The Attitudes and Behavior of Young Adults toward Credit

Results analyzed from the 1989 Survey of Consumer Finances reveal that despite expressing cautious attitudes toward credit as a group, some households headed by young adults carry a very high debt-to-income ratio and report difficulty with paying debts on time.

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Introduction and Methodology

Debt has become the key word of the mid 1990's. Young adults in the United States are portrayed as spendthrifts, mortgaging their future for a frivolous, extravagant lifestyle. The objectives of this study were to identify the attitude of young adults toward credit, to determine their spending and credit behavior, and to relate their attitude toward credit to their credit behavior. This study used the 1989 Survey of Consumer Finances. The sample consisted of 123 young adult heads of households who were 25 years old or younger, with a mean age of 22.8. Sixty two percent of the respondents were male and the mean educational level was 13 years. Despite the fact that 69% had never been married, the mean household size was 2.2. While the mean income was $17,613, 39% had incomes under $10,000. For purposes for this particular poster, only results of frequency distributions are reported.

Results and Discussion

The young adults may be considered moderate in terms of their opinions and some of their financial behavior. When asked about credit in general, 58% felt that credit was a "good idea", 28% thought it was a "bad idea", while 15% thought it was "both good and bad." Forty percent of those who held credit cards identified themselves as convenience users, 35% identified themselves as installment users. Respondents were asked to select from among five reasons as many as they thought were "okay " for persons like themselves to use credit. Only 2% approved of all five. When asked to identify statements which described their spending behavior, only seven percent described themselves as both not saving and spending more than their income. In reality, the young adults' behavior reflected a greater use of credit and for some, overwhelming debt. Fifty-one percent held at least one credit card, with a mean of 3.8 cards. Thirty-three percent had credit card debt with a mean debt of $1,104. A weighted tabulation of opinion of credit and credit card debt of all 123 respondents revealed that those who saw credit as both bad and good had the lowest mean credit card debt, $152, while those who saw credit as bad had a mean debt of $766. Almost 70% of the respondents were carrying some non-school loan debt, the mean of total debt for the debtors equaled $6,223. For those respondents with debts, the mean debt-to-income ratio was 0.57. Almost 10% of all respondents had a level of 1.00 or greater. This high debt load may explain why 43% of the debtors made late payments or missed a loan payment the previous year.

Young adults see themselves as cautious money handlers. While credit was generally seen as positive, the reasons for using credit were limited. Only a few profess to spending more than they earn, but some are also carrying a very high debt-to-income ratio. Those young adults who see both the good and bad sides of credit have the lowest credit card debt. Young adults should learn how to balance the need and desire to accumulate the goods deemed necessary for comfortable living in the United States with the smaller incomes young workers earn.

References

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Endnotes

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