

Graduate Students and Credit Cards

Fall 2006

An Analysis of Usage Rates and Trends

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Executive Summary

- In 2006, **92% of graduate students have at least one credit card**. This is a 4% decrease from the 96% who had credit cards in 2003.
- The **average outstanding balance on graduate student credit cards is \$8,612**, an increase of 10% from the 2003 average of \$7,831.
- On average, **older graduate students** (aged 30-59) **carry \$12,593** in credit card debt, **almost twice as much credit card debt as their younger counterparts** (aged 22-29) who carry an average debt of \$6,479.
- Ninety-four percent of graduate student survey respondents used **credit cards to pay for some portion of their direct education expenses**, primarily textbooks. Twenty-eight percent admitted paying for some portion of their tuition with credit cards.
- As has been true in previous studies, **students attending school in the Midwest** region of the country tend to carry the highest credit card debt.
- The majority of graduate students, **67%**, said they took out their **first credit card as an undergraduate** student.
- Although 93% of graduate student survey respondents try to keep their credit card debt under control by making at least the required minimum monthly payments, **only 20% said they pay off their cards in full** each month.
- Of the graduate student survey respondents, 93% would have liked **more information on financial management topics** before they started school and would like financial management education made available to them now.

Preface

Nellie Mae's 2006-07 credit card usage study is the sixth in a series conducted since 1998, the fourth one to include graduate student data and the second one to focus exclusively on graduate students. The first study was prompted by concern over increasing credit card activity among college students observed in data provided by the major credit reporting agencies.

In each of our previous studies related to graduate students, we extracted data directly from the credit bureau reports for a randomly selected group of student applicants. We did not survey our students directly, and did not use any self-reported data. For the 2006 study, in addition to analyzing the credit bureau data on the student applicants, we added a survey component. Student applicants who were placed in the study pool were sent requests to complete the survey on behavior related to credit card use. A total of 1,149 students enrolled in graduate school programs were included in the credit bureau analysis. The survey response rate was 18%, with 210 students responding.

We have included the survey results alongside statistical information gleaned from the credit bureaus. The survey responses shed some light on graduate students' behaviors, serve as a benchmark for future analysis and reveal relevant information that should interest professionals concerned about credit behavior.

Each table and figure included identifies whether the data source is the credit bureau reports or the self-reported surveys. Statistics related to credit card debt and other credit behaviors were calculated based on the portion of the population that carry credit cards. Percentages referenced were rounded to the nearest whole number.

Graduate Students and Credit Cards

Credit card usage among graduate students appears to remain stable in comparison to the population studied in 2003.

Average Number of Cards and Balances

According to credit bureau data, in the three years since we last looked at graduate student credit card debt, the average debt level has increased by approximately 10% from \$7,831 in 2003 to \$8,612 in 2006. This increase keeps pace with the aggregate cost of living increases based on the consumer price index during that period: 2.7% in 2004, 4.1% in 2005 and 3.3% in 2006. The median credit card debt has increased by less than 4% from \$3,730 to \$3,874.

Other factors have remained the same or declined slightly: the percentage of graduate students currently carrying credit cards declined from 96% to 92%; the average number of cards carried declined from 6 to 5.25 cards; the percentage of students with credit cards carrying balances between \$6,000 and \$15,000 declined from 25% to 24%; and the percentage of students with balances exceeding \$15,000 remained the same at 15%.

Graduate Students Over Time	1998	2000	2003	2006
Percentage with credit cards	95%	95%	96%	92%
Average number of cards	6	4	6	5.25
Average credit card debt	\$4,925	\$4,776	\$7,831	\$8,612
Median credit card debt	\$2,834	\$3,068	\$3,730	\$3,874
Percentage with balances \$6,000 - \$15,000	22%	20%	25%	24%
Percentage with balances >\$15,000	6%	6%	15%	15%

Table 1: Credit cards and credit card debt among graduate students over time; Source: credit bureau data

In addition to the credit bureau data, Nellie Mae gathered self-reported data from this population. In 2006, we surveyed the graduate population about their credit card behavior. (We did not conduct a survey of the graduate students in the earlier studies so have no survey points of comparison to those populations.)

Of the graduate students who responded to the survey, 91% said they have at least one credit card. This is a similar rate to the credit bureau data which showed 92% of the graduate student population studied as having at least one credit card. Less than 4% of survey respondents said they have never had any credit cards in their own name. Of the approximately 96% who have had cards, more than 5% said they had a card once but have since cancelled it.

Of the survey respondents who have cards, the average number of cards carried is 3.5. This is lower than the credit bureau reports, which show an average of 5.25 cards per graduate student who carries cards.

Self-reported estimates of outstanding current balances on all credit cards are much lower than the data the credit bureau has on file. This could be explained by timing differences—survey

responses were collected over a two-month period that extended beyond the credit bureau data collection date. The anomaly could also be explained by the particular subset of students who responded to the survey genuinely having overall lower balances. Or it could be an indication that these student credit card holders aren't aware of the true combined amount of debt outstanding on their various cards.

Survey respondents estimated that the median amount they carry is \$2,100 (46% lower than the credit bureau reported median of \$3,874) and that the average balance is \$5,219 (39% lower than the credit bureau-reported average of \$8,612). Approximately 14% of respondents reported a zero balance while credit bureau reports placed zero-balance accounts at 7%. Similarly, 22% of respondents reported high balances of \$7,000 or more while the credit bureau data shows that 39% have balances of \$6,000 or more.

In addition to self-reporting lower outstanding balances than those indicated by the credit bureau reports, when asked to estimate their average balances over the last 12 months, the numbers dropped even further. This appears to indicate that the start up of the fall semester of graduate school may have resulted in temporarily higher amounts charged on cards. Graduate student respondents estimated that the average monthly amounts on their cards during the previous 12 months was \$3,066 (41% lower than the self-reported current average of \$5,219), and only 14% said on average they carried high balances of \$7,000 or more (compared to 22% who said they currently have balances in excess of \$7,000). However, only 9% said that on average they carried no balance, versus the 14% who said they had a zero balance at the time they responded to the survey.

Older Graduate Students Carry More Credit Card Debt

The average age of the population in this study was 29.5 and the median age 27; less than 1% was over the age of 60 and less than 4% under the age of 22. When breaking out the graduate student population by age range (younger and older than the average, and excluding the very youngest and oldest respondents), approximately 93% of students in both the 22-29 year-old age range and in the 30-59 year-old age range carry credit cards.

However, the older group carries, on average, 5.9 cards each while the younger carries 4.9 cards. Credit card debt levels among the older group are also significantly higher.

Graduate Students by Age Group	22-29	30-59
Percentage with cards	93%	93%
Average number of cards	4.9	5.9
Average credit card debt	\$6,479	\$12,593
Median credit card debt	\$3,542	\$5,378
Percentage with balances \$6,000 - \$15,000	24%	24%
Percentage with balances >\$15,000	10%	24%

Table 2: Percentage of students with credit cards and credit card debt by age group; Source: credit bureau data

On average, the graduate students aged 30-59 carry almost twice as much credit card debt (\$12,593) as those in the 22-29 age range (\$6,479). The median debt level of the older group is \$5,378, compared to \$3,542 for the younger group.

Course of Study and Credit Card Debt Load

Course of study doesn't appear to influence credit card ownership levels. However, there is a 20% range between the highest median debt of \$4,437 among law students and the lowest of \$3,675 among medical students. And, it is notable that business students have much higher average credit card debt than medical, law and general graduate students. On average, business students are slightly older than other graduate students and we have already seen that older students carry more credit card debt.

	Grad/other	Medical/dental	Law	Business
Percentage with credit card	92%	93%	93%	92%
Median credit card debt	\$ 3,795	\$ 3,675	\$ 4,437	\$ 4,289
Average credit card debt	\$ 7,912	\$ 8,554	\$ 8,891	\$13,867
Average age of group	30.0	30.1	27.5	30.4

Table 3: Credit card ownership, credit card debt and age by course of study; Source: credit bureau data

Credit Card Debt by Year in Graduate School

Not surprisingly, first-year graduate students carry less credit card debt than graduate school upperclassmen. The more time spent in graduate school, the more likely a student is to accumulate credit card debt. The percentage of students who did not rely on credit cards dropped from 11% for first-year students down to only 4% for fourth-year students. As the acquisition of cards increased, so did the accumulated balances. The average outstanding credit card balances grew by almost 77% between the first year and fourth year of graduate school, from \$6,876 to \$12,170. The median balance grew by more than 125% in the same time period, from \$3,048 to \$6,922.

	1st yr	2nd yr	3rd yr	4th yr
Percentage with no credit cards	11%	6%	6%	4%
Average credit card debt	\$6,876	\$7,669	\$11,453	\$12,170
Median credit card debt	\$3,048	\$3,435	\$5,774	\$6,922
Percentage with balances \$6,000-\$15,000	22%	22%	29%	26%
Percentage with balances >\$15,000	11%	13%	20%	27%

Table 4: Debt by year in graduate school; Source: credit bureau data

Types of Expenses Charged

Only 6% of respondents did not use credit cards at all for a direct education expense. The most common direct expense for which graduate students used their credit cards was textbooks, with 83% indicating they had charged some portion of their textbook costs. The average amount of money put on credit cards for all direct costs, as estimated by the group, was \$2,820, with 10% of the group charging \$7,000 or more.

Of the 28% who said they used credit cards for some portion of their tuition, the average balance estimated was higher at \$5,416, with 26% of this sub-group charging at least \$7,000.

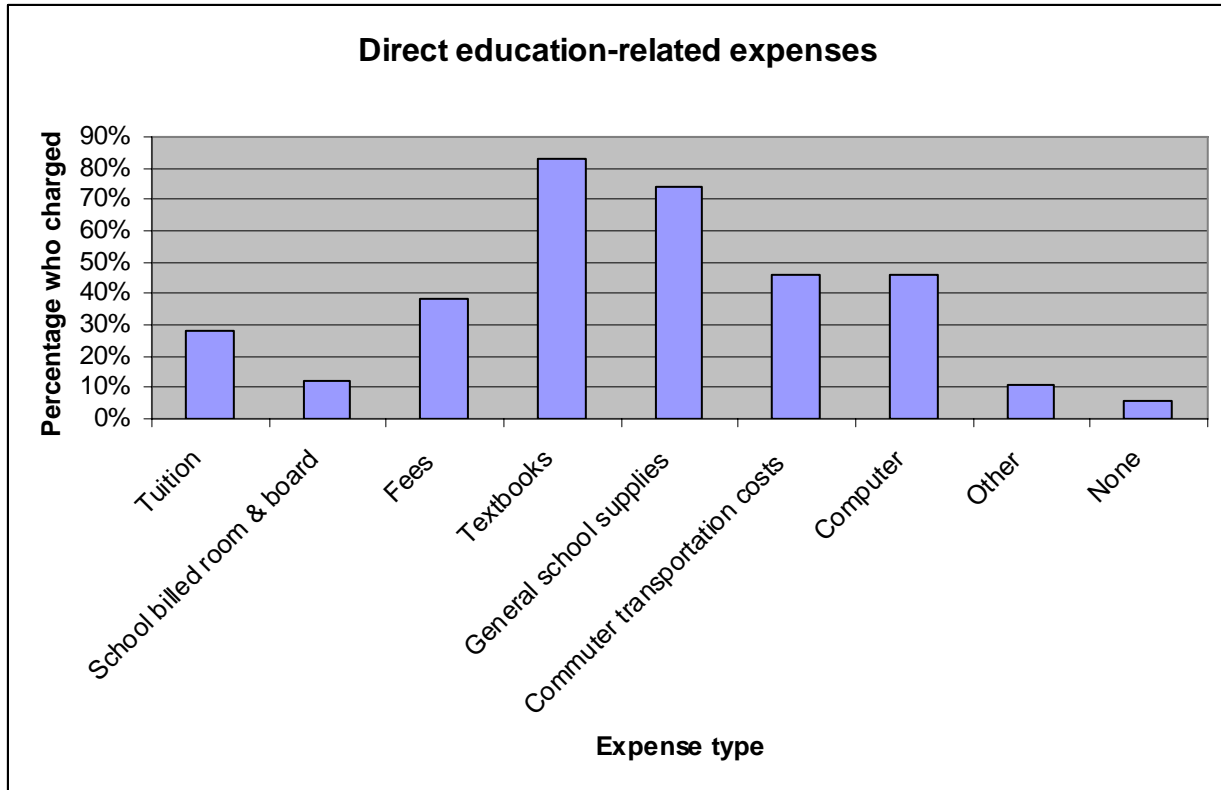


Figure 1: Percentage who charged direct education expenses by expense type; Source: self-reported survey data

Of the non-direct education expenses charged on credit cards, food proved to be the most popular with 77% indicating they had used credit cards to buy food. Clothing was the next most prevalent expense charged (69%) followed by non-commuting travel and cosmetics/toiletries (both cited by 56% of respondents).

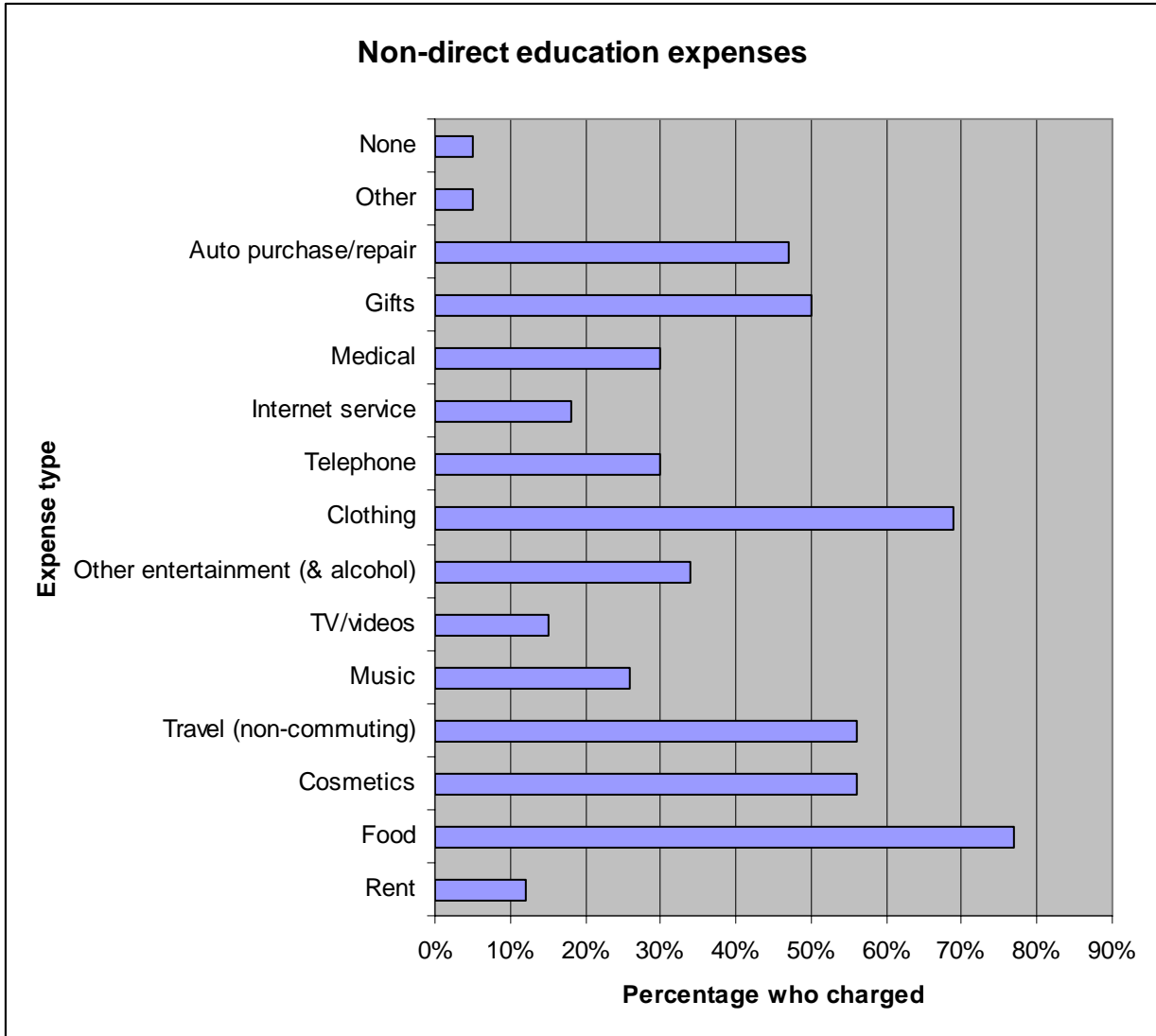


Figure 2: Percentage who charged non-direct education expenses by expense type; Source: self-reported survey data

Regional Differences

As in previous studies, Midwesterners are shown to carry the highest levels of credit card debt on average, \$12,689. Balances held by Midwesterners are almost 29% higher than the next highest average balance of \$9,835 in the West and 150% higher than the lowest balance group, students studying abroad. Midwesterners also carry the highest median credit card debt and have the highest percentage of students, 22%, who carry balances in excess of \$15,000.

Surprisingly, students attending foreign schools carry the lowest balances. Special circumstances such as travel, exchange rates and lack of direct access to family for emergency expenses could be expected to drive up short-term borrowing through credit cards with this population; however it appears their credit card use is more conservative than that of their counterparts studying in the

U.S. The group with the next lowest balance is graduate students attending school in the Northeast. Students attending school in the South have the lowest percentage of card ownership.

Graduate Students' Location of School	South	Midwest	Northeast	West	Abroad
Percentage with credit cards	90%	96%	93%	96%	92%
Average number of credit cards	5	5	5	5	4
Average credit card debt	\$8,894	\$12,689	\$6,308	\$9,835	\$5,045
Median credit card debt	\$3,571	\$5,200	\$2,775	\$4,606	\$1,734
Percentage with balances from \$6,000 - \$15,000	23%	24%	20%	26%	16%
Percentage with balances exceeding \$15,000	16%	22%	10%	17%	8%

Table 5: Credit card usage by regional location of graduate school; Source: credit bureau data

Card Choice

Of those surveyed who have had credit cards, the majority (67%) obtained their first card as an undergraduate. Just over 18% obtained their first card before entering college and the remaining 15% got a card after they graduated from college. Of those who had cards as an undergraduate, 23% said they had a zero balance upon leaving undergraduate school while 16% estimated they had \$7,000 or more in credit card debt at that time. Based on respondents' estimates, the average balance they carried on credit cards upon leaving undergraduate school was \$3,238 and the median balance was \$1,500.

Direct marketing has a strong influence over credit card vendor choice. More than 73% of respondents with credit cards identified a direct marketing solicitation as the primary influence in their choice of first credit card vendor. As was true with our last study about undergraduate students and credit cards in 2004, the most popular source for choosing one's first credit card vendor was direct-mail solicitation. Thirty-eight percent of respondents identified a direct mail solicitation as the impetus for selecting their first card vendor. The second highest source was on-campus solicitation with 24% of respondents identifying that marketing medium. Approximately 7% responded to an in-store solicitation, almost 3% to a telephone solicitation and 2% to an e-mail marketing solicitation.

By contrast, 27% reached out to trusted advisers or conducted independent research to make a credit card vendor selection. Almost 19% of respondents relied on a referral from a friend or parent and just fewer than 8% conducted research online before applying for a credit card.

Credit Card Payment Behavior

The student survey respondents appear to be dependent on the cash flow credit cards are designed to provide. Only 20% say their typical payment behavior is to pay off all credit card balances each month. Other than the 2% who rely on someone else to pay their cards for them, the others all carry a balance, with 5% falling into the "danger zone" of making less than the minimum monthly payment.

Credit card payment behavior	
Pay off all credit card balances on all cards each month	20%
Make the minimum monthly payment on all cards every month	18%
Pay off some cards in full each month but make only the minimum payment on others	21%
Make more than the minimum payment but always carry a balance	34%
Make less than the minimum payment on some or all cards each month	5%
My parents pay my credit card bills	2%

Table 6: Percentage of students in 2006 representing identified payment behavior; Source: self-reported survey data

Students were asked to what extent they felt anxiety about their ability to pay their monthly credit card payments. Anxiety levels about paying off credit card debt are spread fairly evenly from high to low, with an average anxiety rating of 3.1 (on a 1 to 5 scale).

One might assume that anxiety about paying credit card bills is directly related to income. While higher income could be a factor in giving students peace of mind as they anticipate paying their credit card bills each month, it is not the only factor. Table 7 illustrates that those with the most anxiety do not have the lowest average income and those with the least anxiety do not have the highest average income.

Not surprisingly, a much higher percentage (35%) of students who feel extreme anxiety about credit card debt also have higher outstanding balances (\$7,000 or more) than those who report less anxiety. However, it is interesting to observe that the group that reports no anxiety also has the highest rate of card holders who pay off all their cards in full each month. This begs the question whether 1.) the spending habits of this group are more cautious than their counterparts. For example, they may be less likely to charge what they cannot immediately afford, thereby alleviating anxiety about having to pay their monthly credit card bill; or whether 2.) their repayment behavior is more disciplined. For example, by choosing to pay off their cards each month, they are accumulating less credit card debt and keeping their combined outstanding balances lower than their counterparts, thereby alleviating anxiety about the ability to pay their credit card bills.

	% selected anxiety level	Avg monthly income within that group	% within the group with balance >\$7,000	% within group that pay off all cards each month
1. Extremely anxious	10%	\$1,120	35%	10%
2. Very anxious	22%	\$920	27%	7%
3. Somewhat anxious	29%	\$1,040	21%	10%
4. Minimally anxious	20%	\$1,220	18%	31%
5. Not at all anxious	19%	\$1,160	14%	43%

Table 7: Percentage of students representing identified anxiety level by average income, percentage with credit card debt exceeding \$7,000 and percentage who pay off cards in full each month; source: self-reported survey data

Credit Education

When asked about the types of financial management topics these graduate students wished they knew more about *before entering graduate school*, 93% identified at least one topic.

Respondents were asked to check all that apply. The most frequently selected topic for more

information was “debt reduction strategies,” followed closely by topics related to planning for graduate school payment: “budgeting,” “understanding financial aid” and “savings strategies.”

When asked about which topics these graduate students would like more information *now*, the top response was again “debt reduction strategies” followed closely by “student loan repayment” and “savings strategies.”

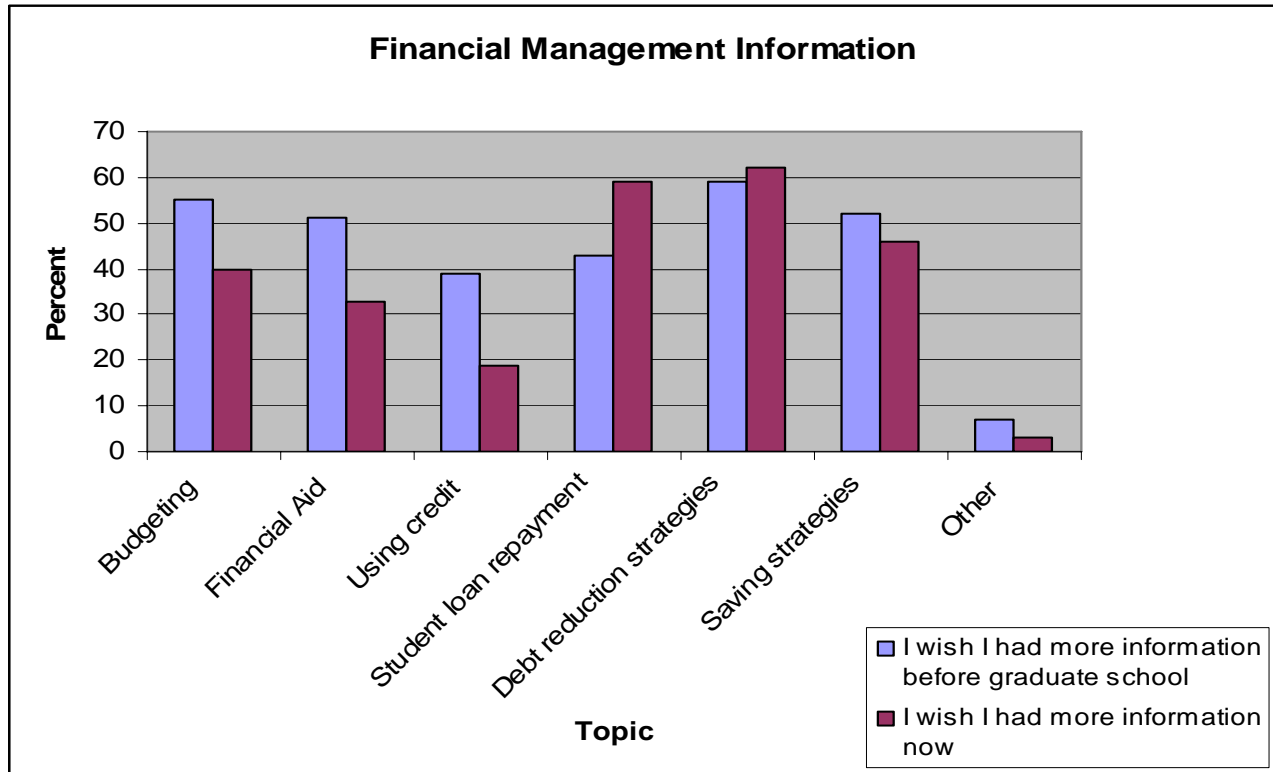


Figure 3: Percentage who identified the types of financial education topics they wished they had access to by point in time; Source: self-reported survey data

When asked *when* they would have liked to receive financial management information (selecting all applicable responses), 59% said as early as high school, 40% as a college freshman, 40% said prior to borrowing, 23% said prior to graduation and 54% said on an ongoing basis throughout their undergraduate years.

When asked *how* they would prefer to receive financial management counseling, students preferred learning from people—as long as the people were not their parents—rather than independent learning. However, independent learning that is interactive is more preferred than passive learning.

The most preferred delivery method was “one-on-one counseling”; this was followed by “formal classroom instruction”; the third preference was “informal group setting.” The somewhat-preferred methods were “online tutorials,” followed by “workbooks.” The least-preferred methods were “posted tips on campus,” followed by “parents,” with the third least-preferred being “e-mail.”

Conclusion

By virtue of their educational attainment, graduate students are by-and-large intelligent people capable of grasping the finer points of credit card usage benefits and comparing those benefits with the associated risk. Most are making an investment in themselves and their future earning potential by attending graduate school—receiving benefits that outweigh the cost of attendance.

However, many respondents reported a need for additional education and information on financing post-graduate studies, reducing credit card debt and managing money. They have stated this directly in their survey responses, and indirectly by revealing habits that include charging direct education costs on a credit card and paying only the monthly credit card minimums, rather than seeking more cost-effective means of financing college.

As independent students, graduate-level students typically have less access to family funds than undergraduates. Graduate students also have reduced access to much of the free money for school (i.e. scholarships and need-based grants) that is available to undergraduates. The upward trajectory of credit card debt as students remain in school illustrates the need for increased and early information about planning and budgeting for multiple years of college payment, along with additional aid options.

Students should have ongoing access to financial management information and tools, and receive counseling sessions about their financial aid and student loan repayment options each semester they are enrolled. For most graduate students, the investment they make in their education will likely pay off, but awareness of financing options and savings strategies should help them make better financial decisions that could reduce frustration and expense in the long term.

Background and Methodology

Nellie Mae's 2006 credit card usage study is the fourth in a series on graduate students conducted since 1998. We selected the pool of graduate and professional alternative education loan applicants mid-August through mid-October 2006. This resulted in a sample population of 1,149 students. Credit bureau data pulled in the loan application process was analyzed for the study. Of the population sample, less than 1% had no credit history and 8% had a credit history but no credit cards.

Of the total population, 42% were first-year graduate students, 28% second-year, 18% third-year, and 12% fourth-year or more. The breakout by age was: 4% were under 22 years of age; 25% were aged 22-24; 35% aged 25-29; 14% aged 30-34; 10% aged 35-39; 10% aged 40-49; 3% aged 50-59; and less than 1% aged 60 or older. The breakout by regional location of the school showed 24% residing in the Northeast; 37% in the South; 6% in the Midwest; 18% in the West; and 15% studying abroad.

The same methodology was used in the earlier studies, 2001, 2000, and in 1998 but we used smaller sample populations in the earlier segments; previous samples were pulled from an application submission date range of August through October, except the 2003 study when all applicants were pulled from mid- to late-August.

Additionally, for the first time, we requested this student population complete a survey related to their credit card history and behavior. The survey requests were sent four times, twice via e-mail and twice via hard mail in November and December. We received 210 completed surveys, just over 18% of the population.

Of the survey respondents, 32% were first-year graduate students; 28% second-year; 21% third-year; 15% fourth-year or more; and 4% said they were no longer enrolled. The breakout by age was: 1% under 22 years old; 24% ages 22-24; 37% ages 25-29; 15% ages 30-34; 13% ages 35-39; 6% ages 40-49; 4% ages 50-59; and no 60 or older respondents.

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