Student Debt and the Campus Ban of the CARD Act

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Introduction

The Credit Card Accountability, Responsibility, and Disclosure (CARD) Act of 2009 establishes a series of provisions to protect consumers from deceptive and abusive practices by credit card providers (Agarwal et.al. 2015, O Bar-Gill and Tubb 2011, Debbaut et.al. 2014, among others).

The Campus Ban of the CARD Act (Title 3) restricts the ability of lenders to market their products within 1,000 feet of a college campus. A principal objective of this provision is to protect young adults from falling into excessive credit card debt very early in life.

Limiting students' access to credit cards may lead them toward other forms of borrowing, such as student loans.

Given the rise of student lending in recent years, and recent work highlighting the role of student loans for consumption borrowing (Goodman et.al. 2018, Yannelis 2015, among others), we study the effects on the CARD Act's college ban on student loan borrowing.

In addition to shedding light on the broader effects of this rule, including its potential contribution to growing student loan debt, we discuss potential mechanisms behind borrowing decisions of the very young and potentially vulnerable individuals, and the corresponding welfare implications in each case.

Research Design

We use student level data from a large public university in the US, and a difference-in-difference approach to quantify the effects of the campus ban on student borrowing.

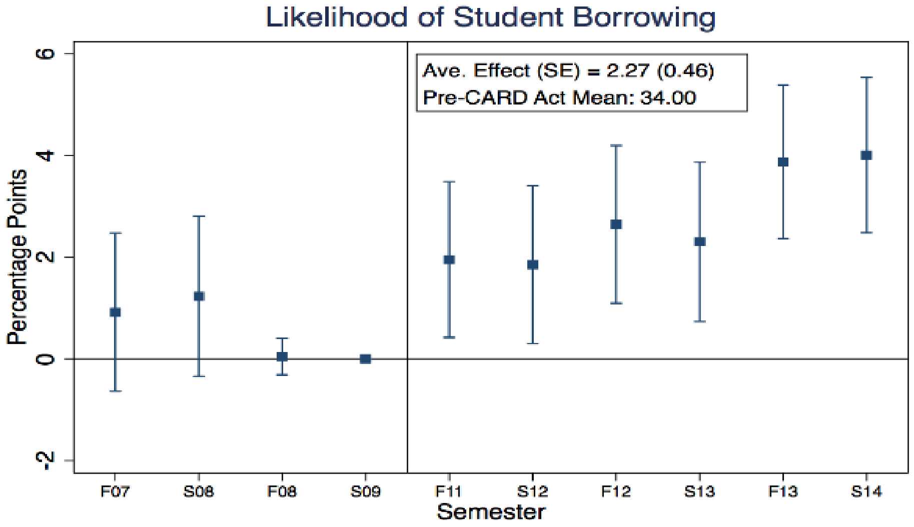
<u>**Identification Argument:**</u> The CARD Act severely limited lenders' presence on campus, reducing continuing students' access to credit cards. Nevertheless, incoming **freshmen** were likely not affected - because they **were never exposed to credit cards on campus in the first place**.

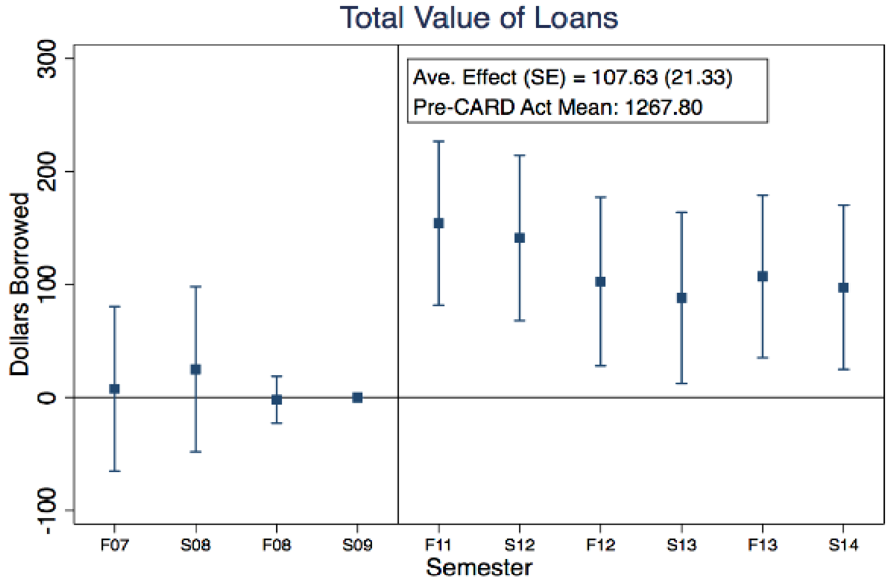
<u>**Control Group:**</u> Incoming freshmen in semester *t* <u>**Treatment Group:**</u> Continuing sophomores and juniors in semester *t*

$$y_{it} = \alpha_t + \gamma_{grade} + \sum_{t=Fall06}^{Fall08} \beta_t \mathbb{1}(grade > freshman)_{it} + \sum_{t=Fall11}^{Spr13} \beta_t \mathbb{1}(grade > freshman)_{it} + \epsilon_{it}$$

The dependent variable is either the total amount borrowed in semester ***t*** by student ***i,*** or a dummy variable taking the value of 1 if student ***i*** borrowed on semester ***t****.* We use Spring 2009 as our base group. We exclude academic years 2009 and 2010 from our analysis because students in those years would have been exposed to both pre and post regimes.

Main Results and Potential Mechanisms





Because student loans rates are more than 10 percentage points lower than credit card rates, on average, it is unlikely a solely rationality-based story can explain the results.

For students who lack **financial literacy** and mistakenly prefer credit cards over student loans, this policy may have restricted the most detrimental form of debt and benevolently nudged students toward the correct type.

Alternatively, students may prefer credit cards over student loans despite higher rates, as a **commitment device** against excessive spending (credit line instead of lump sum deposit). Whether this result is beneficial to students depends on how effective such a commitment device was in the first place.

Coming up: Survey to current and former students.