" points, which could be redeemed later for a free spring vacation. Ryan began using the card for meal purchases when he would normally use cash. Unfortunately, he could not keep up with the payments after he quit his paid job to take an unpaid internship. Again, he called customer service and was told to make minimum payments so he would not incur late charges.

It is eight years later. Ryan has finally finished paying off the original $528 charged to the card with an additional $1,500 in interest. He never received his spring break trip. He was told that he did not spend enough to qualify. Ryan is not unintelligent. He is a top professional in his field of business recruitment but he is one of many victims of credit card marketing on campuses.

Our survey data reveals troubling trends, including:[5]

- Students had an average of two credit cards: 40 percent had two or more and 75 percent had at least one.
- Student with credit cards reported an average debt of $650. Forty-five percent of students with credit cards reported being charged for late payments or other fees. The average fees were $69 an occurrence in interest and late charges.
- More than one-third of students were approached by credit card solicitors on campus. Excluding private colleges, two-thirds were approached.
- According to the students, the following free gifts were given away for filling out a credit card application:
  - Footballs, soccer balls, blankets, towels, tote bags, key chains, mugs, pens, highlighters, fast food coupons or samples, clothing discounts, general gift card, beach chairs, water bottles, hats, iPod, computer game subscriptions, jewelry, free airline tickets, and free trips.
  - Some of the non-gift giveaways were "teaser rates" of zero percent interest on purchases for six months, balance transfer options, and money back programs if certain levels of purchasing are reached.
- Nearly 30 percent of students reported that their student identification cards served as a bank debit or credit card.
- While 70 percent of students indicated they knew their annual percentage rate (APR), only 46 percent knew what that meant.

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[5] Again, this is not a random sample of college students.

There were few requirements for signing up for the credit card. Less than 12 percent of students with the credit card needed proof of income or a co-signer. Less than 5 percent of students needed parental permission or had to attend a financial literacy class.

Residence life directors voiced similar concerns to the students. All but two of the 20 surveyed indicated that financial debt was a problem on their campus. Five directors, all from public universities, indicated it was a highly problematic situation on campus. The majority of directors did not know the rules of credit card marketing and solicitation or where to send students in financial trouble.

As I mentioned, we are in the process of receiving public information requests from colleges about their agreements with credit card companies. Many companies contract with a college to be the sole solicitor to their students and to receive personal information about their students. Increasingly, alumni associations are becoming partners with companies making the contracts less transparent. As Professor Johnson noted in her pivotal study, colleges often receive additional funds to their base contract when students sign up for the card, use it, and accrue more debt. A recent ***New York Times*** article, attached to this testimony, describes these issues in greater detail.[6] We will report back to this body when the information from this report is available on Ohio's colleges.

HB 12, offered to this committee, would restrict credit card marketing on campuses and disallow credit card companies from gaining addresses of current students. This bill should be passed to protect Ohio's students. Students have a variety of options that will still exist for obtaining a credit card including using their current bank or working with their parents to get a joint card. The state of Tennessee disallows credit card marketing and solicitation on campuses as do many individual schools.

This project revealed several possibilities for improving financial situations for students. The majority of students surveyed indicated that they would be interested in taking a financial literacy and education course. Additionally, most schools have a freshman program or seminar required for all students as part of their core curriculum. As part of HB 12, I would strongly recommend that colleges implement a course freshman year on credit and debt that centers on helping students understand loans, credit cards, bank accounts, and student loans. Several Ohio colleges offer something similar to this already. I would be happy to work with this Assembly, the Ohio Board of Regents, the Ohio Treasurer, and the Ohio Attorney General to study what other schools and states have done. Importantly, we cannot set students up to fail by teaching them financial literacy but allowing companies to offer products that are very likely to lure them into debt.

Based on our research and existing studies on credit cards on campuses, I urge this body to pass HB 12. Restricting marketing and soliciting on college campuses will help students in this state to escape the difficulties of debt. Students face enough challenges in school, including rising tuition costs and a difficult job market. Leaving school with large amounts of debt and a damaged credit history in exchange for a football should not even be a choice.

I am happy to answer any questions at this time.

Respectfully Submitted,

David Rothstein
Researcher

[6] Jonathan Glatter. "The Debt Trap: Colleges Profit as Banks Market Credit Cards to Students" *New York Times* (December 31, 2008): http://www.nytimes.com/2009/01/01/business/01student.html?8dpc#.