Academic Persistence and the Role of Revolving Credit Card Debt

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The decision to obtain debt through credit cards involves a tradeoff of increased current resources available for education at the expense of a revolving, rather than a deferred, loan repayment schedule. The revolving nature of credit card debt imposes a financial burden that may act as a barrier to educational persistence. By using credit cards to finance their education, students may be vulnerable to large revolving balances that require large recurring payments. Revolving payments may compel students to increase participation in the labor force and jeopardize academic persistence.

Previous research has not investigated the relationship between credit card use and college student persistence. In The Education Resources Institute (1998) survey, 19% of the students reported using credit cards to pay their tuition; although 11% paid their balance in full, 8% carried the balance over to the next billing period. The students that did carry over the balance were more likely to carry high balances (over $1,000). While the report did not examine student persistence, it did suggest that students who carried high balances may encounter financial trouble in their attempts to repay their debts while in school. Lyons (2004) found that students who owe large balances on their credit cards were more likely to receive financial aid. Her research suggested that if students are not receiving enough financial aid to cover the costs of education, then they might be turning to alternative forms of borrowing, including credit cards.

This model compares the present value of lifetime earnings for those who decide not to attend college, those who decide to attend college and persist, and for those who decide to attend college but do not persist to graduation. Consumers of a college education compare the present value of the lifetime earnings from attending college, taking into account the possibility of failing to graduate, versus the stream of income from a career without a college education. If the student does decide to attend college, then the student faces two possibilities – the probability of persisting to graduation versus the probability of not persisting. If the student chooses to persist until graduation, then the present value of lifetime earnings will be the present value of their income from employment with a degree, plus the present value of earnings while they were in school minus the present value of loan costs of both revolving credit and student loans. The present value of lifetime earnings for college students who do not graduate is similar except for the timing of the elements – students who do not persist have less human capital to leverage in the labor market and lose their ability to defer student loan payments.

Using a sample of over 4,000 students from a Midwestern university, logistic regression was used to examine the affect of revolving credit card debt upon college student persistence. The results from the regression indicate that students that have considered dropping out are more likely to make minimum payments on their credit cards. In addition, being financially independent, having need based grants, and lower GPAs are found to be statistically significant and negatively related to academic persistence.

There are many advantages to using credit cards and bringing future resources into the present through the use of credit cards may be a rational choice for students, especially for those who persist to graduation and enter careers with relatively high salary differentials. However, results from this study are clear – students who make minimum payments on credit cards are much more vulnerable to not persisting in college. Policy makers, academic administrators, and financial practitioners alike should not only work to help students obtain lower- or no-cost financial aid, but should also make sure that students are armed with the sufficient financial literacy skills to make rational financial choices that will not impede their academic persistence to graduation.

References

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Endnotes

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