Do I take it all or do I borrow only what I need?
The impact of financial education courses on student loan borrowing decisions

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Previous Research

- Student loans as a vehicle for increasing access to higher education
  Avery & Turner 2012; Dwyer, McCloud & Hobson 2012

- Student loan repayment behavior
  Gross, Cekic, Hossler & Hillman 2009; Hillman 2014

  - Important of degree completion
  - Impact of amount borrowed

- Impact of student loan debt on additional education, family formation, home ownership, career choice
  Addo 2014; Andrew 2007

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Guidelines for Student Loan Borrowing

- Estimate the full cost of college
  - Tuition and fees, housing and living expenses, books and supplies

- Identify all resources available to pay college expenses
  - Family contributions, scholarships and grants, savings, wages

- Borrow only what you need!

http://www.usnews.com/education/best-colleges/paying-for-college/articles/2012/08/13/6-steps-to-determine-how-much-to-borrow-for-college

https://www.discover.com/student-loans/college-planning/estimate-loan-amount.html

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Purpose

- The 2014 Study on Collegiate Financial Wellness* is used to investigate how financial education classes are related to students' borrowing decisions

- We explore whether these patterns are different for first generation students

*Formerly titled National Student Financial Wellness Study

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Research Questions

- What factors do students consider when deciding how much money to borrow for the school year?

- Do students make borrowing decisions on their own, or use other information?

- Is financial education associated with these decisions?

Sample

- College students enrolled at 4-year public and 4-year private institutions who are using student loans

- Analysis of complete cases

- Sample size: 7,180 college students

Description of Sample

- Average age: 24
- 68% female, 32% male
- Race/ethnicity
  - 75% White
  - 11% Other races
  - 5% Black
  - 6% Hispanic
  - 3% Asian
- SES
  - Low: 20%
  - Middle: 24%
  - High: 27%
  - Don't know: 22%
  - Preferred not to say: 7%

- Years enrolled
  - First year: 14%
  - Second year: 18%
  - Third year: 21%
  - Fourth year: 23%
  - Fifth year or more: 24%
- Institution Type
  - 89% 4-year public
  - 11% 4-year private
- Financial dependent: 56%
- Nontraditional: 34%
- **First generation: 48%**

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Attended financial education classes/workshops while in:

High school only	19%
College only	14%
Both high school and college	10%
Neither	57%

First generation students do not differ from non-first generation students in receiving financial education

Low SES students are less likely to receive only HS financial education but more likely to receive only college financial education

High SES students are more likely to receive financial education in both high school and college

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When deciding how much money I will need to borrow for the school year, I: (select all that apply)	
Borrow the maximum amount available in my package, regardless of the amount	28%
Use my budget and borrow only what I think I will need	54%
Try to borrow as little as possible	52%
Consider the total amount of debt I will graduate with	38%
Consider the amounts I have borrowed in the past	33%

First generation students are more likely to borrow the maximum amount available in their package (31%)

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When deciding how much money I will need to borrow for the school year, I: (select all that apply)	
Decide on my own how much I will need to borrow	57%
Consult with a parent, guardian, or family member to determine how much I will need to borrow	52%
Consult with a financial aid counselor to determine how much I will need to borrow	13%
Use information obtained from the internet to determine how much I will need to borrow	15%

First generation students are more likely to make decisions on their own (64%)

Multivariate Analysis

- Logistic regression

- Separate analysis for each of the five approaches to determining amount to borrow and each of the four information sources

- Primary interest in impact of financial education

- *Models control for age, sex, race/ethnicity, financial dependent status, first generation status, citizenship status, nontraditional status, class rank, GPA, financial knowledge score, institution type, socioeconomic status, and employment status*

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Logistic Regression: Amount Borrowed

Variable	Maximum	Budget	Minimum	Future	Past
Age	+	-	-	-	-
Sex	+ Female		-Female	+Female	
Race/Ethnicity	+ Black		-Black	-Hispanic	-Hispanic
First generation		+			
Financial dependent	-		+		
Nontraditional	+			+	
International					
Rank	+		-	-	+
GPA	-	+	+	+	
Financial knowledge	-	+	+	+	
SES	-				
Employment status	-	+	+		+
Four-year private	+	-			-

Logistic Regression: Information Sources

Variable	Own	Parents	Counselor	Internet
Age		-		-
Sex	-Female			-Female
Race/Ethnicity	-White	+White	-White	
First generation	+	-	+	
Financial dependent	-	+		
Nontraditional	+	-		
International	-			+
Rank	+	-	-	-
GPA		+	(-)	
Financial knowledge	+	-	-	
SES	-	+	(-)	
Employment status	+	-	(+)	
Four-year private	-	+	+	-

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Findings – Amount Borrowed

- Compared to students with no financial education in high school or college, students who complete financial education classes are:
  - Less likely to borrow the maximum amount $(p<.001)$
  - More likely to use their budget and borrow what they need $(p<.001)$
  - More likely to try to borrow as little as possible $(p<.10)$
  - More likely to consider the total amount of debt at graduation $(p<.10)$

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Findings – Information Sources

- Compared to students with no financial education in high school or college, students who complete financial education classes are:
  - More likely to consult parents ($p<.05$) when making borrowing decisions
  - More likely to consult financial aid counselors ($p<.001$) when making borrowing decisions
  - More likely to use information obtained from the internet ($p<.001$) when making borrowing decisions

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Findings – First Generation

- Compared to non-first generation students, first generation college students who receive financial education are:
    - More likely to consider amounts borrowed in the past when making borrowing decisions ($p<.05$)
    - Less likely to decide on their own ($p<.1$) and more likely to consult parents/family ($p<.05$) when deciding how much to borrow

Summary

- Evidence of association between financial education and

  – The factors students consider when deciding how much money to borrow for the school year

  – The information sources used by students when making borrowing

- Evidence of some differences among first generation students

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Prevalence of financial education

29%
- Of respondents reported taking financial education classes in high school

24%
- Of respondents reported taking financial education classes in college

57%
- Of respondents reported receiving no financial education

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Discussion

How do we implement financial education when students come to us with varying background knowledge?

How do we target education toward first generation students?

- Current practices
- Recommendations for interventions
- Cautions/Lessons learned

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Sign up by September 1 at cfw.osu.edu
or email scfw@osu.edu for more information

Questions?

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