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Conner N. Palm
South Dakota State University

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Cover Page Footnote
I would like to thank my professor and faculty sponsor Dr. Cho for helping me with this research project. She was extremely helpful and spent several hours of her time in order to assist me with completing this paper. I am very grateful for her guidance on this project.

Financial Socialization's Impact on College Students' Credit Card Behavior

Author: Conner Palm
Faculty Sponsor: Soo Hyun Cho
Department: Consumer Sciences

ABSTRACT

This study looked at the association between family financial socialization and credit card behavior among college students. The data came from the 2014-2015 National Student Financial Wellness Study, administered by the Ohio State University. Responses from 283 undergraduate students enrolled at South Dakota State University were analyzed. In general, responsible credit card behavior was found to be more likely exhibited by students who said their parents encouraged them to invest and students who thought their parents were good financial role models.

Key words: family financial socialization, credit card, college students

INTRODUCTION

In recent years, the student loan debt issue has become a significant problem for the United States. The total student loan debt is about $1.2 trillion as of May 2013 and has grown 20% from the end of 2011 to May 2013 (Chopra, 2013). According to another article, student loan has nearly tripled from 1997 to 2011 (Shaulskiy, Duckett, Kennedy-Phillips & McDaniel, 2015). This drastic increase in student loan debt is largely due to the prices of tuition and room and board rising significantly. The price of these two expenses has grown 42% at public universities and 31% at private universities between the years of 2000 and 2010 (Lim, Heckman, Letkiewicz & Montalto, 2014). With such high expenses, the majority of college students are forced to take out student loans in order to pay for their education. Two-thirds of college students in the US are graduating with debt and the average student loan debt is $26,000 (Van Campenhout, 2015). This figure could be substantially more if credit card debt was taken into account. Unsurprisingly, finances have become a considerable source of stress for college students. Finances are now the second-largest source of stress for college students after academics (Lim et al., 2014).

Because finances are becoming such a significant issue for college students, it is more important than ever that people are learning sound financial behavior at a young age. Financial socialization during childhood is a key component of getting students ready for the daunting financial landscape after high school. Financial socialization is defined as learning financial knowledge needed to function in American society, such as information related to money management, investing, taxes, and using credit (Bowen, 2002). Financial knowledge is learned from many sources including school and parents. Two common ways that children learn financial skills is through observing their parents' financial behavior or through conversations and suggestions about finance from their parents (Solheim, Zuiker, & Levchenko, 2011). Children who learn positive financial behaviors from their parents usually exhibit better financial skills later in life. One survey showed that individuals that received extensive amounts of money-management teachings from their parents usually have higher credit scores and lower credit card debt in adulthood (Grinstein-Weiss, Spader, Yeo, Taylor & Freeze, 2011). Another study showed that learning financial skills as a child is linked to less financial stress and less credit card debt later in life (Kim & Chatterjee, 2013). Research is showing that learning about finances early usually results in better financial wellbeing as an adult. One form of financial socialization is opening a savings account as a child or a teenager. Doing this was linked to greater wealth as a young adult (Kim & Chatterjee, 2013). Another form of financial socialization that was previously mentioned is communicating with parents and observing their financial behavior. This form of socialization was found to be associated with higher rates of budgeting and savings for college students (Gutter, Garrision, & Copur, 2010).

Learning positive financial skills at a young age is an important part of dealing with some of the financial choices college students are making today. One thing that many college students encounter out of high school is credit cards. If credit cards aren't used responsibly, they can have terrible effects on their user's financial wellbeing. Detrimental credit card behavior can include taking out cash advances, carrying a balance, and not making payments on time. Cash advances will usually charge a fee immediately as well as charging interest immediately (Harrow, 2016). Another harmful behavior with credit cards is carrying a balance. Carrying a balance on your credit card account will mean that you will be paying interest on the balance (Harrow, 2016). Paying only the minimum amount on the balance every month will result in paying significantly more for interest fees in the long run. Probably the most detrimental credit card behavior is not paying the credit card bill on time. This will not only usually result in a fee, but it will also cause a drop in the user's FICO credit score (Harrow, 2016). A low credit score can be a significant disadvantage for a person's financial wellbeing.

Credit cards have become increasingly popular in recent years, especially among college students. This is partly due to aggressive marketing in the early 2000s on US campuses. One study from 2005 mentions that credit cards were heavily advertised in college campus student unions (Pinto, 2005). With the rapidly rising college expenses, it's no surprise that many college students were baited by these enticing campaigns. That study also showed that the average number of cards owned per student was 2.16 (Pinto, 2005). Another study that took place in 2008 reported that undergraduate students carried an average credit card debt of $3,173 (Sallie Mae, 2009).

In 2009, the government took action in order to mitigate the growing credit card issue in the US. The Credit Card Accountability Responsibility and Disclosure Act, or the CARD Act, imposed certain limits and regulations on credit card companies. A study has estimated that the CARD Act has saved consumers $11.9 billion per year through reductions in fees (Agarwal, 2015). The CARD Act has also taken steps to protect college students against shady practices from credit card companies. Universities are now required to disclose if they have an agreement with a creditor to market their credit cards on campus. Creditors are also no longer allowed to offer college students items in order to get them to apply for a credit card (Detweiler, 2017). A study from 2016 found that college students with credit cards carried an average monthly balance of $906 (Sallie Mae, 2016). This figure is significantly smaller than the $3,173 figure discussed earlier.

Although the government has taken steps to address social problems involving credit cards, it is important that families take action to teach young people about sensible credit card use. Used responsibly, a credit card can be a great way for a college student to build and improve their credit. Used irresponsibly, a credit card will just become another source of stress for a student. Students are already stressing out enough with their classes and the rising expenses of college. If young people are taught how to sensibly utilize credit, their credit card will become a resource rather than a burden. As mentioned earlier, studies have shown that parents have a significant effect on the way their children will manage their finances as young adults. Children taught about finances by their parents usually perform better financially as adults. Even if parents don't make efforts to teach their children about finances, their children will often model their financial behavior after their parents' behavior.

This study aims to explore the relationship between past financial socialization experiences and credit card behavior among college students. Many studies on this subject are now somewhat outdated because of the significant changes that the CARD Act has made. It is fairly obvious that the CARD Act has improved the credit card situation in the US, especially for college students. Credit cards are significantly less accessible for college students now than they were before the CARD Act. Although the CARD Act has shaken things up, it is important to examine how parents affect college students' credit card behavior as well. The goal of this study is to analyze how parental financial socialization affects credit card behavior for college students. Forms of credit card behavior that this study will consider include total credit card balance and students' card balance payment strategies.

METHODS

The data that this study used is the National Student Financial Wellness Study which was conducted by The Ohio State University during the fall of 2014 and winter of 2015. The survey was carried out in 52 participating institutions including South Dakota State University. Overall, the survey was administered to 163,714 students with a total response rate of 11.5%, or 18,795 responses. The current study focused on the results of SDSU in particular. SDSU had a 9.4% response rate, with 283 SDSU students responding to the survey. This study mainly looked at the questions related to financial socialization and behaviors related to credit cards. In terms of financial socialization, the survey asked students a handful of questions ranging from whether or not their parents talked to them about money management or if they received an allowance as a child. In terms of credit card behavior, the survey asked students about their credit card balance, how many credit cards they have, and how they pay their credit card bills.

The analytic methods used to address the research question were descriptive analysis and analysis of variance (ANOVA). SPSS version 21 was used as a statistical software.

RESULTS

Among the total 283 responses, the majority were female, with 68.4% and 29.8% of respondents reporting as male. The respondents were also predominantly white. About 93.8% of respondents were white with the next largest portions being Asian and Latino at 3.1% and 2.2% respectively. Almost half (49%) of the SDSU students surveyed did not own a credit card. Of the students that owned credit cards, 49.3% said they typically carry a balance of $500 or above after making their monthly payments. When students were asked if their parents or guardians told them what they needed to know about money management, 76.3% of students said they agreed with that statement. Another finding was that 30.4% of students said their parents or guardians encouraged them to invest their money. Please see Table 1 for Demographic results.

Table 1. Descriptive results of demographic and study variables

Variables	Percentage
Gender	
Female	68.4%
Male	29.8%
Race/Ethnicity	
White	93.8%
Asian American/Asia	3.1%
Hispanic or Latino	2.2%
Native American/American Indian/ Alaskan Native	1.8%
Prefer not to answer	1.8%
Other	0.4%
Financial Socialization Variables	

Parents were good financial role models	
Strongly agree	33.2%
Agree	43.5%
Disagree	14.6%
Strongly disagree	8.7%
Did parents encourage you to invest?	
Yes	30.4%
No	69.6%
Credit Card Variables	
Do you own a credit card?	
Yes	51%
No	49%
When you get a credit card bill, you usually	
Make the monthly minimum payment	9.3%
Pay more than the monthly minimum, but not the full balance	30.2%
Pay the full balance	51.2%
Someone else pays the bill	9.3%
What is your typical credit card balance after making monthly payments?	
$0	4.8%
$1-$499	36.5%
$500-$999	15.9%
$1,000-$1,499	15.9%
$1,500-$1,999	4.8%
$2,000-$2,499	3.2%
$2,500-$2,999	3.2%
$3,000+	6.3%
Don't know	9.5%

The first association found was between parents encouraging their children to invest prior to college and whether or not that child possessed a credit card in college (Table 2). The respondents who said their parents encouraged them to invest were more likely to own a credit card.

Table 2. Encouraged to Invest versus Having a Credit Card

		Sum of Squares	df	Mean Square	F	Sig.
PRIOR TO COLLEGE/ UNIVERSITY.-Did your parents or guardians encourage you to invest your money?	Between Groups	1.284	1	1.284	6.162	.014
	Within Groups	52.282	251	.208		
	Total	53.565	252			

Parental encouragement to invest was also found to have an association with another credit card behavior variable (Table 3). The respondents encouraged to invest were more likely to pay their full credit card balance at the end of the month rather than pay less than the full balance or the minimum payment.

Table 3. Encouraged to Invest versus Paying Credit Card Bill

		Sum of Squares	df	Mean Square	F	Sig.
PRIOR TO COLLEGE/ UNIVERSITY.-Did your parents or guardians encourage you to invest your money?	Between Groups	1.736	3	.579	2.570	.057
	Within Groups	28.140	125	.225		
	Total	29.876	128			

Another family financial socialization variable was also found to have an association with credit card behavior (Table 4). Respondents were asked if they agreed with following statement: "My parents were role models of sound financial management." They were given four response choices scaling from strongly disagree to strongly agree. If students agreed that their parents were good financial role models they were more likely to pay the full balance on their credit card rather than pay less or the minimum payment.

Table 4. Parental Role Models versus Paying Credit Card Bill

		Sum of Squares	df	Mean Square	F	Sig.
My parents or guardians were role models of sound financial management.	Between Groups	10.416	3	3.472	4.872	.003
	Within Groups	89.087	125	.713		
	Total	99.504	128			

Another association found with this financial socialization variable, although of marginal statistical significance, was the respondent's credit card balance (Table 5). If respondents disagreed that their parents were good financial role models they were more likely to carry a higher credit card balance.

Table 5. Parental Role Models versus Credit Card Balance

		Sum of Squares	df	Mean Square	F	Sig.

My parents or guardians were role models of sound financial management.	Between Groups	12.498	8	1.562	1.992	.065
	Within Groups	42.359	54	.784		
	Total	54.857	62			

CONCLUSION

The goal of this study was to search for an association between family financial socialization and credit card behavior among college students. Using statistical analyses, this study found two family financial socialization variables that were linked to credit card behavior. The first was whether or not the parents were good financial role models. This is more of a subconscious form of learning that takes place throughout the entire time before college. The second was whether or not parents encouraged their children to invest. This variable is a more direct form of learning that is more in-depth and the majority of respondents did not receive this encouragement. In general, if students agreed with either of those variables they exhibited better behavior with their credit card. There were several other socialization variables that were looked at that were not found to have a significant association with credit card behavior. These include whether the parents encouraged their children to open a bank account and if the parents were comfortable talking about money or not. These forms of socialization are not quite as in-depth and comprehensive as the first two variables listed. This finding shows that a more rigorous financial education will result in better financial behavior as an adult.

In general, college students are starting to use credit cards more responsibly. As discussed earlier, credit cards used to be extremely popular among college students in the early 2000s because of aggressive marketing at universities. Students also used to carry high balances on their credit cards. Nowadays, less students own credit cards and they are generally carrying a smaller balance on their cards. This trend could be greatly attributed to the CARD Act, which imposed stricter regulations on credit card companies and marketing for credit cards on university grounds. Still, as this study shows it is also important that parents do their part to educate their children on finances and sound credit card behavior.

LIMITATIONS

Although this study did find some associations between family financial socialization and credit card behavior, there were some aspects of the study that were limiting and could be improved on in future studies. One of these is the fairly small sample size from SDSU of 283 respondents. It would be better to look at a larger sample to get a more comprehensive view of college students' behavior. Another potential improvement would be to put some more questions related to family financial socialization. Within the survey, there were not any questions about parental education regarding credit cards. This is an aspect of financial socialization that could potentially have an association with credit card behavior. This study also focused on close-ended quantitative questions within the survey. A future study could explore in-depth the relationship between financial socialization and credit card behavior by giving respondents the opportunity to provide more information with open-ended answers, such as a focus-group interview.

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