Opinion Corner

Credit Cards on Campus: Academic Inquiry, Objective Empiricism, or Advocacy Research? A Response

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The comments offered by Robert Manning and Ray Kirshak in this issue of the *Journal* (pp. 39-48) are designed to leave the reader with the impression that our paper "Usage of Credit Cards Received through College Student-Marketing Programs" (*Journal of Student Financial Aid*, 2004) was nothing more than "advocacy research." We admit to being startled at this vitriolic response to our paper.

The accusations and implications in the Manning and Kirshak comment are distorted and unfounded. While we firmly believe that improvement in financial literacy of America's youth is a valuable goal, we are not about to alter the facts to either promote or diminish the appearance of a "crisis" in college student use of credit. Sadly, we believe the same cannot be said of Manning and Kirshak. In their response, Manning and Kirshak appear to use a mantle of scholarly objectivity to advocate the viewpoints they espouse in their commercial endeavors. Both authors, but especially Manning, obtain direct or indirect financial gain from activities that promote an urgent need for financial education programs among college students. For example:

- Although it is not mentioned in their article, Manning is founder and current president of Newtonian Finances Ltd., which offers financial literacy modules for sale, and according to its Web site, "develops financial education programs for nonprofit organizations and conducts research on household consumer activities."
- Manning's book, *Credit Card Nation: The Consequences of America's Addiction to Credit*, is in its second printing. According to its jacket, the book "dramatizes how the credit card industry preys on the American dream." Manning also has a forthcoming book (2005), *Give Yourself Credit!* which the Newtonian Finances site indicates will "provide practical consumer advice as well as [explain] the most recent trends in the consumer financial services industry."
- Manning is compensated through the American Program Bureau for speeches and lectures to professional associations, corporate meetings, and educational institutions. According to the American Program Bureau, Manning is currently "promoting a national student financial literacy movement."

However, this commercial interest suggests another reason for Manning's claims of a crisis in student use of credit: demand for his presentations on the lecture circuit will be higher if the student credit card problem is perceived as more severe.

- Although not reported in the Manning and Kirshak response, Ray Kirshak is the director of educational programs for Newtonian Finances Ltd., and so is either a partner or an employee in Manning's commercial activities.

The commercial ties of both authors raise legitimate questions about the objectivity of their scholarly work on the topic.

A Question of Transparency

Manning and Kirshak remark in their comments that "the transparency of the academic enterprise and the rigors of the peer-review process offer security that the integrity of the research process is not violated" (p. 45). But by this standard, Manning and Kirshak offer little to assuage concerns of bias in their own commentary. We can find no record of publication of any study by either author in any peer-reviewed business, economics, finance or consumer economics journal on consumer credit in general or credit card usage in particular.

The Web site for Newtonian Finances Ltd. (www.creditcardnation.com) lists over 100 references to interviews with Manning in the national press, but not a single academic publication in a refereed journal, even in the section on research reports. To be sure, Manning has conducted surveys of college students and their credit card habits. But unlike most other academic scholars working on the topic, he has failed to place his credit-related empirical research in a refereed journal. One clue as to why can be found in the U.S. Government Accountability Office (GAO) 2001 report, "College Students and Credit Cards." The GAO cited a 1999 student cardholder study by Manning as one of several it found during a literature review that it chose not to evaluate in its report because "the survey methodology of these studies did not employ random sampling techniques that would allow us to draw inferences about the student population as a whole or even about a specific subset of students" (GAO, p. 67).

It could be that, rather than furthering academic scholarship, Manning's aim is to promote a problem and sell books. This background helps to explain the tenor of Manning and Kirshak's response to our paper. Of course, a published comment on our paper also provides Manning an opportunity to bolster his position as a self-proclaimed "expert" in the field in order to promote the financial education products he produces.

The Original Article's Intent

To resolve any confusion in the reader's mind regarding our original article, we restate here its purpose: to provide bench-

mark measures of the usage of general-purpose credit cards acquired through college student-marketing programs during the period 1998 through 2000. The project concept originated with analysts at the U.S. General Accountability Office (GAO) in response to a Congressional request for information about how college students used credit cards and the effect of marketing programs aimed toward them. We created a unique new database of over 300,000 recently opened credit card accounts following the guidelines developed by the GAO as it planned for a similar study in 2001.

Despite assertions by Manning and Kirshak to the contrary, the GAO acknowledged that "in January 2001, eight credit card issuers expressed willingness to participate in a study of account data that would compare college students with other groups." The GAO report further noted that "as of May 2001 we are continuing to explore the feasibility of using an independent contractor to create a database with verified data provided by the eight credit card issuers that we can analyze" (pp. 51-52). The companies had clearly agreed to participate. Late in 2001, when the GAO opted not to continue the development of the project, five of the willing issuers asked the Credit Research Center at Georgetown University to pick up the project and carry it forward. Manning and Kirshak insinuate that the card issuers stonewalled the GAO, and that those issuers "[rewarded] 'friendly' researchers with access to proprietary data while denying access to objective or 'unfriendly' scholars" (p. 42). However, the GAO's own report shows this not to be the case.

As indicated in our original paper, the assembly of the pooled cardholder database and the resulting analysis closely followed the GAO's announced study plan in scope, and shared its focus on comparing the activity of recently opened accounts acquired through student marketing programs with the account activity of cardholders who opened accounts through conventional (non-student) marketing channels. For the record, we repeat our findings:

> This study of credit card usage is the first that we know of to compare the activity and performance of student-marketed credit card accounts to other types of accounts by using pooled random samples of account-level data from a number of large credit card issuers. All comparisons involve accounts that have been open less than three years. The data indicate that, in general, student-marketed accounts have smaller balances, lower credit limits, and lower usage rates than accounts of similar age that were opened by young adults through issuers' conventional (non-student) marketing programs. The credit card balances and limits are substantially lower on student accounts than on older adult accounts opened through non-student marketing programs. About 12% of student accounts are delinquent in a given month (i.e.,

minimum payment is 30 days or more past due), which is about the same as for young adult non-student accounts, but substantially higher than the 8% delinquency rate on accounts held by older adults.

Although recently opened student accounts are more likely to be delinquent and have a higher likelihood of charge off compared with other groups, the dollar amounts at risk on delinquent accounts and the actual losses on charged-off accounts are substantially lower. Further, within two years of opening the account, the delinquency and charge-off experience for student accounts becomes quite similar to non-student accounts of young adults. These findings are consistent with issuers' statements that they establish student accounts with relatively low credit limits and the expectation that the large majority of young, new cardholders will learn how to manage a credit card, establish a credit history, and become longer-term customers (GAO, 2001). While these account-level performance data indicate that frequent news media reports of a "credit card debt crisis" among college students are exaggerated, it is also quite possible that the relative performance of student accounts improves over time in part because parents of college students may intervene to help pay the monthly credit card bills.

Refuting Purported "Methodological Deficiencies"

We now address each of the "most salient methodological deficiencies" of our research design alleged by Manning and Kirshak.

Alleged Methodological Deficiency #1: "[T]he analytical focus on 'universal' bank credit card accounts deflects attention from the appropriate unit of analysis: individual college students in their institutional context with specified controls for variations in cost of living (geographic region, urban/suburban) and educational expenses (public versus private)" (p. 42).

Response: Manning and Kirshak seem to think there is only one way to conduct a study of college student credit card usage. But, as any experienced researcher knows, there is no single "appropriate unit of analysis." Different data sets provide complementary views of the phenomenon observed. We adopted our focus on the credit card account as the unit of observation because that was also the GAO's focus as it sought objective (as opposed to self-reported) measures of card usage. Detailed, account-level data obtained directly from card issuers provide such objective indicators. Moreover, it makes sense that a study concerned about the possible adverse impact of student credit card marketing programs would focus on accounts newly opened through such programs and track them over time, which is what we did. The focus on the account as opposed to the individual neither "deflects" attention nor prevents useful inferences about the behavior of individual cardholders.

Alleged Methodological Deficiency #2: "[T]he exclusive focus on credit card accounts diverts attention from the complex dynamics of student credit card debt and, ultimately, the estimation of total credit card-related indebtedness. In particular, it fails to address the institutional and social context that explains the relatively low delinquency rate of student card accounts" (p. 42).

Response: Again, this shows a failure to grasp how inferences can be made from account-level data. Our paper clearly stated an important caveat: because the underlying data derive from specific accounts sampled by the participating issuers, the dataset does not provide a comprehensive picture of the total credit card debt or number of credit cards held by each accountholder represented in the sample. For some cardholders in the sample, the sampled account may be their only general-purpose credit card. For others, the sampled account may be one of several owned, and possibly one of several issued by the same company. However, we devote an entire section of the paper to discussing our results vis-à-vis other studies and databases that capture total credit card indebtedness (see Barron & Staten, 2004, pp. 20-24; Tables 2 and 3). This hardly qualifies as "diverting attention" from the question of total student debt. As for the Manning and Kirshak reference to "relatively low delinquency rate of student card accounts," those are their words, not ours. Indeed, we noted that delinquency rates on accounts opened through college student marketing programs were "substantially higher" (specifically, 50% higher) than the delinquency rates on accounts held by older adults.

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Alleged Methodological Deficiency #3: "Barron and Staten fail to track the use of student credit cards from the first semester through the end of college. . . . Barron and Staten do not include retail credit cards in their analysis nor do they examine card usage patterns of students with multiple accounts. This requires a longitudinal analysis that explicitly examines total credit cards and aggregate revolving debt by class standing over the entire educational career of undergraduate students (freshmen through senior years)" (p. 43).

Response: On this point Manning and Kirshak reveal a fundamental misunderstanding of the analysis. The database does capture elements of a longitudinal analysis because it includes accounts opened by students of all ages and class standing (freshman through senior year) and provides up to several years of account history on each account. So, for example, we were able to use the sample to produce Table 9, which shows 90+ day delinquency rates on accounts that are five months old, vs. 16 months old, vs. 24 months old, etc.

In an attempt to bolster their claim of sample bias, Manning and Kirshak point out that the median age of students who opened accounts through the student marketing programs

is 21.9 years old at the end of the 12-month observation period. Based on this, they worry that the sample "virtually excludes traditional college freshmen, includes few college sophomores [and] overrepresents juniors and seniors" (p. 43).

Here, several points of correction are warranted. First, by definition, the median tells us that half of the cardholders in the "student" sample were less than 21.9 years old at the end of the observation period. Some of them were 19 years old; some were 18 years old, with the caveat that all had at least 12 months of experience on the account to be included in the sample. Second, because the sample captures accounts that are up to three years old, it contains accounts of individuals who opened their accounts as freshman and sophomores, and provides insight as to how they are handling those accounts up to three years later.

Beyond these three "most salient deficiencies," Manning and Kirshak sprinkle a number of other "concerns" throughout their response.

- Manning and Kirshak claim our data "may exclude over one-half of the population universe of undergraduate students (freshmen and sophomores) who tend to possess the fewest number of credit cards and thus have the lowest aggregate credit card balances" (pp. 43-44). Actually, the database captures accounts of all vintages opened by cardholders of all ages. Of course, students who have more credit cards will be more likely to appear in a random sample of credit card accounts. This means that juniors and seniors are probably more numerous in the sample than freshmen and sophomores, simply because they have had more time to accumulate cards. But this is an accurate reflection of the true population of student card accounts, which is our unit of analysis.
- Manning and Kirshak again raise the issue of bias by stating that students "tend to accumulate more credit cards with higher outstanding balances as they approach the collegiate finish line of graduation" (p. 44). If that is true, then the construction of our sample yields a higher average balance per account than would an analysis of average balance per account for a random sample of students. This seems an odd point to raise, given that the theme of the critique is that we have biased the experimental design away from finding excessive debt.
- Manning and Kirshak are concerned that the "misclassification" of many accounts as "student accounts" may bias downward the estimates of delinquency by including accounts of former students who have graduated into the workforce (and presumably greater capacity to make their payments). Again, they appear to have expected higher delinquency rates than those we observed in the sample.

  Let's be clear on one point—there is no misclassification. We clearly defined a student account as one that was opened

through a card issuer's college student marketing-program. These programs generate new student accounts on campus, in a branch of a financial institution, or though various direct marketing channels, depending upon the issuer. Further, we clearly stated in our paper that we do not know whether the young adult cardholders holding these student accounts were still students or had graduated, dropped out, or otherwise changed their status. We simply know that they acquired their accounts through dedicated college student-marketing programs. Many of the concerns raised in the media revolve around the consequences of the marketing of credit cards to students. In that regard, focusing on the set of accounts created through such marketing efforts and tracking them over time seems to be a perfectly reasonable approach.

For the record, the data obtained from the credit card companies did not include the class status of each student account holder (although it did include age at the time the account was opened), so more precise segmentation based on year-in-school was not possible. In any case, all of this serves to highlight the importance of having a research design that allows for cross-group comparisons of accounts opened through student marketing programs vs. other channels, especially for younger cardholders. We emphasize this feature of our analysis throughout the paper.

- Manning and Kirshak take us to task for not providing a broader list of references. In particular, they state that "the central question" of their essay "is whether the authors' conclusions are based on a thorough examination of the numerous empirical research studies on this important topic" (p. 39). Several points are worth noting here. First, we referenced in our paper the same studies of cardholder behavior that the 2001 GAO report considered relevant.

  Second, our analysis does not address the broader issue of the overall net benefits associated with the availability of student credit cards, an issue on which many of the references cited by Manning and Kirshak appear to focus. Our paper simply presents comparisons of account behavior for accounts opened through student marketing channels vs. other channels. Consequently, we did not see the need to reference the broader literature.
- For questions regarding how accounts are being handled, analysis based on a unique database that describes the actual performance of a very large sample of student credit card accounts (as opposed to surveys of student cardholders and their self-reported responses) is entirely appropriate. This point seems lost on Manning and Kirshak, who do not show awareness of the importance of representative samples. For example, they assert in their comment that

wider use of debit cards "masks a significant proportion of college students who have had their credit cards revoked due to defaults on their outstanding account balances (Manning and Smith, 2005)" (p. 41). But they base this sweeping statement on Manning's unpublished case study of college seniors at a single historically Black university. Similarly, the sampling methodology that the 2001 GAO report found inadequate in Manning's 1999 study of college students at four Washington DC-area universities consisted of "350 interviews and 400 surveys; some of the surveys were from students walking past one campus building, and others were given to students taking an Introduction to Sociology class" (GAO, 2001, p. 68).

Make Your Own Assessment

We invite interested readers to examine our paper and decide for themselves whether it represents academic scholarship or advocacy research. We contend that it is a straightforward, careful description of a new data set, and a comparison of the findings with other similar data sets.

We believe our analysis makes a significant contribution to the literature on student credit card usage for two reasons. First, it provides actual account-level data, which is a substantial improvement over self-reported survey responses, especially on sensitive questions such as amount of debt owed and incidence of delinquency. Second, the analysis also provides a comparison of accounts opened through student marketing programs vs. other channels, and is segmented for cardholders of different age groups.

Does our analysis answer all possible questions related to student use of credit cards? Of course not. But that is hardly a case for suggesting, as Manning and Kirshak do, that we are engaged in advocacy research.

Manning and Kirshak claim that they are supporting the "integrity of the academic research process" with their critique, and "fear that advocacy research will become difficult to distinguish from objective scholarly inquiry" (p. 46). We leave it to an objective reader to decide if our paper is scholarly inquiry, and if their response is in a similar vein. With that in mind, we feel compelled to address one final issue.

In the concluding section of their comment, Manning and Kirshak attempt to cast additional doubt on the integrity of our research by citing "two critical GAO reports (1998; 1999)" (p. 46) as they pertain to a 1997 study we authored on an unrelated issue—bankruptcy filings. Why would Manning and Kirshak make reference to research on a totally different topic? They cite the GAO critique of our work as if it confirmed a pro-industry bias in our research. We believe it is Manning and Kirshak who have distorted the facts to serve their own purpose.

The record deserves to be set straight. First, only the 1998 GAO report examined our research—there was no assessment of our work in the 1999 GAO report. Second, the first paragraph of the GAO's 1998 report summarizes the agency's views of our analysis: "Overall, the [Credit Research] Center report represents a useful first step in analyzing the ability of bankruptcy debtors to pay their debts. Because there is little empirical basis on which to assess the accuracy of the data used in the report's analysis, and because the data provided by the authors showed considerable variation among the 13 locations used for analysis, the report's general findings must be interpreted with caution. Our review of the Center report suggests that additional research and clarification would be needed to confirm the accuracy of the report's conclusion regarding the proportion of debtors who may have the ability to repay at least a proportion of their nonpriority, nonhousing debt" (GAO, 1998, p. 2). Given that our study of bankrupt debtors' ability to repay was the first of its kind in nearly two decades, this hardly sounds like the ringing indictment of our work that Manning and Kirshak would have the reader believe.

We agreed with the 1998 GAO assessment that a nationally representative sample would be useful to confirm our findings, but felt that our dataset was sufficiently stratified to support our general findings of a significant repayment potential among Chapter 7 filers.

Third, contrary to the claims of Manning and Kirshak, we did work with the GAO to provide additional information regarding the dataset we developed, and over 20 pages of the GAO's 1998 report are devoted to presentation and discussion of that supplemental analysis.

We agreed with the 1998 GAO assessment that a nationally representative sample would be useful to confirm our findings, but felt that our dataset was sufficiently stratified to support our general findings of a significant repayment potential among Chapter 7 filers. These findings were reaffirmed by four subsequent studies by other researchers that were reviewed in the 1999 GAO report cited by Manning and Kirshak. The four reports found patterns of debt, income, and expenses consistent with our earlier study, and supported our conclusion that there was a significant potential for the repayment of debt by Chapter 7 filers. Manning and Kirshak either never read these GAO reports or mischaracterized the nature of our research and the GAO's commentary. Finally, Manning and Kirshak fail to provide any citation to the National Bankruptcy Review Commission report to Congress in 1997 that would support their bald assertion that the Commission "rejected the veracity of Staten and Barron's findings" (p. 46). In fact, we presented testimony at the Commission's invitation on two occasions and presented testimony on the same issues three times before committees of the U.S. House and Senate between 1996 and 1999.

In conclusion, we think the careful reader will correctly question the objectivity of Manning and Kirshak rather than our own.

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