Exploring the use of alternative financial services among college students

Cecy Brooks, Ph.D.
Visiting Assistant Professor
Department of Psychology and Family Science
Mississippi University for Women
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 ($\beta = 0.18^{***}$)
  - Credit cards ($\beta = 0.10^{***}$)
  - Savings ($\beta = 0.11^{**}$)
  - Financial knowledge ($\beta = -0.12^{**}$)
  - Financial well-being ($\beta = -0.13^{**}$)

• Not minority, low-income, or first-gen ($n = 151$):
  - No significant relationships

• Minority, low-income, or first-gen ($n = 253$):
  - Credit cards ($\beta = 0.20^{***}$)
  - Financial knowledge ($\beta = -0.17^{**}$)
  - Financial well-being ($\beta = -0.16^{*}$)

• Minority, low-income, and first-gen ($n = 121$):
  - Compulsive spending ($\beta = 0.44^{***}$)

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

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
Questions?

Dr. Cecy Brooks
Visiting Assistant Professor of Family Studies

Contact cbrooks1@muw.edu
Office (662)329-7181