Exploring the use of alternative financial services among college students

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Alternative Financial Services

- Check-cashing outlets, money transmitters, car title lenders, payday loan stores, pawnshops, and rent-to-own stores
  - disproportionately located and clustered in minority and low-income neighborhoods
  - neighborhoods often contain both traditional banks and alternative financial service providers

(FDIC, 2017)

Reality check

- Nearly 67 million adults in US are un- or under-banked (FDIC, 2015).
- Un- or under- banked are more likely to use alternative financial services (Trellis, 2019)
  - supplemental income
  - financial emergencies
  - easy quick cash
- $141 billion spent on fees and interest in alternative financial services (FDIC, 2015).

College Students

- College students lack $500 for an emergency (Trellis, 2019)
  - Young adults are more likely to be laid off (FDIC, 2020)
  - In March-April 2020 30% of 18-29 year-olds reported job loss (FDIC, 2020)

Guiding Questions

1. What factors contribute to the use of alternative financial services among college students?
    - objective financial knowledge, materialistic attitudes, compulsive spending behaviors, access to financial resources (number/types of traditional bank accounts, credit cards, savings), financial well-being
2. How do these associations differ among college students who do *not* identify as minority, low-income, and/or first-generation college students and those who do?

Sample

- 525 undergraduate college students
  - Mostly female (69.3%)
  - Self-identified as a minority, low-income, first-gen student (71.2%)
  - Used at alternative financial service at least once in the past 12 months (42.9%)
  - Own a credit card (32.2%)
  - Have at least one bank account (96.0%)
  - Have some money in savings (72.2%)
  - Receive financial support from parents/family (89.5%)
  - Use student loans to pay for school (64.4%)
  - Average age is 21.5

Findings

- All participants (*N* = 525):
  - Compulsive spending (β = 0.18***)
  - Credit cards (β = 0.10***)
  - Savings (β = 0.11**)
  - Financial knowledge (β = -0.12**)
  - Financial well-being (β = -0.13**)
- Not minority, low-income, or first-gen (*n* = 151):
  - No significant relationships
- Minority, low-income, *or* first-gen (*n* = 253):
  - Credit cards (β = 0.20***)
  - Financial knowledge (β = - 0.17**)
  - Financial well-being (β = - 0.16*)
- Minority, low-income, *and* first-gen (*n* = 121):
  - Compulsive spending (β = 0.44***)

Note: ***$p \leq 0.001$; **$p \leq 0.01$; * $p \leq 0.05$

Discussion

- The use of alternative financial services
  - reflect compulsive buying behaviors (Shim et al., 2010)
  - used to make purchases one cannot afford today (Plunkett & Buehner, 2007)
  - tool for managing finances, especially during emergencies (Plunkett & Buehner, 2007)
  - lack of awareness of the long-term implications (Xiao et al., 2009)

Financial Inclusion

- Students may not have wanted to use alternative financial services themselves, but felt they had no other options

Infrastructure

Quality

Education

Lyons, Grable, & Zeng (2016)

Overcoming Obstacles

- Affordable
- Location and hours
- Language
- Product complexity
- Cultural experience
- Trust

- Design products and tools that address a person's financial situation
- Acknowledge previous negative experiences
- Facilitate consumer education

Lyons, Grable, & Zeng (2016)

Future of Financial Education

- College programs:
  - Timing
  - Specific needs
    - Financial aid and higher education materials are difficult to read and understand and may only be available in English
  - Multi-format programs
    - counseling, coaching, online, peer to peer, and traditional classroom

Financial Education

- Strength-based approaches
  - shared goals to manage finances while in school
  - secure funding
  - understanding how students are paying their bills, and how behaviors change over time
  - enhance behavior-based financial education
  - build motivation through key financial skills
  - provide on-going support
  - evaluate the impact

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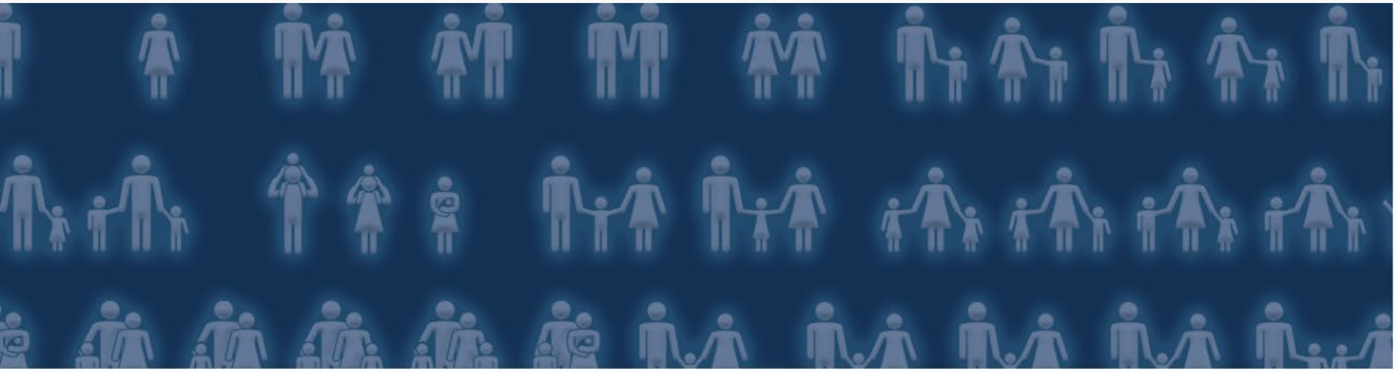
Questions?



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