

The impact of debt on college students economics essay



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Credit cards and debt, in general, is something that affects everyone on an almost daily basis. It is used in almost any context and has a variety of very important uses that affects life for everyone. One uses credit to buy big-ticket items such as cars or houses but the primary reason one uses credit would be that of convenience. Convenience and the ability to have a short-term load for better cash-flow are normally the reasons why people obtain credit cards. These benefits, when used correctly, can be extremely helpful for most users. However, the key focus in that statement is correct use. The problem with credit occurs when in the hands of the uneducated or inexperienced user. Most frequently, these users are college students. College students run into issues with credit typically in two areas. The primary issue they face is with credit cards, but the other, sometimes unexpected issue is with college tuition and student loans. Because of the many negatives of these issues, Credit cards and debt, in general, are a significant problem that is currently affecting college students.

Credit Cards are a negative influence on students and are a problem for a variety of reasons. One of the most basic problems, and one of the problems that leads into the others, is the issue of the often high unsecured credit lines. Credit card companies, while they usually start out limits at a low level, often increase the limits of teen credit cards rather quickly. According to Silver-Greenberg (2007), Credit card companies have “ modified their practices for college students, because they’re vulnerable and their parents will usually bail them out” (p. 2). The reality is that these credit lines have absolutely nothing to do with a college student’s ability to pay back the loan and are in no way relational to income. By granting credit lines to college

students that are so inflated, it seems like the credit card companies are almost asking for the lines to be abused by the students. The fact is, is that this can be seen very simply just by studying the student population at large. Research by Joo, Grable, and Bagwell (2005) showed that the average balance carried by a college student was around 890 dollars (p. na). A figure this high as an average for college students is way too high. Considering that there are a sizeable amount of college students that are unemployed, it seems rather ridiculous that students would be allowed to charge this amount with no conceivable way of paying back on a routine basis. What makes this whole problem of high balances even worse is the fact that the credit card companies insist upon outrageously high interest rate for college-aged new users. They do this because companies know that college students are more of a risk than regular users. They also do this because they figure that most students will carry a balance and thus, with a higher rate, they have the opportunity to make more money off college students. In addition to just having higher rates for students in general, credit card companies also engage in a practice referred to as "universal default." According to Silver-Greenberg (2007), "Under universal default, a student who has two credit cards and faithfully makes timely payments on one, but misses a payment on the other, can find that the interest rate he's being charged has been raised to 30% on both cards."(p. 2) Basically, the idea is that if a user is late on one card or account, the user has been late on all of his cards that engage in this practice. This practice exacerbates all of the problems that already exist with credit cards by making it even harder to be good with one's finances. It makes it especially hard for college students, who are new to credit cards in general, because it establishes a very low tolerance for

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mistakes. In addition, those who least can afford these practices are the ones who have to worry about it. While this practice might be acceptable for adults with an established income and credit history, it hardly makes sense for those just starting out. These high interest rates can be a big problem because two-thirds of all college students have at least one credit card and 15 percent of students have 2 cards or more. (Lee, 2002, p. 10) No doubt those numbers are on the rise as well. Student loans affect the world of credit cards as well. " The average graduate from the class of 2007 owes \$20, 000 in college loans and...for 50% of those surveyed their student loan and credit card debt was higher than their current annual salaries" (National Poll, 2007, p. n/a) What this proves is that credit is a major burden for those in and out of college. It does not help that credit cards are being used to pay tuition either. Norvilitis (2002) estimates that 20 percent of students have charged tuition and expects that number to rise (p. na). If one does not qualify for a student loan and does not have cash, then a credit card might be the only way they can pay for college. With that in mind, it makes it easier to understand some credit card debt. However, in addition to the problems with the usage of credit cards, there are also some problems with the marketing of credit cards in my opinion. Specifically, I believe that the marketing of credit cards on college campuses goes over the line. I believe that getting a credit card should be a personal decision, not just a decision made because you see a booth signing people up at a student center. Giving away free shirts or mugs or food to get someone to sign up for a credit card is just wrong. Finally, Norvilitis (2002) " suggested that students who receive cards from tables in a student union have larger debt to income ratios than students whose cards are from another source." (p. n/a) I believe this

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furthering the reasoning that credit cards should not be advertised on campus. I also believe that credit cards obtained from an on-campus advertiser are not taken as seriously as credit cards obtained in a normal manner.

Credit cards have a lot of negatives to them and they can cause a great deal of long-term harm. The reason credit cards during the teenage years have such an ability to cause long-term harm is because of the fact that the majority of students and/or teenagers have a relatively short credit history. Realistically, most college students understand that missing payments will probably not be the greatest for their credit, but they have no idea how seriously it affects them. Lee (2002) reports that over 75% of students have never seen their credit report before and that most students are unlikely to ever see their report during their college years (p. NA). This fact makes the effects of credit cards that much more dramatic. When college students are learning how to use their cards and when they make bad decisions regarding payments and carrying large balances, they really have no idea to what extent they are affecting their credit. Considering the fact that most will never see their report until after college, it comes as no surprise that some college students can and will come out of school and not be able to qualify for a simple car loan. What college students do not realize is that simple mistakes in college with credit can significantly impact their future in more ways than one. Martin (2007) states that “many employers check credit reports and turn down applicants who have poor credit ratings” (p. na). Odds are that most students applying for jobs do not even consider their credit when wondering if they will get the job or not. Another factor that affects a student’s credit rating is their student loans. While it is not likely that they will miss

payments on those loans, the fact is, the large outstanding balances that most carry on these loans counts against them when applying for credit to purchase a home or car. For many, this is a legitimate concern as, according to a National Poll (2007), that “ among respondents over age 35, 62% are still paying off student loans” (p. NA). What this indicates is that credit, whether credit cards or student loans, has a significant effect on one’s future.

There are a variety of causes for why the use of credit with college students get out of hand and hard to manage. It is particularly hard to make a generalization as to why the majority of college students cannot manage their credit. However, there are many reasons that, in combination with each other, play a role in this problem. One main issue that causes a lot of problems is a lack of education. The majority of college students open credit card accounts without paying a whole lot of attention to what they are getting themselves into. According to Norvilitis (2002), 71% of students had no idea what interest rate they were paying on their particular credit cards. This proves the fact that college students have learned how to use their credit cards but do not understand how their credit cards really work. Most believe that there really is not a whole lot one needs to know about credit cards and the credit card companies must agree because they do not make it easy for any user to really learn. In fact, Norvilitis (2002) says that 59% of teens say that explanatory information from credit cards is not helpful or “ unreadable” (p. NA). As a result, the majority of users do not learn about credit. Some do, however, but it is a small number. Personal finance classes are usually offered in high schools to teach just this sort of thing, but

unfortunately there is a lack of interest. To illustrate this point, Norvilitis (2002) states that 62% of students had the opportunity to take a personal finances class, only a third actually take it. This should really come as no surprise as the majority of people assume finances should be common sense. This reasoning is what causes problems for the majority of credit card users. The other factor that comes into play regarding credit is family behavior. Generally, as with other behaviors, teens learn from their parents and look to them for guidance. This situation is no different as teens try to emulate their parents in this regard. According to Palmer (2007), 84 percent of teens opened an account at their parents' banks" (p. na). Parents need to realize that everything that they do financially, whether or not they believe it will be noticed, affects how their teens will use credit. Joo et al. (2005) found that students whose parents used credit cards often were a lot more likely to show positive attitudes toward credit card use; whereas, students whose parents had problems with credit card use were more likely to have negative attitudes toward using credit cards (p. na). While some parents use credit cards responsibly, some do not. Those that do not are the ones to worry about. If left uneducated, students of these parents will most likely experience issues due to their haphazard use of credit cards.

Credit cards will always be misused. There are so many users it would be irresponsible to think otherwise. Furthermore, it can be counted on because there will always be ignorant people who do not pay attention to rules or consequences. However, work can be done to prevent as much misuse as possible. As it stands now, credit cards, and debt in general, are ruining some college students' futures. With the lack of regulation when it comes to

credit cards for students, it is no surprise. According to Palmer (2007), a survey of graduate students showed that over 50 percent would have liked to have learned more about managing their finances in college. However, without an incentive from somewhere or someone, it is likely that the availability of education in this matter will continue to be hard to come by. Likewise, credit card companies will have to have an incentive to change their practices as well. Hopefully, that day will soon come.