Young credit card users are more responsible, study finds

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If you think young people don't know how to manage money and pay down their credit cards, then you should think again. A new study from the W. P. Carey School of Business at Arizona State University and the Federal Reserve Bank of Richmond shows young borrowers – 18 to 25 years old – are among the least likely credit card users to have a serious default on their cards. Not only that, they're also more likely to be good credit risks later in life.

"Young credit card users actually default less than middle-age borrowers," says Andra Ghent, assistant professor in the W. P. Carey School of Business. "Also, those who choose to get credit cards early in life are more likely to learn from any minor defaults and move on, avoiding major credit card problems in the future. Plus, they're more likely to be able to get a mortgage and become a homeowner at a young age."

The new research by Ghent, as well as Peter Debbaut and Marianna Kudlyak of the Federal Reserve Bank of Richmond, is now a Federal Reserve working paper. In it, the researchers analyzed consumer data from the New York Federal Reserve Bank Consumer Credit Panel/Equifax to determine whether young borrowers are worse credit risks than others and to estimate the effect of individuals choosing to get a credit card at a young age.

The results demonstrate that part of the Credit Card Act of 2009 may not have been necessary. The act made it illegal to issue a credit card to individuals under 21 unless the person has a cosigner or submits financial information indicating an independent means of repaying the debt. It also includes a provision banning companies from recruiting credit card users within 1,000 feet of any college campus or at college events.

"Letting students apply for credit cards may actually make sense," says Ghent. "These students are the people who want credit, need to build up a good credit history and have a steeply sloped income profile. If they don't have a student loan, then a credit card may be the only way they can establish a decent credit history."

The researchers found that while people in their early 20s are more likely to experience minor delinquencies (30 or 60 days past due), they are much less likely to experience serious delinquency (90 days or more past due). In fact, someone age 40 to 44 is 12 percentage points more likely to have a serious delinquency than a 19-year-old.

However, the Credit Card Act of 2009 has clearly had an impact on how many young people are getting credit cards. Individuals under 21 are 18 percent less likely to get a credit card following passage of the act, and that's not necessarily a good thing.

"You can't learn by just watching credit card use," adds Ghent. "You have to get a card, pay it down every 30 days, and experience, in order to learn. It's also hard to get a mortgage if you can't get a credit card to build up your credit history."

More information: www.public.asu.edu/~aghent/res … Kudlyak_July2013.pdf

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