One of the core messages that financial educators try to convey to young adults is that their financial reputations – and future opportunities – are shaped by the way they handle their current payment commitments. Your credit score is usually the first impression made on a potential lender, and a low score can sink a loan application. Consequently, since 2001 when FICO went public with the components of the FICO risk score and made consumer credit scores accessible to the public through myfico.com, consumers have been encouraged to monitor their credit score and check their credit reports for inaccuracies.

But, to date there is really no solid evidence that a greater awareness of credit scores has helped to promote positive credit behaviors, especially among young adults as they begin to develop their credit profiles. The Take Charge America Institute is partnering with Experian in a multi-year study to fill this gap by exploring the potential link between credit score awareness and credit behavior.

To do this we will utilize TCAI’s unique longitudinal panel study of young adults. Launched in 2007, the Arizona Pathways to Life Success (APLUS) project has been periodically surveying 1,500 young adults who attended the University of Arizona to identify the causes and consequences of their financial experiences as they move through young adulthood and establish careers. The objectives are ambitious: 1) to identify the determinants of young adult financial attitudes, identities, and behaviors; 2) monitor the sample over time (up to 20 years) to determine whether attitudes and behaviors change over time and relate to economic aspirations, work and family choices. In short, the project seeks to answer the question of whether financial attitudes/behaviors at age 18 are linked to life success at age 40.

Six years into the project, the APLUS research has documented the importance of financial socialization (especially dialogue between parents and children in the early years prior to high school graduation), the positive impact of cumulative financial education (as opposed to one-shot personal finance courses), and the discovery that young people develop distinct financial identities in their late teens/early 20s. The article by Dr. Joyce Serido below offers a closer look at one dimension of the project, the pathway to financial capability. More details on the project including summary reports, academic journal articles and working papers can be found at www.aplus.arizona.edu.

In partnership with Experian, the latest phase of the APLUS project will piggyback research questions related to credit score awareness onto the survey and offer randomly selected subsets of respondents the opportunity to view their Experian credit report/score and experience credit report coaching through Experian’s Credit Educator product. With the enormous amount of respondent-level data already collected in prior surveys (that can be used to control for other factors), we are in an excellent position to be able to tackle the question of whether credit score awareness itself affects subsequent credit behavior.

Over time, we will continue to re-survey the sample and be able to link subsequent credit behavior back to whether an individual received the credit report education or coaching experience. By building in a control group that receives no offer to learn about credit reports/scores, this experimental design addresses the self-selection problem that more highly motivated respondents may be more likely to accept such an offer.

The segmentation of the offers to the sample into a score-only group vs. score + coaching group will also support analysis of whether simple disclosure by itself (online, accompanied by educational materials) is as effective as when a young adult can speak with a live coach who can explain credit report/score components in greater detail and answer questions. The findings will have implications for the value of education about credit reports/scores, the types of messages that are most effective, and the tailoring of the message to specific individuals.
The Pathway to Financial Capability: Practice and Patience
By Joyce Serido, Ph.D., Assistant Research Professor

Although studies show that consumers benefit from higher levels of financial knowledge, an open question remains: Does early financial education improve the financial management skills of young people?

In 2007, TCAI launched a unique longitudinal project, the Arizona Pathways to Life Success (APLUS) to study financial capability among college students. The APLUS project examines how early life experiences (financial parenting, financial education, work) influence later financial practices. By periodically surveying the same cohort of students we hope to identify the early life experiences that promote later financial capability.

Why study college students? College students make routine decisions independently: decisions about what to eat, what to study, where to live. Many of these decisions have financial implications. At the same time, college students are not yet completely independent. Therefore, focusing on college students provides a controlled study environment to understand how financial knowledge and behaviors change as young adults put prior knowledge and experience into practice. By studying their progress over time, we learn what works, for whom it works, and how to prepare students for full-time adult financial responsibilities.

How does it work? Knowledge, acquired from classes and experience, contributes to changes in college students’ self-beliefs about personal finance. With greater awareness of how their financial practices contribute to financial and overall well-being, college students change their financial behaviors.

What does this mean for financial educators and practitioners? Financial education, both at home and in school, is a catalyst for financial awareness. But putting financial knowledge into practice is essential for promoting an understanding of the relevance of financial knowledge in our day-to-day lives.

How can you promote financial awareness? Move beyond explicit, direct instruction about financial topics - it is too easily forgotten. Incorporate hands-on activities, such as case studies and field activities, to actively engage students, and promote meaning and understanding.

What’s the most important thing you can do? Talk with students often! The ongoing dialogue instills a basic understanding that life-long financial well-being is about living well, not about being wealthy.

And one more thing: it takes time to put knowledge into practice, so don’t give up!
We are very pleased to welcome Kasey Urquidez, Associate Vice President for Student Affairs and Dean of Undergraduate Admissions for the University of Arizona, to serve on the Take Charge America Institute (TCAI) Advisory Board. Kasey joined the board this past fall but prior to her coming on board, she has worked closely with TCAI staff members Dr. Mike Staten and Dr. Joyce Serido.

For nearly 20 years, Kasey has focused her work on preparing students to be successful at the University of Arizona. Kasey’s work with students closely aligns with that of TCAI and seemed a natural place to partner. “I believe in helping students, and when I learned about the exceptional work that TCAI is doing – the Cats program and Take Charge Today – I knew it was a good fit. I know how important financial literacy is to today’s youth and I believe in the work TCAI is doing,” said Urquidez. Her previous work with TCAI includes partnering on AZ Earn to Learn, a groundbreaking program that prepares high school students for college with financial education and matching funds, as well as on a project that partnered with consultant IDEAS42 to use behavioral economics to help boost degree completion rates in higher education.

Kasey is no stranger to the Norton School. She is a graduate of the Family and Consumer Sciences program and began working at the university right after obtaining her bachelor’s degree. She is familiar with the Norton School’s mission and welcomes the opportunity to support TCAI’s endeavors and help bridge new relationships across the University of Arizona.

With her participation on boards locally, regionally and nationally, Kasey is an active member of the education community and is excited about taking on a new role as a member of the TCAI board. Kasey sees the potential within her new role on the TCAI board to learn about the other board members and the TCAI staff with the opportunity to network and bring outside organizations to the university.

Kasey is one of four new members selected this past fall to serve on the TCAI Advisory Board. Others include Stacia Edmond, Education Outreach, Take Charge America; Patrick Manion, Executive Director, Regional Business, Morgan Stanley; Kirk Strang, Financial Advisor/Portfolio Manager, Merrill Lynch Wealth.
Kudos to Experian

We deeply appreciate Experian's support of this project. In recent years the company has taken a leadership role in educating consumers about credit issues and the importance of maintaining a good financial reputation. If you haven’t visited their website (www.experian.com) recently, we highly recommend a review of their credit education and consumer assistance features. For an interesting overview of how consumers in four different age groups are using credit across the U.S., check out their State of Credit report in the Live Credit Smart section of the site. And, consumers interested in learning more about how specific actions can change their own score can purchase Experian’s Credit Educator consumer coaching product which provides a telephone coaching session with an Experian credit score consultant. These sessions utilize a very helpful score simulator feature that indicates how a particular change to a credit report (e.g., payoff of credit card balance; addition of a minor delinquency) would impact a consumer’s own score.

2014 Calendar of Events

- TCAI Educational Advisory Board Planning Meeting: February 13-15
- Financing Higher Education Webinar: February 18
- The University of Arizona Science City at the Tucson Festival of Books: March 15-16
- TCAI Meeting: April 3-5
- Arizona Financial Face-Off: April 12
- The University of Arizona Teacher Day: April 26