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ABSTRACT

This hearing transcript presents testimony and discussion of a congressional committee on the marketing of credit cards to high school and college students and the consequences of that activity. Chairman Joseph P. Kennedy opened the hearing with a statement describing aggressive credit marketing to this population and some of his concerns. Ruth Susswein of Bankcard Holders of America, a consumer group, testified on the willingness of credit card suppliers to issue credit to a population without traditional credit credentials, marketing strategies, students incurring large debts, and students' need for knowledge and debt limits. Gary J. Flood of Mastercard International testified that most students use their credit cards wisely and gain valuable credit history and experience. He also described efforts to support personal finance education. Paul Allen of VISA, U.S.A., Inc. testified that college students are responsible consumers who need credit cards for a variety of purchases. He also described personal finance education efforts. Ken McEldowney of Consumer Action testified on the industry's reaction to market saturation by stimulating the use of cards for things such as grocery purchases and by suspending traditional criteria for cardholders. He made recommendations for regulation of this market. Michele Bedell, a college student and her mother, Connie Bedell, testified on Michele's experience and her mother's concerns. The hearing closed with discussion. Prepared statements of the witnesses are also included. (JB)

THE

KIDDIE CREDIT CARDS

ED 387 063

HEARING

BEFORE THE

SUBCOMMITTEE ON

CONSUMER CREDIT AND INSURANCE

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

SECOND SESSION

MARCH 10, 1994

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KIDDIE CREDIT CARDS

THURSDAY, MARCH 10, 1994

HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE,
COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:08 a.m., in room 2226 Rayburn House Office Building, Hon. Joseph P. Kennedy II [chairman of the subcommittee] presiding.

Present: Chairman Kennedy, Representatives Maloney, King, Pryce, and Linder.

Chairman KENNEDY. The subcommittee will come to order, please.

I would ask the witnesses to please come up and have a seat at the table.

This morning, the subcommittee examines how credit cards are marketed to high school and college students and the consequences of that market. Evidence is emerging to suggest that students are getting the hard sell and getting into a lot of financial trouble as a result.

For most of us who are no longer students, our first credit card was something to be used for emergencies and to start to build a decent credit record. Not anymore.

In the last few years, there has been an explosive growth in the use of credit cards by our youth. Students are now using credit cards to buy clothes and books and concert tickets and even pizza. In other words, the necessities of student life. Go into any bar near a college campus today and the chances are you will find students paying for drinks with plastic instead of cash.

One reason for this change is our society's growing acceptance of paying on credit. But another is that credit card companies and issuers have discovered the youth market.

In an industry that has pumped 1 billion credit cards into American homes, students represent one of the last unsaturated markets. And they represent a lucrative one as well, spending over $60 billion each year on consumer goods.

Credit card suppliers have entered the youth market aggressively. Students today are being given credit cards without a job, an income, a credit history, or a parental cosigner. In other words, they can get a card, and often many cards, without even demonstrating an ability to pay off the debt. What's more, credit card companies and banks are trying almost anything to get students hooked on their product. They pay fraternity brothers and sorority sisters to find credit card applicants. They sponsor rock concerts, they give promotional gifts to students from discount airfares to popular CDs to stereo headphones. And they send applications to every student they can find, even before they get to college.

Earlier this week, subcommittee staff visited Centerville High School in Virginia. They attended three social studies classes and in each one over half the students said they had received credit card applications in the mail. I might add that even some of those students are here today or we are hoping they are going to show up, but we'll see.

They're here. They showed. OK, great. And we are happy to have them.

This marketing blitz is having a devastating impact on the lives of many students and their families. Without adequately knowing the risks of credit, students have gotten hooked on plastic and are racking up huge debts that will plague them for many years to come.

Parents face a grim choice, either pay for their children's mistakes or watch them get their financial lives off to a disastrous start. A negative credit rating could keep them from obtaining credit when they will need it in future years to buy a house, purchase a car, or finance a small business. And the debts that they incur as young people may not be paid off until they reach middle age.

A 20-year-old making minimum payments on a $5,000 debt will be over 40 years old by the time it's paid off. In some cases, the situation is even worse. One Loyola Marymount student charged $25,000 worth of goods on seven credit cards by the time he was 19. He is now working 30 hours a week to meet the payments of $560 a month.

A Texas Tech student was $17,000 in debt by his junior year. He has since dropped out of school, filed for bankruptcy, and taken two full-time jobs to pay off his remaining obligations.

A college-age couple from Charlotte had over $15,000 in debt on 15 credit cards before they even graduated.

These examples may be extreme, but they are not isolated. Throughout the country, the number of students in financial trouble is growing. Consumer credit counselors report a 10-percent increase in college-age clients walking through their doors looking for help.

The indebtedness of America's youth has not been without a bright side as well. Credit card issuers are making a fortune. According to the industry's own figures, issuers earn about $16.5 million a year on every 100,000 student cardholders. Over $10 million of these earnings consist of interest income. Considering that there are only about 5 million student cardholders in the whole country, that means that the industry earns about $500 million each year on student credit card debt.

Some industry members have themselves questioned whether they should be profiting from the inexperience of their youngest customers. AT&T, for instance, has begun to monitor student accounts for unusual patterns of activity, including payment activity as well. They also provide credit counseling tips in monthly statements and have raised the minimum monthly payment from 2.2

percent to 2.5 percent so students can string out their debts for a longer period of time.

However, these and other industry educational efforts have had a mixed success at best, since many more young people are getting into financial trouble these days. Educational efforts can and should be improved.

I also want to encourage members of the credit card industry to reexamine their underwriting practices and consider requiring students to show some minimum ability to pay when they apply for a card. In addition, I believe that students should be told on their billing statements how long it will take them to pay off a debt at the minimum monthly rate, so that they know exactly what they are getting into when they pay with plastic.

We may also want to consider requiring a parental cosigner for students who want a higher credit limit, say over $1,500. That way, parents will be able to help manage their children's debt problems before they mushroom out of control.

I want to thank all of our witnesses for coming this morning. You have all made great efforts to be with us and we appreciate very much the efforts you have made. I particularly want to thank Connie Bedell and her daughter, Michele, who I hope are going to show up. They will talk about some episodes in their life.

I also want to mention for the record that Signet Bank, which issued Michele a VISA card, was invited to testify this morning but declined.

In any event, we look forward to hearing from all of you and, with that, let me turn to my good friend, Mr. King, for whatever opening statement he may have.

Mr. KING. Thank you, Mr. Chairman. I want to again commend you for holding these hearings such as this, and I also want to note this is a very historic day. For the first time in 40 years, the Republicans have a two to one majority on the subcommittee.

Chairman KENNEDY. Don't count on it. [Laughter.]

Mr. KING. John Linder and I are trying to figure out some way to take advantage of it.

Very seriously, I look forward to the hearing. I think it raises questions of exploitation and discrimination. On the other hand, it also raises what is the proper role for government to play in this area since we are talking about people who are old enough to go in the armed forces and old enough to drive.

So I think we are talking about different views of this problem and how we should address it. I look forward to the testimony. Thank you, Mr. Chairman.

Chairman KENNEDY. Thank you. Mr. Linder.

In that case, let me turn to our panel of witnesses. Why don't we start with Ruth Susswein. Ruth Susswein is the executive director of Bankcard Holders of America, which is the Nation's only consumer protection organization for holders of credit cards.

Ms. Susswein, we want to thank you very much for joining with us this morning and asking you to come and testify before the subcommittee. Please proceed with your testimony.

Ms. SUSSWEIN. Thank you.

Mr. KENNDY. Thank you.

STATEMENT OF RUTH SUSSWEIN, EXECUTIVE DIRECTOR OF BANKCARD HOLDERS OF AMERICA

Ms. SUSSWEIN. Thank you for the opportunity to appear before you today. I am presenting testimony for Bankcard Holders of America and for Consumer Federation of America and U.S.PIRG.

Allow me to open by saying that it is striking to us that college students, college-bound high school seniors as well are part of a very privileged class these days, held to a very different standard than the rest of us. College students with no job, no assets, no income, no credit history, and no means of supporting themselves are being courted by the credit industry for unsecured credit.

No other group with this same lack of credentials is given the time of day by the credit community, but students' mailboxes are brimming with credit card offers.

I would like to show you an advertisement by Citibank. That is, by the way, the Nation's leading credit card issuer to students. It not only asks students to charge a Florida vacation on their credit card, but it says in black and white, "a student doesn't need a job or a cosigner to apply."

Competition for the college market, as you know, is keen and is only expected to intensify. Students are one of the very few untapped markets by issuers, and there is a fresh pack each year: Freshmen.

According to industry figures, an estimated 61 percent of college students have at least one credit card already. One-third of students obtain them in their freshmen year, and another 32 percent, oddly enough, obtain credit cards before they even set foot on a college campus. Some of the largest issuers such as Chase and Citibank are now targeting college-bound high school seniors.

What's more, issuers are making credit appear more affordable than ever, cutting minimum monthly payments on average to 2 to 3 percent, and marketing this drop as if they were doing cardholders some sort of favor.

I would like to show you a Montgomery Ward ad that has now dropped their minimum payments 2 percent, and right in the ad in bold print it says, "Lower minimum payments puts more money in your budget."

But the student who racks up a $1,000 credit card bill her freshman year and only pays that low, low minimum payment will finish her bachelor's degree, complete a master's program, and still have 3 years left to pay that $1,000 credit bill. That assumes that the student stops charging after they hit $1,000 9 years earlier.

There is a chart over there that will show you, as Chairman Kennedy mentioned, that even $5,000 could take as long as 20 years to pay off if a student only pays the minimum payment.

Students are viewing credit cards as status symbols, but too many students have no idea what they are getting into. One student who we've dealt with has racked up $25,000 in credit card debt in five or six cards his freshman year. The student told us he was receiving new credit card offers and credit cards when he was already delinquent on a few accounts.

To be clear, we are not suggesting that students should not own or use credit cards. We are suggesting that students be given the necessary knowledge and information to make responsible choices before they are given the benefits of the credit.

We are recommending mandatory personal finance classes, which would include credit education, on a national level for all junior high school and middle school students. No matter what field a student ends up in, they will need to know the cost of credit.

According to a study by CFA and American Express, students do not know the cost of credit; 78 percent of college juniors and seniors did not know the importance of APR as an indicator of the cost of a loan.

I wish I could sit here and rattle off verifiable figures as to how many students are on the verge of defaulting, but I cannot because those figures do not exist.

I can tell you that from parents, from the media, and from other consumer advocates that students are in trouble because of mounting credit card debt.

What we hear more often than not is that parents are bailing children out. Parents who are not responsible for their adult child's debt. Yet, as you will hear from the Bedell family, hopefully today, issuers want to know that parents can foot the bill.

Issuers will tell you that students do not default at a greater rate than anyone else, but I contend that we have no way of knowing how many parents are bailing their kids out. These students will not show up in the default rates, nor will those who are just getting by on low, low minimum payments. Yet, they may be just one payment away from financial disaster.

Privately, one of the Nation's leading credit card executives has told us, and I quote, "It is a given that students will default at a greater rate than the general public." What this subcommittee knows all too well, but many students do not is that today's credit problems could jeopardize their chances at credit when they really need it, for a car loan, an apartment, or even a mortgage. They even risk losing that coveted job because of a poor credit file.

With rare exception, the only time a student is formally taught how to manage money is after the fact, once they have defaulted, once they've ruined their credit history. We've got it backward.

To allow students access to credit before requiring them to learn the responsibilities of credit is financial suicide. We do not hand out driver licenses and then hope some day that a student will learn to drive. Why dish out unsecured credit, and then hope students can handle it?

If issuers are going to prosper from student debt, they should be required to provide students with the basics in fiscal responsibility before they issue a credit card. Issuers should also be required to limit a student's line of credit.

But we cannot ask issuers to do the job alone. Credit education should be part of every school's curriculum. It should be a requirement to graduate. It is in everyone's best interest to educate the students on wise use of credit.

Thank you.

[The prepared statement of Ms. Susswein can be found in the appendix.]

Chairman KENNEDY. Thank you, Ms. Susswein. I will have questions for you in a few minutes.

Our next witness is Gary Flood who is a senior vice president of consumer cards for MasterCard International. He is responsible for all marketing activities and for Standard and Gold Cards. Mr. Flood has introduced consumer education initiatives to high school and college students for MasterCard.

Mr. Flood, we are looking forward to your testimony, and we want to thank you very much for coming and joining with us. Please proceed.

STATEMENT OF GARY J. FLOOD, SENIOR VICE PRESIDENT, CONSUMER CARDS, MASTERCARD INTERNATIONAL

Mr. FLOOD. Mr. Chairman, members of the subcommittee, my name is Gary Flood. I am a senior vice president responsible for Consumer Card Marketing at MasterCard, New York. We appreciate the opportunity to testify before the subcommittee to discuss the issue of college students and credit cards.

Like other young adults today, college students recognize the responsibility of managing personal finances. Many of these students take the opportunity to apply for credit cards and view obtaining a credit card as an important part of the financial right of passage into adulthood. But with this opportunity comes responsibility, the responsibility of managing a budget and meeting their payment obligations.

The overwhelming majority of student cardholders meet their responsibilities and use their cards prudently to build sound credit histories. These credit histories are invaluable when applying for loans to purchase homes, cars, other products and services later in life.

The successful track record of student cardholders is not surprising. Students today generally have grown up in an environment where credit cards are more a part of everyday life than was the case for previous generations. For that reason, MasterCard has undertaken extensive efforts to educate students on financial management. For example, we have developed personal finance and education programs, one of which is called "Master Your Future." The program includes a video and a teacher's guide, which instruct students on important financial matters, matters such as establishing a budget, setting critical financial goals, opening and using checking and savings accounts, the use of credit and the importance of establishing and maintaining a very strong credit rating.

"Master Your Future" is made available to teachers free of charge. Today over one-half of the public high schools across the country are using this educational program. The overwhelming majority of the teachers at these schools have told us that the program is an invaluable educational tool. MasterCard also has developed a college educational seminar called "Mastering Your Money." This seminar provides guidance on personal finance in a manner that is geared to the more complex financial management issues that college students face today. It is conducted throughout the country in college orientation sessions and campus forums.

In addition, we also produce a magazine called *College Fundamentals*. Published on an annual basis, *College Fundamentals* provides money management tips to college students, and often is included in college orientation materials and college newspapers.

This publication is designed to help students set financial priorities, create budgets, understand the importance of credit histories, and even seek financial student aid. Over 2 million copies of this magazine have been made available this year alone on college campuses throughout the country free of charge.

Moreover, many MasterCard issuers are extremely active in educating young adults on the responsible use of credit. For example, MasterCard issuers provide student cardholders with educational materials developed by MasterCard, or they may develop materials on their own and distribute them.

The goal of all these efforts is to develop a more informed cardholder universe.

In conclusion, many students have elected to use the convenience and safety provided by credit cards. These students are young adults and most of them use their credit cards in a very responsible manner. They successfully build good credit histories which are invaluable to them later in life. MasterCard and its issuers continue to actively educate young adults to help them understand the basics of personal finance. These efforts have been enormously successful and well received. The overwhelming majority of college students use their credit cards wisely. MasterCard is committed to continuing these educational efforts with the goal of developing more informed cardholders.

That concludes my testimony. I would like to submit examples of these materials and I request that they be included in the hearing record, and I am prepared to answer any questions at the appropriate time.

[The prepared statement of Mr. Flood can be found in the appendix.]

Chairman KENNEDY. Thank you very much, Mr. Flood. I look forward to asking you several questions on the programs that you have identified.

Our next witness is Paul Allen who is the senior vice president of VISA, U.S.A., which is a division of VISA, International. Mr. Allen also serves as the general counsel and secretary of that organization.

Mr. Allen, we very much appreciate your taking the time to be with us this morning. We look forward to your testimony. Please proceed.

STATEMENT OF PAUL ALLEN, SENIOR VICE PRESIDENT, GENERAL COUNSEL, AND SECRETARY, VISA, U.S.A., INC.

Mr. ALLEN. Thank you, Mr. Chairman. I am delighted to be here. My name is Paul Allen. I am senior vice president and general counsel of VISA, U.S.A. We are submitting written testimony for the record today.

After cash and checks, credit cards are the most common method of payment in this country. Almost every household in the United States has one and the majority have more than one. There are more than 168 million VISA cardholders in the United States who can use a VISA card at 3 million merchant locations.

VISA is proud to be the leading general purpose credit card in this country and indeed in the college market in particular.

Mr. Chairman, college students are young adults. They have reached the legal age of consent. They can and do serve in the military. They own cars. Surprising as it may seem, they buy stocks and bonds and life insurance. One-half of college students are heads of household. More than one-half of all college students work part time and almost all of them—90 percent, have a job at some point during the year.

By any measure, this is an adult community and VISA treats them as such. College students may constitute a unique market, but they share many attributes with the credit card population at large. They demand credit cards for the extraordinary utility and convenience they offer. They want credit cards for emergency uses in order to establish a credit history, and indeed to pay for books and tuition.

Like the rest of us, college students need a credit card to make a purchase by mail, to order an airline ticket, and to rent a car. The fact of the matter is that college students are responsible consumers. They pay the balance in full one-half of the time, whereas the population at large carries a balance 60 percent of the time.

College students use credit cards mainly as a device to transact purchases, not to obtain an unsecured loan. Indeed, fully 80 percent of college cardholders use the card three times per month or less and fully one-half use it once a month or less.

This hardly paints a pattern of abuse. Furthermore, when students do carry a balance, it is only one-third of the balance of the average noncollege credit cardholder. Losses per college account typically are much less than half of the average noncollege account.

The banks themselves contribute to this sound credit management because the typical credit line for college students is one-third of the line offered to the typical noncollege VISA cardholder. In short, it is simply wrong to assert that as a group these adults do not manage their credit cards well.

Let me turn to VISA's role in the market and consumer education. In 1993, VISA spent less than one percent of its total advertising budget in this college market. We spent three to four times more on consumer education.

Indeed, for 3 years now VISA has been a leader in educating young adults with its "Choices and Decisions: Taking Charge of Your Life," interactive video program. That program was developed in cooperation with the U.S. Office of Consumer Affairs and the National Consumers League. We have already had a demonstration of that program in a briefing for this subcommittee and the staff.

It is more than an introduction to credit cards. It is a substantive program covering all aspects of financial planning, budgeting, and decisionmaking. It uses interactive media to keep the students involved. It has a 12-chapter written curriculum package that includes lesson plans.

The program is targeted to young adults when they need it the most which is in high schools before they obtain a credit card. This program has been hugely successful. As I mentioned, we have been at this for 3 years.

It is now in more than one-half of the high schools of this country, fully 10,000, courtesy of VISA and 600 member financial institutions that have paid for the installation of it.

It has been enormously popular and educational; 90 percent of the teachers surveyed found it useful and more than 50 percent rated it excellent. It produces results. A Roper survey found that teachers' ratings of students on knowledge and preparedness in financial matters improved enormously after using the program.

VISA has also produced more than 1 million of these manuals—"Credit Cards: An Owners Manual"—which is targeted at a somewhat more mature audience. This is designed to offer consumers of all ages useful information and then help them manage their credit card accounts.

In short, Mr. Chairman, we agree with you. We agree with BankCard Holders of America. We agree with other consumer groups that education of this market can always be improved. VISA is not a latecomer to this market. We have been endeavoring to educate in this market for some period of time. But we agree that always more can be done.

I might say that it is always unfortunate when individuals abuse credit, but that really is the exception. College students are adults. VISA believes they should be treated as such. The truth is that these experiences are anomalies.

We have contributed, we believe, immensely to consumer education through a long-term financial investment manifested in numerous programs. These efforts speak for themselves. We have a commitment to the students, to the member banks, and to the public at large. We are proud of what we have done.

For every unfortunate instance of using credit, there are many other stories of college students who have used credit well. For example, we have with us today one college student, a senior at Northeastern. We have a recent college graduate from Immanuel College. They would be delighted to provide any information after the hearing to the subcommittee or to members of the staff.

Mr. Chairman, we appreciate the opportunity to be here. We would be delighted to try to answer your questions.

[The prepared statement of Mr. Allen can be found in the appendix.]

Chairman KENNEDY. Thank you very much, Mr. Allen, and we will have a couple of questions for you in a minute.

Our next witness is Ken McEldowney. Mr. McEldowney is the executive director of Consumer Action in San Francisco, California. Consumer Action is a consumer advocacy and education organization specializing in consumer financial issues. Mr. McEldowney, we thank you very much for taking the time to be with us this morning and we look forward very much to your testimony. Please proceed.

STATEMENT OF KEN McELDOWNEY, EXECUTIVE DIRECTOR, CONSUMER ACTION, SAN FRANCISCO, CA

Mr. McELDOWNEY. It's my pleasure to be here.

As you indicate, I am executive director of Consumer Action. We are a nonprofit consumer advocacy and education organization that is based in San Francisco. We have been serving consumers since 1971 and we specialize in both telephone and financial issues.

Consumer Action has done considerable work over the past decade on issues related to credit cards. We publish annual surveys of credit card rights and educational brochures to help consumers use credit cards wisely and we have advocated for better and more simplified disclosure of credit card terms.

As a result of publicity about our activities, we hear from many consumers who have questions about and problems relating from credit card use. That experience has helped to shape the comments I will make today.

The dramatic increase of new players in the credit card field has saturated the market and led the industry to react in two ways that disturb us greatly. The first is to heavily stimulate the uses of cards such as by encouraging cardholders to use them to pay for groceries and other basic necessities. The second is to suspend the traditional criteria for cardholders and offer large amounts of easy credit to people who have no credit experience or familiarity with the credit world—namely, college students.

What is the impact of these developments?

We have not conducted any studies of consumers. We are receiving a lot of anecdotal information through our free consumer information line and from some of the 1,600 community agencies around the country that we work with.

For example, agencies that provide financial counseling to consumers indicate that they are seeing a marked increase in the number of young clients including both college and high school students who have large debts. Many callers to our switchboards are besieged by credit debts and are confused about how to handle them.

Discussions with these callers reveal common patterns. Most do not understand how to determine the true cost of credit or how much they really owe. A surprisingly large number of callers do not realize the implications of only making the minimum payment each month. A common statement we hear is the bank must be making a mistake: I make the minimum payment every month but the balance I owe hardly goes down.

Many people take out cash advances to pay off credit card debts while others feel compelled to use their cards to buy necessities without realizing that these are signs of serious financial difficulties.

While most of the callers to our switchboards are adults and not college students, this fact tends to make us even more concerned about the plight of students using credit cards. If so many adults lack a basic understanding of how to use credit wisely, how can we expect their children to do any better? We do not believe college students are miraculously better at handling credit than their elders. The following factors tend to mask the degree to which young people are incurring extensive credit card debt.

They make minimum payments, expecting they will be able to wipe out their debts at some future time when they are employed at high salaries. They rely on their parents to step in when they have trouble paying debts. With credit so easily available to people who already have credit cards, they apply for even more and use that additional credit to help them make ends meet. Such patterns of behavior can only go on for so long. For those students who do not graduate or who do not find immediate employment or high-paying jobs, their postcollege lives as young adults will be burdened by the nightmare of enormous debt load both from credit cards and student loans.

We feel that the credit card industry must shoulder the blame for this problem, especially for the aggressive ways in which it pushes credit card applications of students without balancing messages of easy credit with explanations of how to use credit wisely.

Credit card applications can easily be found on tables at student unions, at special events, at stores, and elsewhere throughout the Nation's college campuses. They are primarily advertising pitches about how wonderful credit is and how easy it is for students to get credit, but these flyers are not accompanied by educational brochures from the industry on how to use credit wisely. When students successfully apply for cards they are given standardized information about using the cards. We believe that students should be given extensive educational materials designed for them with the cards to show them how to use new credit properly.

We are also concerned about the industry lowering minimum monthly payment requirements and encouraging cardholders to only make minimum payments. Card statements should indicate the consequences of making just the minimum payment.

A broader concern is the ease with which students can acquire multiple cards with repeated credit limits. Students whose income might comfortably allow them to carry one card with a $500 credit limit might easily have a half a dozen cards with such limits. These practices make it easy for cardholders to feel comfortable carrying debts that are way beyond their ability to pay for the simple reason they are able to make minimum payments on all their cards. This is a recipe for personal disaster.

We are not saying that consumers don't have a serious obligation to understand credit and use credit wisely. We urge both the credit industry and school systems to increase credit education, but we believe that the very worst way to educate consumers about credit is to offer them virtually unlimited credit at an early age. The original and quite worthy concept of offering credit to college students to help them establish credit and become responsible citizens has been taken to an extreme. There is no justification for encouraging students to apply for and use credit lines that are beyond their ability to pay.

There are some specific recommendations I would like to make.

Premiums, discounts, promotions to sign up for or use a credit card should not be offered to the teenage-college market unless offered to all consumers.

There should be a ban on preapproved credit card offers to students unless they meet standard credit card approval criteria.

Credit limits for teenage or college credit cards should not exceed the student's actual monthly income.

No approval of additional credit cards unless students' monthly income would still exceed the potential credit limits for all cards.

Minimum monthly payments for teenage or college cards should be at least 4 percent.

There should be extensive credit education, including time it will take to repay balances of $500, $1,000, and $2,000 if only minimum payments are made.

It should also include the total finance charges if only minimum payments are made—again, on balances of $500, $1,000 or $2,000, and also the implications of late or skipping payments on future ability to get credit once a person graduates from college.

Consumer Action commends this subcommittee for its efforts to investigate the overextension of the credit to students and we stand ready to work with you and the credit card industry to solve the problems identified in this hearing. Thank you.

[The prepared statement of Mr. McEldowney can be found in the appendix.]

Chairman KENNEDY. Thank you very much, Mr. McEldowney.

Our next witness is Michele Bedell, who is a student at Radford University in Virginia. She was issued two credit cards by Signet Bank and Discover while she was a sophomore in college with no income to speak of, no steady job, no credit history, and no cosigner. Michele used the cards and her balances grew to over $2,000. Eventually, she became unable to pay the minimum monthly requirement, and Signet has since filed a lawsuit against Michele.

Michele, we want to thank you very much for coming in here and for discussing with us what is a personal issue and doing it in front of your mother must not be a lot of fun. So I think we all know some of the pain that you're going through at the moment and you're kind to share this with us, because there are many other students like you all across this country that could easily, I am concerned, find themselves in the same sort of situation that you do. And we, again, appreciate your willingness to share your story and you are going to be helping out other people.

So thank you. Please proceed.

STATEMENT OF MICHELE BEDELL, SPRINGFIELD, VA

Ms. M. BEDELL. In the fall of 1990, I was a sophomore living in a dorm at Radford University. And two upper classmen walked through the dorm asking students to sign up for Discover cards to financially benefit their fraternity. So I didn't really think about, you know, getting the card. I didn't ask for the card. They just asked me to sign up for the card so they could get $1, you know, for the fraternity.

So I sent in my application with a copy of my school ID and, within a few months, I received a Discover card with a $500 credit limit. And I didn't have a job when I received the card, but it was not a prerequisite for a student to receive a credit card.

I began using the card later on that year and I used it very frugally. I filled up the gas tank when I went home for breaks, a 4-hour drive, and I occasionally used it to buy lunch for a student who would drive me home.

The second semester, I received an application for a VISA card in my mailbox. And I filled out the same information and I also sent my school ID.

For the Discover card, I recall that I had to give my parents' income. I am not positive on that, but I am pretty sure, if I had a copy of it, you could send me a copy, I could check on it.

Within a few months, I received the VISA and I didn't have a job when I sent in that application. And I also had a credit limit of $500. And I used the card only for school finances. I put my semester books and supplies on it and I did put two phone bills on it when I lived in an apartment. And I paid my minimum balances every month. But I only paid my minimum. And, to be honest, I really didn't even think about that I was only paying interest. I only just sent in what the minimum payment was and I thought, OK, well, I'm just paying it off and that's great.

So within a few months both of them, both cards, went up to $1,000. And the VISA eventually grew to $1,500. And I worked in the summer——

Chairman KENNEDY. This is the bill or the credit limit?

Ms. M. BEDELL. The credit limit.

The bill, the Discover right now, well, it's $1,000. And the VISA is $1,400, mostly interest.

And the money I made in the summer and Christmas is what I used to help pay for these cards.

The next year I used the cards the same way and I paid my minimum balances and the downfall of this experience occurred when my minimum payments got too high and I couldn't—because my balance increased. And it got to the point where I would be sending up to $100 a month to the credit card companies and, being a full-time college student, I couldn't afford to keep paying those minimum balances.

And I missed a few monthly payments. And by the time I had enough money to send the payment, the minimum balance would be doubled or tripled. And I would send what I had, but the next month I would still be behind, so I just found myself just struggling to pay them. And, you know, I'd miss it or I'd pay just as much as I could because they would call me and then I'd pay it.

This is when I started to really look at the interest rate and figure out that I really wasn't paying any of my bill; I was paying mostly interest. So every month the balance would either move $5 down or $10 up. It just really wasn't going anywhere.

I continued to pay what I could on Discover card, because my credit could still be saved. And the VISA account's minimum payments got so high that I could only pay the interest on the balance and not pay off any of the money I spent with the card. So that is what started to just really upset me.

And that is when Signet Bank began to call my house and my mother's house to ask me about payments. And my mother got involved once the company started to call her house almost every single morning during the business week looking for me. And that's when she kind of asked me what was going on.

I then authorized my mother to talk with VISA about my account, and also the Discover, even though the Discover wasn't—I was still able to pay some on the Discover. But I didn't know that my credit was ruined and I was still paying on the Discover. They didn't really tell me anything; they just would call me and act really nice and just tell me to pay what I could, but I didn't know that my credit was already ruined.

So after months of talk and random payments, I found myself with ruined credit and Warrant In Debt for the balance of the VISA account. And that's when I decided that I would stop payments on the card because I wasn't paying any money that would

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help my status as a credit applicant in the future. I mean, it was just—it seemed like a waste to me to keep paying when I was—my credit was already ruined.

So my mother began to explain to me the credit world and I honestly—I feel really kind of stupid about it, but I really didn't understand credit. And the credit for the VISA, the interest rate was, I think, 25 percent. And the Discover was, I think 17 or 18 percent—23 percent? And I was never educated about the credit card and I never understood the risk involved.

My friends—some of my friends have credit cards and they have run into the same exact situation I have and their parents pretty much bailed them out and they don't even really realize, you know, how the credit world works also.

But in my first years of college, I got the credit card. I didn't even really ask for the credit card. They're marketed all over the campus. You know, you receive the application in your bag when you go into the RU bookstore, you receive applications there. You can receive them in the post office. I mean, they're all over the place. And they do market that. You know, the next logical step is to get the credit card and to establish your credit, you know, while you're in college so you'll have credit for the future. And that's basically why I used them.

I wasn't planning on using them, but I decided to say, OK, well, I'll put this on it and I'll pay this off and I'll have, you know, credit for my future and, you know, everything will work out. But if I could have done it all over again, I wouldn't have gotten a VISA card. I would have gotten American Express, which you pay monthly, you pay off your card. I mean, every month you have to pay it or you're in trouble. So you know what you're spending.

Chairman KENNEDY. Your mother is squirming there on that one, kiddo. [Laughter.]

Ms. M. BEDELL. Basically, I just, I mean, I tried to do the right thing. And now I am kind of in a hole.

That's it.

[The prepared statement of Ms. M. Bedell can be found in the appendix.]

Chairman KENNEDY. Michele, you gave us excellent testimony. We really appreciate it. We will have some questions for you in a few minutes.

Now, I would like to turn to Connie Bedell, who is Michele's mom. I think she believes her daughter should probably have never been issued the credit card because she was unable to pay her debts on them.

Mrs. Bedell, why don't you just share with us your concerns about what has happened to your family.

STATEMENT OF CONNIE BEDELL, SPRINGFIELD, VA

Ms. C. BEDELL. Thank you, Mr. Chairman. Also, I would like to let the Republicans who are here know that I am a Republican. I am sorry to say to you, that I am not against the banking industry or making a profit.

Chairman KENNEDY. Neither am I, Mrs. Bedell. [Laughter.]

Ms. C. BEDELL. I am mortified to be here.

Mr. KING. Keep going, Mrs. Bedell.

Ms. C. BEDELL. I am mortified to be here, but my daughter was hoping that John Kennedy would be here so she could meet him.

Mr. KENNEDY. Now, wait a second. [Laughter.]

Mr. KING. We might have to shut both of you off.

Ms. C. BEDELL. I will go ahead and read my testimony. I am a little nervous here this morning. As I said, this is quite embarrassing and also it is not something you want to spread out into everyone, but we do have three children in college. She is a twin. She has her twin sister behind her. Her brother is struggling to pay off his bills, so it is a real mess. I have one more child left to go to college, and that is why, primarily, I am here today. I have a freshman who will be going to college in September and I know that all of her friends and all of their parents are going to have to face this.

So I hope that if you can bring this out now, we can save a lot of kids in the next 4 years. The new batch of freshmen that will be going through the system, if you will.

Our twin daughters, college students at a public university in Virginia, have incurred credit card debts to Signet Bank, that's the VISA, and Discover card, in the amounts of nearly $2,000 on each card.

These cards were marketed to our children in their second year of college. Discover card marketed the card through a fraternity who would receive a compensation for each student who signed the application form. My daughters did not have jobs and were not creditworthy by any known definition found in principles of sound banking practices.

Signet VISA requested the name of a parent or guardian on the application form. My daughter told me that the Discover card asked the amount of the parent's income. I verified this in a conversation with a collector from Discover. At no time was I nor my husband asked to cosign on these applications. And I consider that a violation of our privacy. Also our children have no idea how much income we have. It is irrelevant anyway because after paying tuition it is all gone. It has all gone for college tuition.

When I tried to get help from the State Corporation Commission in Virginia, I was dismissed by the director as not understanding the banking business. He said that banks issue credit cards to students because it is a good investment. I wrote to the attorney general of Illinois because I had to find all this out by myself, where the Discover card came from and it is in Illinois, so that is why I wrote to him.

After many fruitless hours on the phone to private consumer groups for help, I called the business reporter at *The Washington Post* and I told him my problem and I asked for his help. I told him that I was told that I had to hire a lawyer and pay legal fees on top of all the other debt we had incurred.

I told him that with three kids in college and one left to go this fall, this mom and dad were not able and not willing to incur anymore debt. The reporter wrote an article about this and the Bankcard Holders organization recommended that I get the Nolo Press book, entitled "Money Troubles," which, by the way, is a great book, so that I could understand my rights and options in dealing with the legal strategies involved in consumer debt.

Now, I consider myself a very smart person and know what I am doing, but I had no idea what I was in for. Did we have to pay this, who was liable, how can they get away with this, can we get out of this, can we compromise with anybody, what is going on? I did not have any idea. Believe me, I had exhausted everything until I found this book, and talking to the Bankcard Holders was very helpful.

The other organizations I called would never call me back, by the way. I called all the credit agencies and the ones that were listed for consumers, and they would not help me at all.

Why would these credit card companies ask for the name of a parent? I then began to investigate why giving credit to an unemployed child—and that is what these kids are in college, they are children—is a good investment.

Why would these companies ask for the name of the parent when they deny that they are using the parent as collateral? It was revealed to me by the credit collector from Discover that college kids are a good risk because mom and dad will pay their child's debt rather than have their credit ruined for the future.

He revealed that statistically college students are excellent risks because they are more likely to be employed after graduation. He suggested to me without comment—and by that I mean he said "I have no comment" when I asked him—and he said that college students are more likely to have assets on which to place a lien and have future wages that could be garnished by judgments.

My children, in their senior year, have not used the credit cards for almost 2 years, yet their debt continues to increase from monthly late fees and percentage payments of 24 percent APR. I believe in the right of business to make a profit, but it appears that the credit card industry that I have come in contact with has become the sophisticated loan sharks for the middle class by preying on the naivete of inexperienced college students, and I have likened it to offering poison carrots to an unwary rabbit, and they are taking advantage of the trust their professionalism has given them.

I am here today with my daughter because she is currently being sued by Signet Bank for $1,481 plus 23.8 percent interest and threats of attorneys fees of $370. I have tried since 1992 to get Signet to stop the credit card interest accrual and settle for the 50 percent of the amount owed which I discovered that I could ask for in the book that I had read.

I told the official who is in charge of marketing these cards to students that common sense dictates that his bank is half wrong for marketing these cards to unwary students, and my daughter is half wrong for not understanding what she was getting into when she signed that contract.

They sent me a two-page microtyped contract and said she knew what she was signing. They would not settle with me, and Signet Bank issued a warrant-in-debt to Michele at her college.

Another reason I want to be here is because I wanted to let all of you know what they did to her because think of the people who just do this blindly and they are not like me. I was outraged, and want to play this right to the end. I want to see what happens.

She told them that she was a student at Radford and could not go to a court in Richmond at that time. They told her that she did not need to appear in court on the day ordered because she, quote, "owed the money, was guilty, and didn't have a defense."

I traveled to the Richmond court with the written power of attorney so I could speak on her behalf, and told the judge what Signet had said to her about not showing up, which meant, of course, that they would take a judgment in her name because she would not have been there. And she did not know that until she told me.

He told me that he would set a court date in June and that we could have our day in court. I will say that when this struck me as a middle-class loan shark kind of scam, if you will—and I hate to use those inflammatory words, but they define the situation. When I showed up in court, Signet and Crestar Bank had a page, a long page, that went down the side of the door so you could see who was summoned to be there. And all of these people, and there were at least four rows, for Signet who were obviously sued credit cardholders. They were all minorities, and they were all sitting quietly there. I noticeably was the only "middle-class white woman" who was there.

It struck me that this is a two-ended problem. You have the loan shark problem where people do not understand the contract that they are signing because of educational reasons, and now you have an upper strata college kid who is signing a contract that he or she does not understand. Both of those things are unfair.

I don't believe that banks should be doing this. I think it is beneath them to stoop this level because I do believe in the banking system. They do not need to do this. The loan sharks can do it, not the banks.

I believe that it is unconscionable for these bank cards to take advantage of a college student's youth and inexperience. They are ignoring their own sound banking practices by changing the rules just to benefit themselves. You just cannot have it both way. Banks cannot state in their contract that falsely representing one's creditworthiness is a crime and then turn around and give credit to one who is not creditworthy when it suits their own financial benefit. As professionals with the public trust, they have the responsibility not to ignore their own rules.

Thank you.

[The prepared statement of Ms. C. Bedell can be found in the appendix.]

Chairman KENNEDY. Thank you very much, Connie, for your very impressive testimony. I want to thank all of the witnesses for sharing with us your views on this issue.

I wanted to point out to the Bedells that we had tried to get the Signet Bank to come and join with us today. We tried very, very hard to convince them to come. They simply refused to send someone to this hearing.

I think the kinds of concerns that you have indicated to both Michele and Connie fall in somewhat conflict to the kind of testimony we heard from Mr. Allen a few minutes ago. I want to just raise an advertisement that I have seen here and just read, Mr. Allen. It is an ad for a CitiBank credit card. It is a VISA card.

It says, "So call 1-800-CITIBANK, extension 93, to apply over the phone. Students do not need a job or a cosigner or to have your photo added to your CitiBank Classic VISA card. If we say that a sense of identity is the first component of CitiBank Classic VISA card, the sense of security is second, and a sense of autonomous will from your newfound financial independence, the third. Don't be crazy. Call."

Now, what is that saying to you? I mean, if you are a college student, that is saying, "Hey, listen, whatever your parents give you each month to pay your food bills, your apartment bills, or your telephone bills, you don't have to be restricted to that. You can get your newfound autonomous will and your newfound financial independence."

I mean, what we are saying is you can run up a bill. But you are also saying in the same breath, "You don't need a job or a cosigner." Other than just trying to send kids into debt or trying to puncture through the child or the kid to get to the parent, what are you trying to do?

Mr. ALLEN. Mr. Chairman, as a lawyer, I would be the last person in the world to want to comment on marketing. That certainly is not my area of expertise.

More to the point, the card association, VISA itself, does not advertise except in a very general sense in terms of promoting brand awareness. Obviously, you have read an ad from CitiBank VISA. I haven't seen the ad. I don't know.

Chairman KENNEDY. Well, Mr. Allen. Let me ask you a different way. Do you think it is good for your card to be marketed to people on this basis, people that don't have a job? Don't have a cosigner? That you don't have any idea what their income is? Is that a good idea?

Mr. ALLEN. Mr. Chairman, VISA doesn't make the credit decisions. The credit decisions are made by the member banks. But the fact of the matter is——

Chairman KENNEDY. Are you saying to me that you don't have responsibility in terms of how VISA cards are marketed?

Mr. ALLEN. The fact of the matter is that when you look at the market as a whole rather than anomalous situations which I respectfully suggest we have heard this morning, you find that the college student market is, in fact, more responsible than the credit card market as a whole.

Chairman KENNEDY. Well, wait a second. Do you have any evidence to suggest that the reason why the student market is supposed to be a better risk has anything to do with the fact that as in this case, Mrs. Bedell, Michele's mother, is the one who ends up actually having to pick up the credit?

I mean, look. It is a fairly simple equation. Your card with the name that you are putting out there, VISA, is being used—you are putting it off on the banks, and saying, "Oh, no, no. That is not our responsibility." But I see a lot of VISA ads that are paid for by your organization separate from the banks that market your cards as well, that you are saying, "You don't need a job. You don't need a cosigner. You are going to get autonomous capabilities and feel a lot freer by the use of this card. We don't care what your income is."

Essentially, when you then cite to us the fact that these people are able to pay off these bills, aren't you really saying that you can go after their parents? Isn't that, in fact, what your intent is?

I mean, you are going to tell me you don't have the evidence. I know you don't have the evidence because you don't want to demonstrate the evidence. Nobody would want to find that out because it would be embarrassing to find it out.

But isn't it just logical to think that that is, in fact, how these bills are ending up getting paid? I am not talking about the vast majority of the kids that I presume, are, in fact, good credits. What I am talking about is not an anomalous situation, either.

I am talking about probably a very substantial portion of the market that, in fact, is not going to be able to pay these bills and is going to rely on someone else to move in and fill the void when they aren't paid.

Mr. ALLEN. Well, I don't have the facts on that. I am not willing to speculate that that is the case because the fact of the matter is, as I indicated in my testimony, that 90 percent of this young adult market, in fact, have jobs; 90 percent of them have jobs during the summer and 60 percent have jobs during the course of the year. So there obviously is income in this market.

Chairman KENNEDY. Mr. Allen, do you have kids?

Mr. ALLEN. No, I do not.

Chairman KENNEDY. OK. Well, I have kids. I've got a lot of brothers and sisters. I think that if all of us had been given a credit card when we were 17 or 18 years old, my mother would probably feel very sympathetic to the views of Mrs. Bedell this morning.

Ms. C. BEDELL. Your mother could have paid your's off. [Laughter.]

Chairman KENNEDY. That's true, although she would not have been a happy camper.

Ms. BEDELL. But I don't have any money left.

I was going to say to you, she would have been mad at you, though.

Chairman KENNEDY. This would not have been a happy development at the Kennedy household, I can assure you.

In any event, I just think that we can sort of play some game back and forth about statistics and about the fact that this is the bank's responsibility; it is not really your responsibility.

Anybody that has experienced it with college students knows that if you get a credit card for the first time, you are going to have some—you know. Michele didn't indicate to us that she went off to Las Vegas or w[illegible] down to Florida on some sort of binge weekend.

Basically, she was picking up gas bills. She was paying for a few lunches and dinners. She was acting in what is not an irresponsible manner other than the fact that she didn't have the money to pay for the bills that she was running up.

So what you have, as we ll know, is that credit card companies do not make money off of the credit cards themselves. The banks make the money off the interest payments. She is paying a 23-percent interest payment. So, the intent is to run up the debt. It is wonderful that you have the education programs. We all want to work with you on getting the education program out there.

But I also am very familiar with the "know when to say when" campaign that Budweiser puts on or "think when you drink" which if that is not an oxymoron, I never heard one—I thought the whole purpose was not to.

But in any event, the point is that these sort of public service campaigns that the companies who have the primary objective of making sales, then say they really want you to make responsible sales.

I mean, we have three kids in the back of the room that will tell you that half of the kids that they go to school with were offered credit cards, without any credit. These are high school kids.

It just seems that if you are going to take the hard line and make the denial and push the responsibility off on others you leave good Republicans like Ms. Bedell and maybe a few others with the only choice of coming in with legislation that is going to try and get it to a point where there is in fact a much more onerous kind of requirement in terms of making these kinds of hidden costs known in terms of what the interest payments are, making the costs known in terms of what the thousands of dollars worth of pure interest payments that have been made, letting people know that if they pay the minimum monthly payments that they will be paying for 15 or 20 years before they ever get to actually paying off the principal as well.

You'll be looking at other kinds of provisions that say that the parents have to be notified and a lot of other things that probably aren't very pleasant for credit card companies to have to encounter, but if these abuses continue, will in fact I think take place.

I would right now like to turn it over to Mr. King for any questions that he or Ms. Pryce have. I might have a few questions after they are done.

Mr. KING. First of all, I want to thank you for acknowledging there are some good Republicans. [Laughter.]

Mr. Allen, I have a few questions. In your statement you said that one-half of college students are heads of household. Of that one-half, how many of them are full-time college students?

Mr. ALLEN. I don't have that information with me but we could provide it.

Mr. KING. Do you know how many are under 21 or over 21?

Mr. ALLEN. No. The figure roughly for the college market is 9.1 million full-time students.

Mr. KING. Isn't it fair to say that the 50 percent you are talking about probably include single mothers who are in their late twenties or thirties and taking a few courses at night or single fathers? I mean this isn't really the college audience we are talking about, I don't think.

Mr. ALLEN. Well, again, I don't have that detailed data. We can certainly provide that to you. That's an overall figure for the college market which we thought was the subject of this hearing. I think it is fair to assume that the vast majority is in the 18- to 24-year-old market.

Mr. KING. You are saying 50 percent of the students who have credit cards are between 18 and 21 are heads of household?

Mr. ALLEN. No, I am saying that of the 9.1 million full-time students, I think it is fair to assume that the vast majority of those are in the 18 to 24 age group but I would be reluctant to speculate further.

Mr. KING. I guess what I am trying to say is I really don't think that was relevant to the purpose of today's hearing. I don't think half of the students we are talking about today are heads of household—kids who are at school who are relying on their parents to pay their tuition.

Mr. ALLEN. Well, I think the relevance of the point is that you are dealing with an adult market. I mean, it is easy to, I think, mischaracterize the market. If the target market you are looking at, the subject of this hearing, is the 18- to 24-year-old market, these are young adults. These are folks who can enter into contracts, who do enter into contracts, who have all the attributes of adults, who survey after survey indicates want to be treated as adults. Indeed, when you survey that market from a marketer's point of view, that comes out as number one. They want to be treated as adults.

Basically, this is an adult market and we believe that they should be treated as such, and we agree with the chairman and the other witnesses who have testified that we can always do a better job with education.

Mr. KING. OK. Conceptually, I agree with your basic premise about people being over 18, having the right to contract, go in the armed forces, right to drive a car, right to do a lot of legal actions. However, even the government makes certain provision for college students who are dependent upon their parents for their tuition. You take a tax deduction for kids who are full-time students, so this is a separate category and it appears that you are targeting them as a separate category.

For instance, you say in your statement that you spend three times as much on consumer advertising, I believe—consumer education than in advertising to the college market. Wouldn't it be cheaper just to notify the parents?

Mr. ALLEN. Mr. Chairman, let me just say that VISA spends an inconsequential amount of money in advertising to this market. We spend one percent of our advertising budget providing general promotional material about the VISA brand and it is solely to promote the VISA brand. In the scheme of things, that is an inconsequential investment in the market, and I might add that other card brands, not all of whom are represented here today, have invested far more money in promoting their cards to this particular market.

Mr. KING. OK.

Mr. MCELDOWNEY. I would like to add one thing on that. I would agree it is an adult market.

Part of the problem that the college market is not being treated as part of the adult market. If it was, it would be subject to the same type of scoring and screening mechanisms in terms of employment and income as the rest of adults.

Mr. KING. I think the fact is if it was an adult they would have to have a job and they would have to have some line of credit.

Mr. MCELDOWNEY. Yes, and in a sense they are not being treated as adults, in the sense of credit card companies waiving a number of the criteria to be able to issue cards in the first place and this makes the problems much more severe.

Mr. KING. Mr. Flood, does your association do any marketing at all with the college students?

Mr. FLOOD. The role that the MasterCard association plays is one of increasing brand visibility, so if young adults make the decision to select a credit card that they do select our card.

As I described in my testimony, however, we do an awful lot of education programs.

Mr. KING. Let me ask you, how much of a burden would it be if credit card companies were required to notify parents if in fact the students do not have an income of their own? I mean that as a serious question. How much of a burden would that be on the companies?

Mr. FLOOD. I am not really sure. I think that that would be a good question that we should ask card issuers. From my vantage point I am not really in a position to give you an answer to that question right now.

Mr. KING. OK. Ms. Susswein—I just have one more question, Joe.

You were talking about different programs that you would want to be implemented in the schools, consumer education programs.

Have you been in contact with any teachers' associations or any educators as to what type of programs they would want.

Ms. SUSSWEIN. I have talked to individual teachers. We often speak at teachers' conferences on these types of issues and I have talked to individual teachers about these programs. There isn't a particular program they are looking for. They are looking for good, solid information to be able to give to their students on a regular basis, but mandatory.

Right now, the few teachers that are out there giving this information, it's voluntary. They do it because they personally think it is important for their particular school district.

Mr. KING. You said a mandatory program. Do you mean mandatory from the Federal Government requiring schools to give these type of courses?

Ms. SUSSWEIN. Requiring that each school district have a requirement for graduation saying personal finance should be a class, just like we require English or History.

Mr. KING. Joe, just in closing, I would say to Ms. Bedell, I have a daughter in college. I am just glad that I was notified when she got her credit card because she doesn't have it anymore.

Ms. CONNIE BEDELL. How were you notified? Mr. King, how were you notified?

Mr. KING. Actually, I think the application——

Ms. CONNIE BEDELL. You snagged her application and opened it, right?

Mr. KING. You know, maybe. I really forget. You have to ask my wife. She handles all those things. After about the first 4, 5 months when we saw the bills we cut it off so—don't tell my daughter I said that. This isn't on the record, is that right?

Ms. CONNIE BEDELL. The reason I was asking is because when you talk about your kids being adults, I really did try to treat them as adults. I am at the other end of parenting now. My kids are supposedly out of college. So everyone else is going through what I did. I started out treating them like adults, because they are 18. I didn't open their mail. I put it in a bag and sent it to them. I was very responsible about their privacy but I don't recommend that anymore.

I recommend parents open everything that comes in, go through their drawers, everything. I was really trying to respect them as adults but they are not. I think the parents need to be educated now. I'll bet you if the VISA and MasterCard sent something like this, maybe my testimony, in everything that they send every student, then the parents would say wait a minute, you are not going to do this, or they would say, all right, but I am going to keep an eye on this credit card and you can only have a $500 limit.

I did not open any of their mail before but even now, if it comes to my house, too bad. I open it and look at it. When they are 50 I am still going to do that.

Mr. KING. Yes. Actually, I think we applied for the credit card for her, feeling it was a necessity and she needed it but she went beyond the necessity.

Thank you, Joe.

Chairman KENNEDY. Ms. Pryce.

Ms. PRYCE. Thank you, Mr. Chairman. I missed a good portion of the testimony and I apologize to the witnesses because this is a subject that interests me greatly. And I think from what I have heard and what I know about it, the marketing techniques, the bottom line of what I have heard so far, is what is wrong with the whole scheme here.

But back to the notifying the parents issue, and I don't really know who I should address this to, but don't we have a privacy concern if adults' parents are notified? And how do we get past that?

Would anybody like to address that?

Mr. ALLEN. Well, I could comment on that. I think that there may well be a legal privacy concern, certainly if—I don't know how this would be structured or what the proposal is, but there might well be a legal privacy concern. But I think beyond that, as my colleague indicated, that is the kind of question that would be better handled by the issuers.

I think as to the larger parental point, though, I think VISA would agree—and I don't want to speak for MasterCard, but I guess they would too—that education really is an essential part of this, and it is an essential part not only for the students but for the parents as well.

Chairman KENNEDY. Would the gentlelady yield on that point very briefly?

Ms. PRYCE. Certainly.

Chairman KENNEDY. It seems to me that, while I have a tremendous respect for the privacy of the individuals, it does seem to me that you could make, as a term or condition of the issuance of the credit card, particularly in a circumstance where there is no job, there is no income, and there is no check on that job or income, that a signoff by the parent would be a necessity for the issuance of the card, so that the student, not the credit card company, is informing the parent, but the parent is made aware before the card can be issued.

I mean, there is a way to do it that we ought not to get so hung up on the rights of individuals that we end up throwing the society or the individual that we're trying to help into great risk of this kind of debt that has now really got Michele and it sounds like others in the family by a real stranglehold. So I think we are sort of misreading the—you know, what the most important issue is in terms of our priorities. And I am sure there are ways to get around those privacy issues.

Mr. MCELDOWNEY. I guess I have a slightly different view of that. One of the things that concerns me about this is that even though the parents were not notified up front, as soon as the card went into default, the parents started to be hassled.

It would seem to me that there is a way of getting around the privacy issue. If, in fact, the credit card company wants the name of the parent because at some point they may be going back to that parent for the payment, then they need to notify that parent up front. If, in fact, there is a commitment between the credit card company and the student where repayment is solely the student's obligation and the parent will never be notified, then maybe there is no need to notify the parent up front.

But if they are going to go for the parent, they have to notify that parent in advance.

Chairman KENNEDY. I'm sorry, but that doesn't make any sense. For crying out loud, you think that Michele was ever told—I mean, let's say Michele was sent the credit card and told she would never have to tell her parent. Well, is Connie going to say, oh, Michele, you've got this debt, now I'm going to walk away from it? I mean, that's a completely unrealistic perspective in a relationship between a parent and a child.

Mr. MCELDOWNEY. No, What I meant was that if the credit company could go back to the parent, they could figure out a way up front to notify the parent.

The reason why the credit cards are being issued is a belief on some of the issuers that they can go after the parent. If they are going to go after the parent in any way, shape or form, they need to notify that parent up front.

Ms. PRYCE. Well, do they actually go after the parent? Do they—Connie, can you tell us, did they harass you for the payment or did they harass you for information about Michele?

Ms. C. BEDELL. Well, usually when they snag these kids, it's in their freshman or sophomore year. And so their phone numbers, are their home phones. I think that is the number that the banks keep on their records. When they started calling our home phone, I would say what is this about, when those calls start happening, then you can tell there is a problem.

But if I could interject, I just think the best way to handle this is not to give anyone, whether they are a special group—and I don't know why—they consider college students a special group. They say these kids are a good risk and that they handle their money better. I don't think any of these kids who handle their money that well. I know there is a peer pressure to get charge cards. I know five of her friends right now that were in her dorm, their parents paid them off and they're all around the magic number of $1,500.

So I don't believe that they are a good credit risk. I think that the bank don't reveal that the parents pay them off, so they say they are a good credit risk. But common sense tells you that it could not possibly be that these unemployed young people, inexperienced, could be a good credit risk. Maybe 1 out of 10, but that's a pretty low percentage. I certainly wouldn't put stock in a company that did that.

But the best thing to do, don't do this to these kids. Only give them a $500 limit, because that way they could handle it. Never go over that. To even consider to continue this is wrong.

Ms. PRYCE. That would be your suggestion? Capping the limit?

Ms. C. BEDELL. Yes. Because I know in the *Post* article when he was interviewing these people and I asked him not to use my name, so now I'm doing this, but there were some companies who said, and I don't remember which ones they were, said we never give an unemployed college student more than $500 credit, no matter what. And then, of course, if some kid wanted to put a Florida trip on the card and their parents were crazy enough to let them do it, then the parent would have to cosign.

I would have the bank say, well, look, you're one of our special groups which means you get less money, not more money to spend. And, therefore, you're a special group, so you can only have $500. If you want more, then you have to have your parents cosign for that Florida trip and then they can snag the parents.

But this way, the banks go up as far as they can go and that probably is about $2,000, where they figure a parent will probably pay it for $2,000 but maybe not $10,000.

Ms. PRYCE. Well, I guess my concern is that some folks, like Michele—and, Michele, you know, I compliment you on your courage for being here and sharing this story that has to be tremendously embarrassing for you. But the fact is that to deny a whole age group access to the beginning of a credit history is very important.

Thinking back to my own experience during that time period is something that we shouldn't take lightly. And it is important that we don't allow your mistakes to be the basis for wiping out something that is very, very important to a lot of other folks. So we do have to be very careful with the steps that we take here.

But I, once again, want to compliment you for having the courage to share your experience with us.

And I may have missed this because it came out late, but can you tell me if you ever received an actual credit card in the mail, unsolicited? Or did you just receive application? Did you ever receive a card, actually, that says preapproved or anything?

Ms. M. BEDELL. No.

Ms. PRYCE. So you had to apply, is that right? So that means you had to fill out an application.

Ms. M. BEDELL. For the Discover card, I mean, I filled it out, I had to fill it out and send it so that they would get the money. So I didn't fill out the Discover card application for the card.

Ms. PRYCE. OK, I guess I don't understand. What do you mean?

Ms. M. BEDELL. The fraternity.

Ms. C. BEDELL. The fraternities go through the dorms and they have three-by-five cards, they're not applications, they're little cards. And all they ask you on it, and I have a copy of one, is your name, your address, whether you are a full-time student, the name of your parent or guardian, and then it doesn't ask you whether you have an income. And they fill out a little three-by-five card, not the long paper that has the two pages of all this legal stuff, and then they check it off and then they get a Discover card in the mail.

Ms. PRYCE. You get a card without the actual full, what I would think of as being a full-length application.

Ms. M. BEDELL. I think if you are a full-time student, you just need to send an ID, you don't have to fill out—for the Discover card anyway, that's what I did.

Ms. PRYCE. Thank you, Mr. Chairman.

Chairman KENNEDY. Thank you.

Finally, Mrs. Maloney.

Mrs. MALONEY. Thank you, Mr. Chairman, for holding this hearing. It is a problem that many of my friends—in fact, my assistant, Susan Rains, was telling me the problem she'd had with her own family with student credit cards where her two sons received, according to her testimony to me, a mailing practically every week from a credit card company giving them a credit card, then when she had a divorce she could not get a credit card for herself as the credit card in her family was in her husband's name.

I would like to ask the industry representatives, given the fact that the first half of this year the chairman and members of the subcommittee held many, many hearings on credit history, the lack of availability of credit to individuals, the fact that you can get a black mark on your credit card that will hurt young people for the rest of their lives, and the fact, I think, that in marketing to these young people maybe you have the feeling that you know the parents are going to pay, and that these young people are going to spend a lot of money they do not have, they are in college, and a feeling that the parents are going to pay.

I would just like to ask them a question. Why the great disparity between the difficulty of getting credit cards for young working men and women of an older age group, yet you are sending out unsolicited credit cards to college young people?

Mr. ALLEN. Let me provide the first response, and then let MasterCard follow up on it.

First of all, credit cards are not sent unsolicited through the mail. That, frankly, is a matter of law. The applications and the promotion materials can be sent, but in fact credit cards themselves are not sent unsolicited through the mail.

Second, I take the import of your question to be why——

Mrs. MALONEY. You are saying the promotion is sent unsolicited in the mail to these college students?

Mr. ALLEN. Well, as an association, VISA certainly knows that individual banks may be soliciting in this market. Actually, Gary is the one who is better qualified to comment on this.

I gather the other part of your question was the difficulty in obtaining credit cards in this market versus other markets. Is that the question?

Mrs. MALONEY. A Banking Committee staff member told me that their 4-year-old son got a credit card solicitation in the mail because he had a frequent flyer number.

Really, my question is: I have so many friends that are divorced, quite frankly, and they are having trouble getting a credit card.

Then they tell me stories that their youngsters are getting unsolicited credit cards in the mail, and I would like to know the great discrepancy and why are you sending out to these young people? Is it a philosophy of knowing or believing their parents are going to pay for it and college?

Mr. ALLEN. Well, let me make one observation and let Gary pick it up.

It is rather paradoxical, I think, to those of us in the credit card industry that we are criticized on both sides of the coin here. On the one hand we are criticized for oversoliciting; on the other side, we are criticized for perhaps not making credit more available to certain market segments.

I am sure you all understand that it is rather a dilemma for the associations and particularly for the issuers who in fact issue the cards.

I think the long and short of it, of course, is that issuers are the institutions that, in fact, issue the cards. They are the ones that measure the credit history. They are the ones that endeavor to ensure that the person to whom they issue the card is creditworthy and will pay back the credit that has been extended.

Mrs. MALONEY. How does one measure the credit history of a 4-year old or a 17-year-old college student? We have to go vote in a second.

Mr. ALLEN. Clearly, the 4-year-old must have been an error. You cannot seriously be suggesting that someone is soliciting to that market.

Chairman KENNEDY. Well, they were. They certainly, were, sir. Mr. Allen, the fact is that they got a frequent flyer number, and they are mailing off of frequent flyer number lists.

If you will give me 30 seconds here, Carolyn.

Mrs. MALONEY. Sure.

Chairman KENNEDY. The fact is that you are suggesting that you are being criticized for not giving enough credit. I have never heard anybody criticize credit card companies for not providing enough credit in this country. We have 1 billion credit cards out currently issued to the American people. That is 10 per household.

The personal debt of the American people is a very significant problem that this country is facing. There are large segments of the society that are not being provided their reasonable share of credit.

Credit card companies, I do not think, are often cited as the culprit for that. My sense is that this is a problem that we really have to begin to focus on in terms of the abuses that have taken place, but I do not think you are being singled out for criticism in terms of the lack of credit.

We have about 5 minutes to vote. Do you have anymore questions, Carolyn?

Mrs. MALONEY. Let's go vote.

Chairman KENNEDY. Are you intending on coming back?

Mrs. MALONEY. Yes.

You are intending on coming back too, right?

Chairman KENNEDY. I am now.

All right. If you do not mind hanging with us for a few minutes, we will be back very shortly.

Thank you.

[Recess.]

Chairman KENNEDY. The subcommittee will please come to order.

I think, Mrs. Maloney, you were right in the middle of your question. If you can remember where you were, please proceed.

Mrs. MALONEY. I would like some clarification why you are granting credit cards to young people who have no credit history. There is no credit history for a young person going to college. The young lady testified—and I have heard from parents of many of my friends that their children in college are receiving unsolicited applications for credit cards.

Yet, as I was telling the chairman when we were going to vote in here earlier, many of my friends are denied credit cards, especially divorced women, even though they say, "Carolyn, I paid my credit card on time every month for 20 years. The minute I got a divorce, I was not permitted a credit card on the basis that I had no credit history."

My question is: How are you granting credit cards to young people who have no credit history? I feel, Mr. Chairman, and would like to state for the record that I would like you to look into some way of monitoring this, that if there is no credit history, if there is no income coming to the young person, that they should not be given credit cards, or the credit cards they have should be terminated.

Mr. FLOOD. We have heard examples of problem circumstances. It is very unfortunate. But the overwhelming majority of young adults do a very good job with the credit that is extended to them, as evidenced by the general market information that is out there, that indicates that college students do a very good job.

I am not answering specifically for any issuer, but that evidence alone explains why credit and the availability of it is extended to the college students. They do a very good job.

Chairman KENNEDY. Would you yield to me on that for one moment, Mr. Flood, and Mrs. Maloney?

Do either Mr. Allen or Mr. Flood—or anybody—have any specific information that designates the difference between a youngster college-aged or however you want to—18- to 24 year-old recipient of a credit card—that pays off their debt the percentage that is paid off by a parent versus a kid?

I have no doubt that most parents probably will pay their kid's credit card bill before they will pay their own credit card bill because they would rather take the debt on themselves rather than have the debt on their kid's record that would then establish a bad credit history and can affect them for the rest of their lives.

So I have no doubt that in the aggregate your numbers are true. But the question is whether or not if you pull the sheets back a little bit, underneath those numbers, there is an underlying presumption that the parents are on the hook, which these ads would indicate is not only true, but is being taken advantage of by the marketing that is done by the banks and obviously, therefore, in your name.

Mr. FLOOD. You are correct that there is no clear evidence to what degree college students and/or their parents repay the credit card debts of the college students.

As we have talked to young adults, they take their obligations very seriously. The majority of them take it as a strong obligation. They understand the importance of a credit history and what it means to them as they move through school, graduate, and start to build lives.

Chairman KENNEDY. So do you think that Michele is just an anomaly?

Mr. FLOOD. I think the overwhelming majority of young adults manage credit very wisely.

Chairman KENNEDY. All right. I think we are in a situation where you say the overwhelming majority. I probably represent more college students than any single Member of Congress. I have no doubt that, in fact, the vast majority of them don't get themselves into trouble.

The question is whether or not there are 25 or 30 percent—I don't know what the heck the number is going to be—that, in fact, do get themselves into trouble. That percentage is really what your banks are interested in taking advantage of because they can then get their parents to start paying these interest rates at 23, 24, or 25 percent and be able to run up a debt.

If you just look at your marketing, why in God's name, if you were really interested in not having somebody else pick up the tab, why would you possibly say students don't need a job or a cosigner? I mean, if you don't have a job, and you don't have a cosigner, and unless you are like me and inherited money, where are these people supposed to get their money to pay off these bills?

Mr. FLOOD. As Paul Allen indicated earlier, most college students work during parts of the year. They do exercise some very strong fiscal responsibility with savings accounts.

Chairman KENNEDY. Well, you don't know what. What do you mean? You say you don't need a job or a cosigner.

Mr. FLOOD. Based on that, yes. But again I was speaking——

Chairman KENNEDY. Well, these are credit card applications from the biggest bank in this country.

Mr. FLOOD. Correct.

Chairman KENNEDY. You know, it just sounds like so much hooey.

Mr. FLOOD. May I just make one other point that I think it is very important? We keep referring to interest rates at 24, 25, 28, 30 percent. I think that there is an awful lot of information in the press describing the competitiveness of our market and the fact that the interest rates simply are not that high.

Chairman KENNEDY. We have had hearings on the fact that it is very difficult for the ordinary citizens of this country to possibly find out what the credit card interest rate is. I mean, that is one of the great secrets of life, is whatever credit card you get sent, you have no idea what the heck the credit card interest is.

I am sure you are going to tell me you got 87 ways of doing it, but I'll bet you if we just asked everybody in the audience if they know what their credit card interest rate is, there isn't going to be 5 percent of the people out there that have any idea.

Yes, ma'am.

Ms. SUSSWEIN. I would like to say I think it is kind of interesting that in the last year or two issuers have been promoting the fact

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that their interest rates have dropped so much, and yet there are students who have credit cards right now at 23.8 percent. We have an example right here. So, issuers have not dropped rates on average so much, in fact.

I think also issuers would like to have it both ways. They would like to say they are treating students as adults and therefore, they are entitled to all this unsecured credit. At the same time, they would like to be able to rely on parents and not treat the student as the adult, but rely on the parent adult in the family to be able to pay the bill.

Chairman KENNEDY. Mrs. Maloney, I am sorry.

Ms. C. BEDELL. If I could add, Mr. Chairman, I don't agree with the statement from the credit card company that said that the overwhelming majority of the young people are responsible.

The collector again who probably will get fired once these hearings get out who told me this, used the term—and I won't say which credit card it was unless I have to—used the term, "I know how you feel, Mrs. Bedell. We get hundreds of calls from irate parents all the time."

Now, he didn't say hundreds a month. He didn't say hundreds a year. But the fact is he said "hundreds of calls, I know how you feel." So it absolutely is not true. The parents are the ones who end up paying. I could probably, if I had to, drag about 30 students from her dorm. They would stand up here and say, "Yes, my mom and dad paid it off." I mean, it is not the wide majority of them.

Chairman KENNEDY. Thank you, Mrs. Bedell.

Ms. SUSSWEIN. Nor is it in an issuer's best interest to do a study to find that out.

Chairman KENNEDY. Mrs. Maloney.

Mrs. MALONEY. Mr. Chairman, I think that you have heard quite a bit of evidence today that something needs to be done. I look forward to working with you on it of issuing cards when there is no credit history and no cosigning and yet, as I said earlier, denying it to so many women who are working and no card.

They are either relying on a trust account or parents that they feel are going to pay for it. I have received many calls in my office, including people who work with me who have complained about the practice.

One woman called me the other day, Mr. Chairman. She told me that the collector had called her and had said exactly what you said, "I know exactly what you are saying. We hear hundreds of complaints. Off the record, I agree with you completely. They are sending one to my child and I am so upset about it."

I feel that there should be stricter oversight and some form or method of payment by the young person themselves—not their parents—before issuing them a card.

Chairman KENNEDY. I have one final question and it is to both Mr. Allen and Mr. Flood. I would ask if you would be willing to try and delve into your statistical evidence and determine what percentage of these cards are, in fact, paid off by their—by the kids' parents. And I think that it would also be interesting, you know, you say the vast majority of students are paying off their bills. Aren't the vast majority of all the customers paying off their bills?

Mr. FLOOD. Yes, but students pay off their bills to a much greater rate.

Chairman KENNEDY. Excuse me. That's not what I asked you. I said, don't the vast majority of all customers pay off their bills? It's not a trick question. [Laughter.]

Ms. C. BEDELL. I don't think they are.

Mr. ALLEN. Mr. Chairman, I think what you are asking, if I can be presumptuous, is what percentage at any given time carry a balance; on a monthly basis what percentage carry a balance? And industrywide, industrywide in general, about 60 percent are going to carry a balance.

Of the student population, the student population, it's less than half carry a balance. And that was the point that——

Chairman KENNEDY. What I was really trying to drive out, Paul, just the notion that there is perhaps—and I don't doubt this—a very responsible group of students that, in fact, can handle this responsibility. The problem is that there is also going to be a whole group which is going to be a very large number of people that are having difficulties handling this.

And your education efforts are not going to, at this point, and probably ever, saturate that market in any way, shape, or form. And that isn't to say that you don't have some efforts. I see here that—I think, is this VISA? Who is this? This is CitiBank Mastercard. In terms of their sort of "know when to say when" campaign. And here we have Max Moore, an interesting name to indicate that we are going to try and restrict credit. [Laughter.]

But, in any event, whatever.

So this is what leaves people like me a little suspect, you know, of what the real intent is.

But in any event, what I am trying to drive at is in terms of the statistics that, yes, of course, there is going to be a group of students out there that are responsible and that are going to pay off their debts. There is going to be another group that is irresponsible. I don't even want to say they're irresponsible. They just are not familiar with managing money.

I don't think that Michele probably is an irresponsible person in a lot of the other dealings she has. She probably is a very competent young lady.

The trouble is that when you are given a credit card, this has such an enormous impact on the rest of your life. So all I am trying to do is say, would you be willing on working with us in order to try to define what the truth is, not to just try to pretend that the situation is just hunkey-dorey, because I don't think it is. And I don't think anybody that is familiar with the kinds of situations that Carolyn, that Peter King, that Deborah Pryce, myself, and I think most of the folks that are probably listening, are familiar with.

There are the kinds of circumstances where we ought to be trying to provide some basic consumer protections.

Mr. ALLEN. Mr. Chairman, we are willing to work with you. We would commit that we will endeavor to secure aggregate industry data from our issuers or otherwise that will provide the answer to that question you pose.

I would also suggest that you pose the same question to Discover and American Express, because they issue into this market as well.

Chairman KENNEDY. Absolutely.

And, Mr. Allen, you are right to point it out. And despite the fact that you might feel a little put upon this morning, we are all trying to be very nice and we do appreciate the fact that both you and Mr. Flood were willing to come forward when others were not. And we're recognizing that and we thank you very much.

And we also recognize that, in fact, the job of the credit card companies really should be distinguished between the issuers themselves that have really done this abuse to Michele Bedell and her family. The banks that back up these credit cards are, in fact, in many cases, the most egregious violators of any kind of trust between the consumer and the credit card company. And I think we were trying to get to that when the banks all refused to come and testify this morning.

So we do appreciate your willingness to come forward. What we want to do is get the truth so we can come up with some legislation if that's necessary to provide for these basic consumer protections.

Mr. ALLEN. And I would say also, Mr. Chairman, for VISA and I am sure MasterCard as well, we are willing to work with you on other—if you need other data or other information that you think would be helpful to your inquiry, we would be delighted to see if we can obtain that for you.

Chairman KENNEDY. Thank you very much.

With that, I want to thank all of the witnesses for coming forward.

There being no further questions, on behalf of the subcommittee we, again, want to thank all of you.

I would like to ask unanimous consent that the record be kept open for a period of 4 weeks from today so that additional views may be submitted. Any and all of your written testimony will be submitted for the record for official purposes.

And, hearing no objections, it is so ordered.

The panel is excused and the subcommittee is in recess.

[Whereupon, at 12:08 p.m., the hearing was adjourned.]

APPENDIX

March 10, 1994

U.S. HOUSE OF REPRESENTATIVES

SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE

OF THE COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

ONE HUNDRED THIRD CONGRESS

[illegible] O'NEILL HOUSE OFFICE BUILDING

WASHINGTON, DC 20515

Opening Statement by
Representative Joseph P. Kennedy, II (D-MA)
regarding the hearing on
CREDIT CARD MARKETING PRACTICES TO STUDENTS
MARCH 1[illegible], 1994

THIS MORNING THE SUBCOMMITTEE EXAMINES HOW CREDIT CARDS ARE MARKETED TO HIGH SCHOOL AND COLLEGE STUDENTS, AND THE CONSEQUENCES OF THAT MARKETING. [illegible] IS EMERGING [illegible] THAT STUDENTS ARE GETTING THE [illegible] -- AND GETTING INTO A [illegible] OF FINANCIAL TROUBLE AS A RESULT.

FOR MOST OF [illegible] WHO ARE NO LONGER STUDENTS, OUR FIRST CREDIT CARD WAS SOMETHING TO BE USED FOR EMERGENCIES [illegible] A START TO BUILD A DECENT CREDIT RATING. NOT ANY MORE. IN THE LAST FEW YEARS, THERE HAS BEEN AN EXPLOSIVE GROWTH IN THE USE OF CREDIT CARDS BY OUR YOUTH. STUDENTS ARE NOW USING CREDIT CARDS TO BUY CLOTHES, BOOKS, CONCERT TICKETS, EVEN PIZZA -- IN OTHER WORDS, THE NECESSITIES OF STUDENT LIFE. GO INTO ANY BAR NEAR A COLLEGE CAMPUS TODAY, AND CHANCES ARE YOU'LL FIND STUDENTS PAYING FOR DRINKS WITH PLASTIC INSTEAD OF CASH.

ONE REASON FOR THIS CHANGE IS OUR SOCIETY'S GROWING ACCEPTANCE OF LIVING ON CREDIT. BUT ANOTHER IS THAT CREDIT CARD COMPANIES AND [illegible] HAVE DISCOVERED THE YOUTH MARKET. IN AN INDUSTRY THAT HAS [illegible] A **BILLION** CREDIT CARDS INTO AMERICAN HOMES, [illegible] ONE OF THE LAST UNSATURATED MARKETS. AND THEY REPRESENT A LUCRATIVE [illegible] -- SPENDING OVER [illegible] BILLION DOLLARS EVERY YEAR ON CONSUMER GOODS.

CREDIT CARD [illegible] HAVE ENTERED THE YOUTH MARKET AGGRESSIVELY. STUDENTS TODAY ARE BEING GIVEN CREDIT CARDS WITH [illegible] AN INCOME, A CREDIT HISTORY, OR A PARENTAL CO-SIGNER. IN [illegible] -- AND [illegible] -- WITH [illegible] AN ABILITY TO PAY [illegible]. WHAT'S MORE, CREDIT CARD COMPANIES AND BANKS ARE DOING ALMOST ANYTHING TO GET STUDENTS HOOKED ON THEIR PRODUCTS. THEY PAY FRATERNITIES [illegible] AND [illegible] CREDIT CARD APPLICATIONS [illegible] -- FROM [illegible] AND THEY [illegible] APPLICATIONS [illegible] -- EVEN **BEFORE** [illegible]. EARLIER THIS WEEK, SUBCOMMITTEE STAFF VISITED [illegible] HIGH SCHOOL IN VIRGINIA. THEY ATTENDED **THREE** [illegible] CLASSES. IN EACH ONE, OVER **HALF** OF ALL STUDENTS [illegible] CREDIT CARD APPLICATIONS IN THE MAIL. [illegible] -- [illegible]

[illegible]

BANKCARD HOLDERS OF AMERICA
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HERNDON VIRGINIA 22070, 703 481-1110

A non-profit organization helping bankcard holders become informed consumers

TESTIMONY BEFORE THE HOUSE SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE

BANKCARD HOLDERS OF AMERICA
RUTH SUSSWEIN, EXECUTIVE DIRECTOR

MARCH 10, 1994

Thank you for the opportunity to appear before you today to share our views on credit card marketing practices to college students.

Bankcard Holders of America (BHA) is a national, non-profit consumer group focused exclusively on credit education and advocacy. Since 1980 we have been helping people get out of debt, save money on credit, and solve their credit problems. We are supported by hundreds of thousands of consumers nationwide.

We are also presenting testimony today on behalf of the U.S. Public Interest Research Group (U.S.PIRG), the national lobbying office for state public interest research groups, which are consumer and environmental advocacy groups with over one million members around the country. We are also joined by Consumer Federation of America (CFA), a consumer advocacy group representing 240 member organizations totaling more than 50 million consumers.

Allow me to open by saying it is striking to us that college students and college bound high school seniors are part of a very privileged class these days. They are held to a different standard than the rest of us. College students with no job, no assets, no income, no credit history, and no means of supporting themselves are eligible for unsecured credit, and in some cases quite a bit of credit. Students are being courted by the means of supporting themselves are eligible for unsecured credit, and in some cases quite a bit of credit. Students are being courted by the biggest names in the credit industry.

Without exception, NO other group with this same lack of credentials is given the time of day by the credit community. As a matter of fact, according to the credit card industry, "tens of millions" of people - who work for a living - have no access to credit in this country, while students' mailboxes are brimming with credit card offers.[1]

For example, attached is an advertisement by Citibank (the nation's leading credit card issuer to students) which offers what I hope is a tongue-in-cheek credit card promotion, promising the Citibank card will give students "feelings of safety, security, and general wellness not unlike those experienced in the womb. Therefore [Citibank Classic Visa card] is the mother of all credit cards." This ad encourages students to charge a Florida vacation on their Citibank card, then states in black and white that "students don't need a job or cosigner" to apply.[2]

Most of the nation's major credit card issuers are aggressively marketing unsecured credit to students (in their own name) through advertising, direct mail promotions, and on-campus recruitment with giveaways like CD's, mugs, candy bars, calculators, sunglasses, credit card sponsored concerts, discounts on airfares and long distance phone calls, pens and other paraphernalia.

Competition for the college market is keen and only expected to intensify. In an ever increasingly saturated market, each credit card issuer wants to be the first one in our wallet. Once there, they expect to stay put for a good long while (10 -15 years on average). What's more, there's a fresh pack of prospects each year called "freshmen". Students are one of the very few untapped markets left, and now targeted by issuers.

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[1] Credit Card Management Jan '94

[2] /Citibank Visa ad

An estimated 61% of the nation's eight million college students have at least one credit card, and according to the industry's own statistics, one third of students with credit cards obtain them during their freshmen year. Astonishingly, another 32% obtain credit cards before they even set foot on a college campus.[3] Some of the largest issuers, such as Chase Manhattan and Citibank, are now targeting college bound high school seniors. And students are using these cards. By Mastercard's own estimate, the number of students using their credit cards has jumped 20% each year for the last two years.[4]

Issuers are also marketing credit to appear as if it is more affordable than ever. Issuers have dropped their minimum monthly required payments. In many cases these minimums have been cut in half (from 4-5% to 2-3% on average over the last year or two). Credit card issuers are pitching this drop in minimums as if they were doing cardholders some sort of favor.

For example, this past holiday season, Montgomery Ward produced a four page flyer touting its new low minimum payment of only 2%. The ad says "lower minimum payments puts more [money] in your budget."[5] That may be true today, but what about tomorrow's budget? And next year's and the year after that when your are still paying off that bill?

The student who racks up a $1,000 credit card bill her freshman year, and only pays the low, low minimum payment each month, will finish her Bachelor's degree, complete her Masters program, finally begin earning a living, and still have three and a half years to go to finish paying off that freshman spending spree - and that assumes this student stopped charging after she spent $1,000 nearly nine years earlier.

Students view credit cards as a status symbol, as prestigious entre into

[3] Roper CollegeTrack market research firm, 1992

[4] Orlando Sentinel 11/1/93

[5] Montgomery Ward ad , 12/93

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adulthood. However too many students have NO idea what they're getting into. One student (whose father contacted BHA recently) had racked up $25,000 in credit card debt on five or six cards, his freshman year. This student tells me he was still receiving new credit cards when he was already delinquent on a few accounts. While I don't assume he is the typical student, based on calls to our organization, we know he is not alone.

To be clear, we are not suggesting that students should not own or use credit cards. We are suggesting that students should be given the necessary knowledge and information to make responsible choices before they are given the benefits of credit.

We are recommending mandatory personal finance classes - which would include credit education - on a national level, for all junior high school or middle school students.

No matter what field these students end up in, they will need to know how to balance a checkbook, what it costs to take out a loan and what your responsibilities are in paying back the money you borrow. To Visa, Mastercard, and American Express's credit, each association has produced a program or brochure to help educate students on the wise use of credit. However, these programs are not even available to all schools, let alone mandatory.

No where in our school curricula are students required to learn about basic finance. In this area our education is haphazard. If our parents don't know or don't teach us we are expected to pick up this vital information hit or miss - and too often it's miss.

According to a consumer knowledge study conducted last spring by Consumer Federation of America and American Express, the average college junior and senior (70%) did not know who is responsible for setting interest rates. 70% did not know how one maintains or loses a grace period, and 78% did not know the importance of APR as an indicator of the cost of a loan.

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I wish I could present you with verifiable figures as to how many students are on the verge of defaulting, students who barely meet those meager minimum payment requirements each month, but I can't because those figures do not exist.

I can tell you that we hear from parents, from the media, and from other consumer advocates that students are in trouble because of mounting credit card debt. Some Consumer Credit Counseling offices are seeing a 10% increase in college age people who are turning to them for help.[6]

What we hear, more often than not, is that parents are bailing their children out. As you will hear today from the Bedell family, Signet Bank's student credit card application asks for a parent's name. Why? Parents are not responsible for their adult child's debt. These are not co-signed accounts. Yet, issuers want to know that parents can foot the bill for their children.

Issuers and even some credit counselors will sit here and tell you that students do not default at a greater rate than anyone else. But I contend that we have no way of knowing at this point, how many parents have already bailed their kids out.

Privately, one of the nation's leading credit card executives has told us that "it's a given that students will default at a greater rate" than the general public.

How many students are getting by every month - just barely meeting that low, low minimum payment of $20, $25? There are no statistics showing that either, and these students will not show up in the default rate. Yet, they could be one payment away from financial disaster.

What many students do not realize is that if you ruin your credit today, that can ruin your chances of obtaining future credit for the next seven years. This at a time when students may really need credit to get a car loan, an apartment, even a mortgage. If s/he can get credit, the student

[6] Chicago Tribune 12/20/93

risks paying a premium for it. As this Committee knows better than most, a poor credit history can even jeopardize a student's chance of getting a good job. Since employers have the right to examine a potential employee's credit file, s/he could be judged a poor job candidate based on a poor payment history during college. Isn't one of the benefits of a college education to be eligible for better jobs, yet instead a student could ruin his chances because of a credit card?

Today, other than the valiant voluntary efforts of some school districts scattered across the country, the only time a student is formally taught how to manage money is after the fact - once they have defaulted, once they've ruined their credit history - then they turn to free credit counseling services.

We've got it backwards. To allow students access to credit before requiring them to learn the responsibilities of managing credit is financial suicide. We don't hand out drivers licenses, then hope that some day students will learn to drive. Why dish out unsecured credit and then hope students can handle it.

According to industry estimates, credit card issuers are earning $16.5 million a year on every 100,000 student cardholders - over $10 million of which is interest income.[7]

If issuers are going to prosper from student debt they should be required to provide students with the basics in fiscal responsibility <u>before</u> they issue a student a credit card.

Issuers should also be required to limit student lines of credit to a low dollar amount, and should not increase that amount unless there is some evidence (such as income) that the student can afford the increase.

In addition, issuers should be obliged to carefully examine how many lines of unsecured credit the student is carrying before issuing further credit.

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[7] College Credit Card Corp., leading marketer of credit cards to students.

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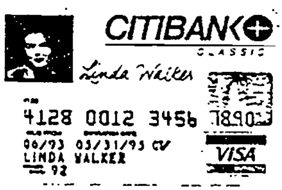
But we cannot ask issuers to do the job alone. Credit education should be part of every school's curriculum. It should be a requirement to graduate. It is in everyone's best interest to educate students on the wise use of credit.

The Psychology behind the Citibank Classic Visa card, and the [e]motional security of the Photocard.

[illegible] feelings of safety, security and general wellness [illegible] heretofore, is the mother of all credit cards. ¶ Some experts attribute these feelings to the Citibank Photocard,

the only credit card with your photo on it. A voice inside says, "This is the really me." [illegible] ¶ [illegible] your card is ever lost or stolen and [illegible] exceptionally good showing no signs of Credit Card Theft Nervosa. ¶ Other experts point to specific services such as The Lost Wallet™ Service that can replace your card usually within 24 hours. Or the 24-Hour Customer Service line, your hotline, if you wish, for any card related anxiety whatsoever. ¶ Further analysis reveals three services that protect the purchases you make on the Citibank Classic Visa card, at no additional cost. 1. Buyers Security™ can cover them against accidental damage, fire or theft, for 90 days from the date of purchase [illegible] preventing, of course, Insecurity. 2. Citibank Lifetime Warranty™ allows one to extend the warranty for the expected service life of eligible products up to 12 years. 3. And Citibank Price Protection assures you of the best price. [illegible] see the same item advertised in print for less within 60 days, and Citibank will refund the difference [illegible] hence no Post Purchase Depression. ¶ Special student savings are particularly therapeutic. There's the free Citibank Calling Service™ from MCI to save up to 25% on long distance calls versus AT&T. You're encouraged to call Mom and Dad regularly preventing Parents Non-Supportus. And a $20 Airfare Discount on any domestic flight. Case studies indicate that a Fear of Flying is overcome when Spring Break in sunny Florida is a possibility. Not to mention the low variable interest rate of 15.4%. ¶ Suffice it to say, you'll have a credit card you can depend on while building a credit history. So call 1-800-CITIBANK, extension 93, to apply over the phone (students don't need a job or a cosigner) or to have your photo added to your Citibank Classic Visa card. ¶ If we say that a sense of Identity is the first component of the Citibank Classic Visa card, a sense of Security the second, and a sense of Autonomous Will from your newfound financial independence the third, don't be crazy. Call.



Not just Visa. Citibank Visa.

The Monarch® Notes Version. The Citibank Classic card gives students peace of mind, protection against Freud—or rather fraud—a low rate and more. Apply today. Call 1-800-CITIBANK, ext. 93

Why are we making this change?

The answer is YOU. Your business is important to us and we want to do everything possible to make your shopping easier and more convenient.

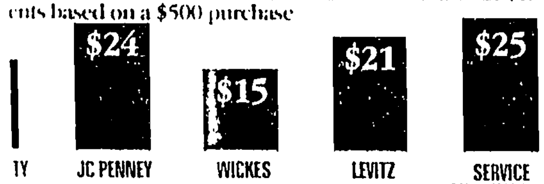
2 Benefits Of This Change

1. The same payment buys you more. Under the 1/30th terms, a $20 monthly payment lets you buy an item costing $600. Now that same payment lets you buy $800 worth of Montgomery Ward merchandise. That's an extra $200 with no more to pay each month

2. Lower minimum payments put more in you budget. 1/40th terms mean your minimum monthly payments may be 25% lower for the same item. So if you were putting off some of those large purchases because the monthly payment was too high, now you can choose to buy.

MERY WARD MINIMUM PAYMENT

ents based on a $500 purchase



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ORAL TESTIMONY

OF

MARY FI[illegible]

ON BEHALF OF

MASTERCARD INTERNATIONAL INCORPORATED

BEFORE THE

SUBCOMMITTEE ON CONSUMER CREDIT AND INSURANCE

OF THE

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 1[illegible], 1[illegible]4

Mr. Chairman, Members of the Subcommittee: My name is Gary Flood. I am Senior Vice President, Consumer Cards, at MasterCard. We appreciate the opportunity to testify before the Subcommittee to discuss the issue of college students and credit cards.

Like other young adults today, college students recognize the responsibility of managing personal finances. Many of these students take the opportunity to apply for credit cards and view obtaining a credit card as an important part of the financial rite of passage into adulthood. But with this opportunity comes responsibility -- the responsibility of managing a budget and meeting payment obligations.

The overwhelming majority of student cardholders meet their responsibilities, and use their cards prudently to build sound credit histories. These credit histories are invaluable when applying for loans to purchase homes, cars, and other products and services later in life.

The successful track record of student cardholders is not surprising. Students today generally have grown up in an environment where credit cards are more a part of everyday life than was the case for previous generations.

For that reason, MasterCard has undertaken extensive efforts to educate students on financial management. For example, we have developed a personal finance educational program called "Master Your Future." The program includes a video and teachers guide which instruct students on important financial matters such as:

- establishing a budget
- setting financial goals
- opening and using checking and savings accounts
- the use of credit
- and the importance of establishing and maintaining a strong credit history

"Master Your Future" is made available to teachers free of charge. Today, over one-half of the public high schools across the country are using this educational program. The overwhelming majority of the teachers at these schools have told us that "Master Your Future" is an invaluable educational tool.

MasterCard also has developed a college educational seminar called "Mastering Your Money." This seminar provides guidance on personal finance in a manner that is geared to the more complex financial management issues that college students face. It is conducted throughout the country in college orientation sessions and campus forums.

MasterCard also produces a magazine called "College FundAmentals." Published on an annual basis, College FundAmentals provides money management tips to college students, and often is included in college orientation materials and college newspapers. This publication is designed to help students:

- set financial priorities
- create budgets
- understand the importance of credit histories
- and even seek financial student aid

Over two million copies of this magazine have been made available this year alone on college campuses throughout the country -- free of charge.

Moreover, many MasterCard issuers are extremely active in educating young adults on the responsible use of credit. For example, MasterCard issuers provide student cardholders with educational materials developed by MasterCard, and by the issuers themselves. The goal of these educational efforts is to develop more informed cardholders.

In conclusion, many students have elected to use the convenience and safety provided by credit cards. These students are young adults and most of them use their credit cards in a responsible manner. They successfully build good credit histories which are invaluable to them later in life.

MasterCard and their issuers continue to actively educate young adults to help them understand the basics of personal finance. These efforts have been enormously successful and well received. The overwhelming majority of college students use their credit cards wisely. MasterCard is committed to continuing these education efforts with the goal of developing more informed cardholders.

That concludes my testimony. I would like to submit examples of these materials and I request that they be included in the hearing record. And I would be pleased to answer any questions the Subcommittee might have.

VISA

STATEMENT OF

VISA U.S.A. INC.

BEFORE THE SUBCOMMITTEE ON

CONSUMER CREDIT AND INSURANCE

OF THE

COMMITTEE ON BANKING, FINANCE

AND URBAN AFFAIRS

UNITED STATES HOUSE OF REPRESENTATIVES

MARCH 10, 1994

BANKCARDS AND THE COLLEGE MARKET

Visa U.S.A. Inc. ("Visa") appreciates the opportunity to submit written testimony for the record to the Subcommittee on Consumer Credit and Insurance of the House Committee on Banking, Finance and Urban Affairs. While Visa is happy to provide this testimony, we shall address only issues under the purview of the card association. Specific criteria and marketing practices, including solicitation, risk assessment and actual issuing standards, can only be appropriately addressed by the issuing member financial institutions. Should the Subcommittee have further questions, we would be happy to provide additional information or answer subsequent questions at a later date.

Introduction

After cash and checks, credit cards of one form or another are the most commonly used method of payment in this country. Almost every household in the United States has at least one, and a majority have more than one. There are more than 168 million Visa cardholders in the U.S., responsible for $226 billion in purchases.

In the thirty years of Visa's existence, the world has changed dramatically -- and credit cards have been a major factor in that change. The only truly global currency, credit cards are the fastest growing payment method in the world.

But credit cards today are only the beginning. As the world becomes smaller and consumers become more demanding in their search for even more convenient alternative payment methods, "electronic cash" is the answer. Credit cards, debit cards and other types of plastic payment not yet developed will offer the consumer of tomorrow even more benefits. Large amounts of cash and bulky checkbooks are becoming obsolete, and will be even more so in the future's cashless society.

College students need credit cards and banks are meeting this demand

As credit cards have gained in utility and popularity, the demand for cards has increased in virtually all sectors of the population, including the young adult market.

College students may represent a unique market but they share many attributes with cardholders generally:

- College students often are "heads of households."
- College students need credit cards for utility and convenience.
- College students need to establish a credit history
- College students see credit cards as valuable for emergencies.
- College students usually have at least part-time employment or some form of self-earned income.
- College students have disposable income and spend on a variety of items.
- Colleges and universities increasingly accept credit and debit cards for tuition and book payments.

In fact, college students often have a greater need for credit cards than the general public. Because they usually don't have the tangible assets required for other types of loans, the unsecured credit offered by a bankcard enables students to exercise as much spending power as their qualifications and circumstances allow. Most issuers offer college students lower credit lines than other cardholders. For example, one typical Visa issuer reports the average size of a credit line extended to college students is 28 percent of that offered to non-college Visa Classic cardholders.

The college market is only one of many for Visa, but one which is important. Research shows that college students become loyal customers, 3 out of 4 of them keeping their first credit card for 15 years or more. Having reached the age of majority, these young adults present an active market not just for credit card issuers, but for a variety of marketers and producers, from clothing to automobiles.

There is a high demand for credit cards in the college student market. Like other members of modern society, students need a variety of payment methods, including credit cards. Indeed, college students particularly benefit from credit cards because such cards enable them to time important purchases, such as books and tuition, rather than have such purchases subject to available savings or cash flow. College campuses are active marketplaces and students have consumer demands as do other sectors of the population. It is impossible in today's world to order merchandise by mail, rent a car, buy an airline ticket or do many routine things without a plastic payment card of some kind. Electronic payment is a staple of our country's economy, and as adult members of the population students need this option.

Young adults in college have many of the same expenses as other members of the population in addition to the many expenses associated with their education. In addition to tuition and fees, full-time college students spend an estimated 4 to 5 billion dollars annually on books and supplies. More than 70 percent of college students report making a purchase from a catalog, advertisement, subscription club or other direct sales solicitation in the past year and almost half have made at least one round-trip by plane during the same time. Most college students also have regular income – more than half of the undergraduate students at 4-year colleges earn money through some sort of part-time job and 9 out of 10 of these students have income through summer employment.

Having and using a credit card as an alternative to cash and checks is a normal and accepted means of payment in our society and in the world. As adults, college students have every right to have access to this payment option. Nearly half of the college students in this country live on their own and qualify as "heads of households." Old enough to vote and to serve in the armed forces, most students appreciate the opportunity to have and use credit cards. Most importantly, a young adult can legally enter into a contractual agreement at the age of 18. A majority of students view credit card ownership and management as another rung on the maturity ladder, offering not only a chance to access credit but an opportunity to establish a good credit history.

College students are responsible consumers

Establishing a good credit history is one goal of most young adults acquiring their first credit card. Research shows that most college students are anxious about their futures, worrying that they will not be able to live as comfortably as their parents. Financial planning and responsibility, starting with a good credit rating, are key factors for these young adults. One of the most consistent qualities among college students cited in almost all of our research is a need to be respected and treated as an adult. This desire is manifested in their use of credit cards — college students are some of the most responsible credit card consumers in the market today.

Contrary to what is often presented in the mass media, the average college student uses a credit card responsibly. More than half of the 9 million full-time undergraduates in this country have a general purpose credit card – and the majority of them maintain a better payment record than the general public. Research shows that college students pay the balance in full half of the time. Indeed college students are less likely to carry balances on their credit cards than the population at large, and when they do carry a balance, the amount is about one-third that of the average non-college credit card holder.

In fact, the college market mirrors or performs bettor than the general population in all areas of performance. College students tend to handle their credit cards in the same way as adults in other age groups – their charge-off rates appear to be no worse than the for the cardholder population as a whole. During 1993 Visa's net credit charge-off rates averaged just above 4 percent of outstandings – and the college market numbers track accordingly. One issuer Visa believes to be typical confirms that losses per college account are much less than half of the average non-college account. Overall, marketing to college students is no riskier for issuers than marketing to other segments of the population. At the same time, these marketing efforts are not always extremely profitable – the true value of the college market is in establishing an early relationship with the consumer.

While the efforts of Visa and its members in marketing credit products to college students is a way of building brand loyalty and eventually establishing a profitable relationship, none of the marketing would be worthwhile if these students weren't responsible consumers. Much of the media coverage on this issue centers on the student who got in over his or her head and couldn't meet their financial obligations. These students are anomalies. Nine out of ten college students with credit cards use them wisely – and Visa would not be satisfied with any other outcome.

To that end, Visa and its members have developed and are developing tools that help college students and others become even more responsible users of credit. In 1993, Visa spent more than 3 times as much on consumer education than on advertising to the college market. In fact, Visa dedicated only 1 percent of its total advertising budget to this market.

Educating young consumers

One of the most important programs Visa has developed to educate young adults about credit cards is *Choices & Decisions: Taking Charge of Your Life*. More than just an introduction to credit cards, *Choices* is a substantive program covering all aspects of financial planning, budgeting and decision-making, as well as the rights and responsibilities of consumers. Developed by Visa in partnership with the U.S. Office of Consumer Affairs and the National Consumers League, this program offers skills that are essential for young adults' financial survival, preparing today's teenagers to be tomorrow's well-educated consumers.

Most importantly, *Choices* has been designed to reach young adults in an informative manner they will understand and enjoy. Employing the latest in technology, the program uses laser-disc video images, interactive computer software and printed materials that allow students not just to view or read the information, but to actually participate in formulating it. The multimedia segment is an enhancement to the core of the program -- a 12-chapter written curriculum package including lesson plans and student activity suggestions that can be taught over a semester.

This program is targeted to young adults when they need it most – during the senior year of high school. By teaching these soon-to-be adults important lessons about the many choices they will face when they leave high school, Visa helps assure they are prepared to make the right decisions.

Choices & Decisions has been successful largely because Visa's members believe in the value of educating young consumers. Almost half a million dollars went into developing this program and our members have invested – and continue to invest – hundreds of thousands of dollars in donating this program to local high schools. More than 600 Visa member financial institutions have endorsed and supported this program, donating it to nearly 10,000 high schools around the country -- half of the nation's high schools.

The overwhelming success of *Choices & Decisions* is clear evidence that young people today are in desperate need of educational programs that provide basic life skills such as financial management and planning. After a recent NBC Nightly News story positively profiling the program, Visa received hundreds of calls from interested teachers, parents and grandparents requesting *Choices* for their children. Many legal, consumer and educational groups such as the National Coalition for Credit Education have endorsed *Choices & Decisions* and recommended its use in high school curricula.

Visa's commitment to helping young adults become productive citizens and consumers doesn't stop when they leave high school. *Credit Cards: An Owner's Manual* is designed to offer consumers of all ages useful information that will help them manage their credit cards wisely. Using the popular cartoonist Cathy Guisewite and her cartoon heroine Cathy to make the point, *An Owner's Manual* offers practical help on every facet of credit card management, from guidelines for budgeting to protecting your cards against theft.

More than 1 million consumers around the country have received this publication through Visa's member financial institutions, Consumer Credit Counseling Services, offices of the Better Business Bureau and state consumer protection agencies. The practical, hands-on advice and assistance it offers makes *An Owner's Manual* a sought after tool of financial advisors and consumer advocates. The booklet's informative and imaginative approach has also made it extremely popular and useful on college campuses.

Neither *Choices & Decisions* or *An Owner's Manual* would be worthwhile if the message wasn't actually reaching young adults. Our research shows us the message is not only reaching this audience, but it is being heard and used. Before using *Choices & Decisions* for example, a Roper survey found that at least 6 out of 10 teachers rated their students' knowledge and preparedness to deal with certain financial scenarios as "poor." After using the program, the "poor" ratings dropped to 6 percent or less in each case, with a corresponding increase in those rating student knowledge "good." This same success has been experienced with *An Owner's Manual* – the demand for this how-to booklet on college campuses across the country has continued to grow.

Visa's commitment to consumer education, especially of young adults, is based on one overriding premise: educated, informed consumers make good customers for our member financial institutions. College students are at an important point in their lives: as new adults they are learning all manner of lessons they will carry throughout their lifetimes. It is vital that responsible financial management be one of those lessons and appropriate use of credit cards is a crucial part of it.

Other products and services

As we have discussed, college students are increasingly demanding credit cards for the same variety of reasons cited by other consumers. While, unsecured, low-cost credit is important, there are newer Visa card products that will also appeal to college students yet will not carry the risk of unwise use. Specifically, Visa's "debit" products — which tap actual funds on deposit or which are paid for in advance — provide much of the utility of the Visa brand.

These products offer the transaction utility of a Visa credit card — broad-based merchant acceptance — without a line of credit. Because these products access funds on deposit, rather than a line of credit, they are available to virtually any bank customer regardless of credit history.

Conclusion

College students are adults and are treated as such by the bankcard industry. Bank credit cards have acquired enormous utility and provide unprecedented convenience at nominal cost to consumers generally and to college students in particular. For all consumers, bank credit cards are an almost ubiquitous vehicle for the transaction of payments at 11 million Visa merchants worldwide; and bank cards provide a convenient source of unsecured credit for consumers who do not have the means to pay in full each month. This is equally true for the college student market. Indeed, college students have a particular need for bank cards since they offer perhaps the first opportunity to establish a sound credit history and they can be used for essential items such as tuition, even by those not fortunate enough to have the means to pay for such purchases in full.

College students are responsible users of bankcard credit; industry experience reveals that college students do not have any greater difficulty managing their credit obligations than the population generally. The average credit line extended to college students is a fraction of the line for the non-college cardholder; the average balance outstanding is much lower; and the average loss per college card account is less than half of the typical non-college credit card holder. One can always find anomalous "horror stories" but such stories are precisely that: extraordinary exceptions to the norm.

Visa has contributed to the consumer education of this market and continues to contribute through a myriad of programs and initiatives. The unyielding commitment and resolve of Visa and its members to consumer education is a prime example, not of marketing but of social responsibility. Our goal – and our responsibility – is to treat college students as fully franchised adults, first and foremost by giving them the tools they need to function as such.

Visa would be happy to respond, in writing, to any other concerns or questions the committee may wish to have addressed. We would also be pleased to demonstrate and explain our educational programs to any Members of the Subcommittee who may not have had the opportunity to view them during previous demonstrations.

PAUL ALLEN, SENIOR VICE PRESIDENT AND GENERAL COUNSEL OF VISA U.S.A. INC.

Mr Chairman. Members of the Committee.

My name is Paul Allen I am Senior Vice President and General Counsel of Visa U S A Inc

We are submitting written testimony for the record today

Introduction

After cash and checks. credit cards are the most common method of payment in this country Almost every household in the United States has at least one. a majority have more than one There are more than 168 million Visa cardholders in the U S who can use a Visa card at 3 million merchants in this country. 11 million around the world

Visa is proud to be the leading general purpose credit card in this country and with college students in particular

College Students are Young Adults

College Students are young adults

* They have reached the legal age of consent.
* They can and do serve in the military
* They own cars. buy stocks and bonds. and buy life insurance
* 1/2 of all College Students are "heads of household"

* More than 1/2 of all college students work part time; 90% work during the summer

By any measure, this is an adult community and Visa treats them as such

College Students Need and Demand Credit

College students may constitute a unique market, but they share many attributes with the credit card population at large:

* College students demand credit cards for the extraordinary utility and convenience they offer.

* They want credit cards for emergency uses, in order to establish a credit history, and to pay for books and tuition

* Like the rest of us, College students need a credit card to make a purchase by mail, to order an airline ticket, and to rent a car.

[Indeed, college students often have a greater need for cards than the general public. Because they usually do not have the tangible assets required for other types of loans, the unsecured credit offered by a bankcard enables students to time important purchases, such as books and tuition, rather than having such purchases subject to available savings or cash flow, which for most students is limited.]

2

College Students are Responsible Consumers

The fact of the matter is that college students are responsible consumers

* They pay the balance in full 1 2 the time, whereas the population at large carries a balance 60% of the time

* College students use credit cards mainly as a device to transact purchases, not to obtain an unsecured loan. Fully 80% of college cardholders use the card 3 times per month or less, and fully 1/2 use it once a month or less This hardly paints a pattern of abuse.

* Furthermore, when students do carry a balance it is only 1 3 the balance of the average non-college credit card holder

* And, losses per college account are much less than half of the average non-college account

* The banks themselves contribute to this sound credit management: the typical credit line for college students is 1/3 the line offered to the typical n 1-college Visa card holder

In short, it is simply wrong to assert that these adults do not manage their credit cards well

Visa and Consumer Education

Let me turn to Visa's role in this market

In 1993 Visa spent less than 1% of its total advertising budget in this market Visa spends far more on -- and is an industry leader in -- consumer education Visa spent 3-4 times more on consumer education than in advertising to the college market.

For three years now Visa has educated young adults with its Choices and Decisions: Taking Charge of Your Life More than an introduction to credit cards, Choices is a substantive program covering all aspects of financial planning, budgeting, and decision making as well as the rights and responsibilities of consumers

Choices employs the latest in interactive multimedia, using a laser disc and computer software as well as written materials, to educate students and to allow them to participate actively in the eduational program. The multimedia segment is an enhancement to the core of the program -- a 12 chapter written curriculum package including lesson plans and student activity suggestions that can be taught over a semester

4

The program is targeted to young adults when they need it most -- in high schools, **before** they obtain a credit card

Choices has been hugely successful it is now in more than 1/2 of the high schools of this country -- fully 10,000, courtesy of Visa and 600 member financial institutions. And it has been enormously popular and educational: 90% of teachers surveyed found the program useful and more than 50 rated it "excellent." And it produces results. a Roper survey found that teachers' ratings of students on knowledge and preparedness to deal with financial problems improved enormously after using the program

Visa has also produced more than 1 million of these brochures: **Credit Cards, an Owners Manual**. This is designed to offer consumers of all ages useful information that will help them manage their credit cards wisely Using the popular cartoonist Cathy Guisewite and her cartoon heroine Cathy to make the point, **An Owners' Manual** offers practical help on every facet of credit card management, from guidelines for budgeting to protecting your cards against theft

Conclusion

In summary, college students are adults and Visa believes they should be treated as such College students want and need credit cards, and they have demonstrated that they are responsible consumers

The truth is that such experiences are anomolies, exceptions to the norm

Visa has contributed immensely to the consumer education of this market through a major, long term financial investment manifested in numberous programs and inititavites Ourconsumer educational efforts speak for themselves: they manifest a commitment to the students themselves, to our member banks, and to the public at large. We are proud of what we have done.

That concludes my testimony I would be happy to answer questions

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Testimony of Ken McEldowney
Executive Director, Consumer Action
before the
Subcommittee on Consumer Credit and Insurance
of the
Committee on Banking, Finance and Urban Affairs
U.S. House of Representatives

March 10, 1994

My name is Ken McEldowney, and I am the executive director of Consumer Action (CA), a non-profit consumer advocacy and education organization based in San Francisco, California. CA has been serving consumers since 1971, and specializes in the fields of financial and telephone services. Consumer Action has done considerable work over the past decade on issues relating to credit cards.

We publish annual surveys of credit card rates and educational brochures to help consumers use credit cards wisely, and we have advocated for better and more simplified disclosure of credit card terms.

As a result of publicity about these activities, we hear from many consumers who have questions about and problems resulting from credit cards use. That experience has helped to shape the comments I will make today.

The dramatic increase of new players in the credit card field has saturated the market and led the industry to react in two ways that disturb us greatly: the first is to heavily stimulate usage of cards, such as by encouraging cardholders to use them to pay for groceries and other basic necessities; the second is to suspend the traditional criteria for cardholders and offer large amounts of easy credit to people who have no credit experience or familiarity with the credit world, namely college students.

What is the impact of these developments? While we have not conducted any studies of consumers, we are receiving a lot of anecdotal information through our free consumer information line and from some of the 1,600 community agencies we work with in California and elsewhere.

For example, agencies that provide financial counseling to consumers indicate that they are seeing a marked increase in the number of young clients—including both college and high school students—who have large debts.

Many callers to our switchboard are besieged by credit debts and are confused about how to handle them. Discussions with these callers reveal common patterns.

Most do not understand how to determine the true cost of credit or how much they really owe.

A surprisingly large number of callers do not realize the implications of only making the minimum payment each month; a common statement we hear is that the bank must be making a mistake, because, "I make the minimum payment each month but the balance I owe hardly goes down."

Many people take out cash advances to pay off credit card debts, while others feel compelled to use their cards to buy necessities, without realizing that these are signs of serious financial difficulties.

While most of the callers to our switchboard are adults, not college students, this fact tends to make us even more concerned about the plight of students using credit cards.

If so many adults lack a basic understanding of how to use credit wisely, how can we expect that their children will do any better? We do not believe college students are miraculously better at handling credit than their elders.

The following factors tend to mask the degree to which young people are incurring excessive credit card debt:

•They make minimum payments, expecting that they will be able to wipe out their debts at some future time when they are employed at high salaries.

•They rely on their parents to step in whenever they have trouble paying debts.

•With credit so easily available to people who already have credit cards, they apply for more cards and use that additional credit to help them make ends meet.

Such patterns of behavior can only go on so long. For those students who do not graduate, or do not find immediate employment or high-paying jobs, their post-college lives as young adults may be burdened by the nightmare of an enormous debt load, both from credit cards and student loans.

We feel that the credit card industry must shoulder blame for this problem, especially for the aggressive ways in which it pushes credit card applications at students, without balancing messages of "easy credit" with explanations of how to use credit wisely.

Credit card applications can easily be found at tables in student unions, at special events, at stores and elsewhere throughout the nation's college campuses. They are primarily advertising pitches about how wonderful credit is, and about how easy it can be for students to get credit.

But these fliers are not accompanied by educational brochures from the industry on how to use credit wisely.

When students successfully apply for cards, they are given standard information about using the cards. we believe that students should be given educational materials designed for them, to show them how to use their new credit properly.

We are also concerned about the industry lowering minimum monthly payment requirements and encouraging cardholders to only make minimum payments. Card statements should indicate the consequences of making just the minimum payment.

A boarder concern is the ease with which students can acquire multiple cards with high credit limits. Students whose incomes might comfortably allow them to carry one card with a $500 credit limit, might easily have half a dozen cards with such a limit.

These practices make it easy for cardholders to feel comfortable carrying debts that are way beyond their ability to pay, for the simple reason that they are able to make minimum payments on all their cards. This is a recipe for personal disaster.

We are not saying that consumers don't have a serious obligation to understand credit and to use credit responsibly—and we urge both the credit industry and school systems to increase credit education.

But we believe that the very worst way to educate consumers about credit is to offer them unlimited credit at an early age. The original—and quite worthy—concept of offering credit to college students to help them establish credit and become responsible citizens has been taken to an absurd extreme.

There is no justification for encouraging students to apply for and use credit lines that are clearly beyond their ability to pay.

I would like to recommend the following:

• [illegible] inducements to sign up for or use a credit card [illegible] college market unless offered to all [illegible]

• [illegible] pre-approved credit card offers to students [illegible] standard credit card approval criteria.

• [illegible] college credit cards should not exceed the student's actual monthly income.

•There should not be any approval of additional credit card for that student unless his or her monthly income would still exceed potential credit limits for all cards.

•Minimum monthly payments for teenage/college credit cards should be at least 4% of the outstanding balance.

•Teenage/college credit card holders should be provided with extensive credit education including:

1. Time it will take to repay balances of $500, $1,000 and $2,000 if only the minimum monthly payment is made.
2. Total finance charges if only minimum monthly payments are made on balances of $500, $1,000 and $2,000.
3. Implications of late payments or of skipping payments on future ability to get credit

Consumer Action commends this subcommittee for its efforts to investigate the over extension of credit to students, and we stand ready to work with you and the credit card industry to solve the problems identified in this hearing.

Credit Education: The International Credit Association and "Train the Trainers"

The 1980's - Consumers and Credit

The 1980's saw several significant developments in the area of consumer credit usage in the Unites States. The decade was characterized by a free-spending attitude, with a significant number of consumer purchases made with credit cards. As credit cards became more prevalent and plentiful, consumers were faced with a number of issues. How much should I put on my credit cards? Which credit card should I use? Is credit better than cash?

The credit boom of the 80's carried both the good and the bad. Credit continued to make possible large purchases such as homes, furnishings, and automobiles. Credit enabled Americans to enjoy these purchases much sooner than had they waited to save money for cash purchases. Increased spending and credit usage also held a positive impact for the economy as a whole. Consumers were offered many new credit products, many with special benefits. Interest rates became more competitive - variable, low-interest rate cards were marketed, giving consumers more of an opportunity to shop for the best deal. Home refinancing became extremely popular. Customer service became a highly polished art in the operations of many credit grantors. These are some of the factors that were of significant benefit to the consumer.

Is credit bad?

Unfortunately, a number of consumers became the victims of credit misuse. The number of consumer bankruptcies climbed at an alarming rate. The nature of these bankruptcies was different as well. In the past, the bankruptcy code was utilized largely by individuals and families who had suffered some type of economic catastrophe - loss or disability of the wage earner, a financially devastating medical problem, or the loss of employment. In the 80's, more and more bankruptcy filings were made by individuals who had simply overextended themselves on credit. Consumers were enticed into bankruptcy by companies claiming to eliminate collection procedures and erase debt burdens through bankruptcy, as opposed to fulfilling financial obligations through less drastic measures.

Money became the number one reason for arguments of married couples - not couples who had been faced with disability or lay-offs, but couples whose spending habits had been characterized by a "want it all now" attitude. Bankruptcy filings mounted dangerously close to the million mark by decade's end.

As the 80's drew to a close, consumers showed little sign of changing their spending habits and credit usage. Credit grantors were alarmed by growing credit misuse, and became concerned with finding ways to reverse the trend. A social dilemma arose. Was credit simply bad - an inappropriate tool for consumers, developed by usurious grantors? Were credit grantors acting irresponsibly by their seemingly liberal extension of credit? Or was this just an example of individual irresponsibility? After all, aren't consumers ultimately responsible for their spending actions?

It's not so bad after all

It became clear that credit had many benefits to the consumer and to the credit grantor, and that the wise use of credit was indeed a powerful and appropriate consumer tool that was being inappropriately used by too many consumers. It also became clear that education was the key toward helping consumers use credit in a prudent and thoughtful manner.

The roles become defined

As the decade of the 1990's opened, the players in the consumer credit misuse dilemma were identified and their roles delineated. On the one side, consumers needed - and wanted - to use credit, yet often displayed a lack of knowledge and skill in using it wisely. On the other side, credit grantors, though enjoying profitable times, were alarmed and concerned by growing consumer credit misuse. Grantors realized that credit overextension was not a component of a healthy economic process. How could credit grantors best help prevent credit misuse by educating consumers in the prudent use of credit?

Credit grantors were quick to recognize that consumer education would be most effective and appropriate when provided to <u>future</u> consumers, before bad credit habits are developed. Also, given the fact that most initial credit cards are issued to college-aged individuals, and that high school-aged young people have an obvious interest in spending and credit, then programs directed at high school audiences would be the most appropriate.

Easier said than done

A number of credit grantors and educational/consumer organizations had developed educational programs for high school students. Their effectiveness has been limited for a number of reasons. Often, teachers did not know of these programs, or even themselves recognize the importance of credit education. In fact, many teachers themselves lacked knowledge about the basics of wise credit use. No single credit grantor, or coalition of credit grantors, has the resources to reach every single high school student and provide credit education. Furthermore, consumer advocate groups had become somewhat wary of specific credit grantor's forays into education; were their interests and intentions genuine, or were they merely trying to generate business?

Given these restrictions, it became clear that if any significant level of consumer credit education were to take place in high schools, it would have to be presented to and accepted by the high school teacher, who could then incorporate it, as feasible and appropriate, into the curriculum. It also became clear that such a program had to include all aspects of credit, and could not bear the stamp of any specific credit grantor - it had to be a project developed and supported, without bias or proprietary interests, by the entire credit industry.

Yet within a given school district, credit was taught in any one of a variety of subjects, if it was taught at all. These subject areas included, but were not limited to, home economics, business education, consumer education, social studies, economics, life skills, and mathematics. It would not be enough to simply develop a package of educational resources and information and send it to every credit education teacher in the United States.

The team takes the field

The International Credit Association (ICA) became an obvious vehicle to develop and implement such a program. ICA is a non-profit association composed of some 9,000 members of the credit community. These members belong to twelve regional and over 100 local associations, giving it a critical grassroots presence. As the only horizontal association in credit representing virtually all major grantors, credit reporting agencies, collection companies, and credit counseling services, ICA held the most unique and best suited vantage point to implement credit education. ICA embarked upon "Train the Trainers," a program designed to give high school teachers curriculum, materials, and information to teach the wise use of credit to high school students.

National "Train the Trainers"

To begin this program, ICA contacted all fifty state Departments of Education to solicit nominees for attendance at an inaugural program. This three-day program featured industry experts on virtually every aspect of credit. In addition to representatives of ICA member companies, teachers also met and heard from representatives of the Federal Reserve, the U.S. Office of Consumer Affairs, the Federal Trade Commission, the Congress of the United States, the National Association of Attorneys General, and Bankcard Holders of America. Teachers received numerous teaching materials, including ICA's complete, eleven-unit high school credit education curriculum. The program was funded in its entirety by ICA member contributions Teachers were able to attend at no cost to them.

The program was held June 14-17, 1992, in Boca Raton, Florida. Teacher response was highly enthusiastic. Many attending teachers were amazed to discover how little they knew about credit prior to participating in the seminar. All teachers left the program with a high level of enthusiasm for implementing credit education into their own school. Also, the fifty teachers were issued a charge by ICA to subsequently help implement similar programs for teachers in their home state.

State "Train the Trainers"

Using its unique network of local associations across the United States, ICA set about the task of implementing the same program on a statewide level. The first such program was held in Ohio in November 1992. Fifty Ohio teachers attended the two-day seminar, which closely resembled the national program in content That Ohio program initiated a number of smaller local and regional programs within the state. Clearly, credit education was well on the way to being implemented in Ohio schools.

In 1993, seven additional state "Train the Trainer" programs were held These included Illinois, Missouri, Nebraska, Utah, Washington, Arizona, and the District of Columbia. Through the end of 1993, over 20 seminars had been held, sending the message of credit education and providing materials, information and resources to over 1,200 high school teachers.

Future "Train the Trainers"

With the early successes of these programs, ICA has developed a plan to conduct "Train the Trainers" in all fifty states by the end of 1996. Also, most states that have completed programs have committed to holding repeat and/or follow-up programs for previous attendees or teachers who did not attend initial state programs. As these programs become more publicized in the education community, more and more teachers are becoming interested in attending. By the end of the decade virtually every high school will have a teacher who is an alumnus of "Train the Trainers."

Credit into the next century

Technological advances will further streamline the credit process. More credit products will come into the market, further complicating the consumer decision process. Credit use will likely continue to grow at a pace similar to earlier years. Elaborate detection procedures will more effectively combat credit fraud. The most successful credit grantors will be those who recognize the value of satisfied customers, and service will be taken to even greater heights.

Consumers will continue to spend, using credit for a large number of purchases. Most importantly of all, consumers in the next decade will be better equipped to deal effectively with credit and the many opportunities it provides. By initiating quality credit education programs in our high schools today, we can feel confident that the consumer of the next century will be a more careful, better educated consumer.

Michele Bedell
March 10, 1994
Written Statement

In the fall of 1990, I was a first semester Sophomore living in a dorm at Radford University. Two upper classmen walked through the dorm asking students to sign up for a Discover card to financially benefit their national fraternity. They received one dollar for every student who filled out the application. On the application I gave: my name, school address and number, permanent address and number, my parent's name, and my classification in college (I recall the Discover card asking me to write down my parent's income). Along with my application, I sent a copy of my school identification card. Within a few months, I received a Discover card with a five hundred dollar credit limit. I did not have a job when I received the card, yet it was not a prerequisite for a student to be granted a credit card. I used the card frugally. I filled up the gas tank for the four hour drive home to Northern Virginia and then back to Radford for school breaks. I used the card occasionally to buy lunch for a fellow student who offered to drive me home for these breaks.

The second semester of my Sophomore year, I received an application for a Visa card in my mailbox. I filled out the same information as the Discover card application, but I did not have to give my parent's income. I also sent my school identification card and within a few months, I received a Visa card from Signet bank. Again, I did not have a job when I sent in my application. I had a credit limit of five hundred dollars. I used the card strictly for school finances. I paid for semester books and supplies with the card, and also two phone bills.

I faithfully paid my monthly minimum balances of approximately thirty dollars for Discover and approximately forty-five dollars for Visa. Within a few months of continuous payments, both credit limits each went up to one thousand dollars. The Visa card eventually rose to a fifteen hundred dollar credit limit. I used the money I made in the summer and during Christmas breaks at Nordstrom Department Store to help me keep up with my monthly payments.

The next year I used the cards just as I did the previous year for school finances, and thought I could keep up with my minimum payments. The downfall of this experience occurred when my minimum payments increased, because my balance had increased. It got to the point where I would be sending up to one hundred dollars a month to the credit card companies, and as a full-time college student, I couldn't afford to pay these minimum balances. I found myself engrossed in my studies and not wanting to stress over the credit cards. I missed a few monthly payments, and by the time I had enough money to send the payment, the minimum balance would be doubled or tripled leaving me to send only what I had. The next month I 'd still be behind in my payments, and that was when I started to figure out what interest really meant. I honestly never looked at the interest rate once, when I was using these credit cards.

I continued to pay what I could on the Discover card because my credit could still be saved. On the other hand, the Visa account's minimum payments got so high, that I could only pay the interest on the balance, and not pay off any of the money I spent with the card. That was when Signet bank began to call my house and my mother's house to ask me about payments. My mother got involved once the company started to call her house almost every morning during the business week looking for me. I then authorized my mother to talk about my account with Visa.

After months of talk and random payments, I found myself with ruined credit and a Warrant In Debt for the Visa balance. I then decided that I would stop payments on the cards because I wasn't paying any money that would help my status as a worthy credit applicant for my future. My mother began to explain to me the credit and interest world, and I then discovered how naive I was about the value of a credit card. I was never educated once about the credit card and I never understood the risk involved. My friends all had credit cards that were solicited to them and had run into the same types of problems. They also, did not understand how complicated and expensive a high interest rate credit card can be, until their parents had to pay off these debts for them.

In your first years of college, you want to do the right thing. The next logical step, according to these credit card companies, is to apply for a credit card. They are marketed everywhere on campus. As a matter of fact, with every purchase you make in the college bookstore, you receive an application for a Visa card with your sales receipt, yet they don't give you instructions on how to use credit responsibly.

Now, after trying to do the right thing, I'm left at the most critical time in my life, not only without credit, but also with a ruined credit history for life.

Testimony of Connie Bedell
March 10, 1994

Our twin daughters, college students at a public university in Virginia, have incurred credit card debts to Signet Bank Visa and Discover Card in the amounts of nearly $2,000.00 on each card. These cards were marketed to our children in their second year of college. Discover card marketed the card through a fraternity who would receive compensation for each student who signed the application. Signet Bank sent an unsolicited application in the mail during spring break. My daughters did not have jobs, and they were not credit-worthy by any known definition found in principles of sound banking practices.

Signet Visa requested the name of a parent or guardian on the application form. My daughter told me that the Discover card asked the amount of the parent's income. I verified this in a conversation with a collector from Discover. At no time was I nor my husband asked to cosign these applications. When I tried to get help from the State Corporation Commission in Virginia, I was dismissed by the director, as not understanding the banking business. He said that banks issue credit cards to students because it is a good investment. I wrote to the Attorney General of Illinois. After many fruitless hours on the phone to public and private consumer groups for help, I called a business reporter at the Washington Post, told him my problem, and asked for his help. I told him that I was told to hire a lawyer and pay legal fees on top of all of the other debt incurred. I told him that with three kids in college, and one left to go this fall , this Mom and Dad were not able, and not willing to incur any more debt. This reporter wrote an article, and the Bankcard Holders organization recommended that I get the Nolo Press book, entitled Money Troubles, so that I could understand my rights and options in dealing with the legal strategies involving consumer debt. I then began to investigate why giving credit to unemployed children - and believe me, a college student is a child - is a good investment. Why would these companies ask for the name of the parent, when they deny that they are using the parent as collateral? It was revealed to me, by the credit collector from Discover, that college kids are a good risk because Mom and Dad will pay their child's debt rather than have their credit ruined for their future. He revealed that statistically, college students are excellent risks because they are more likely to be employed after graduation. He suggested to me, without comment, that college students are more likely to have assets on which to place a lien, and have future wages that can be garnished by judgments.

My children, in their senior year, have not used their credit cards for almost two years, yet their debt continues to increase from monthly late payment fees and a percentage rate of almost 24% APR. I believe in the right of business to make a profit, but it appears that the credit card industry has become the sophisticated "loan sharks" for the middle class by preying on the naivete of inexperienced college students - I liken it to "offering poison carrots to an unwary rabbit". They are taking advantage of the trust their professional image has given them.

I am here today with my daughter Michele, because she is currently being sued by Signet Bank for $1,481.55, plus 23.8% interest and threats of attorneys fees for $370.39. I have tried, since 1992 to get Signet to stop this credit card interest accrual, and settle for 50% of the amount owed. I told the official who is in charge of marketing these cards to students; that common sense dictates that his bank if half wrong for marketing these cards to unwary students, and my daughter is half wrong for not understanding what she was getting into when she signed a contract for a long term, high interest loan. They sent me the two page micro type contract, and said she knew what she was signing. They would not settle with me, and Signet Bank issued a warrant-in-debt to Michele at her college. She told them she was a student in Radford and could not go to a court in Richmond at that time. They told her she did not need to appear in court on the day ordered by the court, because "she owed the money, was guilty, and didn't have a defense". I traveled to the Richmond court with a written power-of-attorney, so I could speak on her behalf and told the judge what Signet had said to her. He told me that he would set a court date in June, and that we could have our "day in court".

I believe that it is unconscionable for these bank cards to take advantage of a college student's youth, and inexperience. They are ignoring their own sound banking practices by changing the rules to benefit themselves. You just can't have it both ways. Banks can not state in their contract that falsely representing ones credit worthiness is a crime, and then turn around and give credit to one who is not credit worthy when it suits their own financial benefit. As professionals with the public trust, they have the responsibility not to ignore their own rules.

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