College Student Debt Traps

By Amy Wong

Mary Beth Pinto, associate professor of marketing at Penn State University, and Phylis Mansfield, assistant professor of marketing at Penn State Erie, have conducted a telling study about students' financial burdens entitled "Financially at-risk college students: An investigation of credit card usage, student loan debt and prioritization of debt repayment."

This report is particularly timely considering the barrage of newly graduated high school students transitioning to college life in the next few days. These students will undergo a fast and dramatic shift towards independence, and many of them may max out their credit cards during their stay-and end up paying for it for decades to come!

The study, conducted in eight public and private universities, gathers responses from 1,441 college students who are 24 years of age or younger. Pinto claims that her research "confirms that members of 'Generation Debt' rely too heavily on plastic to fund their lifestyles."

Indeed, 61 percent of the survey's respondents have at least one credit card. Other studies even suggest that students' credit problems are even more severe, purporting that 70 percent of college students carry at least one credit card, own an average of two credit cards, and have an outstanding balance the ranges from $500 to more than $3,000.

Nearly 70 percent of the survey's respondents also have student loans-a figure that is roughly the same as the number of students who own credit cards. With two high debts, students often have to choose paying one bill over the other. The report shows that students who opt to pay the credit card bill are more at risk than those who choose to repay their student loans.

With the power of plastic and the love of loans, about two-thirds of college graduates rack up sizeable educational debts. Besides tarnishing a student's credit history, these debts also damage a school's reputation.

If a school has a high percentage of students who default on their student loans, then the school is barred from receiving certain student aid funding. Decreased student aid funding may force students to increase their reliance on credit cards and student loans in order to fund their educational expenses.

Instead of helping the situation, this penalty causes student debt to spiral out of control. Pinto underscores the need for preventative measures, saying, "The results of this study suggest that financial aid administrators should take a proactive role in helping educate students about the proper use and misuse of credit cards."

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Many colleges are responding to this dangerous trend by offering credit card training sessions during their freshman-orientation programs. Varying entities have suggested more aggressive actions such as Web-based education programs, ongoing training and counseling programs, and regulatory policies regarding the marketing of credit cards on college campuses.

Pinto asserted, “Understanding credit and credit management is critical for the future financial planning of today’s youth.” She continued, “It is imperative that colleges and universities get on board to ensure students’ spending habits and college debts do not adversely affect them for years to come.”