

Money Matters on Campus:

How Early Attitudes and Behaviors Affect the
Financial Decisions of First Year College Students

presented by

Todd M. Wyatt

Director of Research, EverFi, Inc.

introduction and commentary by

Mary K. Johnson

Director of Financial Literacy and
Student Aid Policy, Higher One, Inc



Presentation Agenda

- 1 Introduction and Review
- 2 Preliminary Findings
- 3 Survey Structure and Factor Analysis
- 4 Financial Predictors and Outcomes

Student Debt in the National Spotlight



For the first time ever, in 2011 **STUDENT DEBT ACCOUNTED FOR MORE NATIONAL DEBT THAN CREDIT CARDS** – and in 2012 aggregate student loan debt amount to over one trillion dollars.

2/3
of the graduating
class of 2011
HELD STUDENT LOANS
(Mean debt 26,600).¹

Greater than **9%**
default on loans within
the first two years, and
13.4%
within the first three years.²

1. Project on Student Debt (Oct, 2012). Student Debt and The Class of 2011. The Institute for College Access & Success. Retrieved from: <http://ticas.org/files/pub/classof2011.pdf>.
2. Department of Education (Sept, 2012). Press release: First official three- year student loan default rates published: Department continues efforts to help students better manage their debt. Retrieved from: <http://www.ed.gov/news/press-releases/first-official-three-year-student-loan-default-rates-published>.

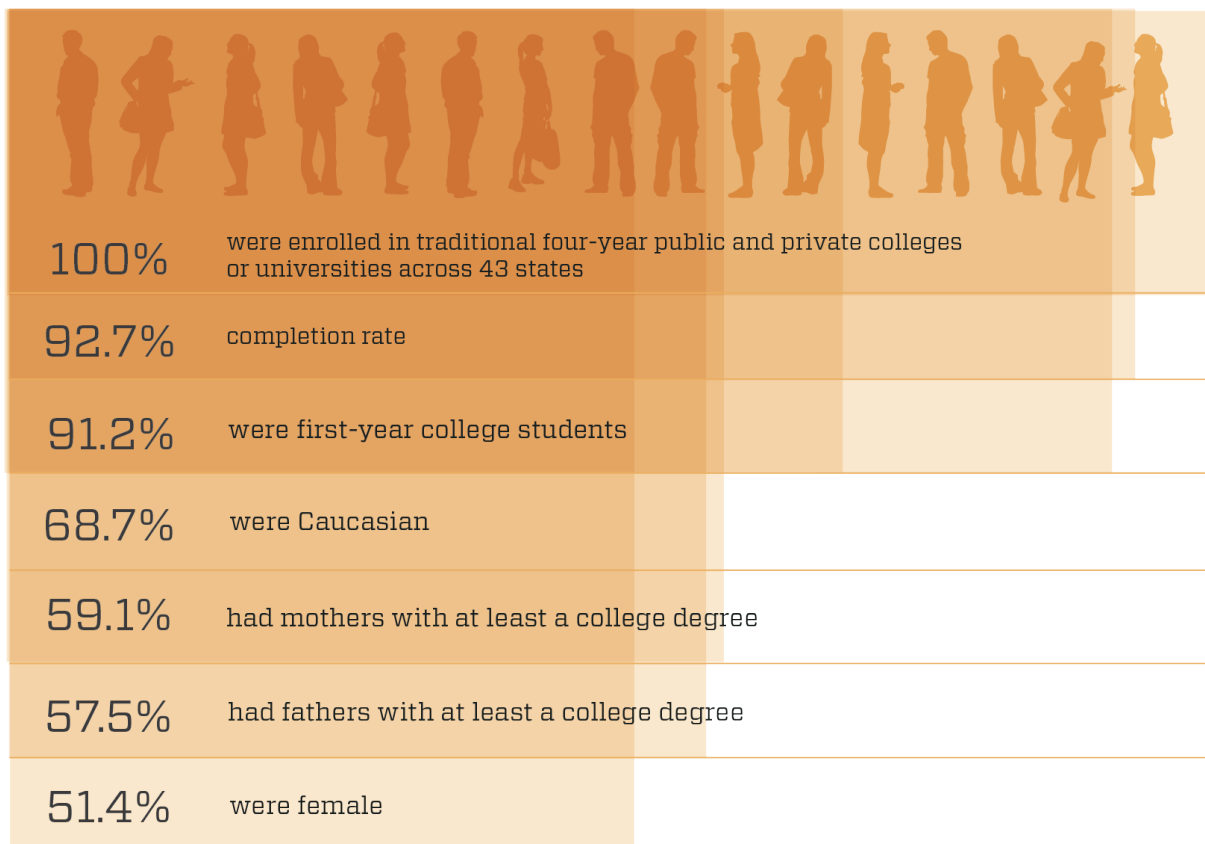
The Impact of Financial Concerns on College Student Persistence

“The number one reason for students leaving college is debt and financial stress, followed by poor academic performance and poor social fit”

— Hoffman, Mckenzie, & Paris, 2008; Chiang, 2007

Demographics and Methodology

This sample of over **40,000** respondents was demographically representative of the American college student population



Credit Card Behavior



28%

of students reported having a credit card, most of those have **more than one**

24%

of respondents reported having over \$1,000 in **credit card debt**

8%

of credit card holders reported having been **late paying** their credit cards at least once

5%

of students reported having credit card **debt over \$5,000**

Impacts of Credit Card Debt

Significant impact of credit card debt on student finance-related outcomes.



As credit card debt increases, students are significantly:

- More likely to spend any money left over at the end of a pay period
- More likely to agree with the statement “it’s better to have something now and pay for it later”
- Less likely to use personal finance tools
- Less likely to have a checking account
- More likely to report that “others would be horrified if they knew their spending habits”
- Less likely to make their student loan payments on time
- Less likely to be employed (part-time, full-time, summer employment)

Banking Behavior

Reflective of the general literature, students with bank accounts are more likely to engage in responsible financial behaviors.



The Impact of Positive Banking Behavior

As bank involvement increases, students are significantly:



- More likely to report buying only things that they need
- Less likely to report finance related stress
- More likely to follow a budget
- More likely to pay their entire credit card bill each month
- Less likely to participate in very high-risk debt behavior – credit card cash advance
- Less likely to participate in very high-risk debt behavior – payday lending
- More likely to report that they plan to start saving for retirement in the next year
- More likely to pay their student loans on time
- More likely to work (part-time, full-time, summer employment)
- More likely to use online banking

Financial Attitudes

79% OF STUDENTS REPORTED THEY WORRY ABOUT DEBT

“Banks should not be surprised when students incur debts”

73% agree

“I like to own things that impress people”

60% agree

“It’s OK to have an overdraft fee if you can pay it off”

60% agree

“Students have to go into debt”

41% agree

“It’s better to have something now and pay for it later”

31% agree

ALARMING ATTITUDES:

Could be contributing to the high levels of financial stress the students in our sample reported



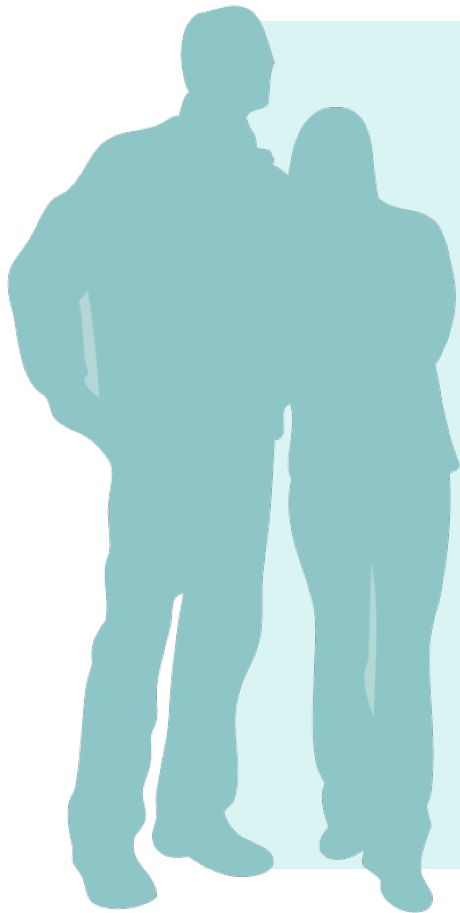
Full Factor Analysis

- Cautious Financial Attitudes
- Indulgence for Status and Social Gain
- Utilitarian Financial Behavior
- Debt as a Necessity
- Possessions Providing Happiness
- Spending Compulsion
- Aversion to Debt

Factor Analysis

| FACTOR | Survey Items |
|------------------------------|--|
| Cautious financial attitudes | <ul style="list-style-type: none">"The lower a person's income, the more important it is to save every month""You should stay home rather than borrowing money to out for an evening on the town""You should always save up first buying something""Once you are in debt it is very difficult to get out""Students should be discouraged from using credit cards""I worry about debt" |
| Debt as a necessity | <ul style="list-style-type: none">"Debt is an integral part of todays lifestyle""Taking out a loan is a good thing because it allows you to enjoy life as a student""Students have to go into debt""It is better to have something now and pay for it later" |
| Spending compulsion | <ul style="list-style-type: none">"I enjoy spending money on things that aren't practical""Buying things gives me a lot of pleasure""If I have money left over at the end of a pay period, I just have to spend it" |

Key Financial Outcomes



Being late on Credit Card Payments

Following a Budget

Structured Savings Plan

Likelihood to Withdrawal from College

High Risk Debt Behavior

Paying Student Loans On Time & In Full

Having a Checking Account

Frequency of Bank Contact

Hierarchical Regression Predictors

Cautious Financial Attitudes

- Following a budget (+)
- Withdrawal from college (-)
- Participate in high-risk debt behavior (-)
- Having a checking account (+)
- Paying loans on time and in full (+)

Debt As A Necessity

- Having a checking account (-)
- Paying loans on time and in full (-)
- Structured Savings Plan (-)
- Following a Budget (-)
- High-Risk Debt Behaviors (+)
- Withdrawal from college (+)
- Being Late on Credit Card Payments (+)

Spending Compulsion

- Frequency of Bank Contact (-)
- Paying loans on time and in full (-)
- High-Risk Debt Behaviors (+)
- Being Late on Credit Card Payments (+)



Research Implications



- Take a longitudinal approach to understanding the issue
- Focus more on post-college outcomes (e.g. career, planning, repayment)
- Analyze the demographic variations of finance-related attitudes and behaviors
- Investigate the co-morbidity of financial literacy and other problem behaviors
- Look beyond the “traditional” college student

Policy / Practice Implications

GOVERNMENT



- Fund innovative research
- Continue work to provide online hub of resources and information for educators and practitioners (e.g. mymoney.gov)
- Fund development/innovation of financial literacy tools focused across the life-span

BUSINESS PARTNERS



- Develop and improve financial literacy education solutions
- Provide online platforms and tools that reflect what works best for students
- Provide more objective information greater transparency in financial products targeted to students

Policy / Practice Implications

COLLEGES
AND
UNIVERSITIES



- Embrace financial literacy education as part of your mission
- Take a population-level intervention approach
- Tips to get started:
 - Know your advocates on campus
 - Know how to involve your students (assess what they need)
 - Act – do something to get things rolling
 - Reach out to financial institutions and other community organizations for support and assistance.