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# College Students' Financial Practices: A Mixed Methods Analysis

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Rising college costs, increased credit card usage, and dramatic growth in the amount students are borrowing to finance their education have generated concern that students are becoming over-indebted and putting themselves at long-run financial risk. According to the U.S. Department of Education (Choy & Li, 2005), the percentage of bachelor's degree recipients who had borrowed from any source to finance their undergraduate education increased from 49% in 1992-93 to 65% in 1999-2000. Among borrowers, the average amount borrowed increased from $12,100 (in constant 1999 dollars) to $19,300.

The financial decisions students make in college can significantly affect their financial situation during and after college. These decisions also can affect other aspects of their lives, including their academic performance, health status, and future employment (Cooke, Barkham, Audin, Bradley, & Davy, 2004; Lyons, 2003). A number of colleges and universities have developed financial education programs to address their students' needs. However, it is difficult to implement effective programs when very little is known about the overall financial health of college students, especially the process by which they acquire certain financial behaviors and practices.

Most of the research on college students and their finances has focused almost exclusively on their credit card use. This paper builds on previous research by reporting the degree to which college students are financially fit and the factors that influence their financial management practices. In addition, this paper examines the role that parents play in shaping financial behaviors.

This research was conducted as part of a multi-state project. Using an online survey and a series of focus group discussions, data were collected in 2004 and 2005 on the financial management practices of college students at the University of Illinois at Urbana-Champaign (UIUC), the University of Illinois at Chicago (UIC), the University of Georgia (UGA), and Louisiana State University (LSU). The findings from UGA and LSU are presented in this paper. Implications for financial professionals and consumer educators, as well as future research, are discussed.

## Literature Review

Most studies that have attempted to measure the level of financial literacy among young adults focus primarily on high school students. Every two years, the Jump$tart Coalition for Personal Financial Literacy administers a written, 45-minute exam to 12th graders in schools across the United States. Each year, students average a failing grade; the mean score was 52% in 2006 (Jump$tart Coalition, 2006). Although there have been no reports of college students taking the Jump$tart exam, Chen and Volpe (1998) assessed the financial literacy of 924 college students who scored 53% on average. Non-business majors, women, students in the lower academic years, those under age 30, and those with little work experience had the lowest scores.

In recent years, educators, policy makers, and university officials have focused primarily on one aspect of college students' financial practices—their use of credit, and more specifically credit cards. Numerous researchers have examined college students' credit card use, finding in general that most students now have credit cards (Hayhoe, 2002; Hayhoe, Leach, Allen, & Edwards, 2005; Jones, 2005; Lawrence et al., 2003; Lyons, 2003, 2004; Staten & Barron, 2002). The 2004 Nellie Mae Credit Card Study (Nellie, Mae, 2005) reported that 76% of undergraduate students had credit cards and 47% had four or more cards. The average credit card debt owed was $2,169. Furthermore, about one-fifth of



students (21%) said they paid off their credit card balances in full each month, and only 4% said their parents were responsible for the payments.

Researchers have identified several factors that significantly affect college students' use of credit cards, including gender, attitudes toward credit, marital status, and income (Hayhoe, Leach, Turner, Bruin, & Lawrence, 2000), as well as parental involvement (Palmer, Pinto, & Parente, 2001). Specifically, female students, those with more positive attitudes about credit, those with higher individual and/or family incomes, and those whose parents co-signed for the credit card and had post-acquisition involvement all had more credit cards and/or higher balances. Lyons (2003; 2004) examined the credit card practices of college students using four different definitions of financial risk: $1,000 or more in credit card debt, delinquent on credit card payments by two months or more, reached credit card limit on at least one card, and paid credit card balances in full only some of the time or never. Across the four definitions, she found that gender, ethnicity, being financially independent, owing $1,000 or more in other debt, and acquiring credit cards prior to or during the first year in college were among the variables that significantly influenced a student's level of financial risk.

Although these studies provide general insight into college students' use of credit, they did not adequately put this information into context. How do young adults acquire the knowledge, skills, and attitudes necessary to make sound financial decisions? How do they learn financial behaviors? And from whom do they learn them? This study set out to address these research questions and to shed new light on college students' financial management practices.

## Methodology

In 2005, a random sample of 5,000 undergraduate students at LSU and 3,266 undergraduate students at the UGA received an e-mail asking them to complete a consent form and brief

questionnaire. Students were asked to select the response that best described how often they engaged in 10 specific financial management behaviors. Using the 10 survey items, a "financial fitness score" was generated for each student to determine the student's level of financial risk; items not applicable were deleted to calculate each student's score. Eight other survey questions were asked, including: "Who has had the most significant influence in shaping what you know and think about money?"

Based on their survey responses, LSU and UGA students were invited to participate in an in-depth focus group discussion. At LSU, focus groups were conducted with 39 students (four groups of about 10 students per group). Two groups were composed of financially at-risk students, and two groups consisted of financially-fit students. The original intent at UGA also was to interview students separately according to their level of financial risk. However, recruitment proved difficult, and students were invited to attend any of the focus groups. The four UGA focus groups were conducted with three to five students in each. Using transcripts of the focus group discussions, the LSU and UGA researchers independently identified themes that emerged.

## Results

A total of 1,891 students (1,400 from LSU and 491 from UGA) responded to the online survey, with response rates of 28% and 15%, respectively. The sample included undergraduate students from each year in school (see Table 1), although the largest proportion was seniors (33.4%). Most (95.7%) reported being full-time students. A large proportion (66.7%) reported having a GPA of B or higher. About two-thirds (64.7%) were female. Most were Caucasians (80.1%), whereas 10.7% were African American, 5.2% were Asian, and 2.4% were Hispanic. Over one-half (61.4%) indicated they had at least one credit card.

The most significant influence on students' money management behaviors was their parents (70.0% reported parents



Table 1
*Demographic Characteristics of the Undergraduate Student Sample (N = 1,891)*

| Demographic characteristics | n | % |
|---|---|---|
| Year in college | | |
| Freshman | 465 | 24.6 |
| Sophomore | 382 | 20.2 |
| Junior | 413 | 21.8 |
| Senior | 631 | 33.4 |
| Full- or part-time student* | | |
| Full-time | 1810 | 95.7 |
| Part-time | 80 | 4.2 |
| Current GPA | | |
| 3.6-4.0 | 498 | 26.3 |
| 3.0-3.59 | 764 | 40.4 |
| 2.6-2.99 | 417 | 22.1 |
| 2.0-2.59 | 183 | 9.7 |
| Below 2.0 | 29 | 1.5 |
| Gender | | |
| Female | 1224 | 64.7 |
| Male | 667 | 35.3 |
| Ethnicity | | |
| White | 1514 | 80.1 |
| African American | 203 | 10.7 |
| Asian | 99 | 5.2 |
| Hispanic | 45 | 2.4 |
| Other | 30 | 1.6 |
| Have a credit card | | |
| Yes | 1161 | 61.4 |
| No | 730 | 38.6 |
| Parents' marital status | | |
| Married | 1337 | 70.7 |
| Divorced | 398 | 21.0 |
| Other | 156 | 8.3 |
| Most significant influence | | |
| Both parents | 1324 | 70.0 |
| Mother only | 246 | 13.0 |
| Father only | 114 | 6.0 |
| Other | 207 | 11.0 |

*Note that one student did not report whether they were a full- or part-time student.

together, 13.0% said mother, 6.0% said father). Few students identified as their most important influence a brother/sister (1.2%), grandparents (1.9%), other family relative (1.2%), or friend (1.5%). A small percentage (5.2%) reported "other," which included boyfriend, girlfriend, spouse, teacher, self, experience, church, and classes.

### How Financially Fit Are College Students

On a 5-point Likert-type scale with 1 = always, 2 = usually, 3 = sometimes, 4 = seldom, and 5 = never, students' average financial fitness score was 2.2 (the median was 2.1). See Table 2 for the list of 10 survey items, including the percentages for each category and the mean and median scores for each financial practice.

Students were most likely to avoid writing bad checks and to pay bills on time and least likely to save monthly, to have a budget, and to balance a checkbook. The variables in Table 1 plus campus location were used to create dummy variables that were entered into a stepwise multiple regression analysis to learn which variables explained the variance in financial fitness scores. The significant variables, which explained 8.0% of the variance, were students' GPA, the marital status of their parents, having a credit card, their year in college, and their ethnicity. The results were consistent with previous research (i.e., Hayhoe et al., 2000; Lyons 2003, 2004). Students were less likely to be financially at risk if they had higher GPAs or their parents were married. Students were more likely to be financially at risk if they had a credit card or were a minority or college senior. To provide additional insight, the qualitative findings from the focus group discussions are presented below.

### Focus Group Results

***UGA.*** Because participants in the UGA focus groups were not grouped according to their scores on the financial fitness quiz, much of the discussion was general, focusing on how the students learned about financial management. Three important themes emerged.



Table 2
*Responses to Financial Fitness Questionnaire*

| Financial practices | % 1 - Always | % 2 - Usually | % 3- Sometimes | % 4- Seldom | % 5- Never | Mean Score | Median Score |
|---|---|---|---|---|---|---|---|
| I avoid writing bad checks or ones with insufficient funds. | 80.4 | 14.9 | 2.6 | 1.1 | 1.0 | 1.27 | 1.00 |
| I pay my rent/mortgage and other living expenses on time each month. | 75.3 | 18.6 | 3.6 | 1.1 | 1.3 | 1.35 | 1.00 |
| I pay my credit card bills on time each month and am almost never late. | 75.3 | 15.9 | 4.6 | 2.3 | 2.0 | 1.40 | 1.00 |
| I avoid maxing out or going over the limit on my credit cards. | 75.3 | 14.4 | 5.0 | 3.0 | 2.4 | 1.43 | 1.00 |
| I avoid spending more money than I have. | 54.7 | 28.6 | 11.9 | 3.1 | 1.7 | 1.69 | 1.00 |
| I have little or no difficulty managing my money. | 24.3 | 41.4 | 21.5 | 9.2 | 3.6 | 2.26 | 2.00 |
| I pay my credit card bills in full each month to avoid interest charges. | 47.6 | 13.7 | 13.0 | 13.1 | 12.6 | 2.29 | 2.00 |
| I balance my check book each month. | 30.8 | 13.4 | 9.4 | 15.2 | 31.2 | 3.03 | 3.00 |
| I have a weekly budget that I follow. | 14.9 | 22.1 | 20.3 | 19.8 | 22.8 | 3.14 | 3.00 |
| I regularly set aside money each month for savings. | 14.1 | 14.5 | 24.1 | 23.7 | 23.7 | 3.28 | 3.00 |

*The influence of family members is important but complex.* Most students reported hearing various messages about money from family members. Common examples were "don't spend money you don't have" and other cautionary statements about credit.

Most of the messages students shared related to controlling spending and using credit wisely. In addition, many students were very aware that they approached financial management differently than a sibling. They wanted either to be different from or like their sibling, depending on whether the sibling was more or less responsible.

With respect to their parents, some students said that they were not managing their finances as responsibly as they might, because their parents' behaviors allowed them to continue to rely on them. For example, one student said, "I... withdraw on a negative checking account, and they'll still give me money. So, sometimes it could be like your parents just need to stop helping you." Other students reported they had no intention of following their parents' financial management examples. For example, one student said, "When my mother divorced my father when I was younger, she filed for bankruptcy and I watched our car towed away. I watched a lot of things happen, and I knew what I didn't want to happen." More typical is this quote from a student, "My mom...she will say, 'You're not supposed to do that,' but then she will give me the money."

*Students prefer immediate feedback in financial management, including using electronic and online financial services.* A number of students indicated that they have online banking and online access to their credit card accounts. These students are not writing checks or balancing checkbooks. However, they do have systems for checking their bank account balances (usually to avoid overdrafting) and managing their credit card charges. Typical comments from students were, "One of the most called numbers on my cell phone bill is my [bank's name] number. Because I'll call them up...and then it tells me how much money I have." "I use my debit card because I don't keep up with checks." "I go [online] every day and I check it [checking account], just to make sure that everything is ok."

*Students were very interested in receiving financial management information through the university.* Students demonstrated that they, like the general population, have individual preferences about



how they receive financial management information. Whereas some students were enthusiastic about an informative website, others had different ideas about how they would like to receive financial management information. Some thought the university should target freshmen, recalling that they personally had more money as a freshman than as a junior or senior. Others thought it would be good to have a financial education center on campus. Several suggested workshops or classes, with differences of opinion about whether these should be required or optional. One student, supporting her position that a course should be required, said, "It is education. Even though it's not part of your bachelor's program, it's part of your life. You need to know this."

***LSU.*** Recall that participants in the LSU focus groups were recruited based on their scores on the financial fitness quiz. Two of the focus groups were composed of students who were financially at risk. The students in the other two focus groups were classified as financially fit. The discussion that follows focuses on the differences between the themes across the two types of groups.

*Use of credit cards.* Approximately one-half of the financially-fit group did not own a single credit card and tended to be outspoken regarding the dangers of credit card use/abuse. The other half held credit cards, tended to have only one, and reportedly treated them "like a debit card" by paying off balances immediately. This group used credit cards with caution and as a way to establish a good credit rating. In contrast, the financially at-risk group did not have an aversive or cautious reaction to credit cards (or at least not until they were deeply in debt). Many reported holding multiple credit cards and did not discuss the importance of maintaining a zero balance. A recurrent statement was, "It is too easy to get credit cards." The at-risk group demonstrated relaxed attitudes toward debt ("I'm going to pay it off when I leave here [LSU]" and "I'll deal with my mistakes later").

*Assuming responsibility for actions.* The financially-fit group demonstrated personal responsibility for their finances in a number of ways. They reported careful tracking and budgeting of expenses. Although the method varied (checkbook, notebook, online), students kept a pulse on their expenditures and intentionally avoided impulse shopping. Compared with the at-risk group, the financially-fit group was more than twice as likely to report saving at some level. For about one-third of the group, this had been a practice established in childhood. The financially-fit group frequently mentioned the importance of understanding the value of money and the importance of discriminating between needs and wants. In contrast, the at-risk students discussed their tendency to engage in "impulse shopping." Although sometimes done solo, the majority (two-thirds) mentioned that they tended to make impulsive purchases with peers. One notable quote: "We mismanage money together." The at-risk students also reported that external factors influenced their spending habits. Advertising, peer pressure, and the thrill of an expensive purchase as a "status symbol" all were mentioned as influences for this group. One recurrent theme was the point that one sees "Bad credit, no problem" or "No credit, no worries" signs everywhere. Apparently, such messages are internalized at some level and tend to mute alarm among the at-risk students.

*Constructive financial discussions with parents.* Interestingly, there was no significant difference between the financially-fit and at-risk groups in the reported frequency of "family chats" regarding financial matters. The difference emerged in "the nature" of those discussions. For the fit group, discussions were perceived as educational and as a non-intrusive check and balance: "I talk to my dad...twice or three times a week, and when we do, he'll ask how I'm doing with the card. I mean, [I've had] it for a long time, but he'll still ask me if I have spent much lately." For the at-risk group, discussions tended to be construed as interrogative and intrusive: "Where did you get that new pair of shoes and how did you pay for them?"



## Conclusions, Discussion, and Implications

This study examined the factors that affect the financial management behaviors of college students using a set of 10 financial practice items. One conclusion from the research is that, because the results indicate that some college students have not adopted the set of recommended financial management practices, they are not managing their finances well. Another conclusion is that the set of financial practices used does not accurately assess college students' financial management. For example, it may not necessarily be a sign of poor financial management if an individual who banks online does not balance his/her checkbook each month. The individual may not even have a checkbook; instead, the appropriate financial management practice may be to reconcile his/her online account as frequently as needed to avoid an overdraft. On the other hand, paying credit cards on time seems like a good measure of financial management behavior even if the payment is made online. Thus, the findings from this research can be used by future researchers to develop a scale of financial management responsibility that may better fit the financial management options available to college students.

Clearly this research study has limitations. Two important ones are the different methods used to constitute the focus groups on the two campuses and the small size of the UGA groups. Despite these deficiencies, the results suggest that some college students are financially at risk and on-campus financial education is needed. A realistic assessment of the financial management options and decisions relevant to students is important to developing effective educational programs. For example, to ensure a higher level of relevancy, some existing programs have been written and taught by college students.

In addition, education of the students' parents is needed. Overwhelmingly, students reported that their parents influenced their money management behaviors, signifying the importance of parents understanding the major role that they play in their child's financial education. However, this influence by parents

reportedly ranges from very negative to very positive. Freshman orientations on college campuses might include financial management education sessions for incoming students and their parents, either separately or together. The findings also demonstrate the need for more educational resources for parents. Resources are needed to educate parents about how to talk constructively to their children about financial management issues. Online resources for parents and high school and college students could be particularly useful. A financial education website could be developed to serve as a "one-stop" shop, where students and parents could go to find information and resources on financial aid as well as other financial topics such as credit cards, budgeting, credit reports and scores, and identity theft. On some campuses, existing websites that focus on financial aid could be a starting point for creating such a resource.

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