A Qualitative Study on Providing Credit Education to College Students: Perspectives from the Experts

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Growth in credit card usage among college students has raised concerns that some students are at greater risk for accumulating large amounts of debt and having difficulty repaying them after graduation. While the majority of students are financially responsible, there are a growing number of students who are financially at-risk for misusing and mismanaging credit (TERI & IHEP, 1998; United States General Accountability Office, 2001; Baum & O'Malley, 2003; Lyons, 2003, 2004). In recent years, a number of credit education programs have been developed to help college students become more responsible credit managers. However, many of these programs are fairly new and researchers are only beginning to investigate their effectiveness. There is a need for information and guidance on how to design and deliver effective credit education programs to insure that those students who are most at risk are able to make informed credit decisions and are not at a financial disadvantage after they graduate.

Research shows that students who take a personal finance course are significantly less likely than those who do not take a course to misuse and mismanage credit (Lyons & Hunt, 2003; Lyons, 2004). Students who seek out financial information from their parents are also less likely to misuse and mismanage credit than those who turn to friends or the media for financial information. In addition, students who are financially at risk are more likely to seek out financial information than students who are not at risk. Given these general findings, what do students need to know to use and manage credit responsibly so that they will not be at financial risk in the future?

In Spring 2003, two advisory meetings were held with leading experts at the state and national levels to investigate the credit education needs of college students. The purpose of the meetings were to 1) identify key financial topics students needed to know to use and manage credit responsibly and 2) identify key characteristics of successful financial education programs for students. The purpose of this paper is to share some practical insight from the experts into how financial education programs for college students can more effectively be developed and delivered. Campus administrators, financial professionals, and community leaders can use this information to better allocate their resources and develop more effective curricula and programs for college students.

Sample and Methods

In May 2003, two advisory meetings were held to investigate the financial education and credit management needs of students between the ages of 17 and 24. The first meeting was held in the state of Illinois. Twelve individuals were present, and the group consisted of researchers, financial aid and student loan directors, parents, and representatives from government agencies and the financial sector. All of the individuals who were selected to participate in this meeting were key players at the state level in promoting and delivering financial education to students.

The second meeting was held via teleconference with national researchers, educators, and financial professionals who had been identified as leading experts in the area of financial education for youth. Each participant had particular expertise in credit management. Twelve individuals also attended this meeting.

Each group had approximately 2 hours to respond to the following three questions:

1. Given your experience and expertise, what do you think students need to know to use and manage credit responsibly?
2. What methods can be used to effectively deliver financial education to college students?
3. What are the key characteristics that make for a successful financial education program for college students?

Each group had a moderator and two recorders. The primary role of the moderator was to keep the group focused and on task given the time constraints. The main role of the recorders was to document the groups' comments. The two meetings differed in that the teleconference was recorded while the face-to-face meeting was not.

The methods used to analyze the qualitative information followed those of Krueger & Casey (2000). A note-based approach was used to analyze the results from the face-to-face meeting while a note-based approach and a tape-based, abridged transcript were used to analyze the results from the teleconference. Following the two focus groups, there was an immediate debriefing between the moderator and the recorders. The moderator and recorders reviewed their notes and the tape. They then organized the key findings for each focus group, going question by question. A meeting followed where the moderator and recorders identified central themes, helpful quotes, and similarities and differences between the two discussion groups. For ease of exposition in presenting the results, participants are referred to as "the experts."

What Do Students Need to Know About Credit?

Overall, for each question, a number of themes emerged from the discussion, and each group tended to focus on the same issues of concern. With respect to the first question, the experts agreed that every student needs to know primarily five key financial areas to become responsible credit managers.

According to the experts, *students first need to understand the power of their choices and be able to set financial goals.* Essentially, students need to develop good decision-making skills so that they understand the consequences of their choices at both the individual and macroeconomic levels. Several experts commented that students have a difficult time understanding how daily financial decisions affect their ability to achieve their financial goals. Students also have a difficult time recognizing that they have alternative financial options other than using credit;

however, whether they use these alternative sources often is tied to their need for instant gratification. It is not surprising that several of the experts commented that students' purchasing decisions are often related to their "wants" rather than their actual "needs." One expert shared that when students are thinking about making a purchase and using credit, they should ask themselves "will the debt last longer than the item?"

A second financial topic students need to know is *how to develop a budget and know their spending limits, especially with respect to credit.* The central theme among the experts was that students need to establish an overall financial management plan and that this plan is the key to whether students successfully reach their financial goals. Students need to have a budget, and they also need to know what is in their bank accounts and what they owe on their credit cards and student loans.

Students also need to learn how to set their own borrowing limits on their credit cards instead of relying on the credit card companies to set reasonable limits for them. One expert commented that students have the perception that "if a credit card company thinks I can afford it, well then I can." Students need to know that they can turn down an increase in their credit limit. The experts questioned whether students even understood how credit limits and open lines of credit can affect their credit scores even if they are not using the credit.

Several experts also indicated that students have a difficult time not only setting limits but knowing when they have reached those limits. Parents can add to "the problem," especially if they are paying off the credit card bills every month and bailing their students out. In these cases, students are not experiencing the consequences of their financial decisions. A significant number of comments were made in regards to the disconnect between parents and their children when it comes to talking about finances. One expert commented that "there is this belief that students will get this information through observation or osmosis, but that doesn't happen. Parents need to talk to their children about managing money."

The third key area is that *students need to understand the basics of credit management.* The three most common statements made by the experts were that students "need to understand what credit really is," "what the real costs of credit are," and that "credit card debt is a loan." Several experts shared stories of students who had charged too much on their credit cards and simply did not realize that this was a loan and they had to pay it back. Some experts also commented that students were confusing the terms and conditions of their student loans with those of their credit card debts. Essentially, students believed that interest payments on their credit cards were being deferred until they graduated.

The experts identified several other critical areas within this topic where students needed more information including: key terms associated with using credit cards (i.e., annual percentage rate (APR), grace periods, debit cards versus credit cards, etc.); how finance charges are calculated; and how finance charges and grace periods can differ across cards even with the same APRs. The experts indicated that students also need to better understand the relationship between credit and savings such as the opportunity costs of credit, the time value of money, and the difference between compounding interest for a savings account and compounding interest for a credit card account.

The fourth area identified by the experts is that *students need to know how to check their credit reports and protect themselves against identity theft.* According to the experts, the prevalence of identity theft is on the rise and 18-29 year olds are the most likely to be affected. Students need to know how to recognize and correct improper charges on their credit card statements, check their credit reports, monitor their credit ratings, and protect their financial information. As one expert commented, "your credit report is your financial resume. It's your ticket to purchasing a home, renting an apartment, and taking out a car loan. You want to make sure that you are being represented accurately."

Students also need to know how to dispose of financial documents properly and the dangers of providing financial information over cell phones and/or giving credit card numbers to friends. Finally, students need to be aware of their consumer rights and how to handle credit problems if they should arise due to their own misuse or that of others. Learning how to resolve credit problems can be empowering for students and help them to feel more in control of the situation and less like a victim.

The fifth and final financial area cited by the experts builds on the other areas previously mentioned—*students need to understand "the bigger picture" with respect to financial management and the value of being financially responsible.* Students need a realistic picture of the consequences if they misuse or mismanage credit. Several comments were made by the experts that students have difficulty seeing the long-run consequences of their financial decisions. Students need a more realistic view of how much they will earn after graduation and how difficult it is going to be to repay their student loans and credit card debts. Students also need to know how misusing or mismanaging credit today can result in job offers being reneged, loan applications being rejected, higher insurance rates, and for some, bankruptcy. Experts even shared stories about students whose fiancés would not marry them until their credit card debts had been repaid.

According to the experts, students need to know how to establish a good credit history and to see the value in being financially responsible. Specifically, they need a clear picture that they can relate to of what it means to be "financially healthy and unhealthy." Some of the experts who were providing financial education to college students on a regular basis indicated that "what they really listen to are the stories that you tell them about other students on their campus who got into trouble with credit" or who successfully saved and invested. The general theme was that students should not be scared into thinking credit is "bad," but they do need to understand that the consequences of misusing credit are real.

Providing Effective Credit Information to Students

In addition to asking the experts about what students needed to know about credit, they were also asked about how this information can successfully be delivered to them. The responses across the two groups, again, tended to be similar.

According to the experts, college students learn best when they are engaged in realistic activities that give them some practical, real-world experience. The experts agreed that students are not provided with enough opportunities to be financially engaged. One commented that in order "to obtain a driver's license, you have to take a course, get some driving experience, and take a test. Yet, to obtain a credit card you don't have to do anything." The general consensus was that practical experience is critical to setting a student on a successful path to financial independence.

Students also have to see how the information is relevant to them. One way to do this is to involve students in the delivery of the programs. One expert stated that "young people are often better at presenting the information in their own language." The majority of experts agreed. Students listen most to the experiences and stories that their peers have to share. Role playing with students also works well.

The internet is another effective mode of information delivery for college students. Several experts indicated the need for an interactive website where students could go to for reliable information on credit and other financial topics. A large amount of information is out there. However, even the experts admitted that they were not always sure where to send students for useful and credible online resources.

Finding the "Teachable Moment"

In general, the experts agreed that reaching college students with financial information is a challenge. "You need to find what a teachable moment is for a college student." Since students tend to be reactive rather than proactive, the best time to reach them is during their freshman year before they even have a chance to get into financial trouble. A critical time is often during student orientation. Workshops are particularly effective if they are kept to one hour and are offered through a course, student organization, or campus office (i.e. financial aid or student affairs). Students also respond better in small group settings. Students typically will not come to workshops or watch videos on their own. They also will typically not use written materials (i.e. brochures, handouts, and flyers) unless they are incorporated into the workshop or the student is already having financial difficulties. Financial counseling has proven to be successful, but again this is most effective for students who typically are already in financial trouble. Also, students tend to prefer workshops to one-on-one counseling.

Conclusions and Implications

It is important to acknowledge that the findings of this qualitative analysis are based on a limited number of responses from state and national leaders who had a particular interest and focus on credit education for students. Regardless, this study provides insight into some key topic areas that students need to know to become responsible credit managers. The findings also indicate students' preferences for financial education and how financial information can more effectively be delivered.

College students primarily turn to their campuses for financial information. Therefore, campus administrators may want to consider providing additional resources to offices that are best equipped to providing financial programs and services. These offices might include financial aid, student affairs, residence life, career centers, and student organizations. At a minimum, campuses should consider offering a course on credit and financial management to provide students early in their college careers with the basic skills and tools necessary to become responsible financial consumers.

With this said, there are a number of campuses that may not have the time and resources to offer financial education. They may also feel uncomfortable offering these services, especially if this is not their area of expertise. In these instances, campuses may want to consider forming partnerships with other campuses or local non-profit organizations such as Cooperative Extension or Consumer Credit Counseling Services (CCCS). These non-profit organizations frequently help students with debt management and other financial needs.

Finally, campuses may want to get students more involved in the development of financial education programs and initiatives. Opportunities for students to participate in the planning and development of programs and resources helps campuses to better meet the needs of their students. As the results from this study suggest, student involvement is also more likely to result in successful outreach campaigns.

Campus administrators, educators, financial professionals, and community leaders face a number of challenges in designing programs and providing resources to address the growing number of students who are accumulating large amounts of debt. Given the limited resources that all groups and organizations face, this paper provides some practical suggestions for how resources can be better allocated to develop and deliver more effective programs that target college students.

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