MAJORING IN MONEY: HOW AMERICAN COLLEGE STUDENTS MANAGE THEIR FINANCES

Speaker: Keri Neidig, Melony Ohalek
Date: October 24, 2016
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.

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

<table>
<thead>
<tr>
<th>Payment Methods Used</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>86%</td>
</tr>
<tr>
<td>Debit card</td>
<td>85%</td>
</tr>
<tr>
<td>Mobile payment</td>
<td>77%</td>
</tr>
<tr>
<td>Credit card</td>
<td>56%</td>
</tr>
<tr>
<td>ATM card</td>
<td>17%</td>
</tr>
<tr>
<td>Personal checks</td>
<td>14%</td>
</tr>
<tr>
<td>Prepaid debit card</td>
<td>15%</td>
</tr>
<tr>
<td>Secured credit card</td>
<td>6%</td>
</tr>
<tr>
<td>SNAP or other assistance program</td>
<td>3%</td>
</tr>
</tbody>
</table>

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

Mobile Payment Types Used

- PayPal: 58%
- Apple Pay: 18%
- Google Wallet: 16%
- Venmo: 11%
- Android Pay: 8%
- Samsung Pay: 6%
- Square: 6%
- Dwolla: 2%
- Bitcoin or other cryptocurrency: 2%
- CurrentC: 1%
- LevelUp: 1%
- Moven: 0%
- Other: 1%

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

Primary Methods of Payment, by Age

- Ages 18-20:
  - 88% Cash
  - 84% Debit Card
  - 72% Mobile Payment
  - 43% Credit Card

- Ages 21-22:
  - 82% Cash
  - 84% Debit Card
  - 80% Mobile Payment
  - 63% Credit Card

- Ages 23-24:
  - 87% Cash
  - 87% Debit Card
  - 81% Mobile Payment
  - 71% 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

Payment Method for Purchase Type

- Vacation: Debit 33%, Credit 30%, Cash 15%, Mobile 7%
- In-home entertainment: Debit 21%, Credit 28%, Cash 15%, Mobile 6%
- Out-of-home entertainment: Debit 28%, Credit 28%, Cash 13%, Mobile 6%
- Dining out: Debit 48%, Credit 48%, Cash 8%, Mobile 8%
- Online, >$20: Debit 33%, Credit 31%, Cash 6%
- Online, ≤$20: Debit 32%, Credit 27%, Cash 7%
- In-store, >$20: Debit 31%, Credit 27%, Cash 11%
- In-store, ≤$20: Debit 41%, Credit 18%, Cash 10%

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

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wanted to start building credit</td>
<td>59%</td>
</tr>
<tr>
<td>Parent(s) or guardian(s) suggested I get one</td>
<td>26%</td>
</tr>
<tr>
<td>Needed an easy way to pay without carrying cash</td>
<td>25%</td>
</tr>
<tr>
<td>Needed an easy way to buy/order things online</td>
<td>25%</td>
</tr>
<tr>
<td>Needed access to emergency funds</td>
<td>22%</td>
</tr>
<tr>
<td>Interested in earning rewards</td>
<td>20%</td>
</tr>
<tr>
<td>Needed an easy way to access my own money while living away from home</td>
<td>18%</td>
</tr>
<tr>
<td>Wanted a way to help me manage my spending</td>
<td>17%</td>
</tr>
<tr>
<td>Needed an easy way to access my parent(s)’ or guardian(s)’ money while living away from home</td>
<td>11%</td>
</tr>
<tr>
<td>Other</td>
<td>2%</td>
</tr>
</tbody>
</table>

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

Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos
Lack of Need, and Fear, Influence Decision Not to Have a Credit Card

<table>
<thead>
<tr>
<th>Reason</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>I don’t need one now</td>
<td>51%</td>
</tr>
<tr>
<td>I want to avoid debt as much as possible</td>
<td>47%</td>
</tr>
<tr>
<td>I’m afraid I’ll be tempted to buy things I don’t need</td>
<td>29%</td>
</tr>
<tr>
<td>I haven’t gotten around to applying for one yet</td>
<td>21%</td>
</tr>
<tr>
<td>I don’t qualify for one</td>
<td>11%</td>
</tr>
<tr>
<td>Other / Don’t Know</td>
<td>2%</td>
</tr>
</tbody>
</table>

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

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

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

Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos
Average Balances are Lower for Those Who are Younger, Pay in Full, and Pay Their Own Bill

Average Credit Card Balance, by Age, Payment Behavior, and Payment Responsibility

Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos
FINANCIAL HABITS AND AWARENESS AMONG COLLEGE STUDENTS
Half of College Students Have Viewed Their Credit Report

Credit Report Awareness, by Credit Experience

<table>
<thead>
<tr>
<th>Credit Experience</th>
<th>Yes, have viewed</th>
<th>Not viewed, but know I have one</th>
<th>Not viewed, not sure I have one</th>
<th>Not viewed, I don't have one</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>49%</td>
<td>18%</td>
<td>16%</td>
<td>17%</td>
</tr>
<tr>
<td>No credit cards</td>
<td>27%</td>
<td>15%</td>
<td>23%</td>
<td>36%</td>
</tr>
<tr>
<td>Has credit card</td>
<td>66%</td>
<td>20%</td>
<td>10%</td>
<td>3%</td>
</tr>
<tr>
<td>No loans</td>
<td>33%</td>
<td>16%</td>
<td>20%</td>
<td>31%</td>
</tr>
<tr>
<td>Has loans</td>
<td>56%</td>
<td>19%</td>
<td>14%</td>
<td>11%</td>
</tr>
</tbody>
</table>

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

- Pay bills on time: 77%
- Never spend more money than I have: 60%
- Track my spending so I know where my money is going: 56%
- Save some amount from my earnings every month: 55%
- Never overdraft so I don’t incur fees: 36%
- Pay off higher interest rate debt first: 28%
- Have an emergency fund: 24%
- Invest my savings to earn higher rates: 16%

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

- Excellent: 24%
- Good: 41%
- Average: 29%
- Not very good: 5%
- Poor: 1%

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”

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

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.

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

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

Source: Majoring in Money: How American College Students Manage Their Finances March 2016, Sallie Mae and Ipsos
Fewer than One-third of Students Answered Three of Three Questions Correctly

Credit Knowledge, by Perceived Money Management Skills

- **Total**: 31% 33% 23% 13%
- **Not good/poor**: 38% 29% 25% 8%
- **Average**: 32% 36% 18% 14%
- **Good**: 33% 33% 22% 12%
- **Excellent**: 23% 33% 30% 13%

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

<table>
<thead>
<tr>
<th>Resource</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parent(s) or guardian(s)</td>
<td>71%</td>
</tr>
<tr>
<td>Family members</td>
<td>29%</td>
</tr>
<tr>
<td>Researched online</td>
<td>23%</td>
</tr>
<tr>
<td>In a high school class</td>
<td>22%</td>
</tr>
<tr>
<td>Friends</td>
<td>20%</td>
</tr>
<tr>
<td>Financial advisor</td>
<td>14%</td>
</tr>
<tr>
<td>In a college course</td>
<td>12%</td>
</tr>
<tr>
<td>Online services through bank</td>
<td>9%</td>
</tr>
<tr>
<td>Spouse/partner</td>
<td>6%</td>
</tr>
<tr>
<td>Community programs</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>1%</td>
</tr>
<tr>
<td>None</td>
<td>5%</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Preferred Financial Management Information</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Saving strategies</td>
<td>37%</td>
</tr>
<tr>
<td>Budgeting</td>
<td>32%</td>
</tr>
<tr>
<td>Paying for college options</td>
<td>32%</td>
</tr>
<tr>
<td>Student loan repayment options</td>
<td>30%</td>
</tr>
<tr>
<td>Investment strategies</td>
<td>29%</td>
</tr>
<tr>
<td>Credit reports and credit scores</td>
<td>28%</td>
</tr>
<tr>
<td>Retirement/future financial planning</td>
<td>25%</td>
</tr>
<tr>
<td>Debt reduction strategies</td>
<td>23%</td>
</tr>
<tr>
<td>Financial aid resources</td>
<td>21%</td>
</tr>
<tr>
<td>Benefits and pitfalls of using credit</td>
<td>20%</td>
</tr>
<tr>
<td>None</td>
<td>17%</td>
</tr>
</tbody>
</table>

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.

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

The information contained in this presentation is not comprehensive, is subject to constant change, and therefore should serve only as general, background information for further investigation and study related to the subject matter and the specific factual circumstances being considered or evaluated. Nothing in this presentation constitutes or is designed to constitute legal advice.