Professor Hawkins was quoted in a Chicago Tribune article concerning possible reasons for the decline in college-affiliated credit card accounts opened in 2010.

This article appeared in the Chicago Tribune on Sunday, July 31, 2011:

Campus credit on the decline
Becky Yerak and Wangui Maina, Tribune reporters

Credit cards aren't the big men on campus they used to be.

The number of new accounts opened through colleges, alumni clubs and other affiliated groups dropped by 17 percent in 2010, according to a new report by the Federal Reserve Board.

Payments by the credit card companies to higher-education institutions were down too, as was the number of agreements in effect.

The falloffs are attributed at least partly to the 2009 Credit Card Accountability Responsibility & Disclosure Act. In the past, credit card companies were criticized for their marketing tactics to students. The CARD Act restricts such practices as doling out gifts to encourage students to apply for cards on campus.

The law also requires credit card issuers to annually disclose the agreements -- including payments made -- that they've struck with colleges, alumni groups and related organizations. In its report, the Fed points out that some or all of the accounts opened under the agreements might belong to alumni, faculty or staff.

"Transparency and disclosure has caused some colleges to re-evaluate their relationships with credit card banks and cancel contracts that expose undergraduates to aggressive marketing," said Ed Mierzwinski, consumer program director for the U.S. Public Interest Research Group, an early critic of credit card marketing tactics to students.

For years, colleges wanted to keep the contracts hush-hush because they didn't want the public to know that they were getting paid to provide information on undergraduates to credit card companies, a practice that Mierzwinski called inappropriate.

Adds Linda Sherry, national priorities director for nonprofit watchdog Consumer Action: "Just the 'sunshine' on the card agreements called for with the public reports is a great way to shame the universities from profiting off of making students debtors, and it seems to be working."

But another industry watcher isn't so sure. While the law has resulted in lower revenues for colleges and alumni associations, it's unclear how well it has succeeded in its overarching goal -- keeping students with little income from getting into credit card debt, said John Ulzheimer, president of consumer education at SmartCredit.com.

For one thing, the recession caused issuers to be more circumspect about granting credit in general, he said.
"Issuers are more focused on less risky and more profitable cardholders now, rather than down the road," Ulzheimer said.

Also, loopholes remain for card issuers determined to do business with the younger set, so students can still get offers and accumulate credit card debt.

New to the ranks of credit card holders, Karolina Patino, 19, will pay her first credit card bill this week and hopes to pay off the entire balance of about $100.

The Roosevelt University student, who lives with her parents in Little Village, signed up for a Bank of America Cash Reward credit card. Initially, she had been scared of getting one after seeing close friends struggle with their debts but decided to sign up to build her credit.

"I thought long and hard about it because it is a slippery slope into debt," said Patino, who is determined to pay it off monthly. "I want to start building my credit score so I can get a house, car or loan in the future."

She said that since turning 18 she has gotten a couple of letters from credit card companies but throws them away after reading them.

Patino says she did a lot of research and talked to different people before going into a Bank of America branch on South Michigan Avenue, where she has a checking account.

Her Cash Reward credit card has a zero percent annual percentage rate the first year. After that, the rate increases to about 20 percent.

Patino, working as an intern at the Better Business Bureau in Chicago, says her credit card has an $800 limit. She said she plans to use it only for groceries, gas and other essentials, such as veterinarian bills.

Other students are still resisting.

Matt Schur, 21, a senior at the University of Missouri, does not have a credit card and has no intentions of getting one now.

"I don't think I'm responsible to have a card now," he said. "I have a tendency to overspend."

The Chicagoan journalism major says he doubts that he would have enough money in his account to pay off his credit card if he got one. Schur spends a good deal of his money on food, concerts and shopping.

He says most of his friends do not have credit cards though they get solicitations every few weeks. His bank, Chase, has also tried to get him to apply for one but he says he wants to wait until he graduates and gets a job.
"I will have a larger income then so I can get one," Schur said.

Jim Hawkins, assistant law professor at the University of Houston Law Center, said he doesn't think the CARD Act has done much to curb credit marketing to students.

"Industry people tell me that the main effect of the Federal Reserve report has been that colleges can obtain better deals from issuers because they know what the issuers are giving to other colleges," he said.

In a survey of about 250 students he did last fall, Hawkins found that about three-fourths of students younger than 21 reported getting a credit card offer since the beginning of 2010. The CARD Act took effect in February 2010.

"Part of the problem is that credit card companies can still contact students and offer them tangible gifts in exchange for signing up for credit cards as long as they do so electronically," Hawkins said. "The loopholes, unfortunately, are larger than the rules."

The law, for example, limits a credit card company's ability to give away a gift card, a T-shirt, magazine subscription or any other "tangible" item on or within 1,000 feet of campus to encourage students to apply for a credit card.

But such gifts don't skirt the law if the student wants to open, say, a checking account, which can eventually lead to a credit card relationship.

Also, credit card reward points or promotional credit terms offered to applicants don't qualify as "tangible" items.

And while credit issuers can't give tangible gifts as inducements to apply for credit on or near campus, there would be no violation of the law if, say, the bank sprang for refreshments for anyone and everyone on campus.

Some of the college groups, including the University of Illinois Alumni Association, get paid at least partly by how much the credit cards get used, a practice some credit industry critics say encourages spending.

Discover Financial stopped marketing on college campuses about five years ago. But online it offers a student card to consumers 18 and older. It offers a 5 percent cash-back bonus in various spending categories -- and that means "extra toppings for your pizza," the Riverwoods-based company says online.

Discover offers a zero percent rate for six months, which then adjusts to anywhere from 12.99 percent to 19.99 percent.

In deciding whether to give a credit card to a student, Discover doesn't count proceeds from student loans as income, as some companies do, spokesman Matthew Towson told the Tribune.
Discover has said that it doesn't feel the need to give away gifts since it believes students find their card rewards most appealing.

Odysseas Papadimitriou, a former Capital One executive who is chief executive of credit card research website Cardhub.com, said he expects that other financial firms will take Discover's cue and walk away from college credit card agreements almost entirely in a few years.

For one thing, students and consumers are increasingly more educated about the benefits of shopping around as opposed to being confined to a particular credit card that a school has to offer, he said.

Papadimitriou also points to the experience of Bank of America's FIA Card Services, the biggest college-affiliated issuer. It opened 30,193 new accounts in 2010 while it had to maintain 848 agreements with different colleges and related groups.

"For an issuer of that size, 30,000 new accounts is very small, so the level of effort it takes for this number of accounts is not worth it," Papadimitriou said. Nearly 60 FIA agreements were terminated in 2009, including one with the University of Illinois Alumni Association.

In 2009, the University of Illinois Alumni Association received $3.3 million from a Bank of America unit, more than any other college or affiliated group. About 330 new credit card accounts were opened that year through the agreement.

But the Illinois alumni club let lapse its relationship with BofA in 2009 and struck a new deal last summer with the University of Illinois Employees Credit Union. The credit union paid $500,000 to the nonprofit alumni group for about the last half of 2010, and more than 770 accounts were opened.

Asked about what seems like a less lucrative credit card deal, Joe Rank, retired alumni association vice president on staff part time as a marketing consultant, said the credit union is not-for-profit, is member-owned, is 80 years old, and "has the University of Illinois in its name."

He said money is important to the alumni group, but that it's careful with its money and that there were intangible attributes that the credit union had that Bank of America and other bidders didn't.

The credit union is "an organization we can be proud of," Rank said. "Unlike major banks it has not been in the headlines day in and day out. It hasn't accepted TARP, hasn't been accused of robo-signing foreclosures." BofA has since repaid the money it borrowed from the U.S. Treasury under the Troubled Asset Relief Program, or the bank-bailout program.

A BofA spokeswoman said that it provides students with both print and online financial literacy materials, including how to maintain a good credit history, and sponsors free money-management programs on campuses.

Rank said he believes that one reason for the national drop-off in college credit card agreements is an attitude shift among younger people.
"As a father of four grown children, I see a lot more use of debit cards rather than credit cards," he said. "Younger adults have seen the negative fallout from foreclosures and seem to understand the concept of a credit score."

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Breakdown of a deal

An online database, federalreserve.gov/collegecreditcardagreements, provides the complete text of each deal and the payment and accounts information submitted by issuers. Users may also search for agreements by certain criteria, including by state.

Among the terms of the 2010 deal between the University of Illinois Alumni Association and the University of Illinois Employees Credit Union:

* The credit union is allowed to make six contacts a year by email or direct mail with potential customers who are graduates, former students, faculty, staff and university donors who are at least 21. The credit union can't contact students working toward an undergraduate degree regardless of their age, the alumni group said.

* The alumni group must provide updated mailing lists every six months that have current postal and email addresses, segmented by ZIP codes.

* The alumni print magazine must include a full-page ad for the credit union.

* The agreement ends in 2020. Guaranteed royalty advances are $1 million for the first year, $500,000 for year two, and $475,000 each for years three through five.

* The alumni group gets $5 for each new account that stays open for at least 90 days and that's used at least once.

* The alumni group gets 1.25 percent of whatever purchases a consumer makes, the alumni group said. If a credit card holder bought, say, $100 in merchandise, the alumni group will get $1.25.