An Unlikely Recruiting and Retention Tool: Financial Education

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Academic Leadership Journal

Introduction

We currently live in an era where universities report higher dropout rates due to debt burdens than from academic failure (Prah 2006; United College Marketing Service 2006). Higher education institutions routinely provide tutoring and other support services for students with academic concerns; however, most universities are not adequately addressing the alarming levels of student credit card debt. Universities have an underutilized opportunity to provide a credit education course for incoming students. The class is a winning proposition for students, parents, and universities. Lending institutions also stand to benefit from decreased loan default and bankruptcy rates.

Description of the Problem

Just how serious is the debt problem among young adults? Although the rising cost of tuition contributes to the escalating level of student debt, credit cards and a lack of personal financial skills begin the upward spiral of outstanding balances and accrued interest for thousands of students prior to graduation. The use of credit cards is widespread among undergraduate students. According to credit bureau data presented by Nellie Mae (2004), 76% of students own at least one credit card. The average number of credit cards is an astounding 4.09, with 43% of students owning four or more cards.

Easy credit offered to college students with little or no income has led to an average undergraduate student credit card balance of $2,169 in 2004. Reported averages conceal a disturbing distribution of credit card balances. According to data compiled by Nellie Mae (2004), 37% of student credit card holders carried a balance of $500 or less, but 16% carried a balance of $3,000-$7,000 and 7% of students carried a balance in excess of $7,000. A Sallie Mae (2007) survey of 13,000 students in 2007 showed that more than 50% of the students had accumulated over $5,000 in credit card debt during college and 33% had amassed more than $10,000. The figures reported herein are alarming statistics for any parent sending an 18-year-old to college.

Short-Term Consequences: Credit Card Debt

The immediate response of many students facing a high credit card balance is to increase their hours of outside employment. However, studies show that working more than 30 hours per week has a detrimental effect on academic performance (Orszag, Orszag, and Whitmore 2001). Students may also experience increased stress from looming payment due dates and debt collection practices. Other short-term repercussions of high credit card debt balances include higher interest rates and larger rental deposit requirements.

Long-Term Consequences: Credit Card Debt

Students accumulating large credit card balances face severe long-term consequences. Credit scores are a reflection of a student’s financial decisions and will affect the cost and ability to own automobiles and homes. High credit card balances may lead to bankruptcy or withdrawal from school. The number
of young adults less than 25 years of age declaring bankruptcy increased 51% over the period 1991-1999. The study noted that young adults less than 25 years of age accounted for 6.9% of all bankruptcies (United States General Accounting Office 2001). Individuals with student loans who choose to drop out of college in order to pay their debts will immediately be required to pay monthly loan payments in addition to their credit card payments. Further, students withdrawing from college will be limited in terms of lifetime employment opportunities and earning potential.

Student debt levels can produce macroeconomic effects when the compensation of a chosen career is insufficient to meet the expected future debt burden. Undergraduates may shift emphasis from personal aptitudes and interests toward financial remuneration, where selection of the major field of study and/or employment is primarily based on the pay scale.

Proposed Solution

As educators, administrators, and advisors of college students, it is our responsibility to address the issue of student credit card debt. Traditionally, the burden of developing financial literacy has been placed on the individual student. However, when the average student’s level of financial knowledge is relatively low and the access to credit and spending opportunities is vast, credit problems are quick to develop.

Universities can proactively address the situation with a required online financial education course for all incoming students. Providing financial education via the University Website or through brochures at freshman orientation is insufficient; many students will fail to fully utilize discretionary information.

Research shows that financial education positively impacts individual behavior (Hilgert & Hogarth, 2003; Osteen, Muske, and Jones, 2007; and Xiao, O’Neill, Prochaska, Kerbel, Brennan, and Bristow, 2001). Institutions that successfully address student debt will require the completion of a financial education course, design it to be highly interactive, and deliver the course online.

The solution serves as both a recruiting tool and a student retention aid. Required online financial education enhances the recruiting efforts of colleges facing increased competition for a shrinking pool of applicants. Informed families will favorably consider an opportunity to increase their student’s financial literacy during the transition period between high school and college. Universities have an opportunity to improve retention as more students maximize their financial resources, understand the risks of credit, and avoid large balances that may lead to withdrawal from classes.

Implementation of Proposed Solution

The ideal solution will have the following characteristics:

1. The course is required for all incoming students. First-year and transfer students may choose to complete the class during the summer prior to enrollment or during the fall semester.

2. Students with high levels of financial literacy have an option to test out of the course.

3. The class will be delivered online to provide maximum flexibility to class participants. The online format also facilitates the identification and retrieval of financial information from the Internet.
4. The course will be structured as a one-hour financial management course focusing on the following topics: financial terminology, budgeting, saving and investing, and credit management.

5. Student materials will include a financial spreadsheet that allows students with minimal computer knowledge to compute the effects of various financial arrangements including: savings accounts and the power of compound interest, credit card payments and interest rates, and the effect of minimum payments.

6. A budget spreadsheet will be provided. Students will be required to prepare weekly and monthly budgets for their current financial situation; submissions will consist of general information such as lessons learned and strategies for the future.

7. The class will be designed to be highly interactive.

8. Students will engage in simulations where they are asked to solve financial situations commonly faced by young adults; class participants will prepare a budget to illustrate their solution.

9. Objectives for the course include improving financial literacy and providing user-friendly spreadsheets that class participants may utilize in the future to determine the effects of financial decisions.

Conclusion

This paper addresses a serious problem currently affecting many young adults. Credit card debt has been linked to a myriad of circumstances including decreased academic performance, increased working hours, higher levels of stress and depression, bankruptcy, dropping out of school to reduce debt loads, and suicide (Hayhoe et al. 2005).

Following completion of the online course described herein, students will possess the knowledge and skills to answer questions such as, “What are the short and long-term effects of making this purchase?”, “How long will it take me to pay off a debt, based on my individual financial situation?”, and “What steps can I take to increase my savings and/or decrease my debt?”.

University administrators requiring a credit management course will help protect the future of their graduates by providing the resources to develop lifetime financial skills. A highly interactive online course that engages the student will contribute toward a comprehensive higher education experience.

References


Sallie Mae. 2007. Sallie Mae Launches New ‘Be Debt Smart’ Campaign to Educate Students, Parents, and Graduates on Managing Debt and Understanding Credit.


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