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ROLL NUMBER

DESCRIPTION

3029

2003 HOUSE EDUCATION

HCR 3029

2003 HOUSE STANDING COMMITTEE MINUTES
BILL/RESOLUTION NO. HCR 3029

House Education Committee

☐ Conference Committee

Hearing Date February 5, 2003

Tape Number	Side A	Side B	Meter #
1		x	1500-3485
Committee Clerk Signature	Linda Fiechtner		

Minutes: **Chairman Kelsch** opened HCR 3029

(1500-3095) Rep. Frank Klein, District 36, See Attached Testimony attachment, viewed a video.

Rep. Herbel Do your kids have Credit Cards?

Klein: I encourage them to use them, and if they don't pay them they have to face me.

Rep. Hunskor Could I get a copy of this video for my districts?

Rep. Hanson I would like to know how many of the 11 Higher Education Institutes have contracts with credit card company.

Klein I don't know if any of them have contracts,

Opposition: none

2003 HOUSE STANDING COMMITTEE MINUTES
BILL/RESOLUTION NO. HCR 3029
House Education Committee

☐ Conference Committee

Hearing Date February 11, 2003

Tape Number	Side A	Side B	Meter #
1		x	222-1200
Committee Clerk Signature			

Minutes: **Chairman Kelsch** recapped the bill, read research from colleges about any contracts they may have with credit card companies.

Chairman Kelsch I'm not sure we can prohibit the marketing of credit cards at colleges.

Rep. Herbel Have the universities teach credit card responsibility

Rep. Haas I agree with you, but to put restrictions, this interferes with free enterprise, it is a matter of individual responsibilities

Vice Chair Johnson Could copies of this movie be given through the NDEA so that Jr. and Sr. are aware of what is happening when you use a credit card.

Chairman Kelsch Key, showing it in the classes so that they See Attached Testimony what can actually happen.

Rep. Haas some of them are being taught in family consumer science, and that is how to balance a check book and handle credit cards.

Rep. Williams moved a DO NOT PASS, Rep. Herbel seconded the motion roll vote, passed 12-2-0, Rep. Williams will carry the bill to the floor.

TR

Date: 2/11/03
Roll Call Vote #: 1

2003 HOUSE STANDING COMMITTEE ROLL CALL VOTES
BILL/RESOLUTION NO. 3029

House **HOUSE EDUCATION** Committee

☐ Check here for Conference Committee

Legislative Council Amendment Number

Action Taken DNP

Motion Made By Williams Seconded By Herbel

Representatives	Yes	No	Representatives	Yes	No
Chairman Kelsch	✓				
Rep. Johnson	✓				
Rep. Nelson	✓				
Rep. Haas	✓				
Rep. Hawken	✓				
Rep. Herbel	✓				
Rep. Meier		✓			
Rep. Norland	✓				
Rep. Sitte		✓			
Rep. Hanson	✓				
Rep. Hunskor	✓				
Rep. Mueller	✓				
Rep. Solberg	✓				
Rep. Williams	✓				

Total (Yes) 12 No 2

Absent 0

Floor Assignment Williams

If the vote is on an amendment, briefly indicate intent:

TR

REPORT OF STANDING COMMITTEE (410)
February 11, 2003 12:04 p.m.

Module No: HR-26-2264
Carrier: Williams
Insert LC: . Title: .

REPORT OF STANDING COMMITTEE

HCR 3029: Education Committee (Rep. R. Kelsch, Chairman) recommends **DO NOT PASS** (12 YEAS, 2 NAYS, 0 ABSENT AND NOT VOTING). HCR 3029 was placed on the Eleventh order on the calendar.

2003 TESTIMONY

HCR 3029

Good morning Madame Chairman and committee members:

For the record, my name is Frank Klein, State Representative for District 36.

(U.S. News and World) Many U.S. households are carrying a load of debt; and yet, they continue to receive offers for more credit cards. In fact, the average number of credit cards per household is 14. But, the real problem is with the college students. (Freshmen Seminar Textbook) Credit card debt by first year students has contributed significantly to the dropout rate for this group.

The purpose of concurrent resolution 3029 is to direct the Legislature Council to study the problems associated with credit card companies marketing credit cards to college students.

To emphasize the need for such a study, we will view a brief, but powerful video which was produced by "60 Minutes" entitled: **Power of Plastic**. (Video)

I know Dickinson State University is not affiliated with any credit card company, yet *just last week,* my son received this "Special Student Offer" (Discover). It has his name and Dickinson State University printed on the invitation. The company obtained his name and address through the campus directory. (Who's Who) *The next day,* he received an invitation for a Visa card and offer to receive a *Free* "Who's Who Among Students and Universities and Colleges" windshirt.

(GAO) Other tactics used: Several bookstore managers allow tabling and other forms of solicitation, including tabletop brochures and applications in textbooks and shopping bags. Applications inserted in shopping bags often help reduce the cost of the bags.

(Nellie Mae) There are reports on usage rates and trends. Students should not be banned from access to credit cards, but they should be encouraged to learn how to use them wisely. This resolution is directing the Legislative Council to study problems associated with credit card companies marketing credit cards to college students.

I urge a "**DO PASS**"on this resolution

9/7/02

Credit card use by college students worries lawmakers

WASHINGTON (AP) — More college students are overusing credit cards, academics and policy makers said Thursday as they urged Congress to do something about the problem.

"Often it's their unknowing parents who end up dealing with the debt," Ellen Frishberg, director of student financial services at Johns Hopkins University, told the Senate banking committee.

Eighty-three percent of undergraduates had at least one credit card last year, up from 67 percent in 1998, according to a study by Nellie Mae, a leading provider of student loans. The proportion of students with four or more credit cards jumped from 27 to 47 percent in that period, the study found.

The Education Department recently found that more than 44 percent of college students carried a balance on a credit card during the 1999-2000 school year. Among those students, the average credit card debt was $3,066. It was the first year such data was collected.

Robert Manning, an economic sociologist at the Rochester Institute of Technology, testified that credit card companies were increasingly marketing to freshmen rather than just juniors and seniors as in years past.

"It means that the debt burden is going to show up earlier," Manning said. "It means that retention in college is going to be affected, and we're going to see an increase in dropout rates because a student that has a debt problem in their sophomore year may not be able to find a way to financially limp through the last two years."

He said some of the nation's universities were contributing to the problem by entering into financial contracts with credit card companies. For example, the University of Tennessee has a seven-year, $16.5 million contract with First USA that gives the company information about the university's students.

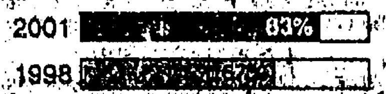
Sen. Chris Dodd, D-Conn., pledged to order a General Accounting Office investigation into the marketing of credit cards on college campuses.

Dodd also has authored legislation that would require credit card companies to ensure students can pay their bills before getting credit cards. If students cannot prove they can pay, they would be required to take a course in personal finances or get their parents to co-sign an application.

Beware of plastic

An increasing number of college students are using credit cards to pay for their purchases, increasing the likelihood of accumulating debt.

Undergraduates who had at least one credit card



College students who carried a balance: 44 percent

Average debt: $3,066

SOURCE: Nellie Mae; Department of Education AP

Credit card companies generally used to require parents to co-sign student applications, but stopped that practice about a decade ago, according to Manning.

IR

Credit card debt crushes student

10/15/02

Annie's Mailbox
Syndicated Columnist

Dear Annie: Last week, we found out that our 20-year-old daughter is $5,000 in debt due to credit cards. She got the cards two years ago, while she was a freshman at a state university.

"Edwina" is making arrangements to pay this debt off over the next three years. However, it infuriates me that we have laws in place to protect 18-year-olds from the consequences of drinking and gambling, but there is nothing to keep credit-card companies from preying on penniless, gullible college freshmen.

We need preventive education and should require credit-card companies to issue strict and explicit warnings about debt liability. And why can't there be laws that people under 21 must be able to prove sufficient income for credit or have a parent co-sign on the application?

My daughter has to put college on hold for at least a year in order to get this taken care of. It makes me sick to think that her income will be used to pay interest and penalties instead of tuition. — Concerned for Our Kids

Undergraduate Students and Credit Cards

An Analysis of Usage Rates and Trends

This report was developed and produced by Nellie Mae.

Published April 2002

NELLIE
MAE

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Executive Summary

Undergraduate college students are carrying credit cards in record numbers. The percentage of students holding at least one card in 2001 has risen 24% since 1998.

Although freshmen have the lowest rate of card possession among undergraduates, 54% carry a credit card. The percentage of students with at least one card increases to 92% in sophomore year.

Only 23% of freshmen, on the other hand, have a student loan. For many students entering college today, their first credit experience is with a credit card whereas ten years ago it was through a student loan.

The median debt level among card-carrying undergraduates – where half the population have balances lower than this amount and half have balances higher – has risen to $1,770, up from $1,236 in 2000. This is an indicator that more students are using their cards regularly and may not be paying off the balances each month.

The good news is that average credit card balances among students who have cards have decreased from the previous average calculated in 2000, and the percentage of students with balances greater than $7,000 has also declined.

Nellie Mae has conducted three credit card studies since 1998. Because of the consistent methodology of each year's study, the patterns of behavior related to credit card usage among the undergraduate population reveal meaningful comparisons and trends. Other highlights of the 2001 study include the following:

- **83%** of undergraduate students **have at least one credit card**; a *24% increase* since 1998.
- **Average credit card balance is $2,327**; a *15% decrease* from the 2000 average.
- **Median credit card balance is $1,770**; a *43% increase* above the median in 2000.
- **21%** of undergraduates who have cards, **have high-level balances between $3,000 and $7,000;** *a 61% increase* over the 2000 population.
- **Graduating students** have an average of **$20,402** in *combined* education loan and credit card balances.
- Students residing in the **Northeast** use credit cards the least, while **Midwesterners** carry the *highest average* credit card balances.
- Students ***double*** **their average credit card debt** - and ***triple*** **the number of credit cards** in their wallets - from the time they arrive on campus until graduation.

Results of the 2001 Nellie Mae Credit Card Study

Most Undergraduates Have Credit Cards in College

The majority of undergraduate students between the ages of 18 and 24 have credit cards, with possession in 2001 at its highest level to date. The percentage of undergraduates who have credit cards in 2001 is 83%, an increase of 24% from 1998 when 67% of undergraduates had cards, and an increase of 6% from 2000 when 78% had cards. The prevalence of cards among the undergraduate student population is also reflected in the increased average number of cards held, from three cards in 2000 to 4.25 in 2001, and in the percentage of students who hold four or more cards. Forty-seven percent of students with credit cards have at least four cards, up from 32% in 2000 and 27% in 1998.

Students with credit cards	1998	2000	2001
Percentage who have credit cards	67%	78%	83%
Average number of credit cards	3.5	3	4.25
Percentage who have 4 or more cards	27%	32%	47%

Credit Card Balances - Good News/Bad News

More undergraduate students have cards, and more of them appear to be using their cards regularly. The median credit card debt, which remained fairly steady between 1998 and 2000, increased by a startling 43% in 2001, from $1,236 to $1,770. This indicates that the 50% of students in the sample who carry the lowest balances have increased the debt level substantially in just one year.

At the time we collected this year's sample data, only 14% of all students with credit cards had a zero balance, indicating that fully 86% either had not paid off previous charges or had charged something within the current month.

Credit Card Balances	1998	2000	2001
Average credit card debt per student	$1,879	$2,748	$2,327
Median credit card debt per student	$1,222	$1,236	$1,770
Percentage with balances from $3,000-$7,000	14%	13%	21%
Percentage with balances exceeding $7,000	10%	9%	6%

The good news is that the average credit card debt has *decreased* by 15%, from $2,748 in 2000 to $2,327 in 2001. In addition, the number of students with excessive balances – greater than $7,000 – has been steadily declining since 1998. Six percent of those sampled had balances greater than $7,000, down from 9% in 2000 and 10% in 1998. This decrease has contributed to the overall average balance decrease. Expanded availability of financial management programs on campus, increased publicity over the dangers of getting deeply in debt, and the fact that the economy is no longer at its peak 1998 level may be factors conducing some students to change their credit card habits.

Unfortunately, the percentage of students with high-level balances – from $3,000 to $7,000 – has sharply increased by 61%. Twenty-one percent of all students fall into this category, up from

13% in 2000. There is continued cause for concern that enough has not yet been done to educate students on the consequences of over-borrowing. The real cost to a student with a credit card balance of $7,000 can be alarming when one looks at the total interest paid by a user who makes only the minimum monthly payment. A student who makes the minimum payments (3% of the monthly balance, or $25 – whichever is higher) at an interest rate of 18.9%, and who does not charge anything further to the account, would be repaying that $7,000 for more than *16 years*, and would pay $7,173 in interest.

From Freshman Year through Graduation

Not surprisingly, the freshman population has a lower overall percentage of credit card holders and lower debt levels on their cards than upperclassmen. However, more than half of all freshmen (54%) had at least one credit card with the average number of cards being 2.5, and, among those who have cards, 26% have four or more. Freshman debt levels are also lower than the overall counts in all categories. Their median debt amount is $901, lower than the overall median of $1,770; their average balance is $1,533 vs. $2,327 overall; those with balances exceeding $7,000 are 4% as opposed to 6% overall; and those with high-level balances between $3,000 and $7,000 are 8% compared to 21% overall.

As students progress through their four (or more) years in college, there is a steady increase in usage rates and balances each year from first to final year. By graduation, most students have more than doubled their average debt, and almost tripled the number of cards they hold. Most dramatic, however, is the 70% jump occurring between freshman and sophomore year in the percentage of students with at least one card – from 54% to 92% of the total population.

Credit Card Usage by Grade Level	01 Fresh	02 Soph	03 Jr	04/05 Sr/+
Percentage who have credit cards	54%	92%	87%	96%
Average number of credit cards	2.5	3.67	4.5	6.13
Percentage who have 4 or more cards	26%	44%	50%	66%
Average credit card debt	$1,533	$1,825	$2,705	$3,262
Median credit card debt	$901	$1,564	$1,872	$2,185
Percentage with balances between $3,000-$7,000	8%	18%	24%	31%
Percentage with balances exceeding $7,000	4%	4%	7%	9%

Once freshmen arrive on campus, there are many tempting incentives to sign up for new credit cards, and many opportunities to use them. The fact that the average number of cards per student continues to increase is not surprising. The proliferation of on-campus mail and Internet offers of free gifts, bonus airline miles, and low introductory rates for each new card is difficult for students to resist.

Trends by Age: Borrowing Increases with Each Year from Age 18 to 24

The progression pattern in increased usage by age level is similar to that seen in the grade level group. The 18-year-old students have the lowest card participation rate and debt levels while the 24-year-old students, for the most part, have the highest. The increase is fairly steady from years

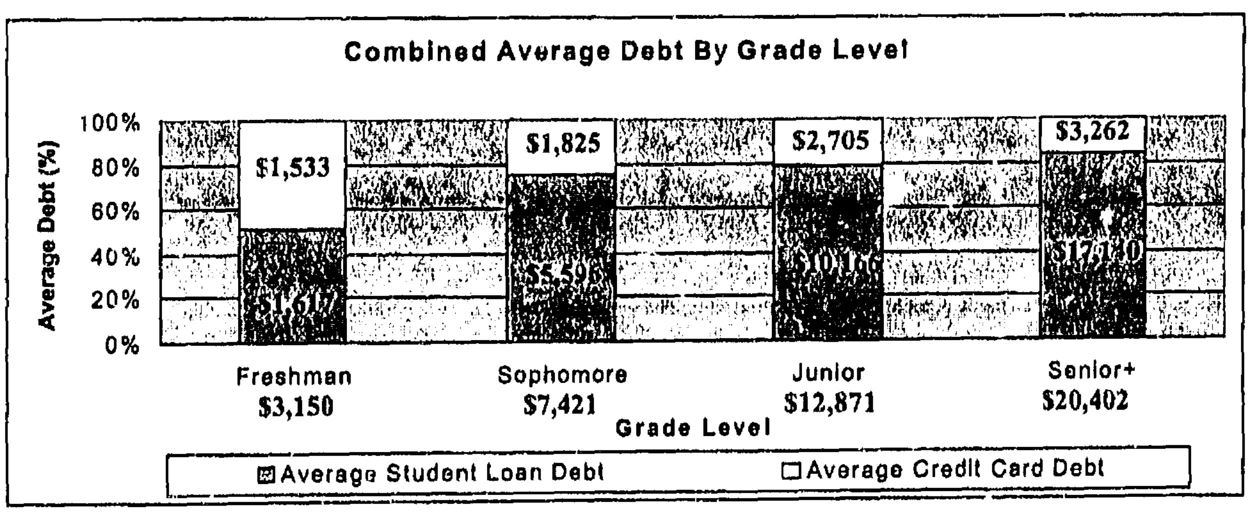
18 through 21 with a leveling off beginning at age 21 that then hovers at comparable rates from years 21 through 24.

Credit Card Usage by Age	18	19	20	21	22	23	24
Percentage who have credit cards	53%	85%	90%	93%	93%	97%	77%
Average number of credit cards	2.21	3.38	4.06	4.91	5.8	5.6	7.5
Percentage who have 4 or more cards	19%	34%	49%	58%	65%	61%	90%
Average credit card debt	$1,505	$1,561	$2,264	$2,984	$3,487	$3,229	$3,329
Median credit card debt	$901	$1,319	$1,362	$1,677	$2,183	$2,147	$2,424
Percentage with balances between $3,000-$7,000	12%	11%	23%	28%	28%	28%	30%
Percentage with balances exceeding $7,000	3%	3%	3%	10%	9%	14%	10%

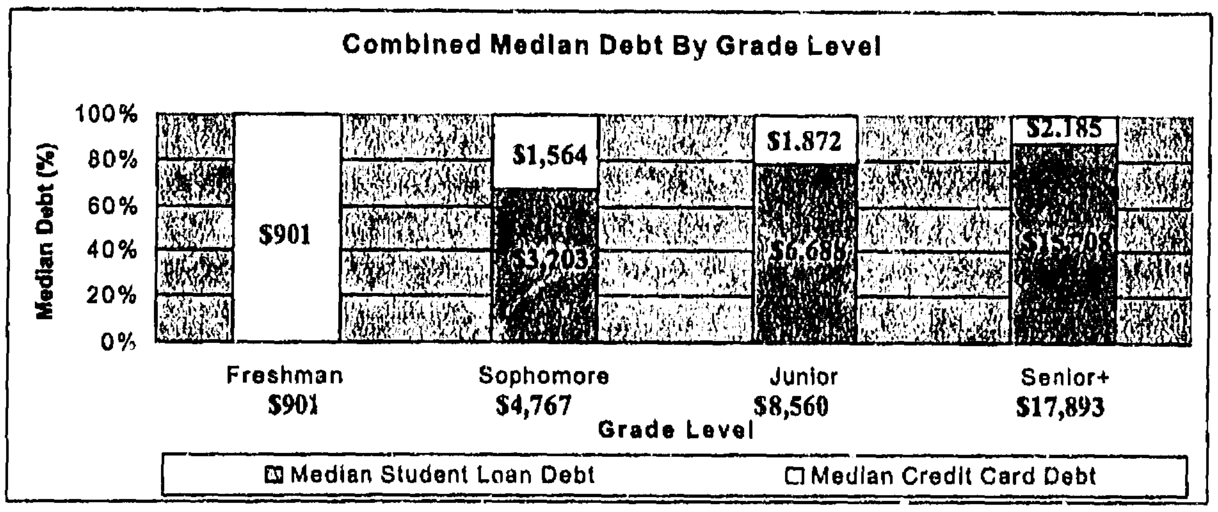
The greatest cause for concern is amongst traditional undergraduates who have little experience balancing debt and income. Those who move directly from high school to college without having been financially independent or having worked full time are less likely to be discerning about their credit card use and likely to be unable to manage credit card payments. This group has little experience correlating income to monthly payments.

The Whole Picture: Combining Credit Card and Education Loan Debt

Students take on greater debt as they progress through school. The easy availability of credit cards, limited income while in school, and a greater comfort level with the accumulation of debt are contributors to increased credit card use among undergraduates. The added danger of accruing increased levels of credit card debt as students progress through school is that they are, at the same time, increasing their student loan debt levels. Final-year undergraduate students at four-year institutions in this sample will be graduating, on average, with a combined credit card and education loan debt of $20,402, with credit card debt representing 16% of the debt owed.



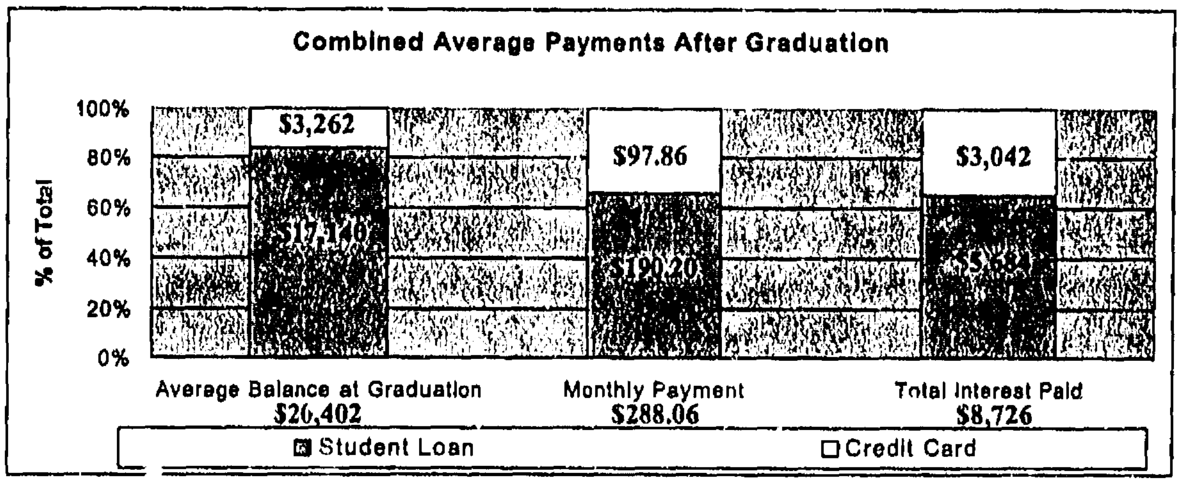
The median combined debt for final-year students is $17,893, with credit card debt representing 12% of the total debt owed.



Student loans are designed for student borrowers, providing payment deferral during college while most students have little or no income. Student loans offer a variety of repayment plans upon leaving school. These repayment plans accommodate a range of income levels and were designed with the expectation that students might not begin working immediately upon graduation and will most likely have lower-paying jobs initially than they will later in their careers. Because education is considered an investment, not just in the student's future but in the broader socio-economic community, the interest rates on student loans are generally below market; some that are based on financial need have very low rates and the interest is subsidized while the student is in school. Student loans are tied to the cost of attendance at an institution and distributed under the guidance of the financial aid office, which provides loan counseling prior to the delivery of any federal student loans.

Credit cards are designed for people with income. Credit card users are expected to make payments every month. Payment deferral, graduated payment plans and interest subsidy are not part of the credit card package. Interest rates are not below market rate; and some can be deceptively high over time -- particularly when a student signs up at the "introductory offer" rate and doesn't understand the potential for increase in the permanent rate. If a user misses a payment, a penalty fee is assessed. If a user misses several payments, the interest rate may increase. The purchasing power of credit cards can be irresistible to cash-strapped students who have not been taught about interest accrual, penalty fees and rate increases.

It is, therefore, somewhat alarming to know that, on average, 16% of total debt owed when an undergraduate leaves school is credit card debt. The student will pay a much higher price over time for this borrowed money than he/she will for the same amount in education loans. It is possible that credit card payments will make up 34% of the monthly payments students make upon graduation, and 35% of the interest paid over time even though the credit card balance represents only 16% of total debt owed.



Student loan example assumes loans are Subsidized Federal Stafford Loans; student is making standard 10-year term payments; the repayment interest rate remains fixed at the 01-02 rate of 5.99% and borrower earns no repayment benefits/discounts. Total interest paid does not include any fees.

Credit card example assumes no additional purchases are made to the card; student makes minimum monthly payment of 3% of outstanding balance, or $25 – whichever is higher – resulting in payment duration of 11.9 years; the interest rate remains fixed at the average credit card interest rate of 18.9% as reported by American Consumer Credit Counseling, Inc. Total interest paid does not include any fees.

Regional Trends: Easterners Borrow Less than the National Average; Midwesterners Borrow Most

Students who reside in the Northeast tend to be more conservative with using credit cards than students in other regions. Northeasterners have the lowest percentage of students who possess a credit card (76%), the lowest average number of cards (3.88), the lowest percentage of students with four or more cards (38%), the lowest average credit card balance ($2,099), and the lowest median credit card balance ($1,607). In addition, among students with high-level balances between $3,000 and $7,000, the Northeast's 18% is below the national average of 21%.

Credit Card Use by Student's Region of Residence*	NE	MW	S	W	Nation
Percentage who have credit cards	76%	88%	86%	81%	83%
Average number of credit cards	3.88	4.93	4.21	4.13	4.25
Percentage who have 4 or more cards	38%	53%	51%	49%	47%
Average credit card debt	$2,099	$2,478	$2,416	$2,265	$2,327
Median credit card debt	$1,607	$1,609	$2,139	$1,805	$1,770
Percentage with balances between $3,000-$7,000	18%	13%	25%	28%	21%
Percentage with balances exceeding $7,000	5%	11%	4%	6%	6%

*Regions as defined by the U.S. Census Bureau

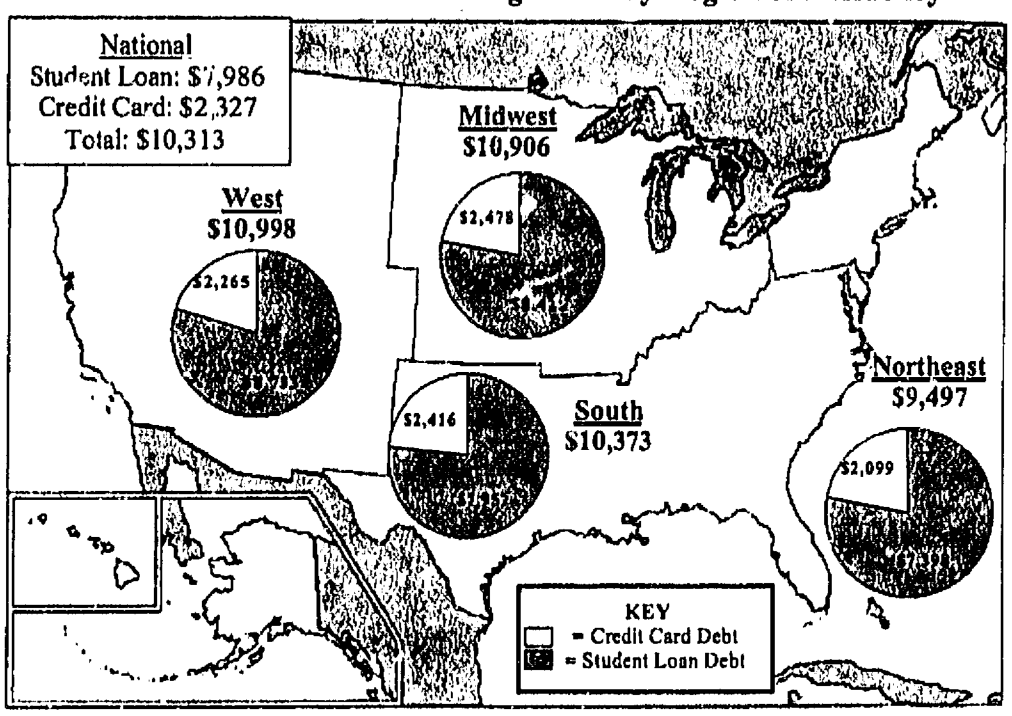
Students who reside in the Midwest have the highest incidence of card ownership with 88% holding at least one card, 53% having four or more cards and the average number of cards being 4.93. In addition, they have the highest average balance of $2,478. The high average balance in the Midwest is driven by the highest (11%) percentage of students with excessive balances of $7,000 or more. Conversely, Midwesterners carry a lower-than-average median balance ($1,609), and they have the lowest percentage of students (13%) with high-level balances in the $3,000 to $7,000 category.

Students residing in the South, on the other hand, are in the mid-range for card ownership with 86% having at least one card, 51% having four or more cards and the average number of cards being 4.21. Southerners have the lowest percentage of students (4%) with an excessive card balance of $7,000 or more. However, the Southerners' average credit card balance is above average at $2,416 and Southerners have the highest median debt level of any region at $2,139. Twenty-five percent of students with cards in the South carry high-level card balances between $3,000 and $7,000, a factor that contributes to the high average and high median balances for this group.

Students residing in the West have the highest percentage (28%) of students with high-level balances between $3,000 and $7,000, however, overall they reflect average card usage behavior. The percentage of Westerners with at least one card is 81%, with four or more cards it is 49%, and the average number of cards is 4.13. Those with balances exceeding $7,000 are 6%. The average balance on Western students' cards is $2,265 and the median balance is $1,805.

Although the average indebtedness varies among the four regions of the country, the proportion of credit card debt to student loan debt is consistent across all regions. In each region, credit card debt accounts for about 21-23% of an undergraduate's debt while in school.

United States: Combined Average Debt by Region of Residency



Conclusion

Credit cards are a common purchasing tool in our consumer-driven society. They are convenient, providing quick access to money used for a full range of planned (and unplanned) spending – from medical emergencies to indulgence in frivolity – and lots of things in between. They're here to stay, and their popularity among students will, no doubt, continue to escalate.

Students should not be banned from access to credit cards, but they should be encouraged to learn how to use them wisely. They need to make the connection between spending and earning, which is a difficult connection for students who do not have steady income from employment. Students need to be taught to budget expenses based on income. They need to understand the financial ramifications of using a credit card, including interest accrual, capitalization and penalty fees -- and the encumbrance on future income -- so they can make better decisions based on the true costs of using a credit card. They particularly need to understand that there are other, less-costly financing options for purchasing a big-ticket item, especially for costs associated with college attendance.

The fact that average credit card debt has in fact declined in the past year is reason to be optimistic. In recent years, the education community has begun to offer financial literacy programs, and has become more aware of the impact of excessive credit card debt among students. The best way to reach students is through on-campus or college-supported programs. Whether such programs are developed by universities, sponsored by credit card companies or student loan lenders, hosted by independent financial management experts, or by a combination of efforts, they need to reach students. Online programs, in-person sessions, one-on-one tutorials or group classes can all be effective for different audiences. Getting students involved in the planning can help ensure success. The key to financial health for students during school and after graduation is their understanding of the costs and responsibilities associated with borrowing, particularly the borrowing that takes place every time they use their credit cards.

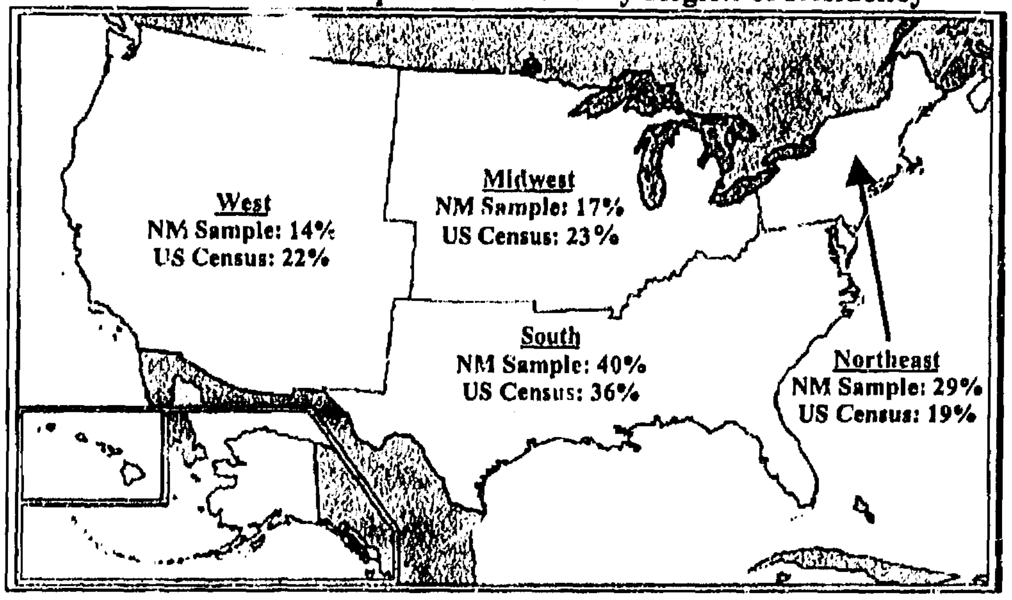
Background and Methodology

Nellie Mae's 2001 credit card usage study is the third in a series conducted since 1998. The first study, four years ago, was prompted by concern over increasing credit activity among college students. We noticed a significant increase since the early/mid-1990's in the amount and incidence of credit card balances of our student loan applicants. As part of Nellie Mae's student loan approval process, a credit bureau report for each student applicant is obtained from one of the major credit reporting agencies. In each of our three studies, 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 our 2001 study, we randomly selected data for 600 undergraduate students, aged 18 to 24, attending four-year public and private institutions who applied for a credit-based loan with Nellie Mae during the summer and fall of 2001. The same methodology was used in 2000 and in 1998 with a smaller sample size.

Students sampled live in all four U.S. census regions.

United States: Sample Distribution by Region of Residency



Although undergraduates' ages vary widely on most campuses, we selected data for students aged 18 through 24 because that is the student group for whom there is the most need for education about credit card usage and risks. Seventy-nine percent of students sampled fell into the traditional 18-21 age group for students attending college directly after high school; 21% of the sample were age 22-24. Grade levels were represented within the sample as follows: 23% freshmen, 33% sophomores, 25% juniors, and 19% seniors/5th year.

Average and median education debt levels were factored using the total number of student loan applicants in the sample; dollars factored were for existing loans and do not include the requested loan amount at the time the new student loan application was submitted.

Celebrating 20 years in higher education financing, Nellie Mae provides federal and private education loans for undergraduate and graduate students, and families. Programs include Federal Stafford, PLUS and Consolidation Loans, as well as private, credit-based loans. Nellie Mae's online services available at www.nelliemae.com include pre-approval for education loans, a comprehensive loan information center, and debt management resources. The company is based in Braintree, MA and is a wholly owned subsidiary of Sallie Mae, the nation's largest provider of education funding. USA Education, Inc. (Sallie Mae) and its subsidiaries, other than the Student Loan Marketing Association, are not sponsored by or agencies of the United States government.