

MAJORING IN MONEY: HOW AMERICAN COLLEGE STUDENTS MANAGE THEIR FINANCES

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Agenda

Background

How College Students Pay for Purchases

How College Students Use Their Credit Cards

- Choosing Credit Cards
- Managing Credit Card Purchases and Payments

Financial Habits and Awareness of College Students

- Conscious of Credit Reports and Positive Credit Behavior
- Perception of Money Management Skills
- Foundational Gaps in Credit Knowledge
- Money Management Education

Conclusion

Background and Methodology

Study Objective

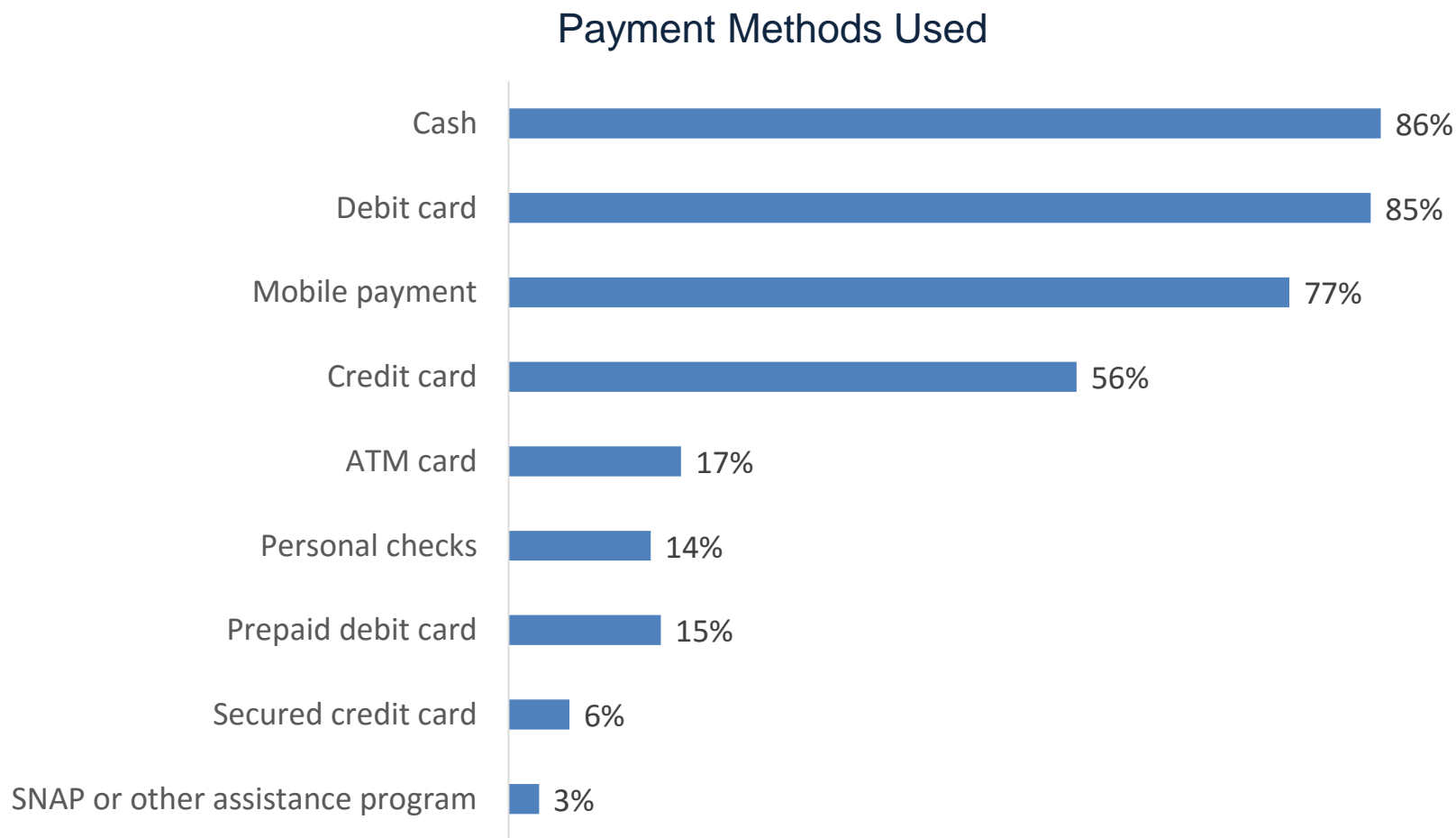
- Learn how American college students are managing their finances and using credit.
- Identify behaviors and knowledge related to credit, and students' perceptions of their money management skills.

Methodology

- Online survey of 793 college students, ages 18-24
- Interviews conducted December 2015
- Sample includes a cross-section of key demographic variables including gender, household income, region of the country, race/ethnicity and enrollment status.

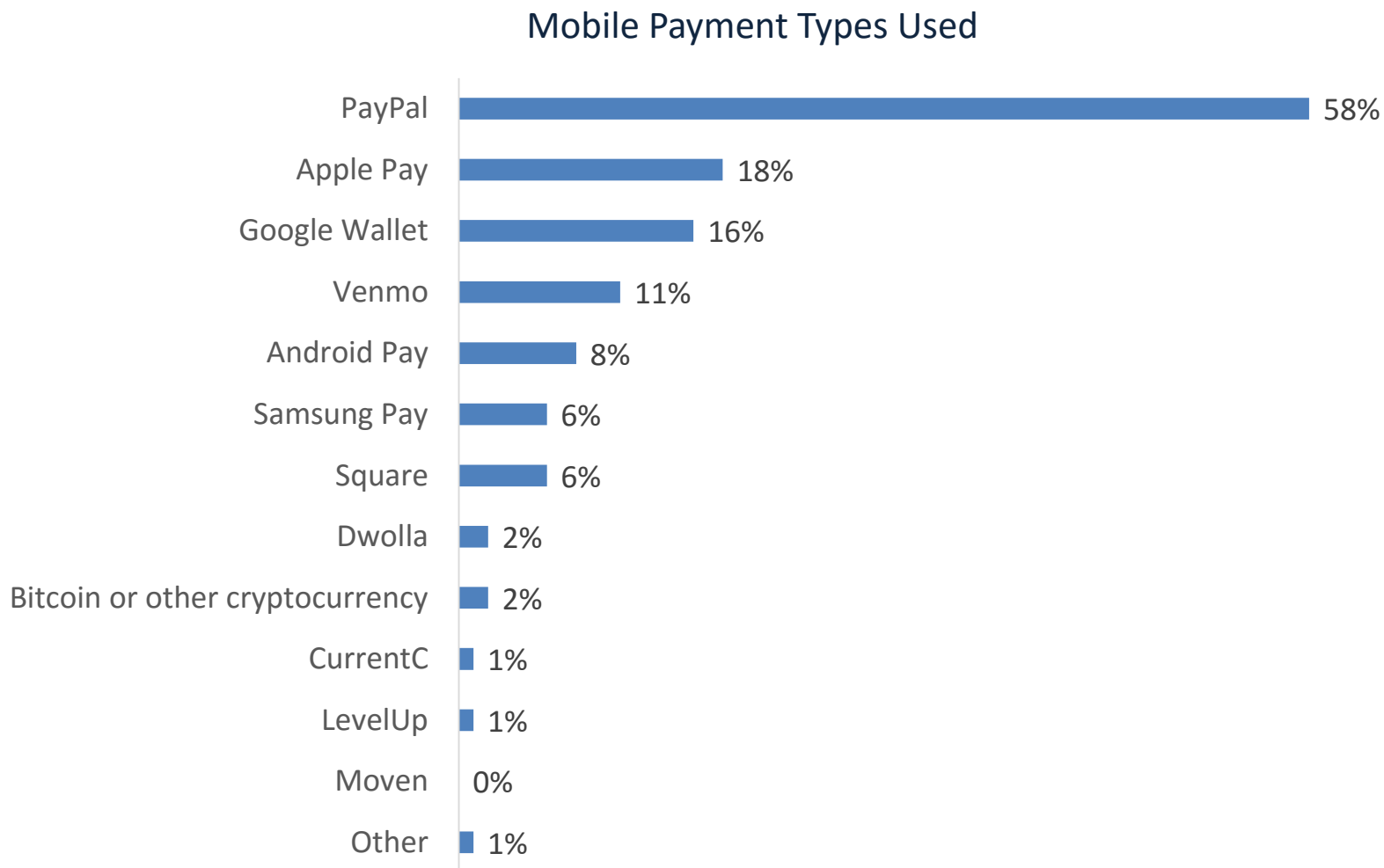
HOW COLLEGE STUDENTS PAY FOR PURCHASES

The Vast Majority of College Students Carry Cash and Debit Cards; a Smaller Majority Use Mobile Pay and Credit Cards



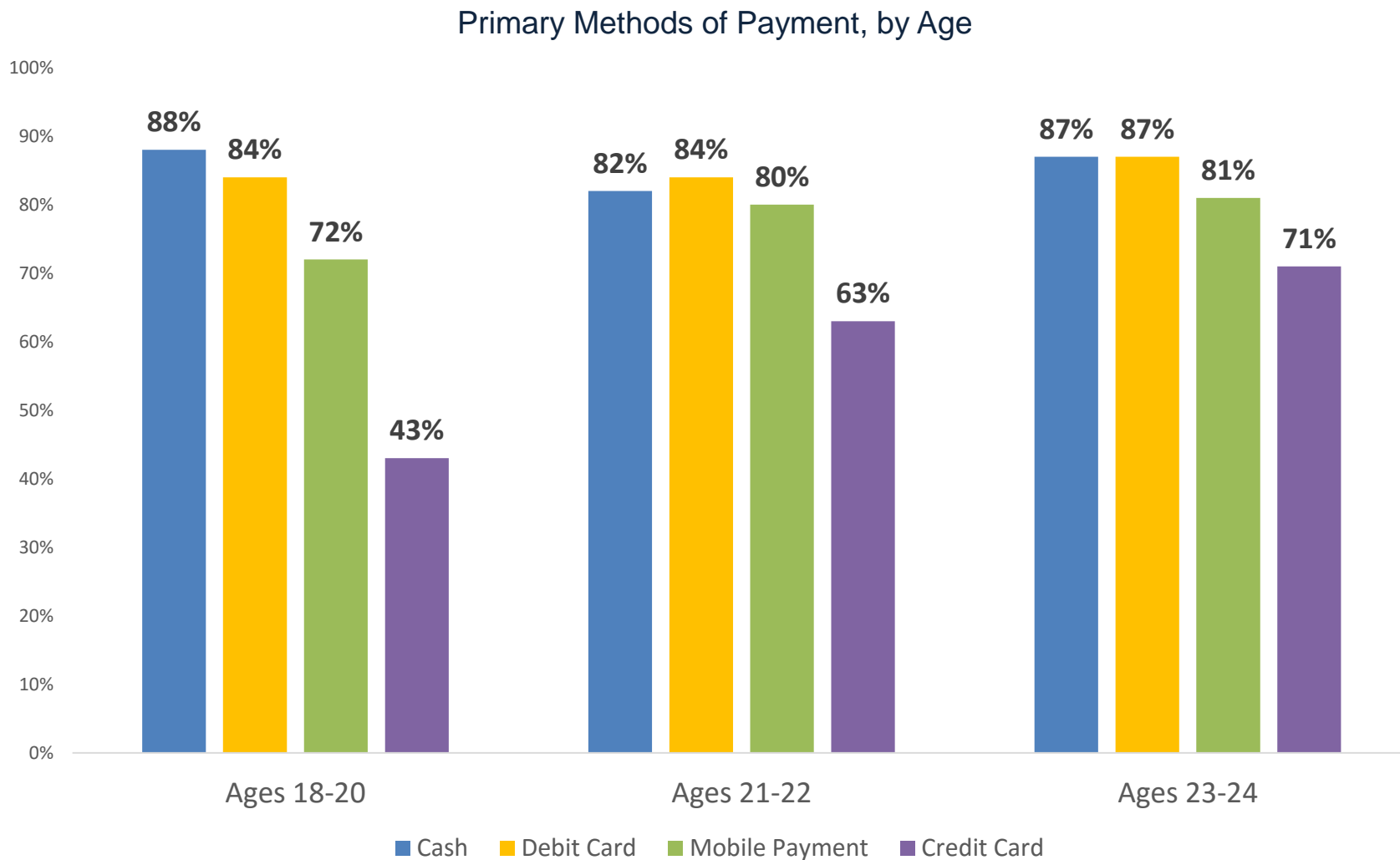
Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos

PayPal is the Most Commonly Used Mobile Payment Method



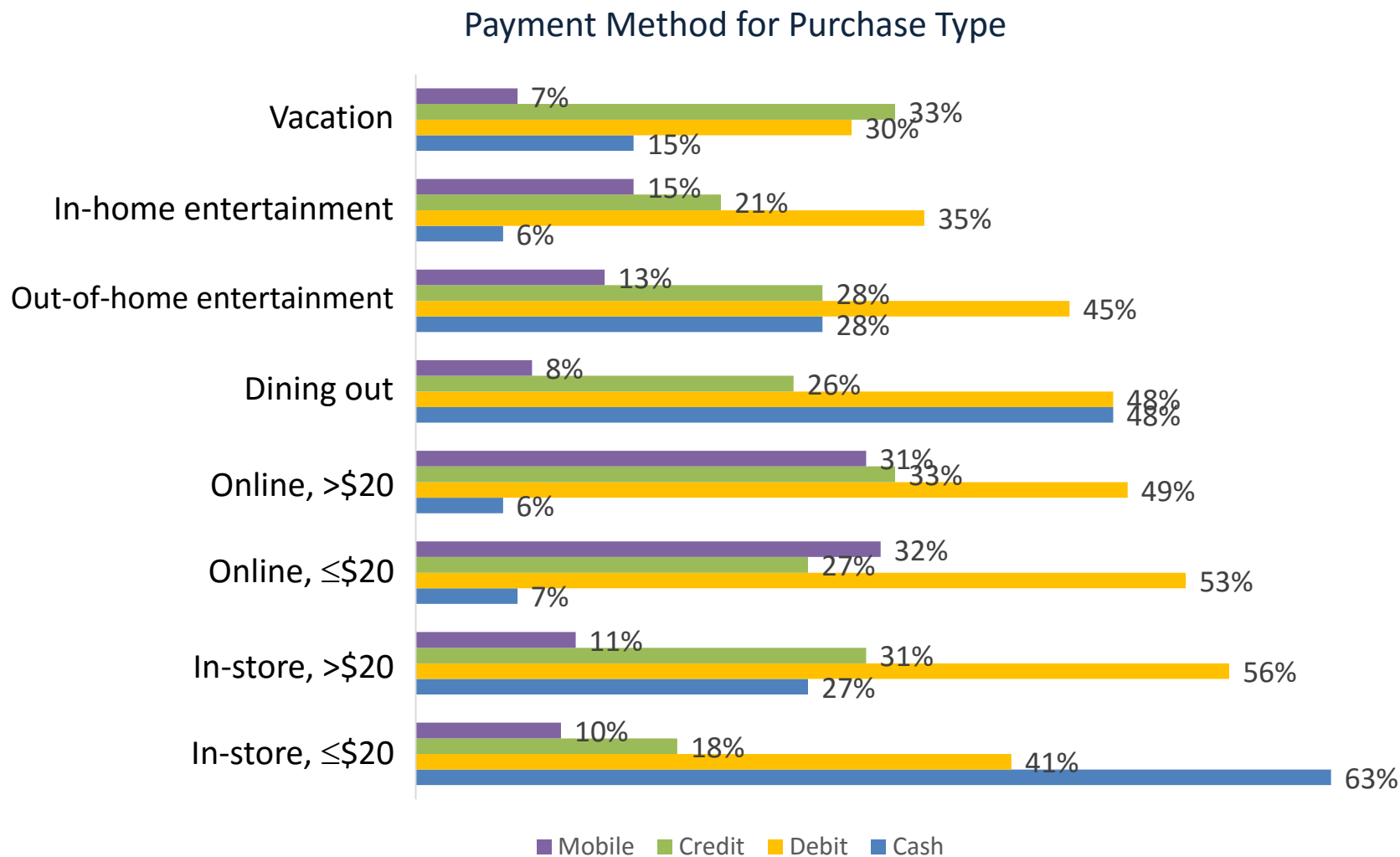
Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos

Under 21 Year-olds are Significantly Less Likely to Have a Credit Card



Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos

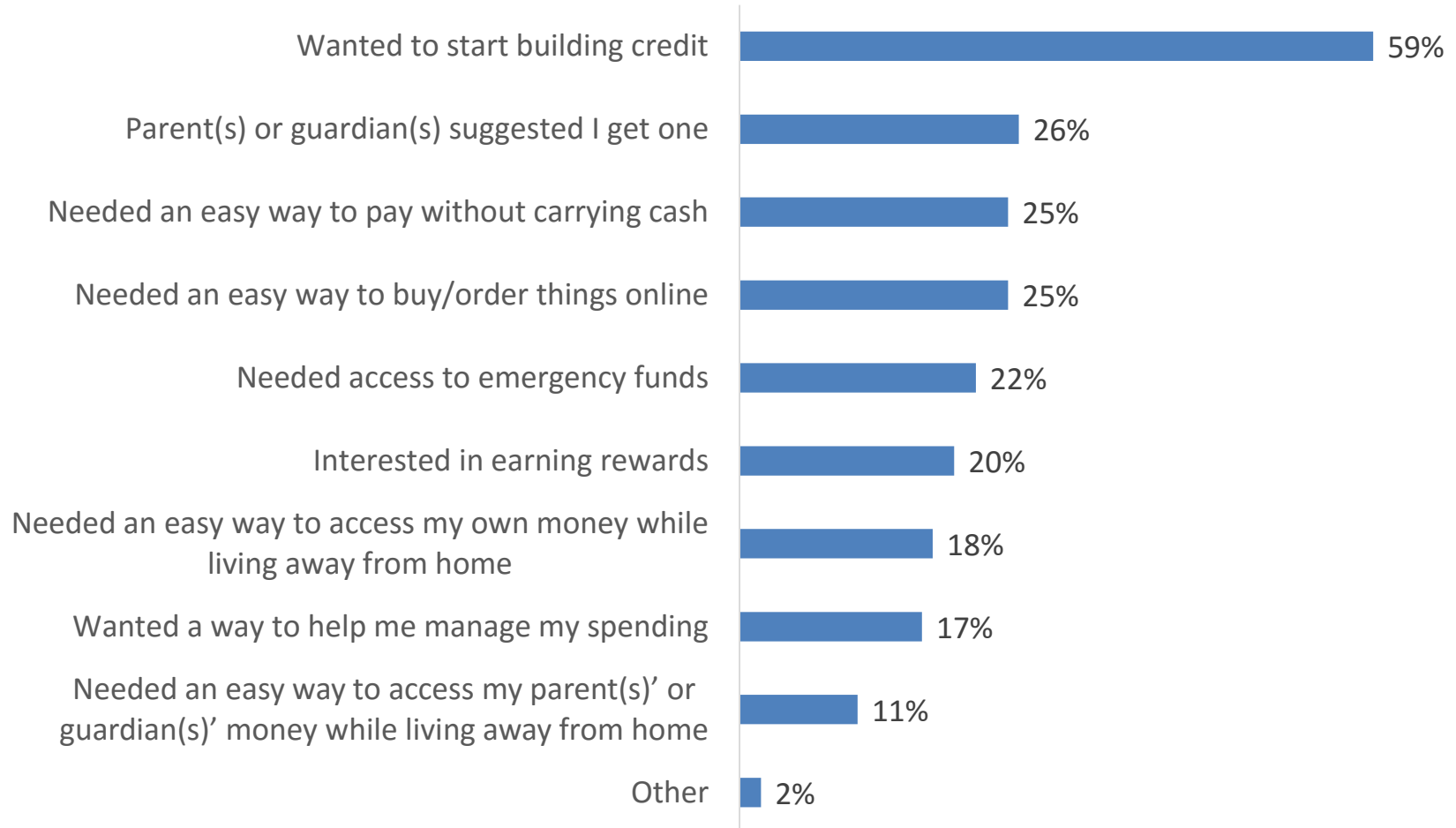
Debit Cards are Used Most Often for Almost Every Type of Purchase Measured



HOW COLLEGE STUDENTS USE THEIR CREDIT CARDS

The No.1 Reason Students Give for Wanting a Credit Card is to Begin Building a Credit History

Reasons for Getting a Credit Card



Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos

Parents and Rewards are Top Drivers of Specific Credit Card Choice

68% of parents influence card choice

- 29% of parents offered advice
- 21% of parents chose the card on behalf of the student
- 18% of parents added the student to the parent card

Students are influenced by rewards

- 32% wanted rewards points
- 30% wanted cash back
- 13% wanted travel points

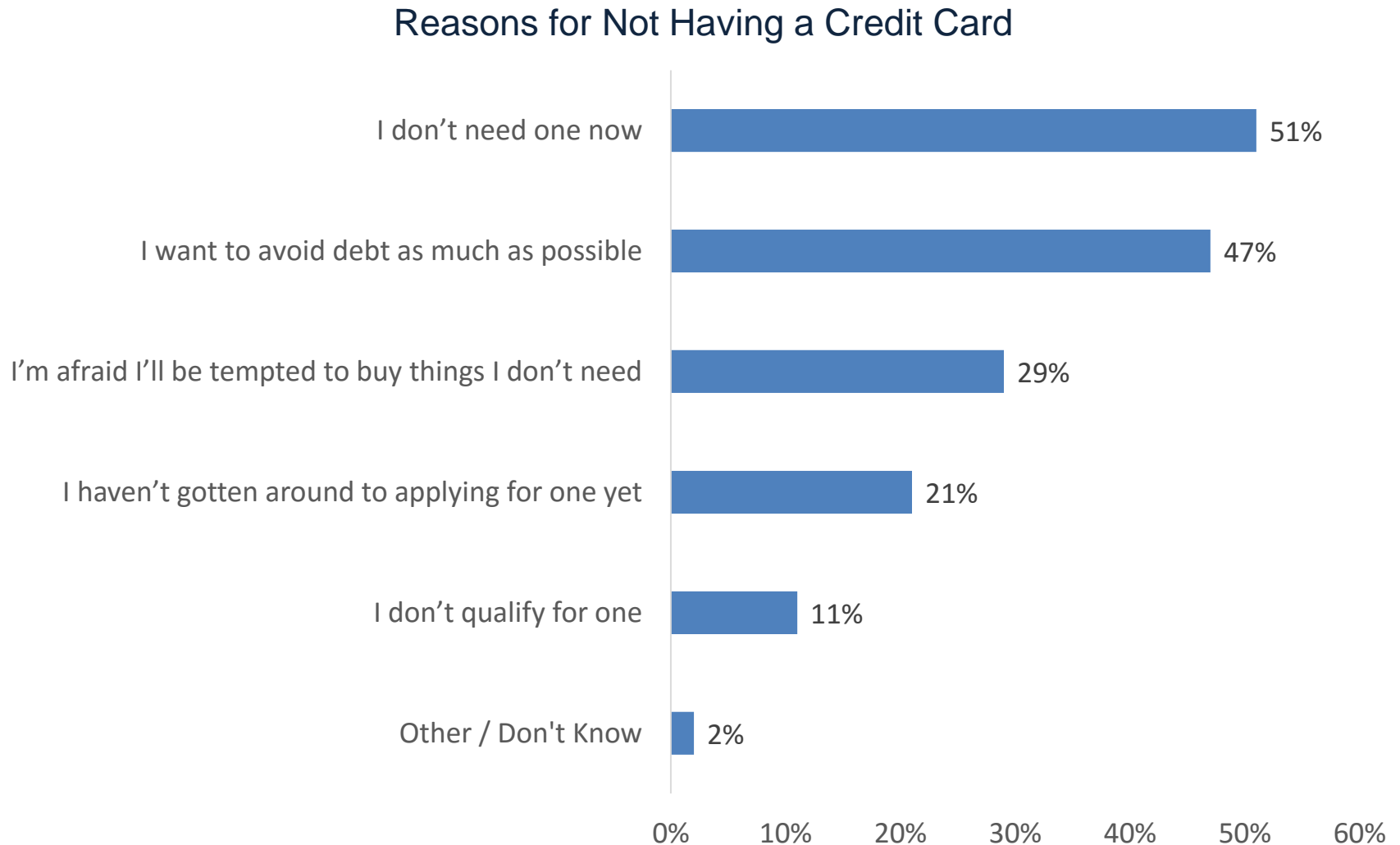
Relationship or brand has less influence

- 25% chose card due to bank or company reputation
- 20% connected to my bank
- 17% college or store affiliation

Fewer are influenced by card features

- 15% introductory interest rate
- 14% chip-enabled security
- 10% credit limit was high
- 9% international travel use

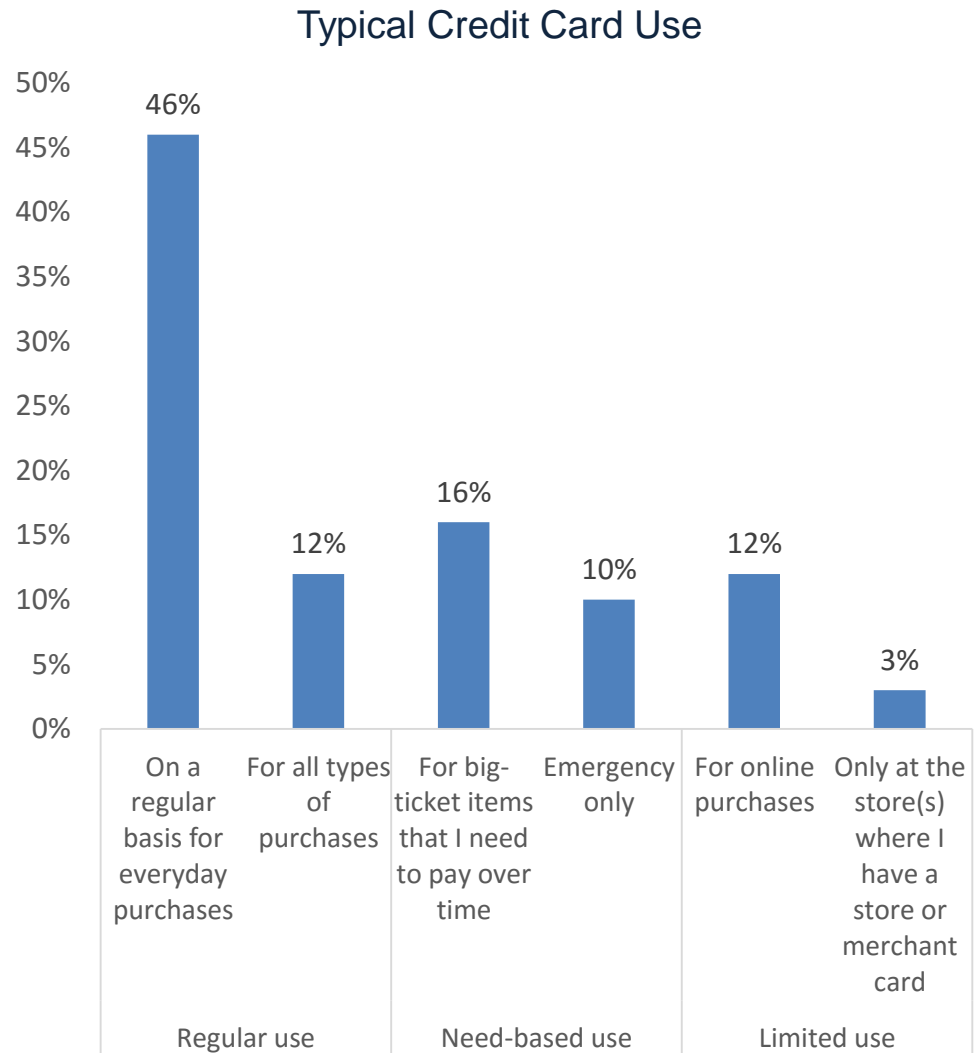
Lack of Need, and Fear, Influence Decision Not to Have a Credit Card



Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos

More than Half of College Students With Credit Cards use Their Cards Regularly

- More than half (58%) of college students use their credit cards on *everyday* purchases or for all types of purchases.
- Only about one-quarter limit card use to a *needs-based* situation, either only for emergencies (10%) or for large purchases that need to be paid over time (16%).
- Nearly one-sixth have *limited* use of their credit cards: 12% restrict card use to online shopping, and 3% have a store card limited to using with the issuing merchant

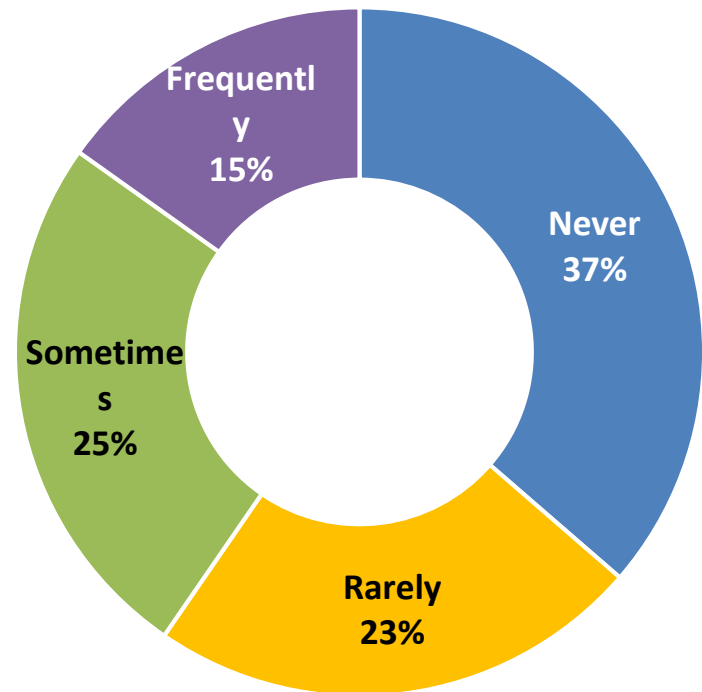


Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos

Nearly 6 in 10 Generally Consider Affordability Before Using Credit Cards

- 37% report never charging a purchase knowing they didn't have the money to pay the bill when it arrived
- And 23% said they have rarely done so
- On the other hand, 25% said they sometimes do this
- And 15% said they do it frequently

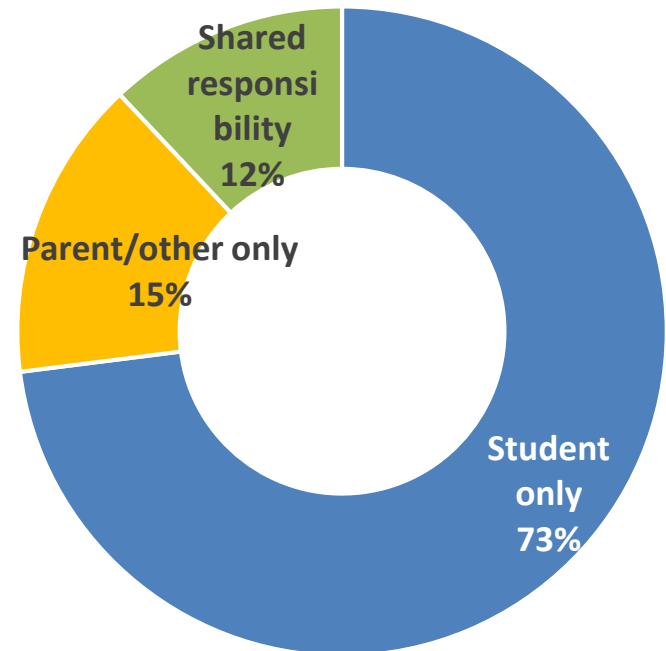
Frequency of Charging Purchases without Funds to Pay the Bill



Most Students Take Responsibility for Paying Their Own Credit Card Bills

- Nearly three-quarters of college students pay their own credit card bill
- 15% say their parent or other family member pays the credit card on behalf of the student
- Among those with shared responsibility
 - 56% pay most of the bill
 - 29% split the payment in half with another family member
 - The remainder pay little toward the bill

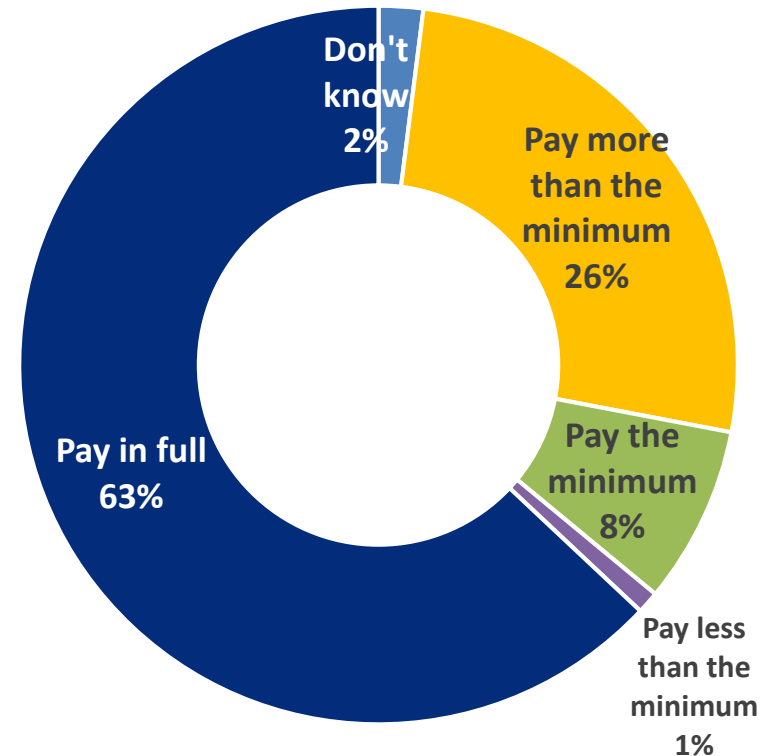
Credit Card Payment Responsibility



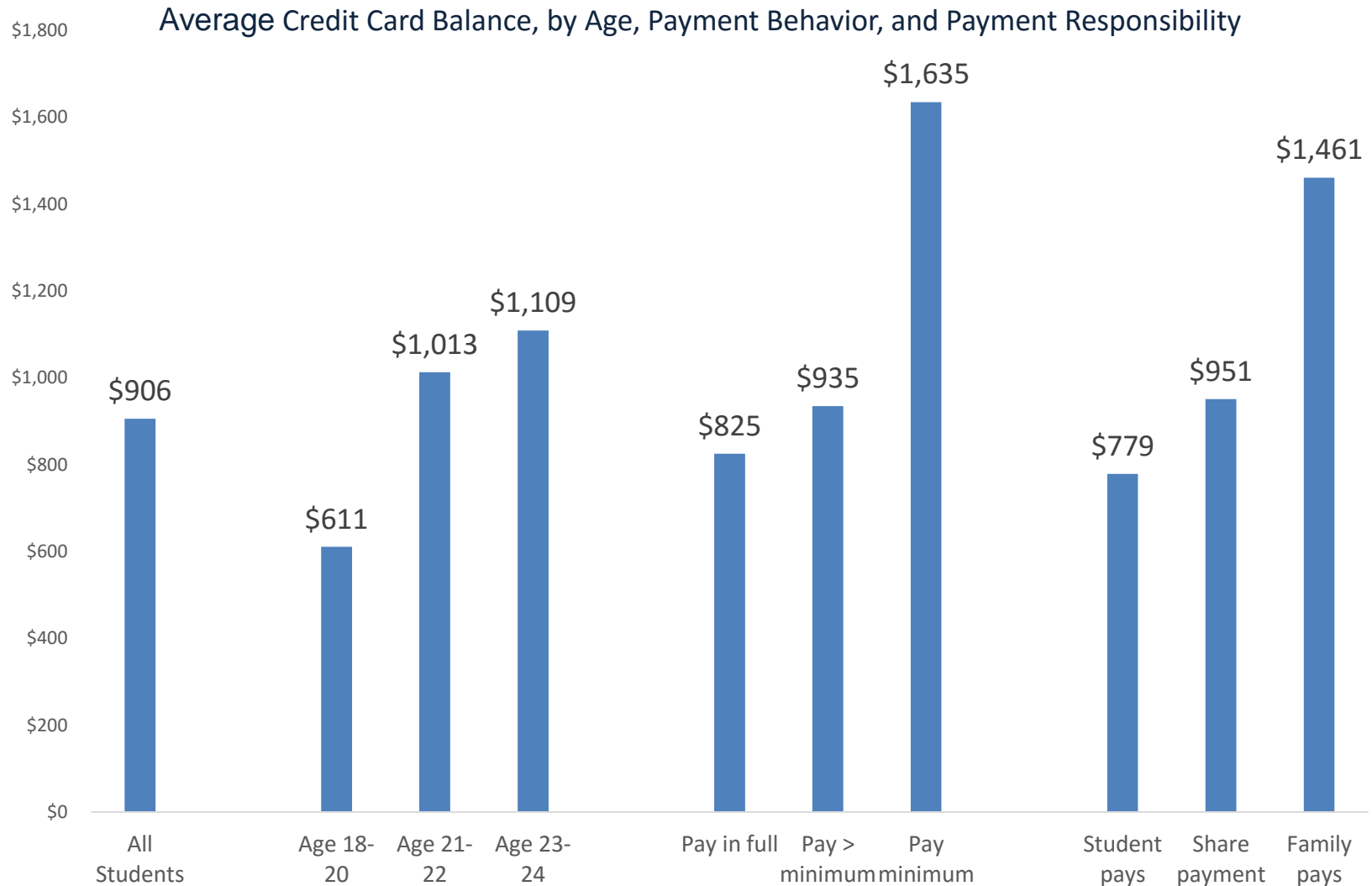
Payment Behavior Indicates the Majority of College Students are Using Credit Carefully

- Nearly nine in 10 students pay more than the minimum due each month
 - 63% pay in full
 - An additional 26% pay more than the minimum
- 8% pay the minimum due
- Only 1% are in the danger zone by paying less than the minimum

Typical Monthly Credit Card Payment



Average Balances are Lower for Those Who are Younger, Pay in Full, and Pay Their Own Bill

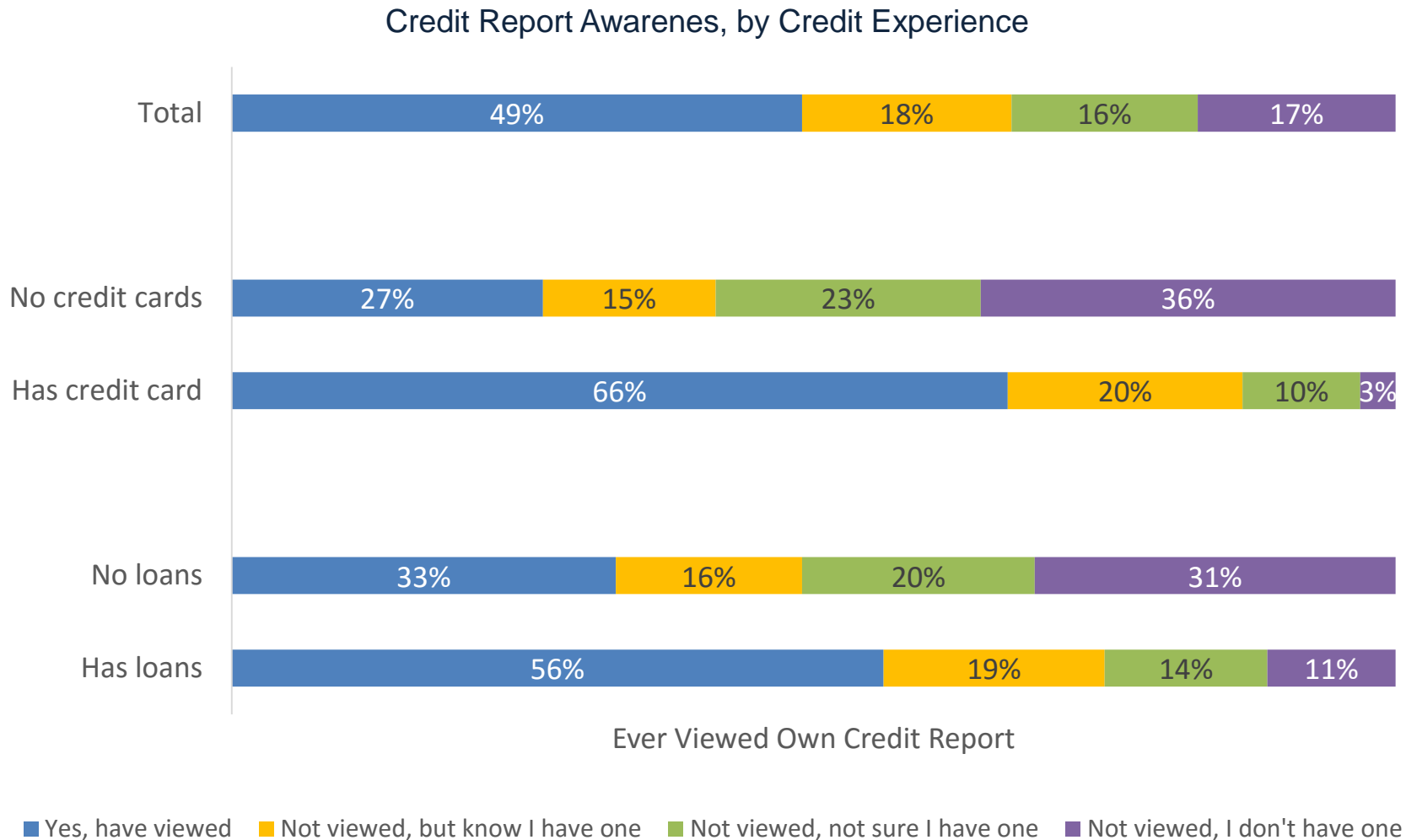


Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos

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FINANCIAL HABITS AND AWARENESS AMONG COLLEGE STUDENTS

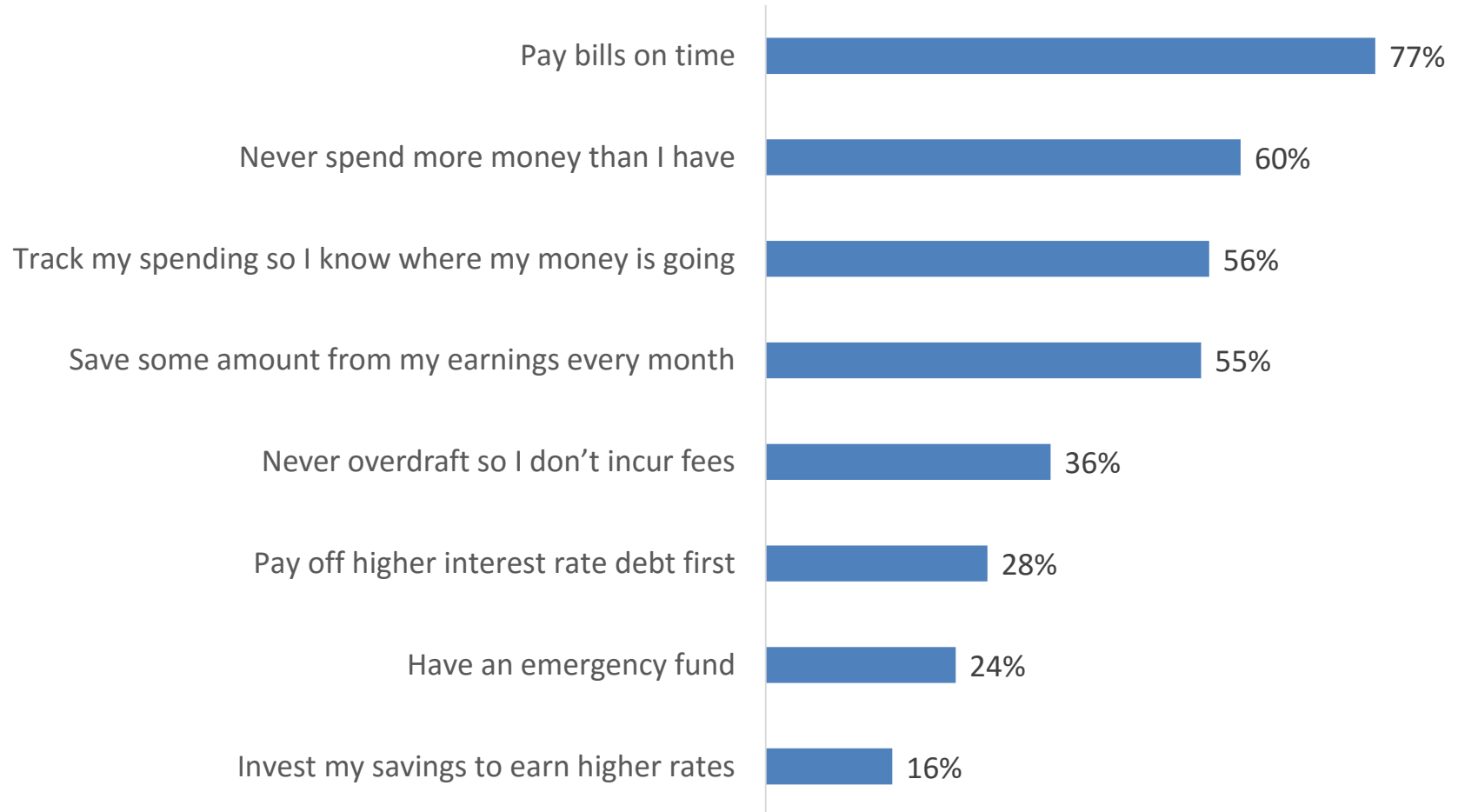
Half of College Students Have Viewed Their Credit Report



Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos

Most Students Have Adopted Some Positive Financial Management Behaviors

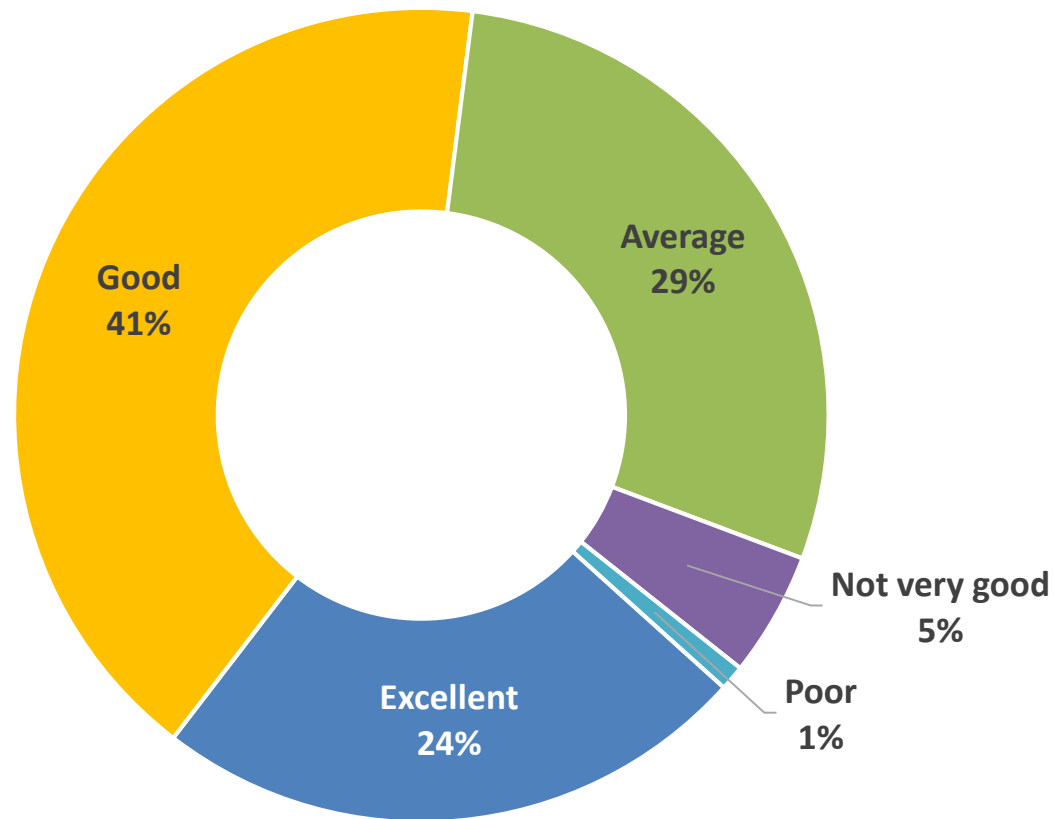
Practicing Financial Management



Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos

College Students are Confident in Their Money Management Skills

Self-Rated Money Management Skills



Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos

Applicability of Specific Actions on Credit is Less Understood than the General Concept of “Good Credit”

Perception of Credit Behaviors as Positive, Negative, or Neutral

	<i>Positive</i>	<i>Neutral</i>	<i>Negative</i>
Paying your bills on time	93%	4%	3%
Having no credit cards	17%	58%	25%
Opening multiple credit cards or other loan accounts around the same time	16%	21%	64%
Keeping a high balance on your credit card	24%	14%	62%
Keeping a low balance on your credit card	63%	18%	19%
Using as much of your credit limit as possible	15%	25%	61%

Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos

Lack of Knowledge About Credit Basics is Evident in Responses to Three “How Credit Works” 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. (75%)
- b. Exactly \$102.
- c. Less than \$102.
- d. Not sure.

Fewer Than Half Link Negative Payment Behavior With Increased Cost

Q: Effect of payment behavior on credit cost: Assuming the following individuals have the same credit card with the same interest rate, which will pay the most in interest on their 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. (48%)
- d. All of them will pay the same amount in interest over time.
- e. Not sure.

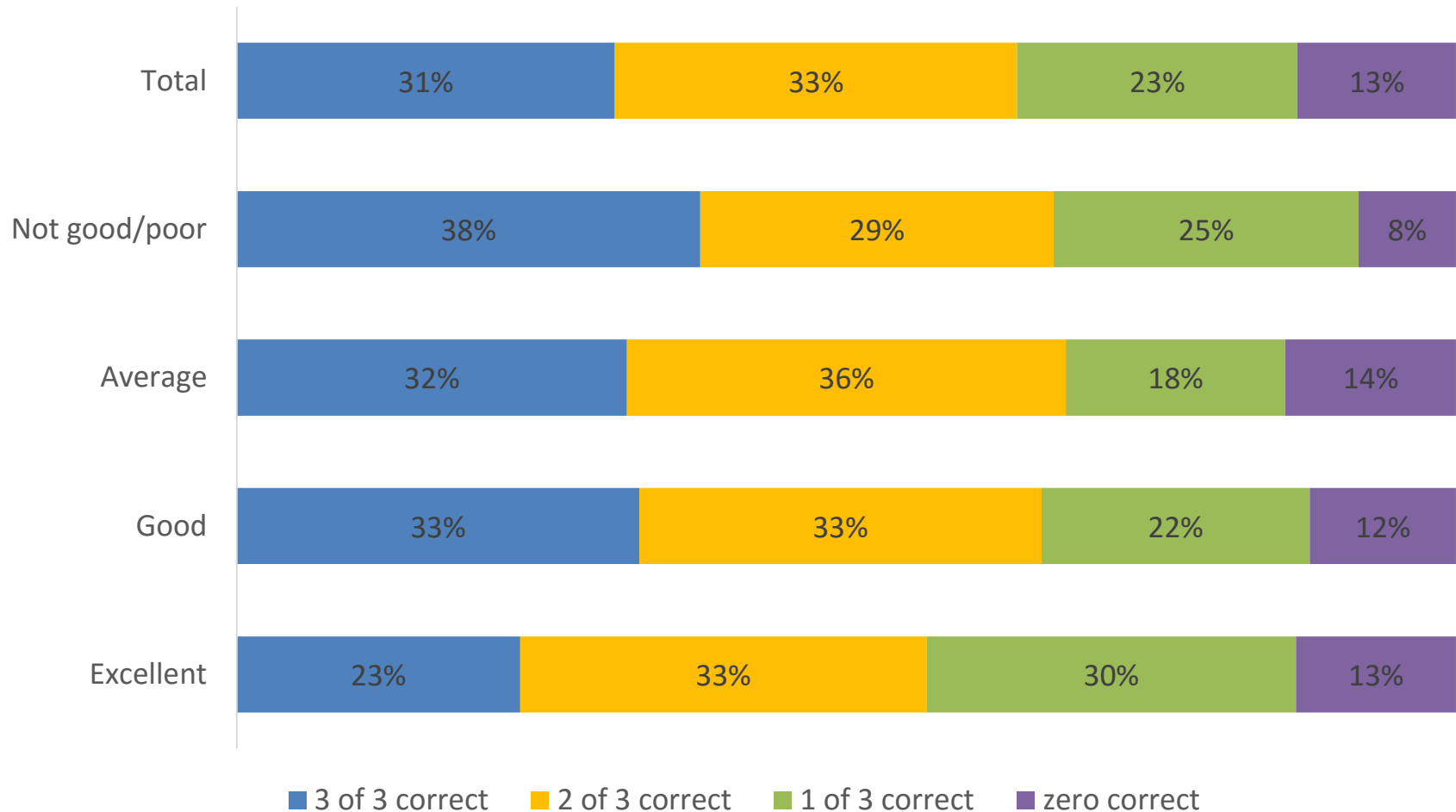
Only 3 in 5 Understand That the Length of Repayment Affects Total Loan Costs

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. (59%)
- 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.

Fewer than One-third of Students Answered Three of Three Questions Correctly

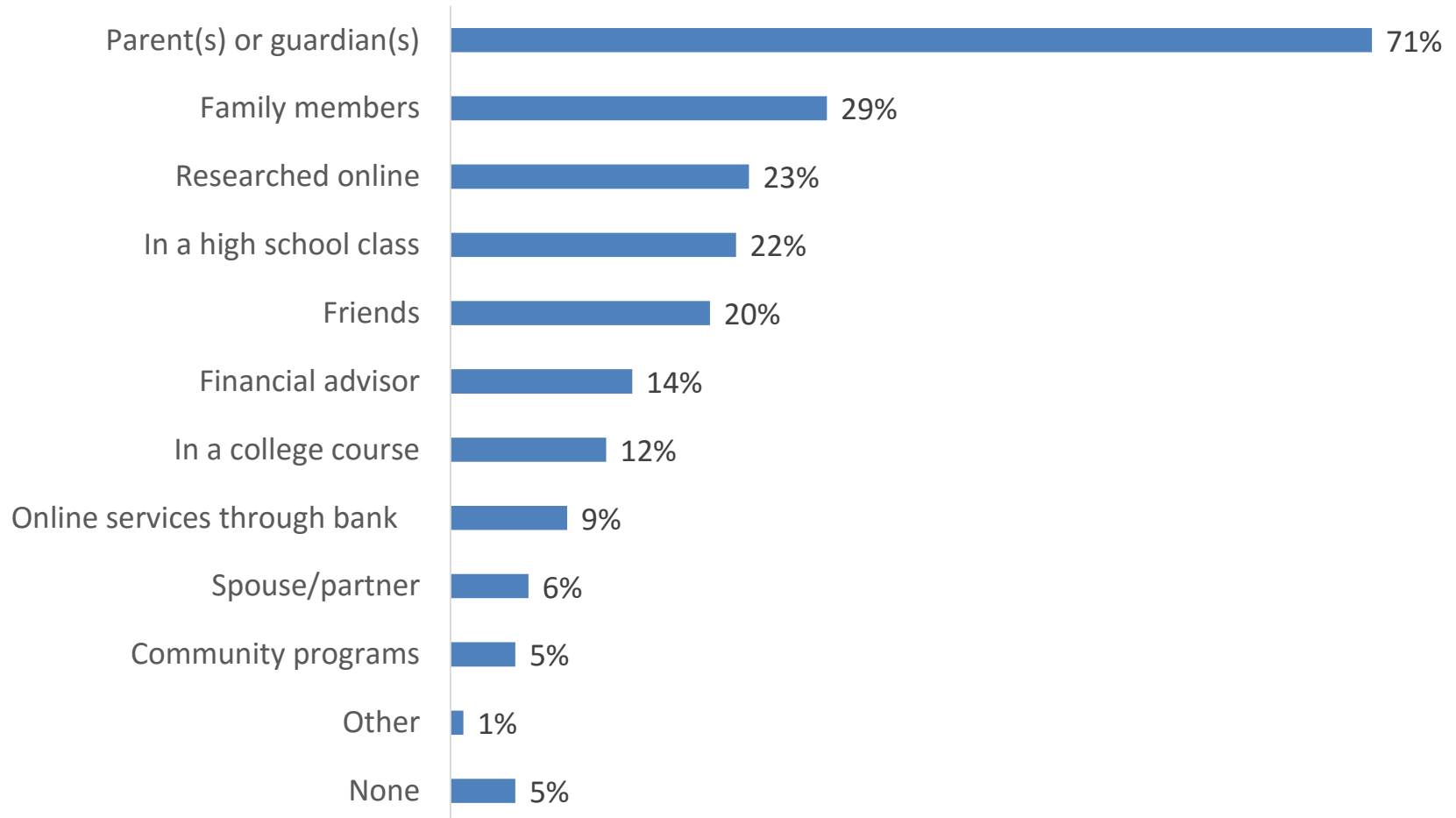
Credit Knowledge, by Perceived Money Management Skills



Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos

Parents are the Primary Resource for Teaching Students About Money Management

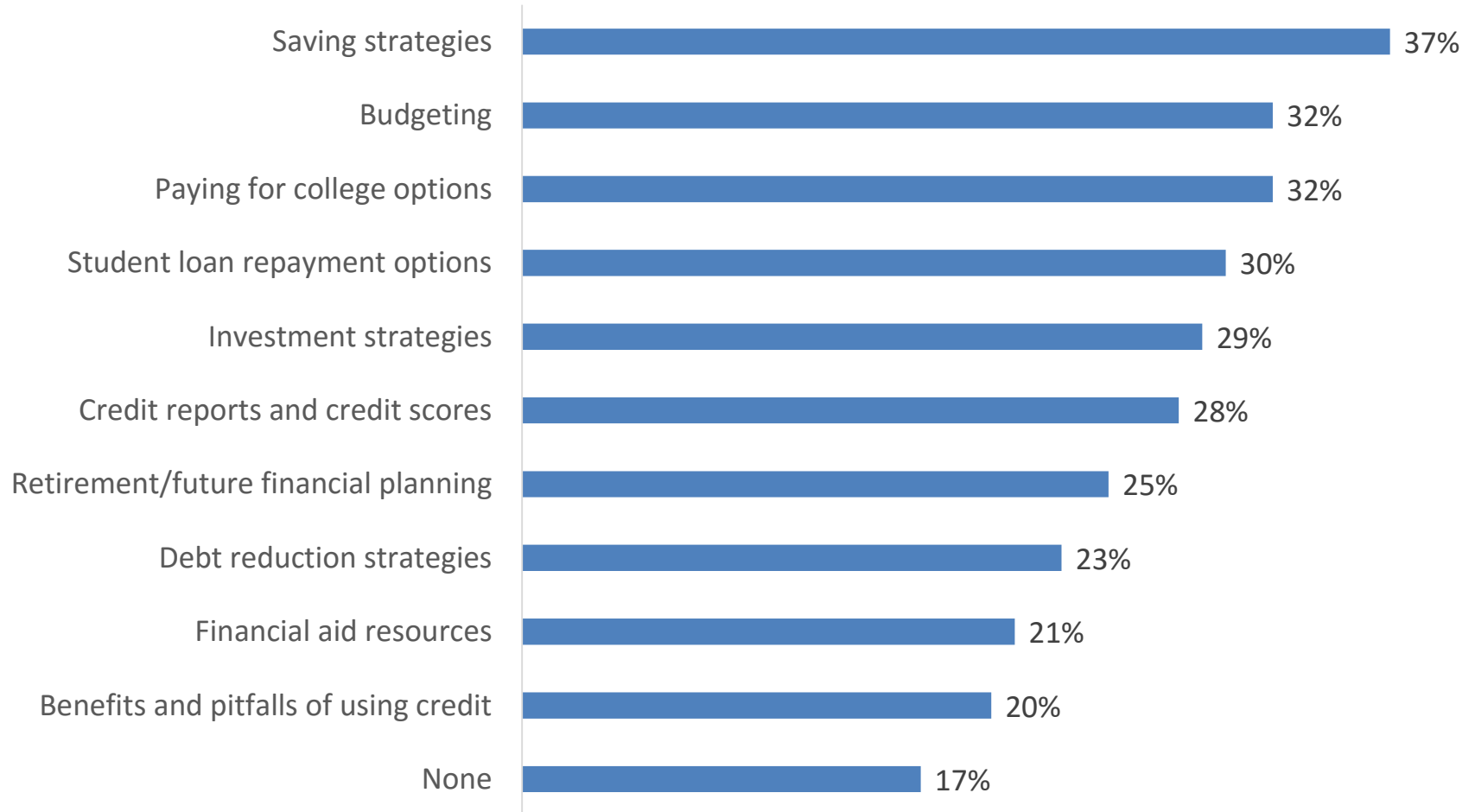
Financial Management Education Resources



Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos

More than 4 in 5 College Students Express Interest in Learning More About Specific Aspects of Managing Money

Preferred Financial Management Information



Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos

Conclusion

- Today's college students demonstrate a careful approach to managing money, and have a cautious attitude toward debt.
- While students have a general awareness of the importance of good credit, the survey reveals they need to learn more about the details of how credit and money actually work.
- More than four out of five college students are interested in learning more about a variety of topics associated with managing their money.
 - a perceived gap in knowledge?
 - a desire to be more financially successful?
- Financial management educational opportunities are warranted for college students.



Questions?

Encouraging Responsible Borrowing

Sallie Mae has helped more than 34 million Americans pay for college since 1972. We encourage students and families to supplement their savings by exploring grants, scholarships, and federal and state student loans, and to consider the anticipated monthly payments on their total student loan debt and their expected future earnings before considering a private education loan.

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