The College Credit-Card Hustle

How universities and alumni associations profit by marketing undergrads to financial giants—like Bank of America

by Jessica Silver-Greenberg and Ben Elgin

Illustrations by J. Alex Stamos

Universities and their alumni associations have discovered an unlikely and disturbing source of revenue: Increasingly, they are selling students' personal information to big credit-card companies eager for young customers.

Using state public disclosure laws, *BusinessWeek* has obtained more than two dozen confidential contracts between major schools and card-issuing banks keen to sign up undergraduates with mounting expenses for tuition, books, and travel. In some instances, universities and alumni groups receive larger payments from the banks if students use their school-branded cards more frequently.

The growing financial alliance between schools and banks raises questions about whether universities are encouraging students to incur additional high-interest debt at a time when many

young people graduate from college owing tens of thousands of dollars. Most undergraduates lack substantial income of their own and are especially vulnerable to late fees and other penalties if they fall behind on monthly payments.

BusinessWeek's investigation parallels a separate probe by New York Attorney General Andrew Cuomo. He is looking into a range of relationships between schools and financial institutions. "It seems that the schools are simply selecting the university credit card based on who pays the school the most, and that may not be best for students, especially in these hard economic times," says Benjamin Lawsky, a Cuomo aide. Last

year, Cuomo cracked down on ties between colleges and private tuition lenders, some of whom were paying schools to promote them to financially strapped students.

Some of the country's best-known and largest schools have multimillion-dollar credit-card deals, including the Universities of Michigan, Minnesota, and South Florida. Private schools also have these typically secret deals, but information about public institutions is more readily obtainable under disclosure laws.

Alumni groups often take the lead in arranging for so-called affinity credit cards, many of them decorated with school mascots and logos. Schools usually approve the contracts and provide access to student information such as e-mail addresses and phone numbers. Some schools also allow on-campus hawking of credit cards through T-shirt giveaways, phone campaigns, and in-store promotions.

Universities rarely negotiate favorable terms for their students, according to people familiar with the practice. On the contrary, some schools and booster groups entice undergraduates to sign up for cards with low initial interest rates that are soon replaced by steep double-digit rates.

SNARING CUSTOMERS

The University of Iowa's alumni association sent a credit-card mailer to students in May 2007, announcing in large bold letters "outstanding financial benefits for students," including a 4.9% interest rate. "Don't miss this unique opportunity to show your University of Iowa pride, while you enjoy truly outstanding credit card benefits and services," urged a marketing letter signed by Vince Nelson, alumni president. Iowa students who scrutinized the accompanying paperwork found that the 4.9% rate lasted only six months before leaping to 18.24%, a common technique in the credit-card industry.

In exchange for helping snare customers from Iowa's 29,000-person student body, card issuer MBNA (now owned by Bank of America (BAC)) agreed to pay the school's alumni group about $1 million a year, some one-fourth of the organization's operating budget. This kind of dependence on credit-card revenue isn't unusual. The University of Delaware's alumni group receives about $300,000 a year--more than 90% of its revenues--for delivering student contact information to BofA.

Iowa stopped providing student information to BofA last November, but only after negative local press coverage. "The amount of marketing to students has always been less than that for alumni," says Chris Bavolack, who served as chief financial officer of the alumni association until early July. Overall, he says, the group is "trying to reduce our dependency on credit-card revenue." Linda Kettner, a spokeswoman for the University of Iowa, says students who take the initiative can request that their contact information not be given to any outside marketers. At the University of Delaware, alumni association President Shante Hastings says the group is also trying to diversify its revenue to rely less on credit-card income.

Banks staunchly defend their campus deals. Many students need cards for large purchases, such as airline tickets, or for emergencies, the banks argue. Credit lines are typically much lower for student accounts, often $2,500 or less, limiting the peril

undergraduates face. And students, like all customers, have to sign applications, where they indicate that they understand the credit-card terms.

"FAIR AND RESPONSIBLE"

According to BofA, which dominates the campus market with more than 700 affinity deals, the primary targets are alumni and college sports fans, who hold 96% of the cards. The bank won't disclose how many of those cardholders first signed up as undergraduates. BofA also declines to discuss any specific contracts but says students are just as responsible with credit as older adults. "When it comes to students, we take a fair and responsible approach to lending," says spokeswoman Betty Riess. The bank gives educational material to student customers and doesn't hit them with higher rates for late payments. "Our objective is to create a long-term banking relationship," Riess says.

BofA stresses that it gives credit cards to only half of all student applicants. Nevertheless, many undergraduates obtain more than one card, accumulating substantial overall debt. College seniors on average carry $2,864 in credit-card debt, according to Nellie Mae, a division of student lender SLM Corp (SLM). Two-thirds of college students now graduate owing money on tuition loans, and that debt averages nearly $20,000.

John Kmetz signed up for a Penn State-branded card issued by MBNA after finding the application among his freshman registration materials. The brochure featured the school's famous Nittany Lion mascot, which appealed to Kmetz, whose father and sister attended Penn State before him. "I had a good feeling that if I was using the card, I was giving back [to the university]," he says. By the time he graduated in 2001, he had about $2,000 in debt on the card, which he admits he unwisely viewed as "free money." He had trouble finding work at first and skipped some minimum payments, incurring penalties that caused the debt to grow to $9,500 today. Kmetz, now 29 and living in Watertown, Conn., where he works at a credit union, says his delinquency hurt his credit score and meant that he had to pay 18% on his current car loan, the maximum allowed by state law. In retrospect, he wishes he had never applied for the Penn State card: "I think the school and the credit-card company are taking advantage of students and betting that parents are going to bail kids out."

Penn State's alumni association views the affinity card as a legitimate service and means of raising revenue, says Executive Director Roger Williams. "Credit is not a bad thing," he says. "In fact, you can make an argument that the American way of life is predicated on the generous use of credit."

Others disagree. Creola Johnson, a law professor at Ohio State University who has studied campus credit cards, says: "It is unethical for schools to allow a sophisticated industry to have access to their students, [many of whom] have graduated from high school without any financial education or literacy....The playing field is grossly uneven." Ed Mierzwinski, consumer program director for U.S. Public Interest Research Group, a liberal nonprofit in Washington, faults schools and alumni groups for failing to use their clout to gain better terms on cards for students. "The agreements allow for special access to undergraduate info and repeated contact to undergrads that may not be good for their well-being," he says.

Ohio State's alumni association, acting with the university's approval, agreed in 2002 to a seven-year deal with MBNA. The guaranteed minimum payment over that period was crossed out when the university released the contract in response to a *BusinessWeek* request. But the alumni group's latest federal filing as a tax-exempt nonprofit shows that it collected $1.2 million in credit-card royalties for 2006. The association provides the bank with e-mail and old-fashioned mail addresses, as well as phone numbers, for 55,000 undergraduates. The bank also receives information about alumni, faculty, and parents of students. Under the contract, the card company may conduct at least five direct-mail marketing campaigns each year. Faculty, staff, and parents are explicitly shielded from any kind of marketing by telephone. But students may be subjected to at least three phone campaigns a year.

Ohio State says it receives payments from its alumni group for use of trademarks and other assets. The school says that some of the money goes to fund financial education for students. "As educators, we know we need to teach students about how they can be financially responsible in life," says spokesman Jim Lynch. The alumni group declined to comment.

It's hard to assess the credit industry's claim that students are just as financially responsible as older consumers. Banks don't release comparative statistics. But figures from Florida State University indicate that at the 31,300-undergraduate school, students were about four times as likely as alumni to be delinquent on their MBNA credit-card bills--more than 9%, vs. more than 2%--in the two quarters in 2005 for which records were made available.

Andy Miller, president of Seminole Boosters, a nonprofit fund-raising arm for Florida State, enthusiastically stands by the deal. "There are too many opportunities to get credit cards, so to not offer yours to undergraduates is silly," he says. Nationally, more than three-quarters of undergrads have at least one credit card, most of which were obtained outside of school-sponsored programs. "Kids who want credit cards are going to get them," Miller says. Florida State's $10.7 million, seven-year contract allows "marketing to all students" and at least six direct-mail and telemarketing campaigns a year. The university had no comment.

IN-STORE PROMOTIONS

At the University of Michigan, where the alumni association has a contract with Bank of America, the group gets 0.5% of purchases made on school-branded cards. In addition, the organization receives $6 a year for every active student account, vs. $5 for each alumnus account. The deal guarantees the Michigan alumni association $25.5 million over 11 years. The group says its card is aimed primarily at alumni and sports fans but maintains that undergrads are treated fairly. BofA "views student accounts as an investment in developing long-term profitable alumni accounts," says Jerry Sigler, the association's chief financial officer. The university didn't comment.

Some campus card deals spell out in detail how schools will help market to their students. The University of Minnesota promises to push a school-branded JPMorgan Chase (JPM) card "in all University retail and athletic venues." The university says it will employ "in-store signage" and "in-bag credit card applications" at campus stores. The school gets $1 for each new cardholder and $3 annually for each active card user, in

addition to 0.5% of every purchase made with the cards. The school receives a relatively low guarantee of $360,000 over five years. University spokesman Daniel Wolter says that in contrast to the terms of the contract, Minnesota restricts marketing to sports events.

JPMorgan Chase says it has a "small number" of campus deals and isn't expanding in this area. Spokeswoman Stephanie Jacobson adds that in the past year, Chase has ceased requesting and using student contact data. "We don't believe that's an appropriate way to present these products, which are focused on alumni and other school supporters," she says.

CHANGE OF HEART

Schools or alumni groups inclined to curtail their relationships with credit-card issuers may pay a price. That's what happened at Washington State University last year. The alumni group had a contract with MBNA from 1997 to 2007 under which it provided the card company with student contact data. The bank was allowed to conduct at least four direct mailings a year, three telemarketing campaigns, and five on-campus marketing events. On top of payments for alumni accounts, the contract promised the group $3 a year for each student account and 0.4% of all sales charged to student cards. The association stood to earn annual bonuses of $50,000 to $100,000, depending on the number of new accounts opened and the average outstanding balance held on the high-interest cards: The more debt, the more the alumni group stood to gain.

All told, the contract guaranteed the Washington State Alumni Assn. $5 million over 10 years, or $500,000 per year. That's no small amount for a nonprofit whose 2006 revenues totaled $2.4 million.

In 2006, however, state legislators in Washington began grumbling about credit-card marketing to college students. "We realized that this thing was littered with potential issues," says Jud Preece, the alumni association's marketing director. "We were being compensated for student accounts. It could be damaging to the university as a whole."

When it came time to discuss renewing the deal, the group told MBNA's owner, BofA, to remove students from the contract and stopped providing any information on undergrads. Credit-card marketing on campus ended, and the alumni association stopped receiving compensation for student accounts. A new five-year contract assures Washington State alumni only $1.6 million, or $320,000 per year--a 36% cut.

As with all specific contracts, BofA declined to discuss its relationship with Washington State. But two former bank executives say that the contracts become much less valuable without undergraduates. "Banks want the students," says Kerry Policy, who worked on college deals as an assistant vice-president at MBNA from 1998 to 2005. "People usually hold on to their first credit card for a long time."

Links

The problem of student indebtedness is cropping up elsewhere around the world, and a credit-card backlash could be building in the U.S. Congress.

THINGS ARE TOUGH ALL OVER

American college students aren't alone in facing mounting financial obligations. The *Star* of Toronto reported in June that Canadian university students are borrowing more to make ends meet as tuition has climbed sharply. Students in tiny New Zealand, meanwhile, took to the streets this month in the capital city of Auckland to protest rising debt levels. The *New Zealand Herald* noted that protesters demanded that the government enact a "living stipend" that would ease students' financial pain.

DEBT, DEBT EVERYWHERE...

Beyond school-sponsored credit cards, growing student indebtedness in general has become a source of acute concern as tuition and other campus costs balloon. A report released in May by the liberal research group Demos pointed out that the average overall debt of recent U.S. college graduates (ages 25 to 34) has doubled since 1989, to $20,000. This is exacerbated in many cases by increasing rent levels. Today 43% of young workers spend more than one-third of their income on rent alone, up from 18% in 1970, Demos found.

...AND ITS BRIGHT SIDE

But there's another perspective on rising student debt. An article in June on Economist.com argued that students and their parents benefit from having expanded access to credit. Undergraduates gain freedom to spend on necessities and emergencies, while Mom and Dad get fewer demands for handouts, the British magazine's Web site asserted.

RULES, REGS, AND RIGHTS

Back in the U.S., Democrats in Congress say they are serious about reining in a wide range of controversial credit industry practices that have helped push many free-spending consumers into bankruptcy court. Representative Carolyn B. Maloney (D-N.Y.) introduced a cardholders' Bill of Rights, available on her office's Web site (maloney.house.gov). The bill would give consumers 45 days' notice before an increase in interest rates triggered by a late payment. It also would stop banks from increasing their rates if a customer fails to pay another card issuer on time.

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