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Influential Factors Contributing to College Student Spending Habits and Credit Card Debt

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ABSTRACT

This paper explores how access to credit, familiarity with debt and financial education, socialization agents and social identities, academic performance, and financial aid and family income influence college student spending habits and credit card debt. Being in credit card debt is common for many college students, but exploring the specific factors that contribute may help prevent future generations of students from participating in unhealthy spending habits and accumulating credit card debt. After a close comparison of eleven studies, I was able to conclude that easy access to credit cards makes students susceptible to accumulating debt. Students who perform poorly academically, are female, minorities, and who are older tend to be more likely to be in debt than other students. Family income and the amount of financial aid a student receives also affects their financial situation, as does the student's own level of financial education, and financial socialization from parents. Although future research is needed on this topic, it is important to note that students' social environment has an effect on their financial health.

INTRODUCTION

Many college students have credit cards. In fact, according to a Sallie Mae National Study of Usage and Trends, 84% of undergraduates have at least one credit card (Robb and Pinto 2010). These students don't just possess the credit cards; they accumulate unhealthy amounts of debt and practice irresponsible spending habits. Although not all credit card debt is detrimental, the debt students are accruing is a result of shopping for clothes, entertainment, and other luxury items. This paper will explore how access to credit, financial education, socialization agents and social identities, academic performance, and financial aid and family income influence spending habits among college students. The implications of student credit card debt and spending habits have significant importance to sociology. Family background, socioeconomic status, age, race and other social factors pertaining to students are all sociological topics related to how undergraduates access credit and acquire debt. The purpose of this literature review is not only to highlight these issues, but also to understand why undergraduates graduate college with amounting credit card debt. According to scholarly research, students who are primarily females, of a minority racial group, have easy access to credit, perform poorly academically, receive insufficient financial aid, have a low family income, and are improperly financially socialized are more likely to be in credit card debt. These factors and financial decisions could have serious negative consequences for students later on in their lives.

EASY ACCESS TO CREDIT

The first reason many college students fall victim to credit card debt is because credit cards are incredibly easy to obtain. Banks deceivingly are willing to take a risk with college students because they assume the students will only make minimum credit card payments but carry high debt loads (Hoover 2001). As a result, credit card companies earn money from the interest students are paying, and they end up paying that interest for a long time – on average for about 15 years (Hoover 2001). After graduation they are left paying student loans and credit card bills, which leaves many students in difficult financial positions. In a study conducted by Eric Hoover (2001), a student says, "I felt ashamed about having put myself in that position, but I should never have been able to get all those cards at such a young age" (1). According to a Sallie Mae study in 2000, college undergraduates carry an average of $2,748 in credit card debt. Credit card debt contributed to over 120,000 people under the age of 25 filing for bankruptcy in 2000 (Hoover 2001).

A study conducted by Sallie Mae proposed that 84% of college students have a credit card, and the average number of cards that are possessed is 4.6 (Robb and Pinto 2010). Yet another study proposed that 14% of students who possess a credit card carry a $3,000-$7,000 balance, and ten percent owed more than $7,000 (Roberts and Jones 2001). The same study also claims that 55% of students obtain their first credit cards during freshman year and 25% of students first used one in high school (Roberts and Jones 2001). Colleges all over the country have banned credit card marketers from campus spaces based on these staggering statistics and the concern for their students' financial wellbeing. At the same time, many credit card companies have teamed up with college campuses that still allow them to solicit on campus (Hoover 2001). This scenario creates a contradiction in the minds of the student body in which they are told to be financially responsible, but are solicited by the same institution trying to launch them into adult life.

Another reason students feel the urge to use credit so liberally is because the credit cards act as a way to establish independence from parents. Hoover (2001) writes, "When you get to college, credit cards are one of the many ways of proclaiming…freedom from Mom and Dad" (36). Once college students get themselves into credit card debt after proclaiming this independence, it is harder for them to get out. "Students are graduating from college with nearly twice as much debt as a decade ago" (Hoover 2001:35). College students today have been raised in a culture where spending is celebrated and saving is looked down upon (Roberts and Jones 2001). Students feel better about themselves and their social well being if they can purchase items like electronics and designer clothing that raise their social status. This is an excellent example of conspicuous consumption, the act of purchasing items simply to display one's wealth (Brueggemann 2010). This psychological analysis could explain why few people question college students' access to credit and sometimes encourage it. Conspicuous consumption may also influence students' needs to continually be purchasing items.

FAMILIARITY WITH DEBT AND FINANCIAL EDUCATION

In addition to easy access to credit, important factors in predicting college student debt are whether or not incoming freshman already know someone who has been in debt and if students are financially educated. Adults fulfilling role model positions such as parents, relatives and teachers, who also are in credit card debt, reinforce the beliefs, attitudes and norms that overspending is acceptable. A likely outcome of this attitude of overspending is compulsive buying, which has been proven to lead to credit card debt (Roberts and Jones 2001). Based on a survey of students at a private university in Texas, there is an increasing level of compulsive buying with each successive generation. When a credit card was available, students were more likely to spend, to spend more, and participate in compulsive buying more often than if a credit card wasn't available. Credit card usage furthers the problem of compulsive buying. A majority of college students carry a significant amount of debt because they have been raised in a credit card society where debt is the societal norm (Roberts and Jones 2001). Interestingly, this financial independence and freedom does not always start when students enter college.

In a study conducted by researchers Roberts and Jones (2001), some students had credit card debt before they entered higher education. According to one study, 62% of incoming college freshman had access to a credit or charge card, and 50.9% had some kind of debt (Jones 2005). Today, college students have grown up in a culture of debt. They have been surrounded by credit card debt because some of their older role models carry amounting debt (Roberts and Jones 2001). In a study conducted at the University of California in Los Angeles, 75% of the 750,000 college students surveyed reported that one of the reasons they decided to go to college was to make more money (Roberts and Jones 2001). In addition, Robb and Pinto (2010) wrote that, "Americans' definition of what constitutes a 'need' has clearly changed from generation to generation" (826). If college students experienced their parents participating in compulsive buying and/or irresponsible accumulation of debt, they are more likely to accumulate debt as well. Students should be properly financially educated before they acquire a credit card.

Financial education plays a significant role in how students make use of their money and their credit. Graduating students leave college with an average of $20,402 in education and credit debt (Robb and Sharpe 2009). Credit card debt and financial education are not areas colleges tend to monitor when it comes to their students (Stanford 1999), and they don't normally provide educational opportunities for them. One of the most popular ways of measuring credit knowledge is asking students what their annual percentage rate (APR) is. Researchers Robb and Sharpe (2009) found that few students are even able to define or understand the term APR. Jones (2005) claims that, "education regarding credit may be needed before students enter college…to help them make informed decisions and avoid having excessive debt [that] affects current and future financial security" (15). Many universities are losing more students to credit card debt than they are to academic failure (Roberts and Jones 2001). Hence, colleges should take the responsibility and educate students regarding topics of credit card debt and responsible spending.

Although many students practice irresponsible spending habits some students seem to be financially responsible. One report showed that 56% of undergraduates pay off their balances each month, as opposed to the general population, of which only 43% pay off their debt each month (Hoover 2001). The downside to this study was that a credit card company sponsored it so it may have been biased (Hoover 2001). Even if these results are biased, other studies have shown that financial education can be valuable to students. High school and college students taking financial education courses were shown to have higher savings rates (Robb and Sharpe 2009). Robb and Sharpe (2009) write that, "a higher level of financial knowledge is negatively related to whether one carries a revolving balance…among those with a revolving balance a higher level of financial knowledge is associated with a lower reported balance" (29). In general, Pinto, Parente, and Mansfield (2005) write that, "middle school and high school administrators need to be aware that children are getting credit cards at ever-younger ages" (364). Educators aware of adolescent credit card behavior and high rates of debt can increase financial education courses at both the high school and college levels.

SOCIALIZATION AGENTS AND SOCIAL IDENTITIES

Pinto, Parente, and Mansfield (2005) found that one of the most important factors regarding college students and their financial habits were their socialization agents - significant people, groups, and institutions that shape our sense of self and social identity. These same agents help us to realize our human capacities, and teach us to negotiate the world in which we live (Ferrante 2011). Parents, peers, mass media, and schools are all socialization agents that influence the psychological, emotional, and behavioral development of college students. Cude, Lawrence, Lyons, Metzger, LeJeune, Marks, and Machtmes (2006) state that, "advertising, peer pressure, and the thrill of an expensive purchase as a 'status symbol' were all mentioned as influences" (107). Many students also reported the frequency of which they saw signs like "bad credit, no problem" and "no credit, no worries" on storefronts, and how that influenced their spending. These types of phrases might have been internalized and encouraged students to spend more freely and give them an excuse to throw away financial inhibitions (Cude et al. 2006). Nevertheless there are ways to prevent this carefree attitude from occurring. Those with greater social support in general are reported to have less credit card debt, especially the social support given by parents (Wang and Xiao 2009).

The amount of credit card information and education given by parents is greater than any other socialization agent. Mothers and fathers are the two most important sources of influence on college students' money beliefs and attitudes. There is a correlation between the amount of credit card information learned from parents and student credit card use. Students who had a lower credit card balance were more likely to be educated by their parents about proper spending and credit debt (Pinto, Parente, and Mansfield 2005). Seventy-five percent of American children learned most of their money management skills from their parents, and 87% of college students still rely on their parents for financial advice (Borden, Lee, Serido and Collins 2008). Cude et al (2006) explains that, "students reported that their parents influenced their money management behaviors" (108). Schools provide more information about finances when compared to peers and the media, and there is no difference in influence between peers and media (Pinto, Parente, and Mansfield 2005). To reiterate an important point, parents are the most important socialization agent when it comes to financial behaviors.

Family structure also had an impact on how students made use of their credit. Students of divorced families reported having higher credit card debt (Borden et al 2008). One thing that parents must keep in mind is that television may rival many of the traditional socialization agents such as parents, schools, and religion. Pinto, Parente, and Mansfield (2005) write, "parents' proactive efforts today may be the best defense against their children's financial problems" (364). In general, college students must be aware of the socialization agents like media advertisements that influence their buying and credit use, and make the best financial decisions possible.

In addition to socialization agents, several social identities, including gender, age, and race, were predictors of students deemed financially at risk and used their credit irresponsibly. Those who were defined as financially at risk were those who used credit cards with a greater frequency for a variety of purchases and engaged in less responsible behaviors based on credit card use (Robb and Pinto 2010). According to one study, financially at risk students were more likely to be female, black, and financially independent of their parents. Female students also possessed less financial knowledge, but were more likely to possess a credit card and carry more debt (Robb and Sharpe 2009). White students, compared to other racial/ethnic groups, possessed more financial knowledge than their counterparts. The study also confirmed that females were more likely than males to have an outstanding credit card balance, and typically had more debt than male students (Robb and Sharpe 2009). This is sociologically relevant because girls may be conditioned to look and dress a certain way, and participate in certain activities, such as shopping online or in stores, and shopping at certain stores that are viewed as socially favorable. As a result, this may entice them to spend more money on appearance items than males, and acquire more debt.

Gender was also influential when observing financial management practices. Females performed more financial management than males, but female students who performed fewer financial management practices were more likely to experience a higher number of financial stressors such as significant credit card debt (Wang and Xiao 2009). One report claims that men have the higher responsible financial attitudes, and women have the lower responsible financial attitudes (Borden et al 2008). Gender also influenced what types of purchases students were making on their credit cards. Females tended to spend more money on clothes, while men spent more money on entertainment and eating out (Wang and Xiao 2009). This is sociologically interesting because females feel more pressure to look a certain way and spend more money on clothes and cosmetics, while men keep up appearances in ways that involve social activity.

According to a study by Jones (2005), age was the only predictor of credit card debt. In that same study, age and race were predictors of the number of credit cards that were held by each student. Older students had more credit cards, but white students had fewer cards than other racial identities (Jones 2005). Older students (juniors and seniors) appeared to have more debt than underclassmen (freshman and sophomores) in college (Robb and Sharpe 2009). Another study reported that single, never married individuals had less debt than married or formally married students. Students who reported coming from high-income families reported participating in risky financial behavior more often (Borden et al 2008). This is an important sociological insight because these spending choices may have implications for each student's financial well being after graduation. If students never learn financial responsibility, it could affect them when they become financially independent, and determine if they can buy a house, and other important milestones.

ACADEMIC PERFORMANCE

Another interesting indicator of credit card use and debt is students' academic performance. Low academic performers reported a greater need for employment to pay off credit card debt they had accumulated during college. Those who were high academic performers said they had more anxiety relating to credit cards and therefore, used them less frequently (Robb and Pinto 2010). The study conducted by Jones (2005) reinforces this finding that those who only paid the minimum balance each month and were behind on payments were more likely to have a lower grade point average, and a lower personal income. Students found that their debt affected their overall academic performance. Many had to reduce their course loads in order to hold a part-time job to pay off debt, and in some cases students had to drop out of school (Jones 2005). This cycle defeats the purpose of seeking higher education, in that students who drop out of college are more likely to end up working less favorable or less advantageous jobs.

FINANCIAL AID AND FAMILY INCOME

Financial aid and parental income were also factors related to college student spending habits and credit card debt. Parental income can be used as an indicator of a student's lifestyle, social class, and the resources and opportunities that are available to them (Robb and Sharpe 2009). A greater proportion of financially at risk students reported charging items to their credit cards because they received insufficient financial aid (Robb and Pinto 2010). Consequently, these students must use their credit cards as a means to pay for their tuition. According to a Sallie Mae and Gallop Poll (2009) 3% of all families with 18-24 year-old college students had their students using credit cards as a means to pay for college. The average amount borrowed on these credit cards was $2,542 (Ferrante 2011). Students from lower income households may be more likely to accrue higher debt. They may not have had enough exposure and experience in financial markets to spend their money and use their credit wisely (Robb and Sharpe 2009). Students with high amounts of debt are more likely to receive need-based financial aid, have at least $1,000 in other types of debt, and have acquired their credit cards from malls, retail stores, and on college campuses. More students who were designated as financially at risk came from low to middle income households (Robb and Pinto 2010). Renting an apartment and working more than sixteen hours a week were predictors that individuals would not pay their credit cards in full each week (Jones 2005). The added pressure of paying for rent and trying to work may have had financial implications on students, and correlates with the ideas proposed earlier – that low income students are more likely to struggle academically, as well as financially.

CONCLUSION

Being in credit card debt is common for an abundance of college students. The purpose of this literature review was to focus on the specific sociological factors that influence college students to become irresponsible spenders and later, holders of credit card debt. This review explored access to credit, familiarity with debt and financial education, socialization agents and social identities, academic performance, and financial aid and family income in relation to college students' spending behaviors. Based on this article review, I can conclude that easy access to credit cards makes students susceptible to accumulating debt. Students who are female and of a minority race, who perform poorly academically, and are older are more likely to be in debt compared to other students. Family income and the amount of financial aid a student receives affect their financial situation, as does the student's own level of financial education, and financial socialization from parents. Future research calls to explore other sociological factors that may influence student spending behaviors. Also, it may be valuable to follow up with students who accumulated debt in college and see how they fared in the "real world." Overall, it is important to take away that college students do not form their financial habits and their credit card use independently. Students must be careful about the consequences of their financial decisions because they will impact their future.

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