

Do Community Characteristics Relate to Young Adult College Students' Credit Card Debt?



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Credit cards are a fundamental component of households' financial portfolios in the United States; however, overreliance on credit may contribute to financial setbacks. The potential for financial setbacks is particularly concerning among the current young adult generation that is accumulating higher amounts of credit card debt than preceding generations. These trends have led many researchers and policymakers to argue that financial education should become a fundamental component of public school curricula, assuming that financially educated young adults would make better, healthier decisions about credit. However, young adults' credit card debt may be more than an individual phenomenon. A young adult's street address—the community in which they grow up or live—can be a key factor in determining how they use credit. This study uses restricted-access, zip code data from a longitudinal sample of 748 young adult college students to examine whether the characteristics of the communities in which they grew up or lived prior to attending college relates to their outstanding credit card debt. A community's characteristics, such as its unemployment rate and concentration of mainstream banks, have the strongest associations with a young adults' credit card debt even after taking into consideration their financial education or whether their parents taught them about money as they were growing up. Findings help to understand how communities can be better capacitated to support young adults' financial health.

Credit is fundamental to the financial health of young adults in the United States. Young adults can use credit to smooth consumption during income fluctuations, cope financially with emergencies, and demonstrate timely payment history to bolster a credit score. However, overreliance on credit by carrying too much debt can threaten their financial health and push financial goals out of reach.

- The current young adult generation born between the 1980s to 2000s—Millennials—are more reluctant to use credit cards and do so at a lower rate than

did previous young adult generations;¹ however, the young adults who do use credit cards tend to accumulate more debt at even younger ages than their predecessors.²

- The current young adult generation's average amount of outstanding credit card debt in 2010, for example, was over \$10,000, whereas in 1992 the average amount was only \$3,000, after adjusting for inflation.³
- The financial obligations of today's young adult college students are especially worrisome given the rising amounts of their average student debt and other types of debt. This indebtedness could follow young adults for years if left unpaid, lowering their credit scores and hindering their ability to save.⁴

Often times, limited financial education and the lack of financial socialization are used to explain young adults' credit card debt. However, another compelling explanation for their debt is the characteristics of the communities in which young adults grew up or lived.

- Levels of financial education and financial socialization within the family are often associated with a young adult's credit card debt. For example, a young adult is less likely to accumulate outstanding credit card debt when they received financial education in high school.⁵
- Parents are also believed to play an important role in developing their children's financial health. Parents' hands-on training and teaching, like providing assistance with budgeting and saving, correlate with a young adult's reduced likelihood of carrying credit card debt and their perceptions that parents will assist them in dealing with their problematic debt.⁶
- Given parents' role in shaping young adults' financial health, it is also reasonable to assume that communities can shape young adults' financial health. Yet notably absent from the existing research is any consensus or even broad conjecture to the effect that the type of community in which a young adult grew up or at least lived for some period of time might also predict their credit card debt.
- Some communities may be better than others at preparing young adults to gain access to and to learn how to use credit. For example, a community served by more

¹ Holmes, T. (2014, November). *Credit card ownership statistics*. CreditCards.com.

² Hodson, R., & Dwyer, R. (2014). *Millennials and money: The impact of debt on young adults' financial life transitions*. Denver, CO: National Endowment of Financial Education.

³ Hodson, R., & Dwyer, R. (2014). *Millennials and money: The impact of debt on young adults' financial life transitions*. Denver, CO: National Endowment of Financial Education.

⁴ Dwyer, R., Hodson, R., & McCloud, L. (2013). Gender, debt, and dropping out of college. *Gender & Society*, 27(1), 30-55. doi:10.1177/0891243212464906

Houle, J. (2013). Disparities in debt: Parents' socioeconomic resources and young adult student loan debt. *Sociology of Education*, Online First. doi:10.1177/0038040713512213

Jiang, S., & Dunn, L. (2013). New evidence on credit card borrowing and repayment patterns. *Economic Inquiry*, 51(1), 394-407. doi:10.1111/j.1465-7295.2012.00456.x

⁵ Robb, C. A. (2011). Financial knowledge and credit card behavior of college students. *Journal of Family and Economic Issues*, 32, 690-698.

⁶ Norvilitis, J. M. & MacLean, M. G. (2010). The role of parents in college students' financial behaviors and attitudes. *Journal of Economic Psychology*, 31, 55-63.

(or more reputable) bank branches could provide access to credit, while a community with a lower average credit score could restrict access to credit.

After examining the financial behaviors of 748 young adult college students, a new study finds that the community in which a young adult grew up or lived exerts some influence on their outstanding credit card debt—and continues to do so even after a young adult attends college and in some cases leaves the community that exerted these influences.⁷

- Most young adult college students accumulate some outstanding credit card debt. The percentage of young adult college students that acquires credit card debt rises steadily over a five-year span while they are in college, beginning at 18% in 2008 and ending at 55% in 2013. The amount of debt they accumulate also rises, from \$699 to \$2,665 during that same time frame.
- A community's characteristics provide the strongest explanation for a young adult college student's credit card debt, over and above whether they received financial education in high school or learned about finances from their parents.
- A higher unemployment rate within the community is associated with a young adult college student's greater debt accumulation. In fact, young adults who lived in a community with an unemployment rate at or above 7% have an increase in credit card debt accumulation of 63%. In other words, their debt of \$657 increases by \$414.
- Young adult college students are less likely to have outstanding credit card debt when they grew up or lived in communities with lower average total debt. Communities with higher debt generally tend to have more financial resources and, along these lines, a young adult college student from a high resource community may not need to acquire credit of their own.
- Young adult college students who grew up or lived in a community with one to three bank branches are more likely to suffer an outstanding debt increase of 68% (\$447), suggesting that increased access to bank branches can relate to increased credit use.

Given the potential importance of communities' characteristics for influencing young adults' credit card debt, communities may need better and more resources to support the financial health of their residents.

- Communities may need support for providing their residents with access to safe and affordable financial services that can provide them access to credit in addition to

⁷ This study used restricted-access zip code files from a longitudinal survey of 748 first-year, young adult college students who enrolled in a major land-grant university in the southwestern United States. Community characteristics at the zip code level including the unemployment rate, average total debt, average credit score, and concentration of mainstream banks were merged in using data from the US Census Bureau's American Community Survey (ACS), Equifax, and the Federal Deposit Insurance Corporation (FDIC). The analyses controlled for such things as young adults' race, gender, GPA, socioeconomic status, parents' income level, and parents' financial behaviors like paying their credit card bill in full each month. Double hurdle models separately examined the probability that young adults had outstanding credit card debt and their amount of that debt.

other services for meeting their financial needs. For example, several community economic development interventions may be effective, including the Community Development Financial Institutions Fund (CDFI Fund) that supports community-based financial services operating in lower income communities and the Cities for Financial Empowerment (CFE Fund) and their Bank On coalitions that leverage local partnerships to advocate for safer and more affordable financial services within communities.

- Employment-related interventions may also be important given that young adults tend to have higher credit card debt when they grew up or lived in communities with higher unemployment rates. From this perspective, employment-related interventions may be another way to capacitate communities to better serve their residents, such as the Neighborhood Jobs Initiative (NJI) that attempts to raise employment levels in lower income communities to match that of the metropolitan region.

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