



Illinois Department of Financial and Professional Regulation

Division of Banking

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Chamber Leaders and Members of the General Assembly:

The Illinois Department of Financial and Professional Regulation, Division of Banking, is pleased to present to you the Final Report on behalf of the College Student Credit Card Marketing and Debt Task Force as required by Public Act 101-0033, The Credit Card Marketing Task Force amendment to the Credit Card Marketing Act of 2009.

On June 28, 2019, HB 1581 of the 101st General Assembly was signed into law, becoming Public Act 101-0033 which created the College Student Credit Card Marketing and Debt Task Force. This Task Force was given the responsibility of conducting a study on student credit card debt and the practices of credit card issuers in Illinois. In addition, the Task Force was required to present the findings of its study, and subsequent recommendations in a report to the General Assembly. Those findings and recommendations are outlined in the sections below.

Section I of the report details the process of the Task Force and the methodology undertaken in conducting the study. Section II lays out the results of the study conducted by the Task Force. Section III provides further analysis on the topic of credit card marketing to young consumers and college students, and the general state of consumer debt for young consumers. Finally, Section IV provides the recommendations of the Task Force and suggests further steps that the legislature might take.

Sincerely,
Members of the College Student Credit Card Marketing and Debt Task Force

I. Process and Methodology

Per the instruction of P.A. 101-0033, the College Student Credit Card Marketing and Debt Task Force (CCMTF) was comprised of 8 members appointed by the various institutions listed in the Act.¹ In addition, the Acting Director of the Division of the Banking, Chasse Rehwinkel, represented the Illinois Department of Financial and Professional Regulation (IDFPR) during the proceedings of the CCMTF. The 8 members appointed are as follows:

1. Chris Harlan from the Illinois Credit Union League
2. Jerry Peck from the Community Bankers Association of Illinois
3. Ben Jackson from the Illinois Bankers Association
4. James Allen from Southern Illinois University
5. Julian Parrott from the University of Illinois
6. Doug Schnittker from Illinois State University
7. Laura McLaughlin from Eastern Illinois University
8. Vacant, Illinois Office of the Attorney General²

Since its creation, the CCMTF was convened twice, once on August 6, 2019 and once on November 19, 2019. Both meetings were held in the Legislative offices of the Illinois Department of Financial and Professional Regulation (IDFPR) in Springfield, Illinois. At the first meeting Laura McLaughlin was elected as Chairwoman of the Task Force. Additionally, the CCMTF discussed the history of the credit card marketing disclosures, the data requested by P.A. 101-0033, and the way in which the CCMTF would conduct its study. The CCMTF voted to conduct the study by drafting a letter to be sent to all state-chartered banks and credit unions in Illinois that would request the data outlined in P.A. 101-0033.

On September 9, 2019 the IDFPR, Division of Banking, sent a letter on behalf of the CCMTF to the Presidents and CEOs of all Illinois State-Chartered Banks to request the data outlined in the text of the Act. P.A. 101-0033 requested 14 specific data points, which were included verbatim in the letter sent to banks. In total, 361 letters were sent via email to the Presidents and CEOs of state-chartered banks in Illinois. Of those, 95% (344) of letters were successfully delivered to those included in the email list. In addition, the Division of Banking worked with agency partners at the Division of Financial Institutions to send request letters to state-chartered credit unions. Out of 188 state credit unions the CCMTF received 10 responses (5.3%). For reference, the data that was requested by P.A. 101-0033 can be found in appendix I of this report.

At the second meeting convened in November, the CCMTF discussed the results of the study and the data that was collected through Illinois banks (at this point no responses had been received from Illinois credit unions), which will be discussed in further detail below. Task Force members also discussed avenues for further research to be included in the report. As you will see below the Division of Banking was unable to collect a substantial amount of data from state-chartered banks due to many state banks not issuing credit cards as products.

II. Results

As mentioned above, 344 letters were successfully delivered to state-chartered banks in Illinois. Of the 344 letters received, the Division of Banking received 41 responses from banks across the state. However, only 3 of the 41 responding banks were able to provide any data that could be used for this report. The remaining 38 responding banks do not offer credit cards as products. Of the 3 banks providing data, one of those banks sold their credit card portfolio in 2017 and no longer issues that type of credit. Two of the banks that provided data gave exact figures, however one responding bank provided rough estimates only. A table of the data provided can be found in appendix II of this report.

¹ Illinois General Assembly, "College Student Credit Card Marketing Task Force Act of 2019," P.A. 101-0033. 101st General Assembly. <http://www.ilga.gov/legislation/publicacts/fulltext.asp?Name=101-0033>.

² The Office of the Attorney General is specified as a College Student Credit Card Task Force Member in P.A. 101-0033, however their institution did not have a representative present at task force proceedings.

The data provided in these responses show that 50% of Illinois students from one bank have paid off their credit card balance in full for at least 2 consecutive months, while the remaining 50% carry a balance all or most of the time. The same bank has extended a total of \$4,500 in credit to 4 students within the last 5 years. The responding bank that did not have exact figures estimated that most of its student card holders pay off their balance in full for most months, and that only a few of its cardholders carry balances month-to-month. This bank also noted that most of its student borrowers signed up for credit cards with their parents on the account. The bank estimates that it has “70 cards” in total credit extended to student borrowers. Additionally, according to the estimates from the data provided over the time period researched, 2005-2019, roughly 70-80 credit cards have been issued to consumers in this age group. According to the response from the estimating bank, it does not directly market any credit card to students or young borrowers and it does not offer any credit cards that have add-ons or harvester fees. Finally, this same bank has a standard rewards program on the credit cards it offers. Borrowers get 1 point for each \$1 they spend, and 120 points equal \$1. Those points are subject to forfeiture if not used after a period of five years.

Out of the 11 responding credit unions, none were able to provide all of the data requested in P.A. 101-0033. These entities were unable to differentiate students from other types of consumers in their data making it difficult to respond to the specific questions in the Act. However, most credit unions were able to give a figure of how much credit has been lent to borrowers between ages 18-21. The total amount of credit extended to this group ranged from \$6500 to \$721,750 from our respondents. Another notable response is that none of the responding credit unions solicit to students or consumers under 21 directly. One credit union was able to provide specific data in relation to the balances borrowers ages 18-21 carry. For this group of consumers at this credit union 15.83% paid off their balance in full for at least two consecutive months in the last year, and 44.24% of these borrowers have carried a balance for 8 months or more in the past year. The average balance for this group was \$584. Credit unions are more active in credit card markets than state-chartered banks, however as one respondent noted, this is a small part of their overall business.

III. Further Analysis

Unfortunately, the volume of responses received by the Division is insufficient to draw any statistically significant conclusions about credit card marketing to college students in the State of Illinois. However, the lack of responses may hint that most consumers, students included, opt to open credit cards with larger, national chartered entities rather than with the community banks. As shown, 95% of our respondents no longer issue credit cards. Large national issuers such as American Express, Visa, and Mastercard may have more data available, however these entities are regulated at the federal level and are generally not regulated by state bodies.³ Despite these difficulties, members of the CCMTF decided to expand the research aspect of this report to provide the General Assembly with a greater understanding of credit card marketing to young consumers. The Consumer Financial Protection Bureau and other existing sources, not outlined in the legislation, were able to provide useful data on this issue.

A. Student Credit Card Lending in the Post 2009 Credit CARD Act Era

Credit lending first became regulated in 1968 with the passage of the Consumer Credit Protection Act, which included the Truth in Lending Act (TILA).⁴ This legislation has provided the framework for consumer credit protections and has been updated over the years to reflect changes in the consumer credit market. The most

³ Nationally chartered credit card companies are regulated by various entities within the Federal Government. The Office of the Comptroller of the Currency (OCC) regulates credit cards that are attached to nationally-chartered banks. The Consumer Financial Protection Bureau collects complaints against credit issuing companies as well. Nationally chartered credit card companies are regulated at the state level, however due to the U.S. Supreme Court ruling in *Marquette National Bank of Minneapolis v. First of Omaha Service Corp.*, these companies are regulated by only a few states. The ruling allowed credit card companies to export the usury laws of the state they were headquartered in to any other state they conducted business in. As such, the majority of credit card issuers are headquartered in states with limited usury laws such as Delaware or South Dakota.

⁴ Tamara E. Holmes, “Know Your Rights Under the Truth in Lending Act,” *Creditcards.com*, Last modified October 31, 2014. <https://www.creditcards.com/credit-card-news/know-your-rights-truth-in-lending-act-1282.php>.

significant and recent changes to TILA and credit card regulations came in 2009, from the Credit CARD Act (Credit Card Accountability, Responsibility and Disclosure Act). Additionally, Illinois passed its own Credit Card Marketing Act of 2009, which largely mirrors the federal legislation.

The credit card market swelled considerably in the early 2000s. According to the National Consumer Law Center, average consumer credit card debt increased from \$4,000 in 2001 to \$7,300 in 2007.⁵ Additionally, in 2005 direct mail solicitations peaked at 6 billion across U.S. households, before declining significantly during the Great Recession.⁶ The 2009 Credit CARD Act was passed in the wake of the Great Recession and established several new regulations on credit card issuers. These included: requiring issuers to consider ability to pay before opening a new account or increasing a credit limit, providing notices before charging a higher interest rate, disclosing on statements that making minimum payments will result in higher interest payments and will take longer to pay off, eliminating fees for payment methods and over-the-limit transactions, and prohibiting issuers from offering tangible items as marketing incentives.⁷ These regulations came into effect in 2010, and as of 2011 are enforced by the Consumer Financial Protection Bureau pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act.⁸

As it pertains to the scope of this report, many of the regulations in the CARD Act were targeted at college students. According to the National Consumer Law Center, "At one point, over 80% of undergraduates had one credit card and more than three-quarters of those students carried a balance."⁹ However, the CARD Act has done much to mitigate this issue. Issuers can no longer offer any tangible item, such as gift cards or t-shirts, to incentivize students to apply for open-end credit. For example, issuers cannot offer a "free" gift card in exchange for filling out a credit card application. Also, the CARD Act places increased restrictions on consideration of ability to repay. Applicants under 21 must demonstrate an independent ability to make required minimum payments or otherwise open an account with a cosigner.¹⁰ In addition, the CARD Act requires disclosures of marketing agreements between card issuers and college entities.

In 2015 the CFPB issued a report on the effects of the CARD Act and the consumer credit market generally. The Report provides evidence that CARD Act regulations did impact credit markets, including that the share of consumers between 18-20 holding at least one credit card, had decreased from 2012-2015, and was below 10%.¹¹ The 2019 CFPB Consumer Credit Market Report has confirmed these effects to hold true, noting a "substantial decrease in the number of credit card accounts originated among students and other consumers under the age of 21."¹² Academic research on this subject has also showed that individuals under age 21 are 15% less likely to have a credit card, and of those who do have credit cards they're 35% more likely to have a cosigner.¹³ As one of our responding banks noted anecdotally, it's now common that college students will sign up for a credit card with a parent or guardian cosigned to the account. Likely so that the parent or guardian can monitor spending while helping the student build credit.

⁵ National Consumer Law Center, "Credit Cards: Abuses, Regulation, and State Law Claims," *Consumer Credit Regulation* (2nd ed. 2015), 387-388, updated at www.nclc.org/library.

⁶ National Consumer Law Center, "Substantive Protections for Credit Cards and Other Open-End Credit," *Truth in Lending* (9th ed. 2015), 455, updated at www.nclc.org/library.

⁷ Bill Fay, "Truth in Lending Act – Consumer Rights and Protections," *Debt.org*, Accessed August 1, 2019. <https://www.debt.org/credit/your-consumer-rights/truth-lending-act/>.

⁸ Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, 124 Stat. 1376, (July 21, 2010). Accessed at <https://www.congress.gov/bill/111th-congress/house-bill/4173/text>.

⁹ NCLC, "Substantive Protections," 456.

¹⁰ *Ibid.*

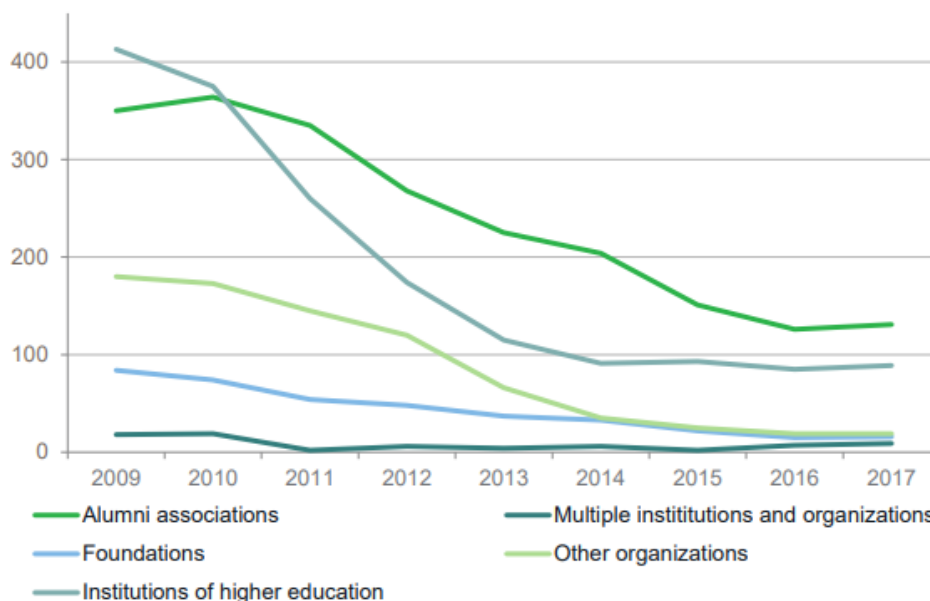
¹¹ Consumer Financial Protection Bureau, "The Consumer Credit Card Market," December 2015. https://files.consumerfinance.gov/f/201512_cfpb_report-the-consumer-credit-card-market.pdf.

¹² Consumer Financial Protection Bureau, "The Consumer Credit Card Market," August 2019. https://files.consumerfinance.gov/f/documents/cfpb_consumer-credit-card-market-report_2019.pdf.

¹³ Debbaut, Peter, Andra Ghent, and Marianna Kudlyak. "The CARD Act and young borrowers: The effects and the affected." *Journal of Money, Credit and Banking* 48, no. 7 (2016): 1495-1513.

In addition to these findings, the CFPB releases a report to Congress annually based on information from credit card issuers that details agreements between issuers and institutions of higher education or organizations affiliated with such institutions (i.e. Alumni Associations). The most recent College Credit Card Agreements Report to Congress has shown that college credit card agreements declined from 2009-2016.¹⁴ As of 2018, in Illinois there were 5 such agreements between issuers and college entities (i.e. Alumni Associations).¹⁵ Although these agreements are in decline, there was a significant increase in the amount of new credit card accounts in 2017. Recent research based on the Sallie Mae Majoring in Money Survey also shows that college students are turning more to debit and mobile payments for their spending habits. In 2019, 86% of college students used mobile payments and 85% had used a debit card while only 57% of students carry a credit card.¹⁶ Evidence suggests that the use of credit cards among college students is climbing back to moderate levels in a strong economy after the Great Recession, but evidence indicates that they are doing so more responsibly and with more oversight.

FIGURE 3: TOTAL AGREEMENTS BY ENTITY TYPE



Source: CFPB College Credit Card Agreements Report, 2018.

B. A Snapshot of Student Credit Use in the US

While the CCMTF was created to study credit card use specific to Illinois students, available data on students across the country can provide a picture of what student credit card use looks like 10 years after the passage of the 2009 Credit CARD Act. The Sallie Mae study referenced above provides data based on a survey of approximately 2400 young consumers, evenly distributed among three groups of consumers ages 18-29; students, college graduates, and young adults who attended college but did not graduate. As noted earlier 57% of students in 2019 carry at least one credit card, and the median number of credit cards for college students is 2 while the average balance of a student credit card is \$1,183.¹⁷ In relation to these student's payment habits, 60% of students say they pay their credit card bill in full each month, while only 1% say that they pay less than the minimum monthly payment.¹⁸

¹⁴ Consumer Financial Protection Bureau, "College credit card agreements," December 2018.

https://files.consumerfinance.gov/f/documents/College_Credit_Card_Agreements_Report_2018_Final.pdf.

¹⁵ CFPB, "Credit card agreements."

¹⁶ Holmes, Tamara E., "Student Credit, Debit and Prepaid Card Statistics," *creditcards.com*, Accessed 11/16/2019.

<https://www.creditcards.com/credit-card-news/student-credit-debit-prepaid-statistics.php#1-student-monitor>.

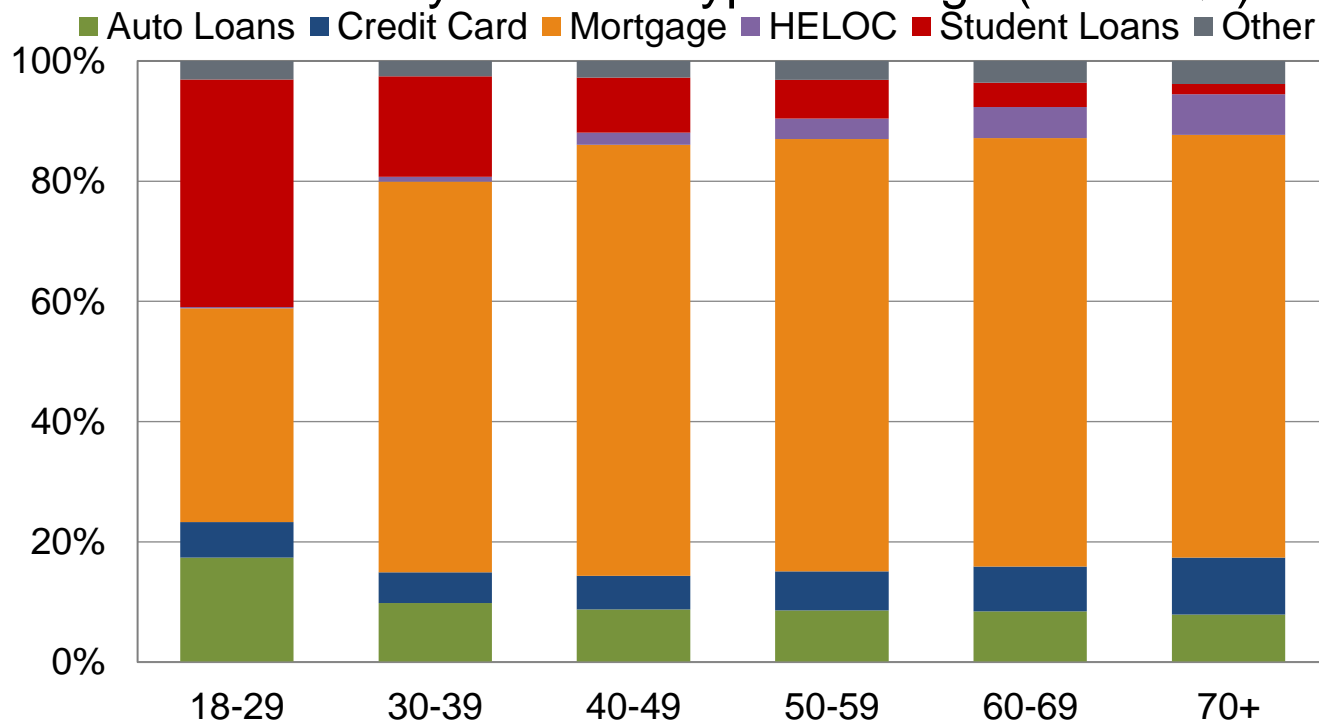
¹⁷ Sallie Mae, "Majoring in Money: How College Students and Other Young Adults Manage their Finances," April 2019, 22-23. https://www.salliemae.com/assets/about/who_we_are/Majoring-In-Money-Report-2019.pdf.

¹⁸ Sallie Mae, "Majoring in Money," 23.

This study also provides insight into why young consumers opt to use credit cards. While this study shows that debit and mobile payment options are the preferred payment type for this group of consumers, more than half of the students in the study had access to an open line of credit. Students identified two main factors in choosing to open a credit card. The first and most significant (58%) was wanting to build credit. The second largest influence for students was parent(s) or guardian(s) suggesting that they open a credit card (30%).¹⁹ In addition to this, students were much more likely than the other two groups of consumers to have a parent or guardian present in their credit use. 25% of students were authorized users on their parent or guardian’s credit card, and 17% said that their parents chose their first card for them. Only 12 % of students said that their parent or guardian did not know they had applied for a credit card.²⁰ While parent or guardian influence is the most prevalent among college students, other factors also play a role, including rewards programs. The top five reasons for choosing their first credit card given by students were; parent or guardian recommendation (35%), ease of approval (34%), cashback (32%), connection to a bank or checking account (29%), and rewards points (28%).²¹

The Federal Reserve Bank of New York also tracks data on consumer credit and debt going back over two decades. Through the New York Fed Consumer Credit Panel, they release quarterly reports on household debt and credit, which are based on a representative sample of US households from Equifax credit report data. This data does not separate out students specifically, however market data is separated by age group and type. The data on consumers from 18-29 shows how much and what kind of debt they are carrying. Consumers from 18-29 carry only 6.9% of the total national debt, this is largely due to younger consumers not having entered the mortgage market yet, which is by far the largest type of debt in the U.S.²² Also, among young consumers credit card debt makes up 6.1% of total debt for that group.²³ The chart below gives the full break down of debt type by consumer age group.

Debt Share by Product Type and Age (2019 Q3)



Source: New York Fed Consumer Credit Panel/Equifax

¹⁹ Sallie Mae, “Majoring in Money,” 25.

²⁰ Ibid.

²¹ Ibid.

²² Federal Reserve Bank of New York, “Quarterly Report on Household Debt and Credit,” November 2019.

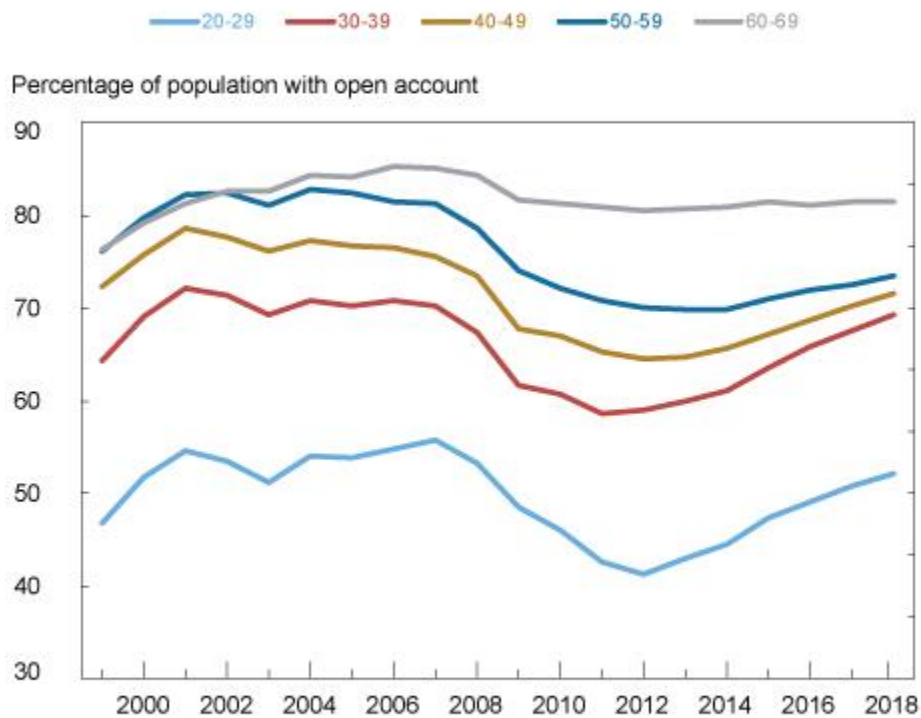
<https://www.newyorkfed.org/microeconomics/hhdc/background.html>.

²³ FRB New York, “Quarterly Report.”

Overtime this data shows trends in the credit card market as well. Consumers 18-29 have had a lower amount of credit card participation since the New York Fed began collecting this data in 1999. However, in the aftermath of the Great Recession, consumers in their 20's saw a steeper decline than the rest of the population. Conversely, since 2012 young consumers have increased credit card participation at a higher rate than older consumers.²⁴ While the Great Recession had a large impact on all consumers, borrowers in their 20's mostly shied away from credit cards from 2008 to 2012. Since then there has been an uptick in use among young consumers, but as the Sallie Mae study shows, the youngest credit consumers are doing so mainly with parental or guardian influence.

Credit Cards Catch Up

Account prevalence by age of account holder



Sources: New York Fed Consumer Credit Panel / Equifax; Census Bureau.

Note: Includes those with open accounts that have zero balances.

IV. Recommendations

The available data covered above gives a holistic picture of student and young consumer credit card use in the US. The evidence points to a rebounding credit card market on college campuses and among young consumers. However, widespread regulation in 2009 has had an effect on how students and young borrowers manage their credit. Credit card issuers are no longer able to market directly on campus or solicit consumers under the age of 21, whether through mail or online. For most student borrowers, parents or guardians are heavily involved in their credit card use or are at least aware of the credit card use. The evidence shows that regulations in 2009 had an impact on decreasing the use of credit cards by students and young consumers across the US and while that market is rebounding it has not yet reach pre-recession levels. Also, as noted earlier, today's students are much more likely to use debit card (86%) and mobile payment (85%) systems rather than credit card options.

²⁴ Haughwout, Andrew F., Lee, Donghoon, Scally, Joelle, and van der Klaauw, Wilbert, "Just Released: Shifts in Credit Market Participation over Two Decades," Federal Reserve Bank of New York *Liberty Street Economics* (blog), May 14, 2019, <https://libertystreeteconomics.newyorkfed.org/2019/05/just-released-shifts-in-credit-market-participation-over-two-decades.html>.

The members of this Task Force realize that all of the data used above may not be indicative of the credit market for students in Illinois specifically, and the data referenced is not broken down to state-level data, at least not publicly. Given the nature of the way credit card issuers are regulated, Federal regulators are more suited to gathering the type of data requested in P.A. 101-0033. As such, this Task Force recommends that the State of Illinois work with Federal regulatory counterparts to collect Illinois specific data relating to the credit card market for young consumers. The data these regulatory bodies present publicly is nationally driven, however they may be able to pull state specific numbers from these data sets if it were requested of them. The CFPB and Federal Reserve Bank of New York collect large amounts of data on this subject frequently and it's possible they would be able to provide the data the College Student Credit Card Marketing Task Force set out to collect. If so they may also be able to provide future data so that Illinois legislators and regulators can continue to monitor our student credit market.

Appendix I

List of Specific Types of Data Requested from P.A. 101-0033:

1. The total cost of credit to credit card issuers for students, as a percentage of the credit card's average cycle-ending balance.
2. The percentage of Illinois students who pay off their credit card balances in full for at least 2 consecutive months.
3. The percentage of Illinois students who carry balances on their credit cards all or most of the time.
4. The total amount of credit extended to individuals between the ages of 18 and 21 in Illinois.
5. The total amount of credit extended to students pursuing an undergraduate education in Illinois.
6. The average number of new credit card accounts opened by a student pursuing an undergraduate education per 5-year increments, beginning with the 2005-2006 academic year.
7. The total number of annual mail solicitations of pre-approved credit card offers targeted to individuals who are between the ages of 18 and 21 years old, and the annual percentage rates for those cards.
8. The total number of online solicitations of pre-approved credit card offers targeted to individuals who are between the ages of 18 and 21 years old, and the annual percentage rates for those cards.
9. The total number of social media solicitations for pre-approved credit card offers targeted to individuals who are between the ages of 18 and 21 years old, and the annual percentage rates for those cards.
10. A list of individuals who are between the ages of 18 and 21 years old in the State who are targeted for pre-screened credit card offers, categorized by the percentage of students who are classified as Prime Plus, Prime, Non-Prime, and High-Risk.
11. The total number of credit cards issued to students with the following add-ons: (i) debt protection, (ii) identity or theft protection, and (iii) credit score monitoring.
12. The number of fee harvester credit cards marketed annually to students, including a credit card that charges a fee that exceeds 25% of the card's credit limit.
13. The number of students who pay their monthly bill solely through an online portal.
14. The number of student accounts with reward products providing points, including the value of the points, the rate at which points are earned, and the rules governing forfeiture of points.

Appendix II

Due to requests from the banks, the specific responding banks were kept anonymous. The question numbers in the table correspond the numbers in appendix I.

Question	1	2	3	4	5	6	7	8	9	10	11	12	13	14
Bank 1	NR	NR	NR	NR	NR	3 New accounts from 2005-2010, 4 New accounts from 2011-16, 0 Accounts in 2017	NR	NR	NR	NR	NR	NR	NR	NR
Bank 2	NR	50%	50%	\$4,500	\$4,500	4 New accounts from 2017-19	NR	NR	NR	NR	NR	NR	NR	NR
Bank 3	NR	"Most do"	"Most don't"	"70 cards"		50-60 per 5-year increment	0	0	0	0	0	0	0	All cards offer rewards. 1 Point is earned for every \$1 spent. 3,000 points are worth \$25. Points are forfeited after 5 years if not redeemed.