



Majoring in Money 2019

How college students and other young adults manage their finances

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2020 ISFAA Conference

Agenda

- Background
- College student behaviors
 - 2019 compared to 2016
- Credit literacy of young adults
- How young adults pay for things
 - Use of credit cards

Background

Online interviews conducted by Ipsos with

- 810 college students, ages 18 – 24
- 804 young adults who have graduated from college (completers), ages 21 – 29
- 805 young adults who have left college without a degree (non-completers), ages 21 – 29

Data collection

- Mid-December 2018 – mid-January 2019

Weighting

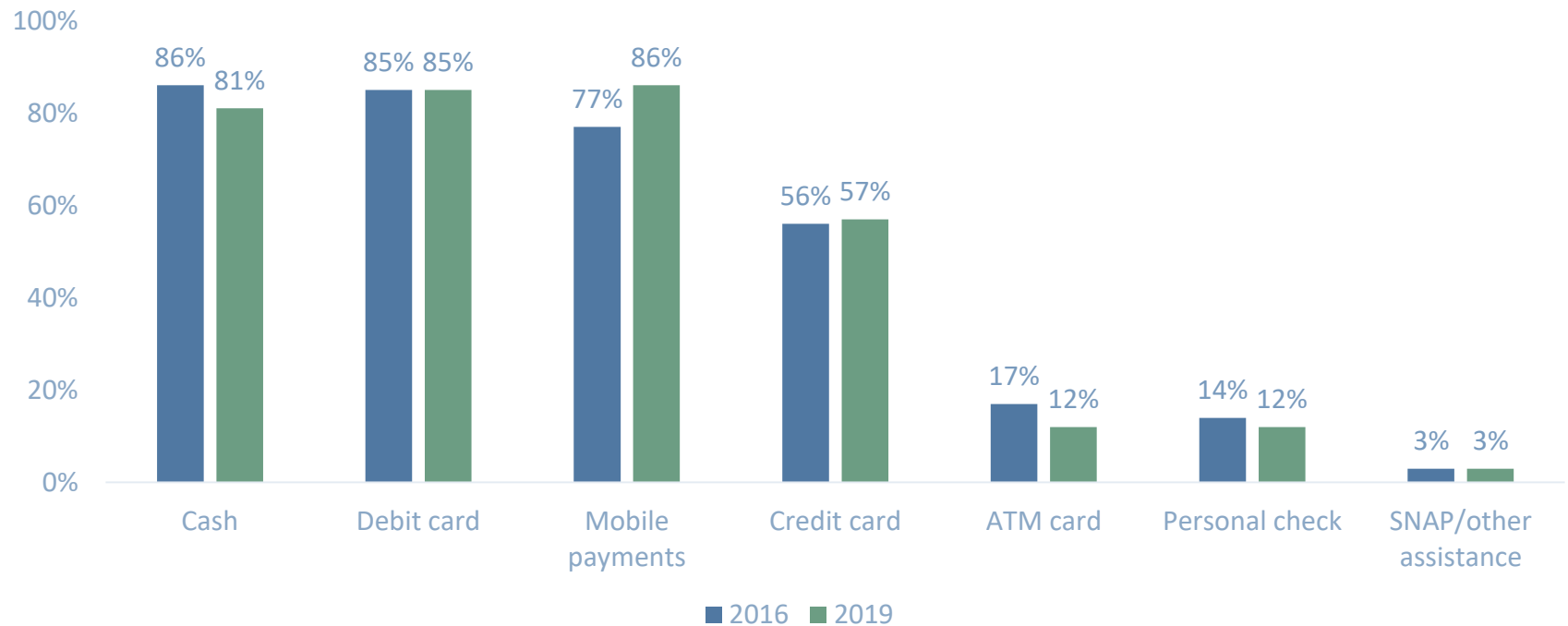
- Data was weighted to align the respondent demographics with the current U.S. population for each sample group. All of the demographic profiles used in the weights were sourced from the Census Bureau's 2013 American Community Survey.



- **College student behaviors**

Students' payment behaviors have changed in several ways since 2016

Payment methods used by college students, year-over-year

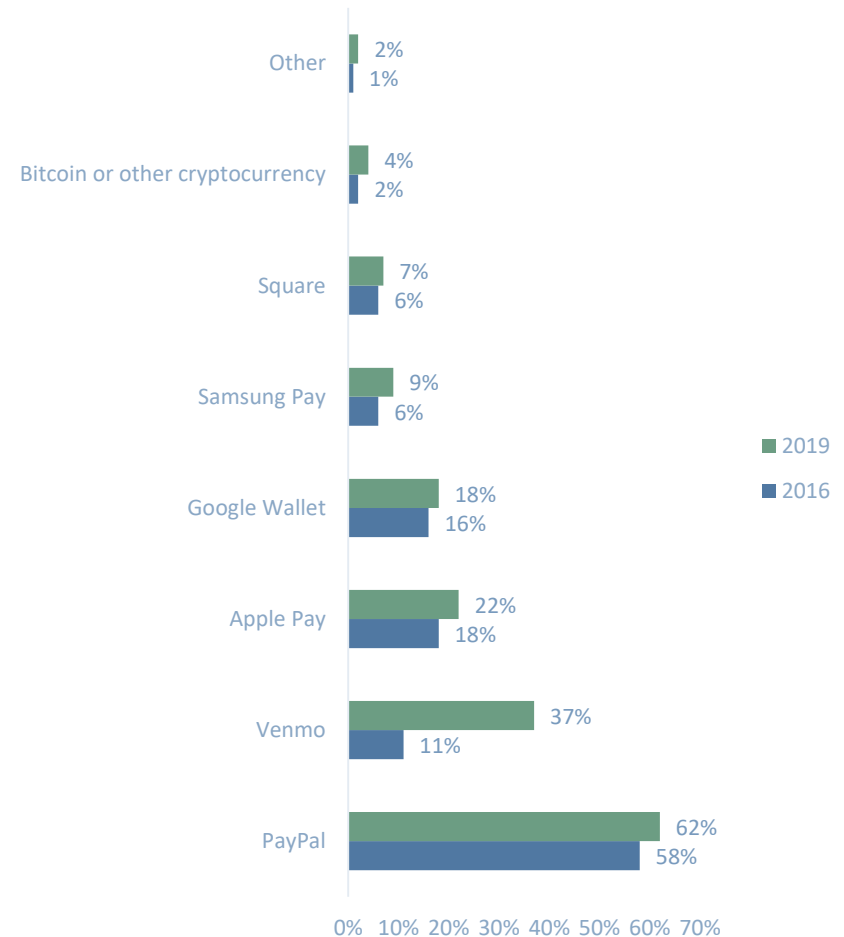


Increase in overall mobile use correlates to an increase in use of Venmo

Reported increases in specific mobile payment purchasing in 2019 compared to 2016 include

- Online purchases \leq \$20
 - 42% vs 32%
- Out-of-home entertainment
 - 25% vs 13%
- In-store purchases $>$ \$20
 - 21% vs 11%

Mobile payment brands used by college students, year-over-year



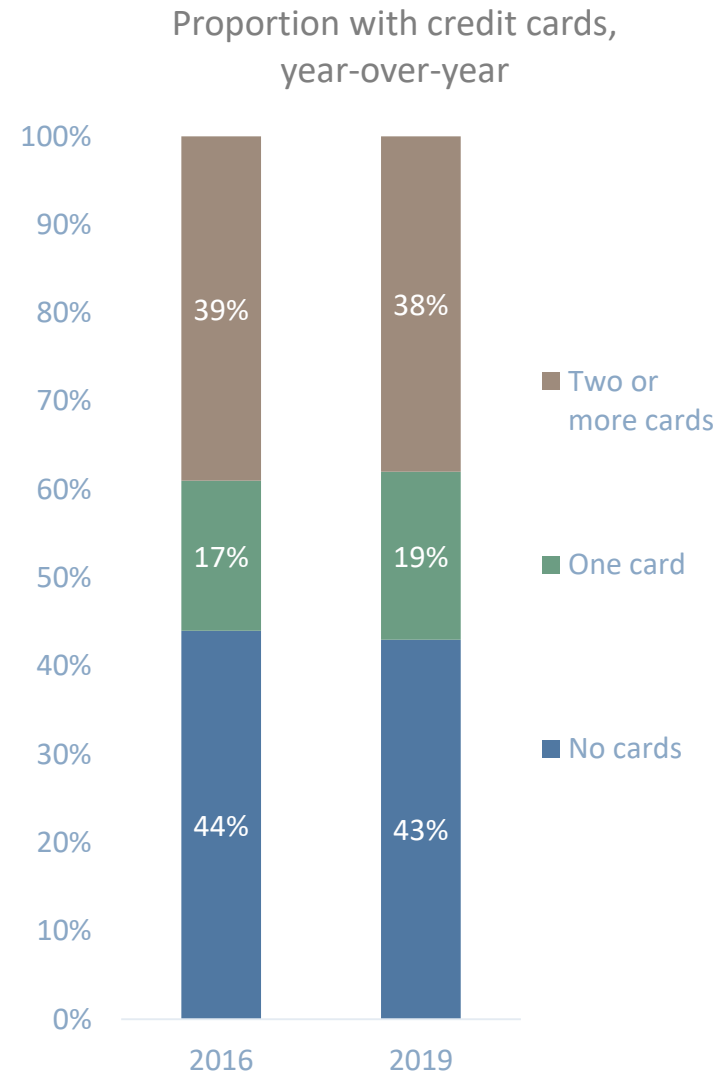
Portion of students with a credit card unchanged since 2016

By age group

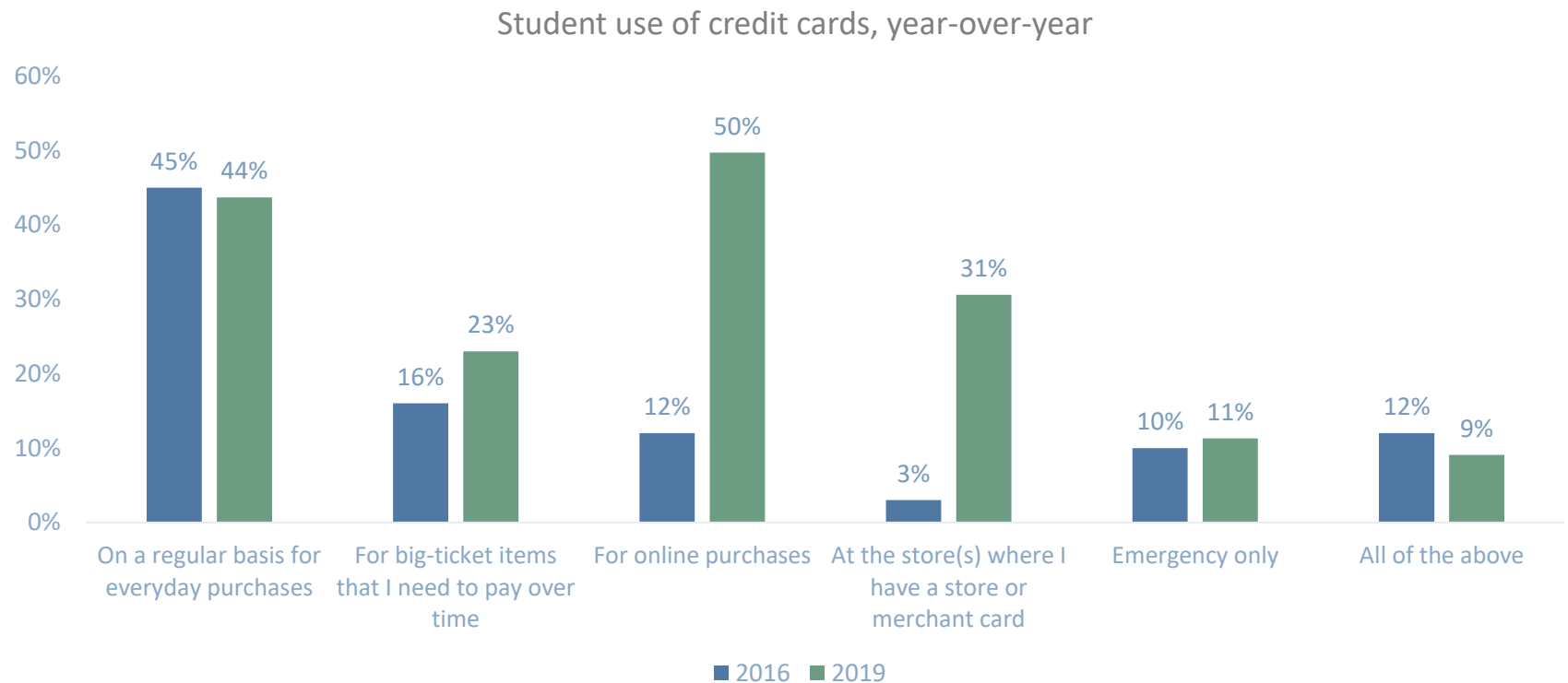
- 43% of 18-20 year-old students have cards
- 66% of 21-24 year-old students have cards

In 2019, half of those with credit cards report having more cards than in 2016

- Average number of cards 2019: 5.2
- Average number of cards 2016: 3.1



More students are using their credit cards in several categories



Balances are higher compared to 2016

But reported payment habits have not changed:

- 60% pay their balance in full each month
- 26% pay more than the minimum
- 11% pay the minimum due
- <1% pays less than the minimum
- 2% don't know

Parents are more likely to help make credit card payments in 2019 compared to 2016:

- 30% of students report parents help pay the bill compared to 25% in 2016



Rewards sway choice of credit card

Rewards

- 36% chose for the cashback rewards
- 24% chose for the rewards points

Convenience

- 27% chose due to easy approval
- 26% chose a card connected to their existing bank

Brand preference

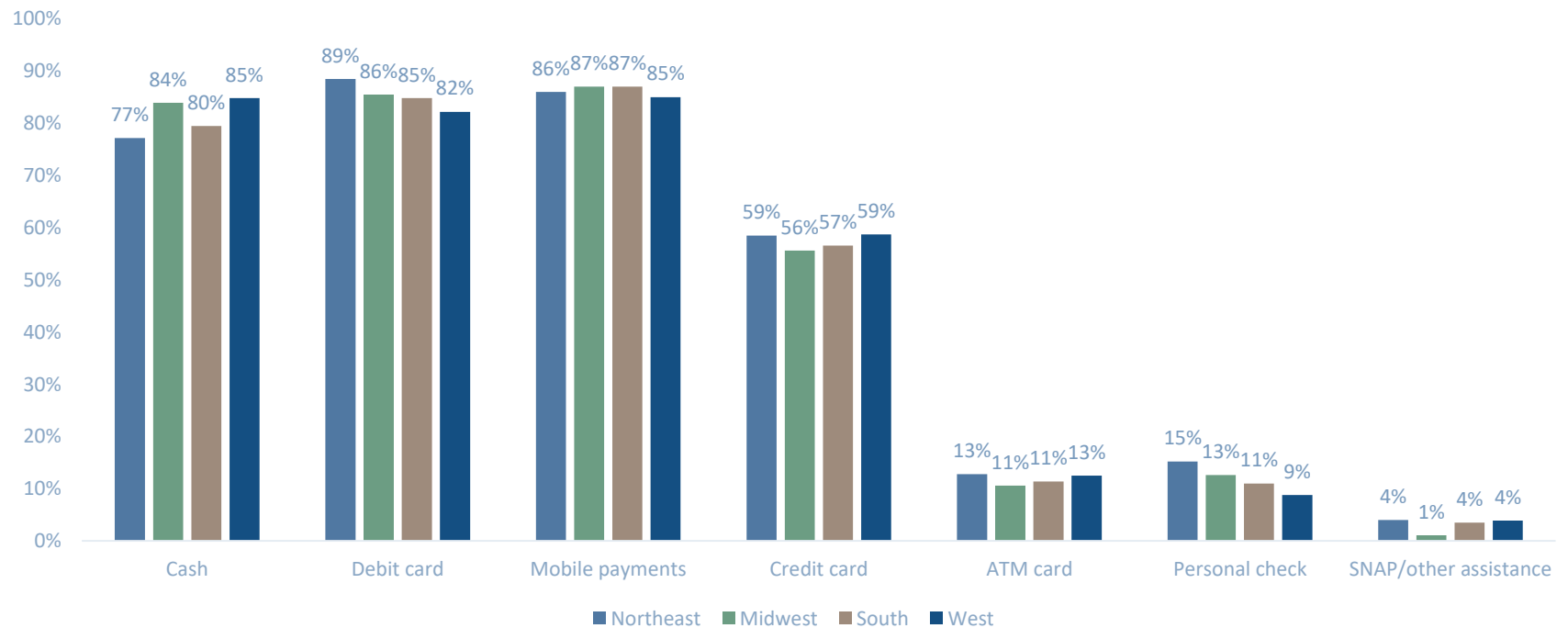
- 27% chose a card recommended by their parents
- 21% chose a card affiliated with their college or a store

Card features

- 25% chose due to credit limit
- 18% chose based on low introductory rate
- 18% chose for identity or theft protection
- 13% chose due to credit score availability

Payment types used are fairly consistent across regions

Payment methods used by college students, by region



Balances are lower in the Midwest region

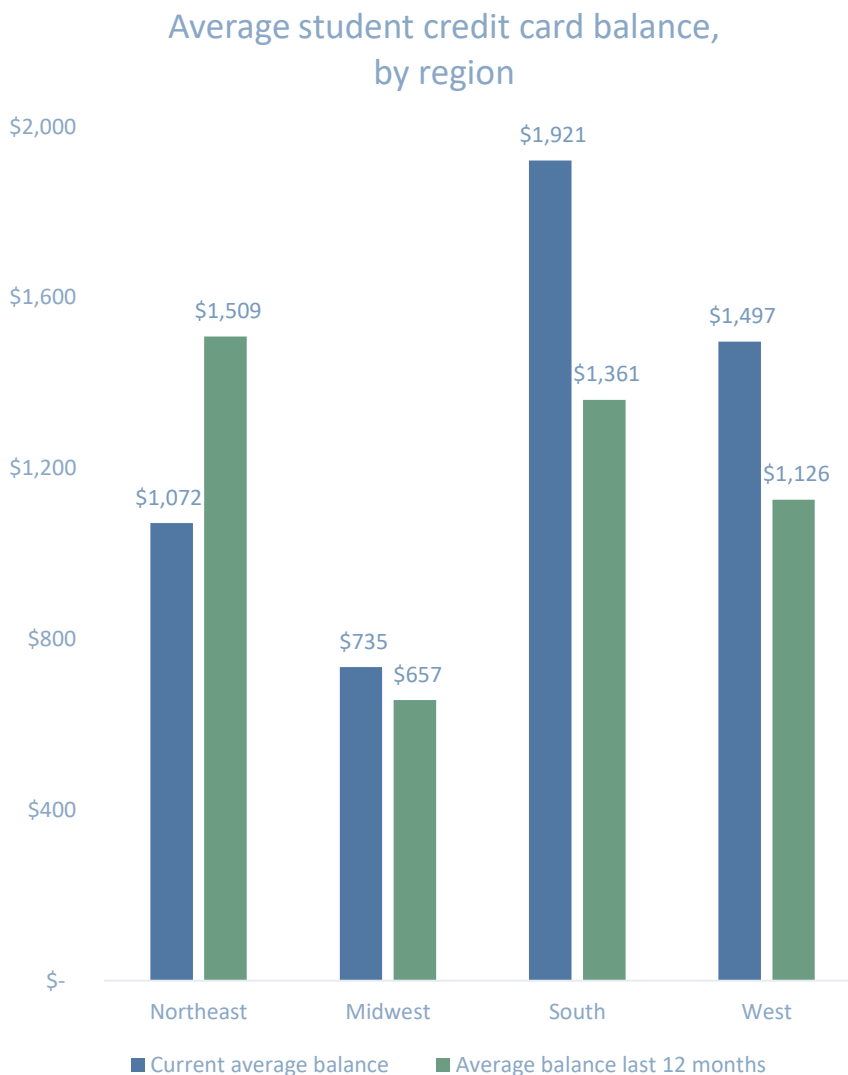
Students in the Midwest report significantly lower credit card balances:

- 62% lower than the South current average balance
- 56% lower than the Northeast 12-month average balance

Northeast students report the highest 12-month average balance:

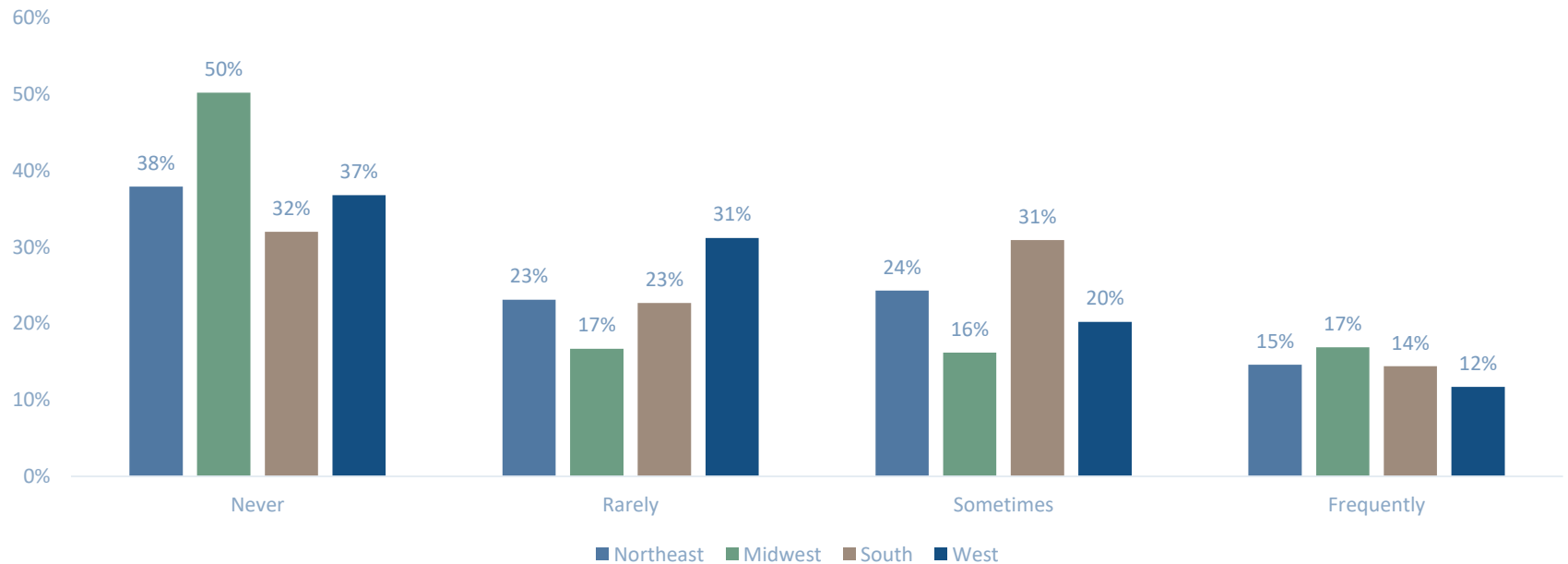
- Unlike the other regions, Northeast students report their most recent monthly balance as lower than the typical balance throughout the year.

South region students report the highest average current balance.



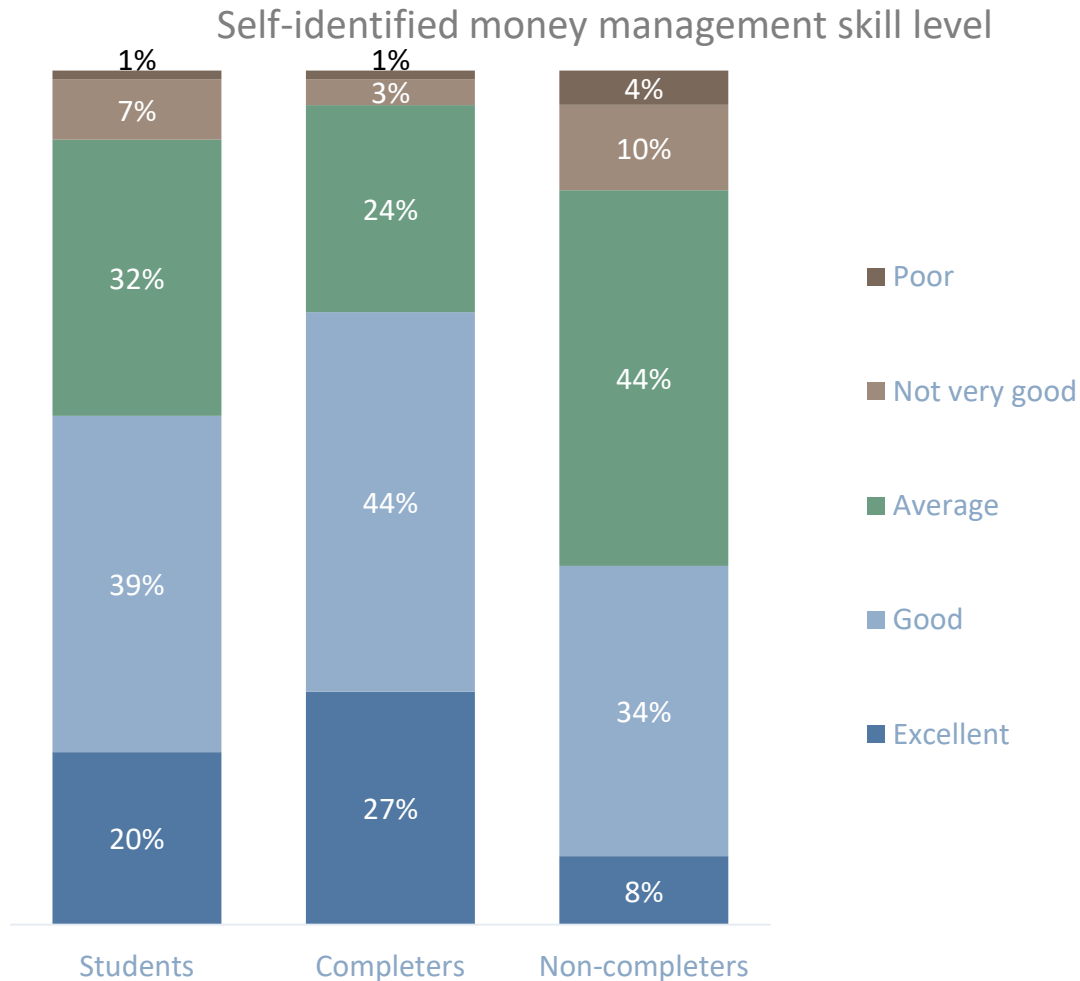
Midwest students more likely to consider affordability before using credit

Frequency of charging purchases without funds to pay the bill, by region

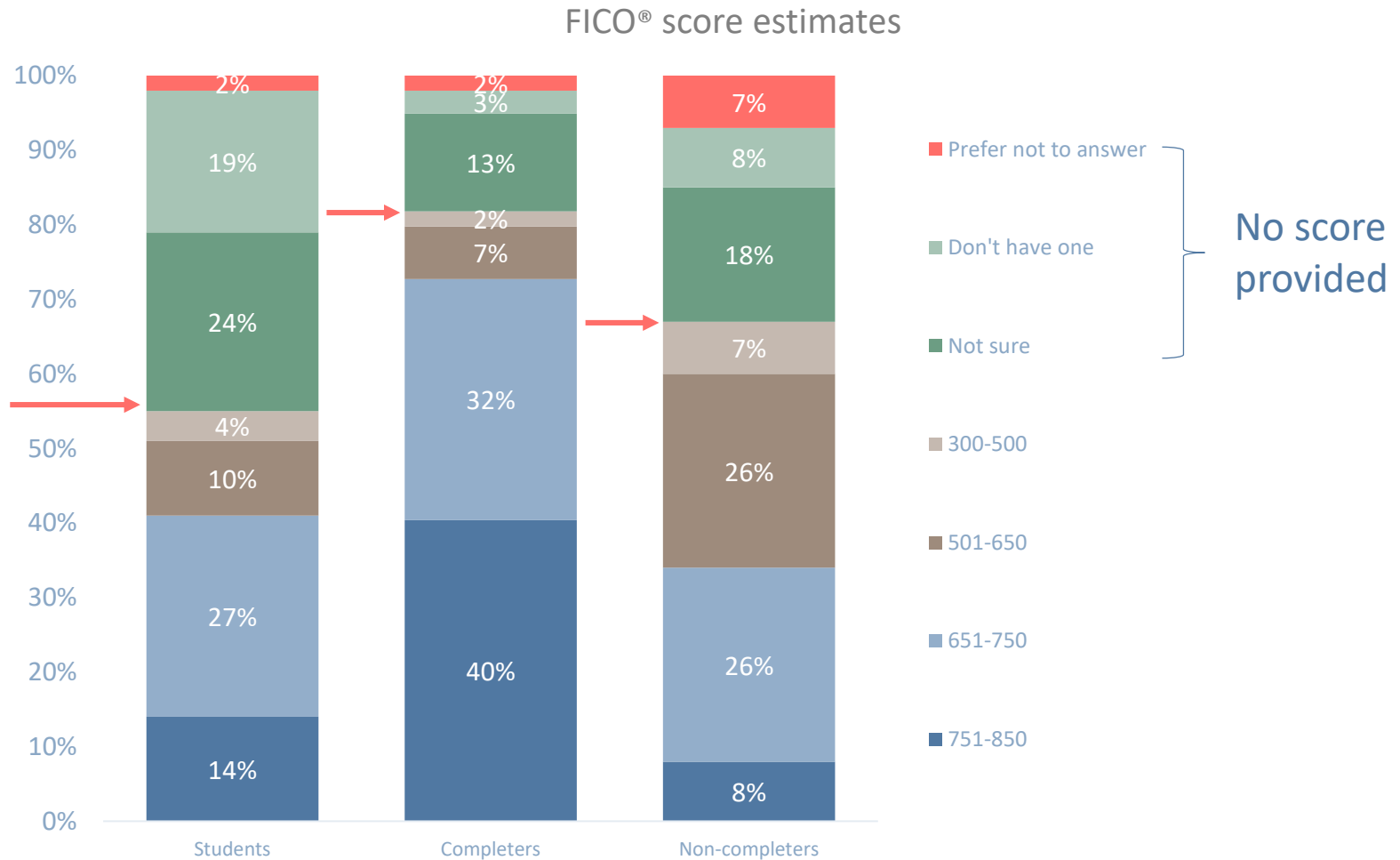


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- **Credit literacy of college students and other young adults**

Confidence in money management skills is evident



Two in five college students either don't know or say they don't have a credit score



Resources for learning money management

Parents

- 68% of students
- 70% of completers
- 56% non-completers

High school class

- 23% students
- 12% completers
- 17% non-completers

Independent research online

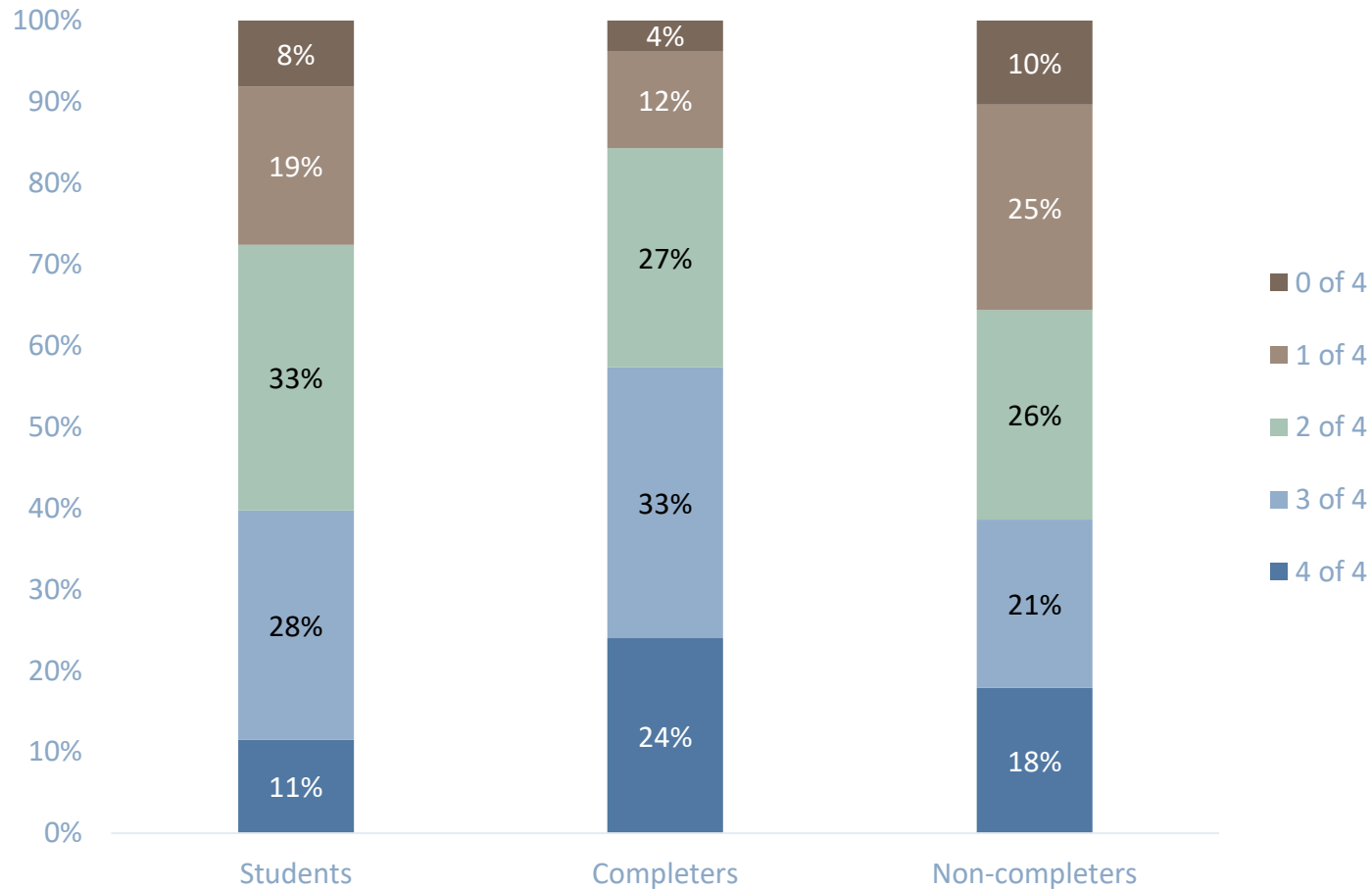
- 21% students
- 34% completers
- 31% non-completers

None/I don't know how

- 6% students
- 6% completers
- 14% non-completers

Students' credit knowledge similar to non-completers

Total correct responses to quiz questions



Q: Interest accumulation: Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?

- a. More than \$102
- b. Exactly \$102
- c. Less than \$102
- d. Not sure

Three in 10 students don't know how interest works

Q: Interest accumulation: Suppose you had \$100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?

- a. More than \$102
 - Students 71%, completers 83%, non-completers 71%
- b. Exactly \$102
- c. Less than \$102
- d. Not sure

Q: Effect of payment behavior on credit cost: Assuming the following individuals have the same credit card with the same interest rate and balance, which will pay the most in interest on his/her credit card purchases over time?

- a. Joe, who makes the minimum payment on his credit card bill every month.
- b. Jane, who pays the balance on her credit card in full every month.
- c. Joyce, who sometimes pays the minimum, sometimes pays less than the minimum, and missed one payment on her credit card bill.
- d. All of them will pay the same amount in interest over time.
- e. Not sure.

Half or fewer understand that negative payment behavior can increase cost

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- b. Jane, who pays the balance on her credit card in full every month.
- c. Joyce, who sometimes pays the minimum, sometimes pays less than the minimum, and missed one payment on her credit card bill.
 - Students 40%, completers 54%, non-completers 47%
- d. All of them will pay the same amount in interest over time.
- e. Not sure.

Q: Impact of repayment term on cost of credit question: Imagine that there are two options when it comes to paying back a loan and both come with the same interest rate. Provided you have the needed funds, which option would you select to minimize your total costs over the life of the loan (*i.e., all of your payments combined until the loan is completely paid off*)?

- a. Option 1 allows you to take 10 years to pay back the loan.
- b. Option 2 allows you to take 20 years to pay back the loan.
- c. Both options have the same out-of-pocket cost over the life of the loan.
- d. Not sure.

A sizable portion fail to connect the length of repayment with the cost of borrowing

Q: Impact of repayment term on cost of credit question: Imagine that there are two options when it comes to paying back a loan and both come with the same interest rate. Provided you have the needed funds, which option would you select to minimize your total costs over the life of the loan (*i.e.*, *all of your payments combined until the loan is completely paid off*)?

- a. Option 1 allows you to take 10 years to pay back the loan.
 - Students 56%, completers 70%, non-completers 49%
- b. Option 2 allows you to take 20 years to pay back the loan.
- c. Both options have the same out-of-pocket cost over the life of the loan.
- d. Not sure.


Q: Definition of interest capitalization: Which of the following best defines the term “interest capitalization”?

- a. The type of interest charged on high-balance loans
- b. The addition of unpaid interest to the principal balance of a loan
- c. Interest that is charged when you postpone payments on your loans

About half or fewer understand “interest capitalization”

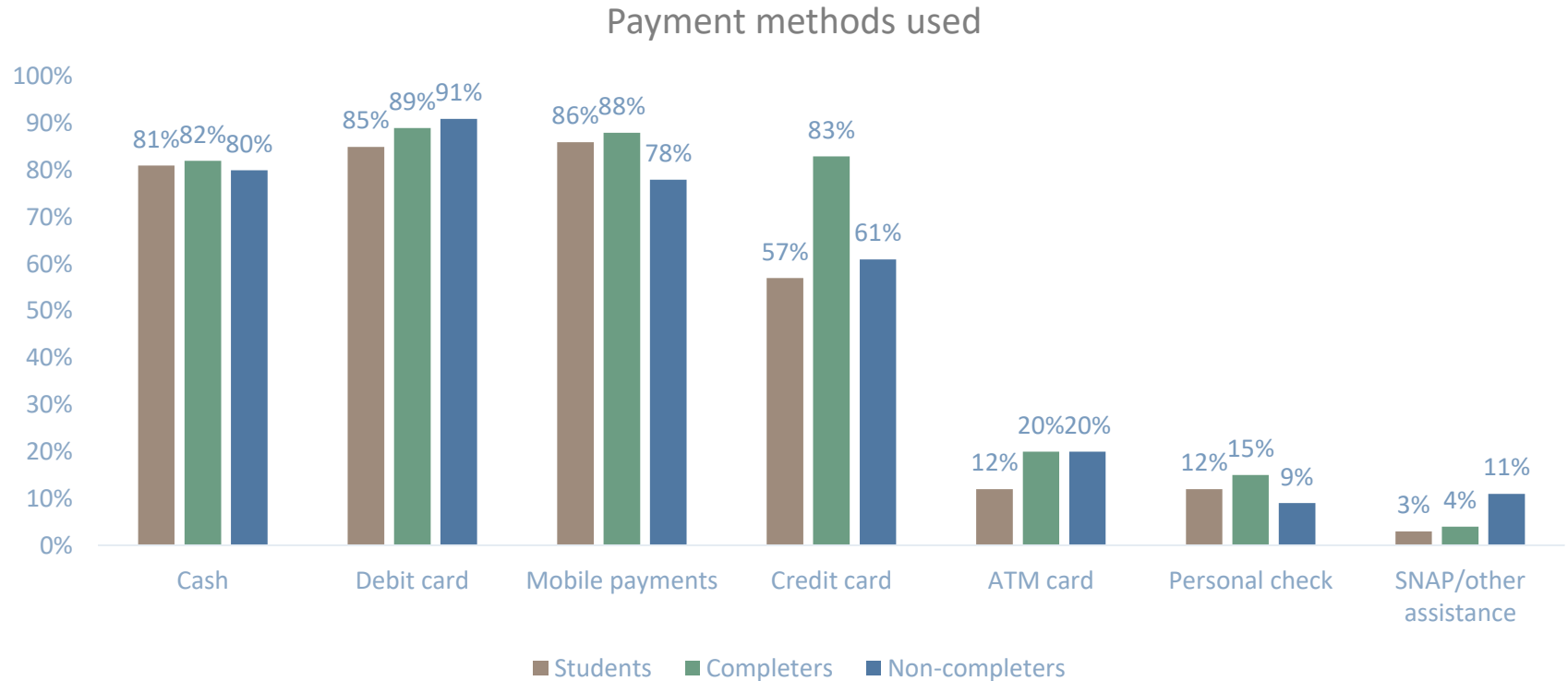
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- a. The type of interest charged on high-balance loans
- b. The addition of unpaid interest to the principal balance of a loan
 - Students 49%, completers 55%, non-completers 44%
- c. Interest that is charged when you postpone payments on your loans



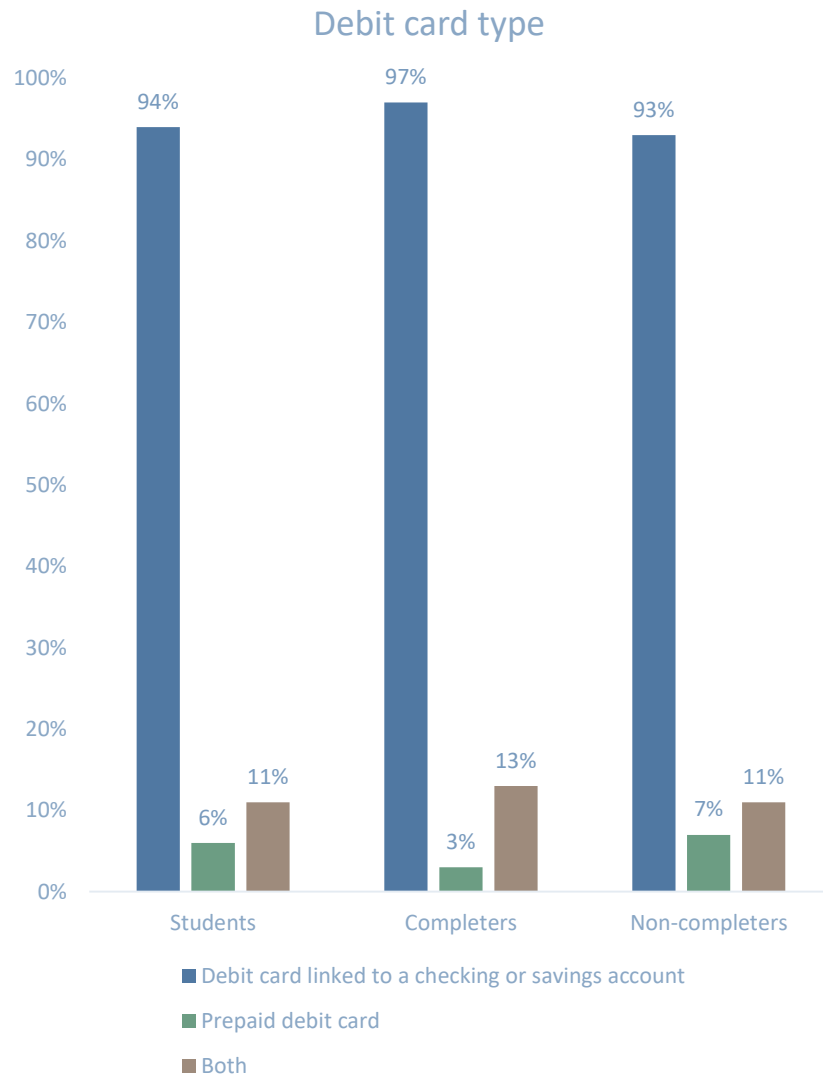
- **How young adults pay for purchases**

Mild variations in use of payment methods

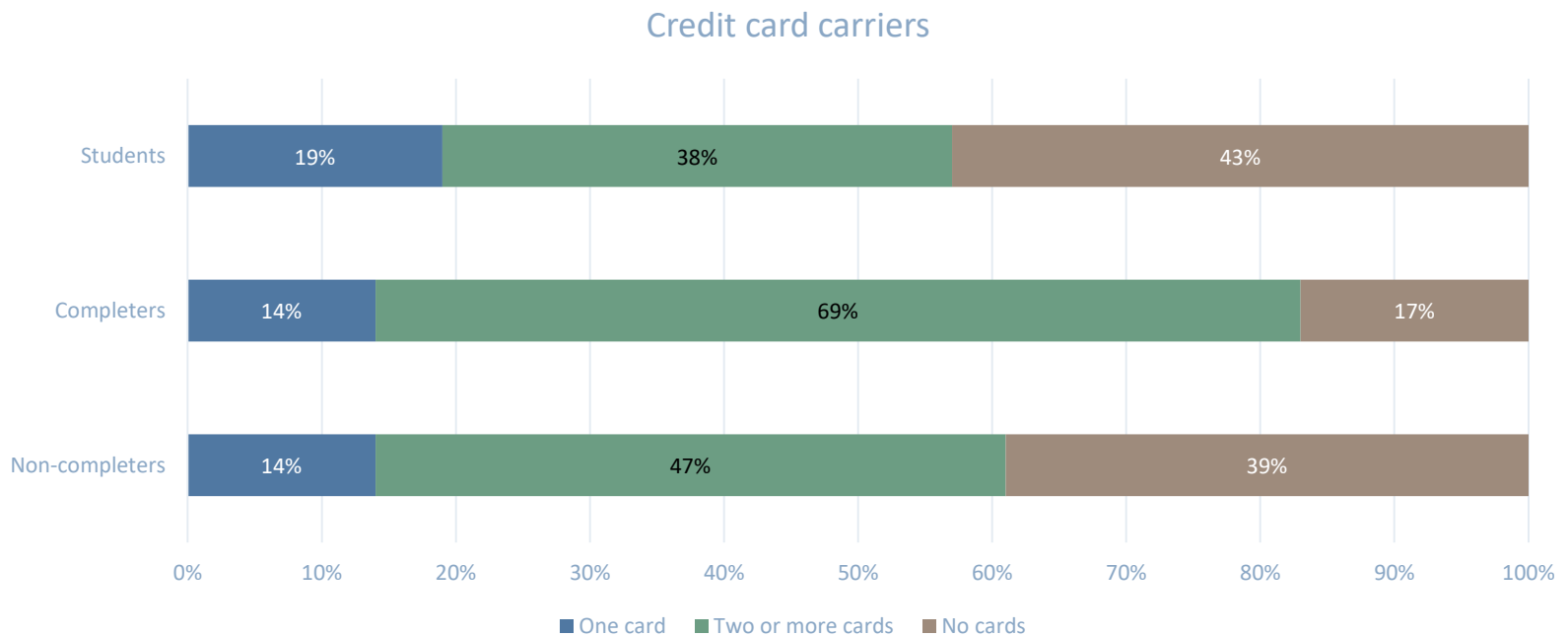


More than 9 in 10 debit cards are linked to a bank account

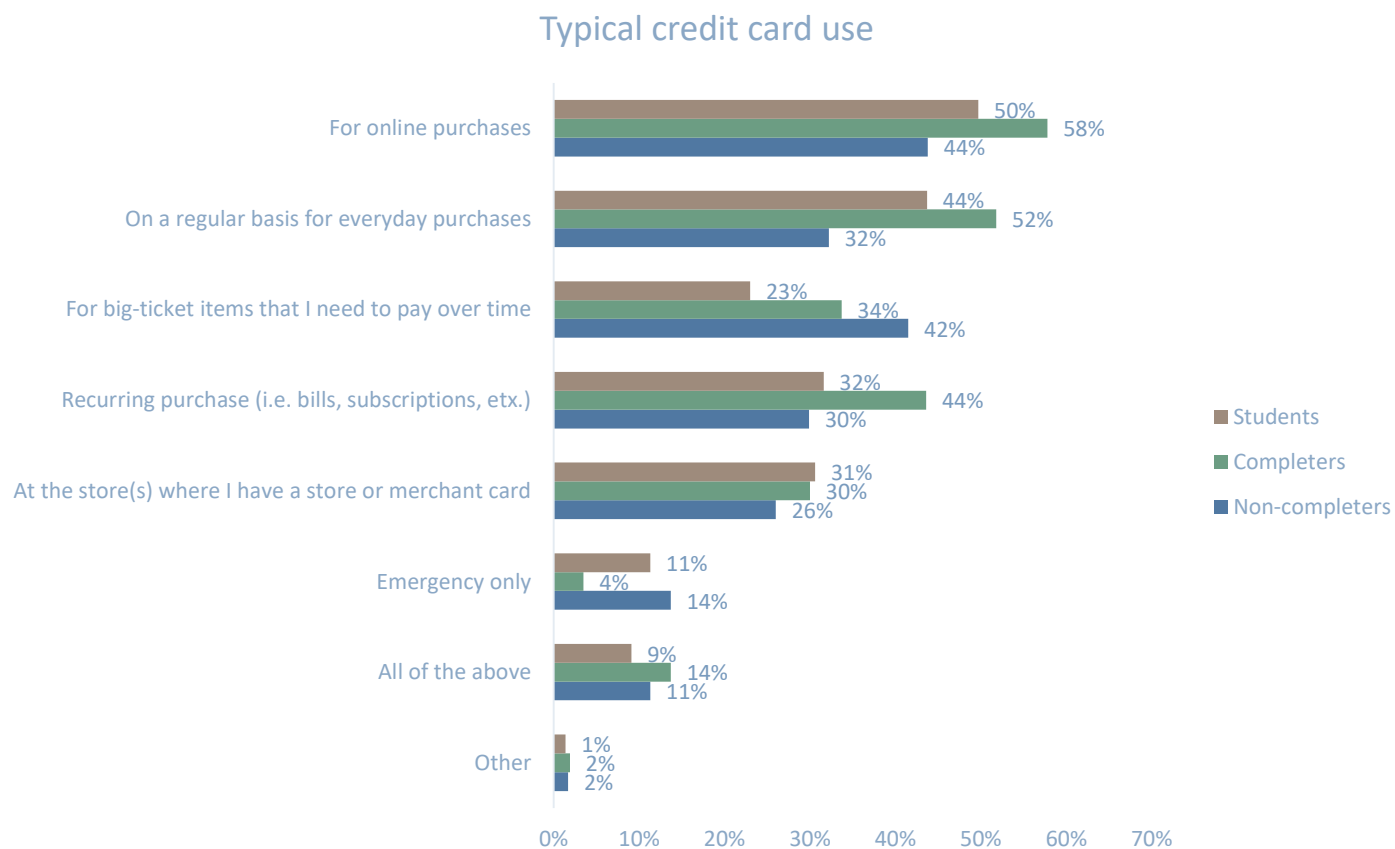
- Non-completers are more likely to use debit cards over other forms of payment for every type of purchase.
- Students are more likely to use debit cards for every type of purchase except in-store items \leq \$20.



College completers are much more likely to carry credit cards



Completers and non-completers differ in their credit card strategy

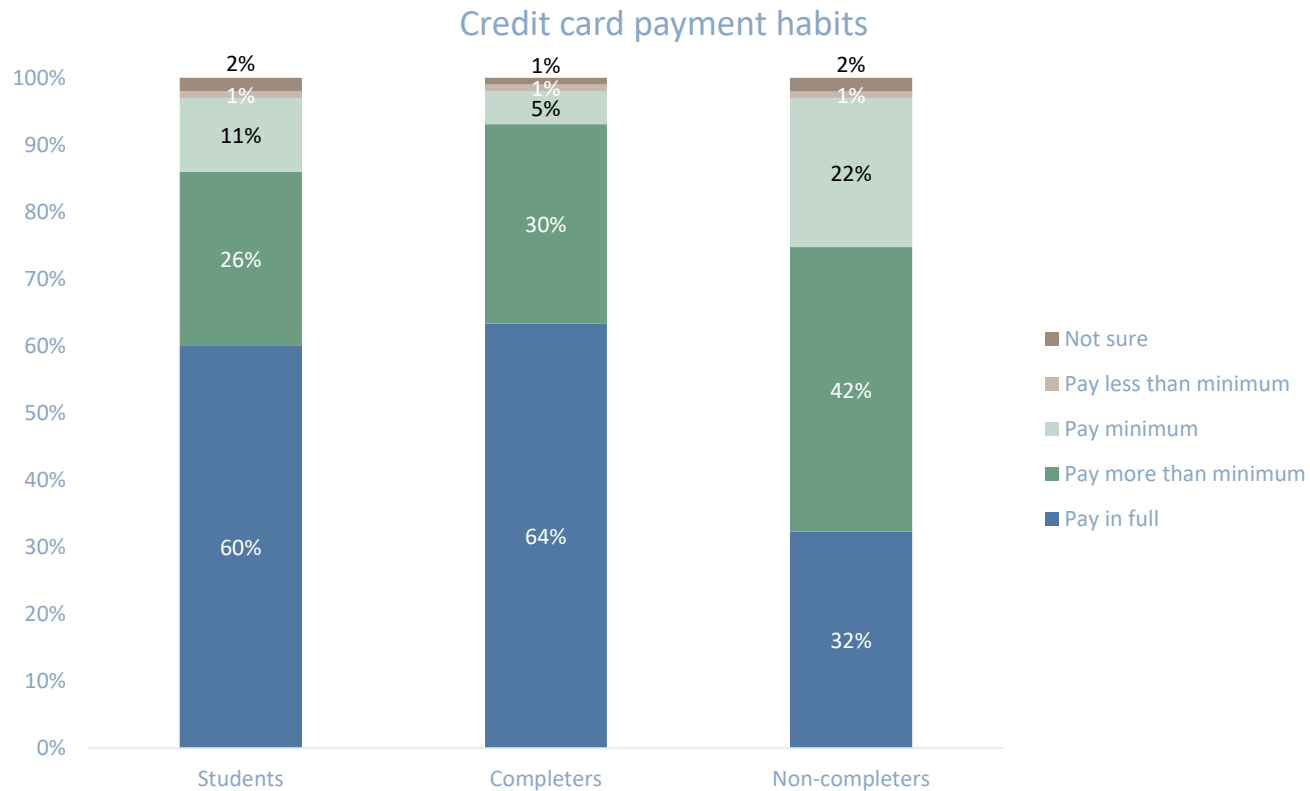


College students carry lower balances

- Those no longer in college carry balances two to three times higher than college students.
- Despite carrying smaller balances, college students are less likely than completers to say they never charge an item knowing they don't have the money to pay for it:
 - Students 38%
 - Completers 48%
 - Non-completers 29%



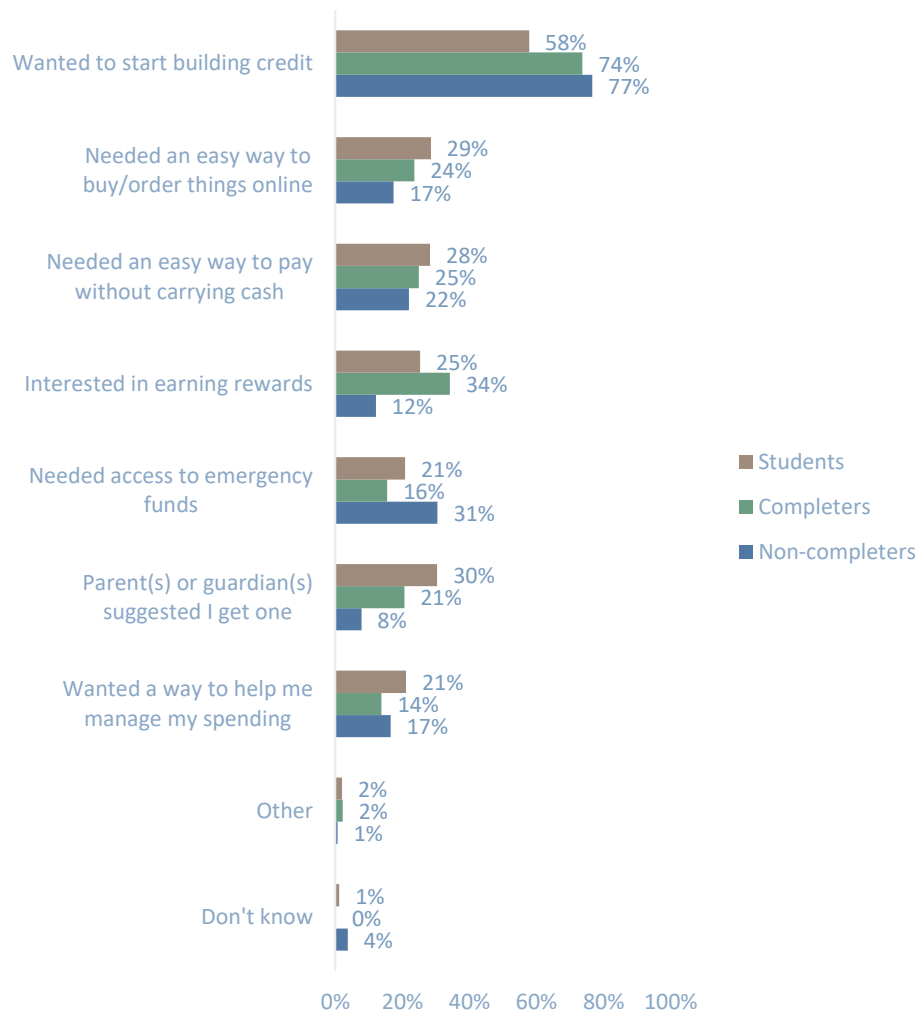
Young adults make responsible payment choices



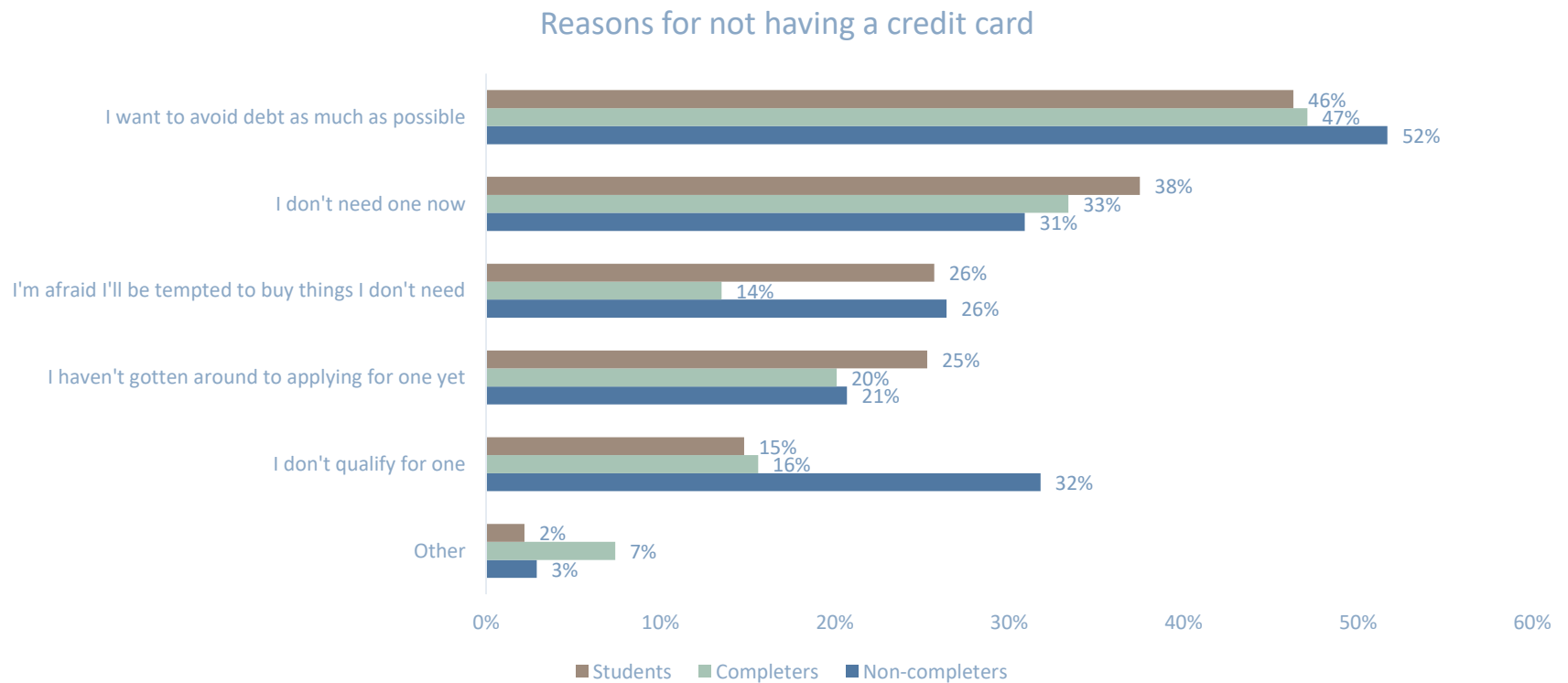
Credit cards are for building credit

- Building credit was cited 2-3 times more often as the reason for wanting a credit card
- Convenience is secondary factor
- Needing access to emergency funds is no longer a top priority

Reasons for wanting a first credit card



Avoiding debt is the most prevalent reason for not carrying a credit card



Borrow responsibly

We encourage students and families to start with savings, grants, scholarships, and federal student loans to pay for college. Students and families should evaluate all anticipated monthly loan payments, and how much the student expects to earn in the future, before considering a private student loan.

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