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**RECESSION IMPACT CRIPPLES STUDENTS' FINANCES**

*Research Reveals Risky Behavior, Decline in Well-Being Among College Students*

DENVER—Ninety-five percent of college students say the economic crisis has impacted their family's finances and 93 percent have felt an effect on their own financial lives. The crisis also ultimately affected students' confidence, behavior, trust in financial institutions and overall well-being.

This data stems from the landmark study *Arizona Pathways to Life Success in University Students* (APLUS), funded by the National Endowment for Financial Education® (NEFE®). At the height of the economic crisis (February 2009 to April 2009), researchers at the University of Arizona completed Wave 1.5 of a longitudinal study of how young adults develop financial attitudes and behaviors.

“We have had a remarkable opportunity to study the before-and-after impact of the financial crisis on a population of Americans in the middle of their journey to financial independence,” says University of Arizona lead researcher Soyeon Shim, Ph.D. “We have a unique data set that begins in spring 2008, when the economic outlook was still relatively optimistic, and checks in again during the depths of the recession just one year later.”

**Students lose financial confidence**

One of the most significant outcomes researchers found from the economic crisis related to students' perceptions of their financial capabilities. Although students' factual knowledge of financial basics held steady, students rated themselves less knowledgeable, 19 percent less, than when previously surveyed in the first wave of APLUS.

“We are particularly troubled by this drop in financial confidence,” says Ted Beck, president and CEO of Denver-based NEFE. “The formation of mature financial attitudes and behaviors that occurs during young adulthood has been deeply damaged by the recession. Long after the economy recovers, young Americans will continue to feel the negative effects of financial crisis and uncertainty. NEFE is working to mitigate the damage with financial education that will serve these students throughout their lifetimes.”

### **Students resort to risky behavior**

Not surprisingly, 95 percent of student respondents said they had changed their personal money management in response to the recession. In some cases, there has been positive change. Budgeting, for example, rose roughly 3 percent among students who felt the most impact from the crisis. The most dramatic changes, however, erupt at the opposite end of the spectrum, in behaviors the study categorizes as high-risk:

- 169 percent increase in the number of students who report dropping classes
- 106 percent increase in those taking a “leave of absence” from school
- 78 percent rise in the number of students who report postponing health care
- 26 percent increase in students using one credit card to pay off another

Researchers also noted an alarming increase in debt among students. Students reported credit card debt up 60 percent and education loan debt up more than 85 percent compared to spring 2008. For some ethnic groups, the rates of increase were double and triple those of the overall sample (see sidebar).

### **Financial woes erode well-being**

Research confirms that money problems chip away at mental and physical health, and APLUS data shows that although college may shelter students from some of life's rigors, it doesn't exempt them from the ravages of financial stress.

In comments and open-ended responses, students described worrying over parents losing their jobs, increases in tuition, fixed scholarship amounts, the need to work more (decreasing their time to study), and whether they should transfer to more affordable schools.

Even more sobering, students reported lower well-being in several categories probed by the APLUS study, with the largest loss, as might be expected, in feelings of financial well-being, down 8 percent. Measures in quality of relationships and psychological well-being follow at 6 percent and 5 percent respectively, with ratings for physical and academic well-being down 3 percent each.

### **As troubles mount, trust tumbles**

As students scramble to cope with harsh economic realities, their trust in major institutions has suffered collateral damage. Overwhelmingly, students in the latest wave

of data report “only some” trust in government, business, banks and other major institutions. And 20 percent said they harbored “hardly any confidence” in these entities. APLUS researchers note that this crisis in confidence could have far-reaching implications as it interferes with the normal formation of social capital.

“For young people who are just beginning to establish independent relationships with banks and financial institutions, a growing lack of confidence following this severe recession may inadvertently slow the economic recovery,” says Shim. “A sense that financial institutions are not trustworthy may cause young people to avoid investing in their services, to the detriment of students and that of the overall economy.”

### **Parents stand as first line of defense**

Although the data from this latest wave of APLUS research paints a sobering picture, Beck notes that parents are in the best position to mitigate the effects of the economic crisis on their children's attitudes and behaviors.

“From the current study, we know that nearly 80 percent of students are financially dependent on their parents, and we know from earlier APLUS research that parents are the top influencer when it comes to students’ financial knowledge, attitudes and behaviors,” Beck says. “That puts parents in a powerful position to help their young people navigate the wake of crisis in ways that repair and restore our economy rather than hobbling it for years to come.”

### **About *Arizona Pathways to Life Success in University Students* (APLUS)**

The landmark study examines financial attitudes and behaviors—and the forces that drive them—in college students ages 18 to 25. Soyeon Shim, Ph.D., director of the John and Doris Norton School of Family and Consumer Sciences at the University of Arizona, is the study’s principal investigator. APLUS launched in the spring of 2008, collecting information from more than 2,000 students, whom researchers will follow and survey during the next several years. For more information, visit <http://aplus.arizona.edu>.

Attend a Webinar on the APLUS research on February 18, 2010, at 11 a.m. EST. Sign up at: <http://aplus.arizona.edu/webinar.html>

### **About the National Endowment for Financial Education (NEFE)**

NEFE is an independent nonprofit organization committed to educating Americans about personal finance and empowering them to make positive and sound decisions to reach financial goals. For more information, visit [www.nefe.org](http://www.nefe.org).

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### **A CLOSER LOOK AT RACE, GENDER SHOW SOME STUDENTS SUFFER MORE THAN OTHERS**

Some of the most statistically significant findings in the new data from the *Arizona Pathways to Life Success in University Students* (APLUS) study suggest that the economic crisis has hit minorities and women harder than their white and/or male peers.

#### **Credit card debt**

By self-report, white students' credit card debt increased 64 percent, while Hispanic students' more than doubled and African American students' more than tripled.

#### **Educational loans**

Education loan debt soared among minorities, tripling among African American students and doubling among Hispanic and Asian/Pacific Islander students.

#### **Self-confidence**

Though students overall showed no drop in financial knowledge, they now think they know less, with women's self-assessments down 22 percent—double the drop among men. African American students went into the study with the lowest self-confidence and held that standing, with their ratings dropping a further 19 percent.

#### **Overall well-being**

African American students reported the steepest declines in overall well-being, financial well-being and relationships satisfaction; Native American students showed the sharpest drops in academic satisfaction.

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