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Selling Students into Credit-Card Debt

Lawmakers target credit-card issuers that appeal to college students with gifts and prizes, but universities' lucrative affinity deals evade regulation

by Jessica Silver-Greenberg

Citibank (C) pitched an offer at Ohio State University that few college students would refuse: free food. The bank plastered the Columbus campus with advertisements for free sandwiches at a local haunt, Potbelly. The only catch? Students had to submit a credit-card application before any free food crossed the counter.

The food-for-credit application scheme caught the attention of Ohio's attorney general, Marc Dann, who sued Citibank on Sept. 19, alleging that the campus advertisements violated the state's consumer-protection laws. Dann has partnered with students and professors at Ohio State's Moritz College of Law to prosecute the suit, which accuses Citibank of using bait-and-switch advertising, failing to clearly state conditions of the offer, and tempting students with a prize without disclosing all the conditions. The suit seeks more accountability in credit-card marketing practices. "Citibank is starting out the marketing deceptively and banking on the fact that these kids won't read the fine print," Dann says.

Citibank maintains that it never condoned the advertising, and is pursuing its own investigation of the ad. "The practices alleged in the complaint are not approved Citibank practices and if true, they were not condoned nor authorized by Citibank," says company spokesman Sam Wang. Another company, Pennsylvania-based credit card marketer Campus Dimensions, is also being sued by Dann for a similar scheme at a second restaurant, La Bamba. An attorney for Campus Dimensions declined to comment on the suit.

Affinity Deals Escape Scrutiny

As concern over student debt levels rises, lawmakers and campuses nationwide have turned their attention to credit-card issuers and marketing practices aimed at students. California, Oklahoma, and Texas recently passed laws restricting credit-card marketing on public campuses, joining 15 other states that already had such restrictions in place. In California, credit-card marketers can't lure students with free gifts; in Oklahoma, colleges can no longer sell student information for credit-card marketing purposes; and in Texas, on-campus credit-card marketing was curtailed, permitting marketing only on limited days and in certain locations.

However, beyond the recent legislation, another type of state-sanctioned credit-card marketing escapes serious scrutiny: affinity card contracts and marketing. Virtually every major university boasts a multimillion-dollar affinity relationship with a credit-card company. Under these deals, the university can receive $10 million or more in exchange for offering credit-card companies exclusive access to students, alumni, and professors at school athletic events. In some cases, the deals require schools to provide student e-mail addresses and phone numbers to the card-issuing bank. As state funding shrinks for public universities, such deals grow.

These deals provide a steady income stream for the university, but at what cost to students? Consumer advocates argue that these contracts allow schools to profit from student debt. In many cases, universities actually get a cut of overall charges on the school-backed card, raising questions about conflicts and whether schools negotiate the best deals for student and alumni.

What's more, typically the worse a card's financial terms are for students and alumni, the bigger the profit for the school. These deals potentially weaken schools' ability to protect students from aggressive marketing tactics, high interest rates, onerous debt loads, and deceptive billing practices. "You have to wonder whether the university is doing everything they can to reduce student debt, when there is a clear financial conflict of interest," says Travis Plunkett, legislative director for the Consumer Federation of America (consumerfed.org). Diane Wagner, a Bank of America (BAC) spokeswoman, says that 98% of affinity card holders are alumni and other nonstudents. "There are real benefits to the cardholder including reward points and cash-back bonuses," Wagner says. "Alumni are showing pride in their schools by becoming cardholders." She declined to comment on whether the cards pose a conflict of interest.

Not Targeting Students?

Even as Dann mounts his case against Citibank, another credit-card issuer, Bank of America, has exclusive access to Ohio State's students through an affinity contract it negotiated with the alumni association. The contract could pour millions into state coffers. Few such deals are disclosed, but those that are offer a glimpse at the money at stake.

The University of Tennessee recently signed a deal with Chase worth $10 million—roughly $384 per student at a school with an enrollment of 26,038. If Ohio State—with the nation's largest enrollment of more than 59,000—signed a similar pact, it could potentially be worth more than $22 million. Yet the particular terms of the contract, brokered through the alumni association and not subject to open contract laws, is shrouded in secrecy. "It's between us and Bank of America," says Jay Hansen, a spokesman for the Ohio State alumni association. Except the contract isn't just between those two, because it also involves students who are subjected to marketing at athletic events. Hansen contends that the marketing efforts are largely directed at alumni and fans. "The affinity agreement gives us the opportunity to vet a card for our alumni, and make sure that it's a good card, while offering a quality financial product to alumni and fans," he says.

Bank of America leads the charge with more than 900 affinity relationships; JPMorgan Chase (JPM) follows close behind. "College students are a valuable market for credit-card companies because of their potential as long-term loyal customers," says David Robertson, publisher of *The Nilson Report*, a payment industry trade publication. Build brand recognition with a collegian now, and you may get to sell her car loans, mutual funds, financial advice, and mortgages for decades. "Full-service banks live and die over their ability to offer multiple account relationships to existing customers," says Robertson. Also, in an increasingly saturated market, college students represent a portion of the market that's still growing.

Bill Eviscerated with a Phrase

The affinity contracts also have forced legislators to dilute proposed laws to preserve the privileges promised the banks through these affinity deals. Oklahoma State Senator Jim Reynolds (R-Oklahoma City), authored a bill this year that banned universities from selling student information to card companies for marketing purposes. Initially, Reynolds had sought to ban card companies entirely from college campuses statewide. But the University of Oklahoma protested the ban because it already had promised Bank of America exclusive access to market credit cards in exchange for $1 million per year.

Such an arrangement represented "a fight that we wouldn't have won," Reynolds says. In California, lawmakers passed a bill that bans credit-card companies from getting students to sign up for plastic with free gifts, like pizza, T-shirts, or Frisbees, on all public school campuses. But a key provision in the bill that would have required public colleges to disclose credit-card marketing arrangements was considerably weakened before the bill went to Governor Arnold Schwarzenegger. To ensure its passage, the bill's authors added the phrase "with the exception of proprietary information" to the bill. That one change negated the bill's intended transparency, since schools can use the exception to shield critical details of their contracts by citing them as proprietary. "The students are wondering, are we being sold to the highest bidder?" says Chris Vaeth, director of special projects with the Greenlining Institute (greenlining.org), a left-leaning public policy institute that wrote the bill.

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