

Putting Research to Work for Families



Focus:
Civilian

Crushing Debt or Savvy Strategy? Financial Literacy and Student Perceptions of their Student Loan Debt

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SUMMARY: Student debt is a serious concern among many American college students. This study examined the influence of financial literacy on college students' perception of loan debt and their college financial decision and education related behavior. The findings indicate that financial literacy and loan awareness have implications on their education-related behavior and perceptions related to student debts.

KEY FINDINGS:

- Parents were the most frequently cited source of advice regarding college students' loans (56.4%), followed by college admission staff (16.8%), and then, online sources (9.2%).
- Students with lower levels of financial literacy and student loan awareness tended to perceive their debt negatively; however, students with higher levels of financial literacy and student loan awareness tended to perceive their debt positively.
- Negative perceptions of student debt were related to adverse management strategies like not buying required textbooks, decreasing credit hours in order to work, not taking summer classes, not declaring a minor, and increasing credit hours to graduate sooner.
- College students who had higher scores on financial literacy and student loan awareness tended to belong to higher household incomes.

IMPLICATIONS FOR YOUTH DEVELOPMENT PROFESSIONALS:

- Help develop modules to assist eligible students apply for financial assistance programs
- Collaborate with social services professionals in the field to facilitate programs that provide support to college students who struggle to manage education loans

IMPLICATIONS FOR PROGRAM LEADERS:

- Provide workshops to help students learn about available community resources for financing their college education
- Disseminate information regarding the common types problems youth face due to students loans and where youth and their families can find help for those problems

IMPLICATIONS FOR POLICY MAKERS:

- Encourage collaboration among educational institutions and community-based organizations to support youth who have specialized needs (e.g., students of low SES families, first-generation college students etc.)
- Recommend education of professionals (e.g., mental health and education professionals) on the possible effect of students' loan on their academic performance and psychological well-being

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METHODS

- Data were collected from 429 college students enrolled in a public university located in northwest Georgia through a survey.
- Participants self-reported on measures that assessed financial literacy, student loan awareness, debt-related questions and eight open-ended questions relating to money-related decisions and concerns.
- Data were analyzed to examine relationships between financial literacy, student loan awareness and textual data generated from the open-ended questions.

PARTICIPANTS

- Fifty five percent of the participants were female, and approximately 77% of participants belonged to the age range 18-24 years.
- In the sample, about 35% of participants had no student loan debt.
- Among the sample, about 66% of participants were White, about 14% were Asian American, about 9% were Latino, and about 7% were Black.

LIMITATIONS

- The sample consisted of college students from one university in the U.S., which limits the generalizability of the results.
- The study used a cross-sectional design, which limits any conclusion of long-term impact of student loan on education-related behavior and psychological well-being.
- Subjective measures were used to assess student loan awareness, which can introduced unintended bias in responses, especially in the absence of objective measures.

AVENUES FOR FUTURE RESEARCH

- Collect data from college students across more time points to obtain more accurate patterns between student loans and education-related behaviors
- Assess loan awareness and education-related behavior with more objective measures (e.g., college grades, a quiz about student loans) rather than only self-report items
- Investigate if student loan management varies with improvement in financial literacy

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