

SUBJECT: Regulating credit card marketing at postsecondary schools

COMMITTEE: Business and Industry — committee substitute recommended

VOTE: 8 ayes — Giddings, Elkins, Darby, Bohac, Castro, Martinez, Solomons, Zedler

0 nays

1 absent — Bailey

WITNESSES: (*On original version:*)
For — Merry Lynn Gerstenschlager, Texas Eagle Forum; (*Registered, but did not testify:* Carol L. McDonald, Independent Colleges and Universities of Texas, Inc.; Jason Sabo, United Ways of Texas)

Against — John Heasley, Texas Bankers Association; (*Registered, but did not testify:* Patrick Bell, Capital One Financial Corp.)

On — Nancy A. Almanza; Claudia Valdez; Miguel Wasielewski, Office of Student Financial Services, University of Texas at Austin)

DIGEST: CSHB 85 would establish requirements regarding credit card issuers engaging in campus credit card marketing activities at postsecondary educational institutions.

Designated locations and times. The bill would establish that the governing board of a postsecondary educational institution could designate one or more locations on campus where, and one or more times when, a credit card issuer could engage in credit card marketing activities. A credit card issuer could not engage in campus credit card marketing activities beyond the designated locations or times.

Financial educational materials. A credit card issuer that conducted campus marketing activities would have to develop financial educational material in consultation with or subject to approval by the postsecondary educational institution. The financial educational material would require a clear and practical explanation of:

- key financial terms and phrases related to credit cards and personal debt management;
- the importance of responsible credit practices, including timely paying the minimum amount due each month and reducing costs by paying as much of the balance as possible;
- resources to assist students in understanding credit reports and credit scores and the consequences of irresponsible credit card use;
- credit educational materials and programs offered by the credit card issuer and made available to student cardholders after they had opened an account; and
- effective money management skills, including how to develop and maintain a budget.

The bill would require the credit card issuer to have these financial educational materials available to students on campus while the issuer conducted credit card marketing activity, to provide the materials to a student at the time of credit card issuance, and to make similar materials available on the Internet.

Restriction on gifts or incentives. CSHB 85 would prohibit a credit card issuer from offering a gift or other incentive in exchange for completion of a credit card application as part of a campus marketing effort, unless the issuer provided the specified educational materials at the same time as the application.

Credit card and debt education orientation. The governing board would have to adopt a policy requiring that any orientation program for new students include a credit card and debt education and counseling session.

Civil penalty. A person who intentionally violated the provisions of the bill would be liable to the state for a civil penalty of up to \$2,500 for each violation. The attorney general or prosecuting attorney in the county in which the violation occurred could bring suit to recover the penalty.

Definitions. “Postsecondary educational institution” would have the same meaning as an institution of higher education or private or independent institution of higher education as defined by Education Code, sec. 61.003 or as a private postsecondary educational institution as defined by Education Code, sec. 61.302. The term would incorporate but not be

limited to a technical institute, junior college, senior college or university, medical or dental unit, or state college.

“Governing board” would mean the body charged with policy direction of any postsecondary educational institution, including a board of directors, a board of regents, a board of trustees, and an independent school district board that was charged with policy direction of a public junior college.

The bill would take effect September 1, 2007.

**SUPPORTERS
SAY:**

CSHB 85 would prohibit credit card marketing outside the locations and times, if any, approved by governing boards of postsecondary schools. The bill would require credit card and debt counseling during new student orientation and would ensure that students received financial educational materials from credit card issuers.

According to a 2004 credit card survey by Nellie Mae, a major issuer of federal student loans, 76 percent of college students had credit cards. Fifty-six percent of the students surveyed obtained their first credit card at age 18. Most college or postsecondary students have yet to develop a credit history. They have little or no income and have student loan obligations as well, and yet they are prime targets for major banks issuing credit cards. CSHB 85 would be an educational and informational effort aimed to prevent young people from making poor financial decisions that could take them years to overcome.

The bill would prohibit giveaways such as t-shirts, water bottles, and food and drink in exchange for completing a credit card application, unless credit card issuers provided financial educational materials with a credit card application, on the Internet, and upon issuance of a credit card. CSHB 85 would make credit card and debt counseling mandatory for new student orientation, but the bill would specify that the postsecondary institutions could use existing materials available for free from non-profit agencies. Further, the bill would authorize a civil penalty of up to \$2,500 for each intentional violation.

CSHB 85 would be a “best practices” approach to responsible credit card marketing on our campuses. The bill would represent a consensus between bankers and other marketers of credit cards and postsecondary administrators. Postsecondary institutions would have incentive to participate because they usually receive a service fee by permitting

marketing on campus or they could be entitled to a small percentage of each purchase made with affinity cards – those bearing the name of the school, its logo, or mascot.

Financially aware students are crucial to the economic future of our state, and CSHB 85 would expand on legislative efforts last session to promote financial literacy. The 79th Legislature in 2005 enacted HB 492 by Woolley, requiring instruction in personal financial literacy in one or more courses required for high school graduation. The 79th Legislature also enacted SB 815 by Shapleigh, authorizing the Texas Education Agency, to the extent funding is available, to establish and implement by rule a financial literacy pilot program to provide students in participating school districts with the knowledge and skills necessary to make critical decisions relating to personal financial matters once they become self-supporting adults.

**OPPONENTS
SAY:**

While CSHB 85 is well intentioned, nothing in the bill would prohibit credit card issuers from marketing across the street at a bookstore in any manner they chose. By engaging in off-campus marketing, credit card issuers could continue offering gifts and incentives to students for simply completing an application. If credit card issuers pursued such a marketing strategy, postsecondary institutions would have no obligation to offer credit card and debt counseling at orientation, and the issuers would have no duty to provide students any financial educational materials.

Although campus credit card solicitations have received considerable publicity regarding their marketing methods, the campus approach reaches about half as many students as direct mail, according to the same Nellie Mae survey. More than one-third of the students surveyed reported that they obtained their first credit card through a direct mail solicitation, which CSHB 85 would not address.

NOTES:

CSHB 85 differs from the original version of the bill by:

- giving governing boards the discretion to designate more than one campus location for credit card marketing instead of limiting such marketing to one location;
- authorizing the governing board also to designate specific times for credit card marketing on campus;

- specifying that a credit card issuer that conducted campus marketing develop financial educational materials in consultation with or subject to the approval of the postsecondary institution that included five specified items related to financial responsibility and money management;
- requiring the credit card issuers to provide the financial educational material to students during campus marketing, on the Internet, and upon issuance of the credit card;
- restricting gifts or incentives for completion of an application unless issuers provided financial educational materials, rather than simply prohibiting all gifts and incentives in exchange for a completed application as in the introduced version;
- mandating the governing board of a postsecondary institution to require a credit card and debt education and counseling session as part of any new student orientation and to use existing educational materials prepared by nonprofit entities for the session;
- applying a civil penalty only to an intentional violation;
- deleting the requirements for a credit card issuer to offer an educational program for students and their families on the responsible use of credit and for students to show proof of attendance at such a program in order to be issued a credit card; and
- removing the provision in the original bill that would make it apply to a credit card application prospectively.

SB 1939 by Van de Putte, the identical companion bill to CSHB 85, has been referred to the Senate Business and Commerce Committee.