

# Financial Knowledge and Debt Repayment Behavior of U.S. Households

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# Background

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- Financial knowledge refers to an individual's ability to *understand* financial concepts as well as the ability to *manage* personal financial resources (Bahovec et al., 2015).
- Financial knowledge can be measured by both objective and subjective measures.
- Objective financial knowledge is measured by individuals responding to knowledge based questions.
- Subjective financial knowledge is measured by asking individuals to rate their perceived level of financial knowledge (Xiao, 2011).
- Financial Ability an individuals ability to manage day-to-day financial matters.

# Purpose of Study

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- To understand the relationship between financial knowledge and debt repayment behavior.
- To explore how receiving financial education influences debt repayment behavior.
- To examine socio-demographic factors (age and income) associated with debt repayment behavior.

# Hypothesis

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H1: Financial knowledge will be positively associated with debt repayment behaviors.

H2: High financial ability will be positively associated with debt repayment behaviors.

H3: Receiving financial education will be positively associated with debt repayment behaviors.

H4: Younger individuals are less likely to display positive debt repayment behaviors than older individuals.

H5: Low income individuals are less likely to display positive debt repayment behaviors than higher income individuals.

# Methods

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Data: 2018 National Financial Capability Study (NFCS)

Sample: N = 8325

# Variables

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- **Dependent Variables:**

- Mortgage Debt Repayment
- Credit Card Repayment

- **Key Independent Variables:**

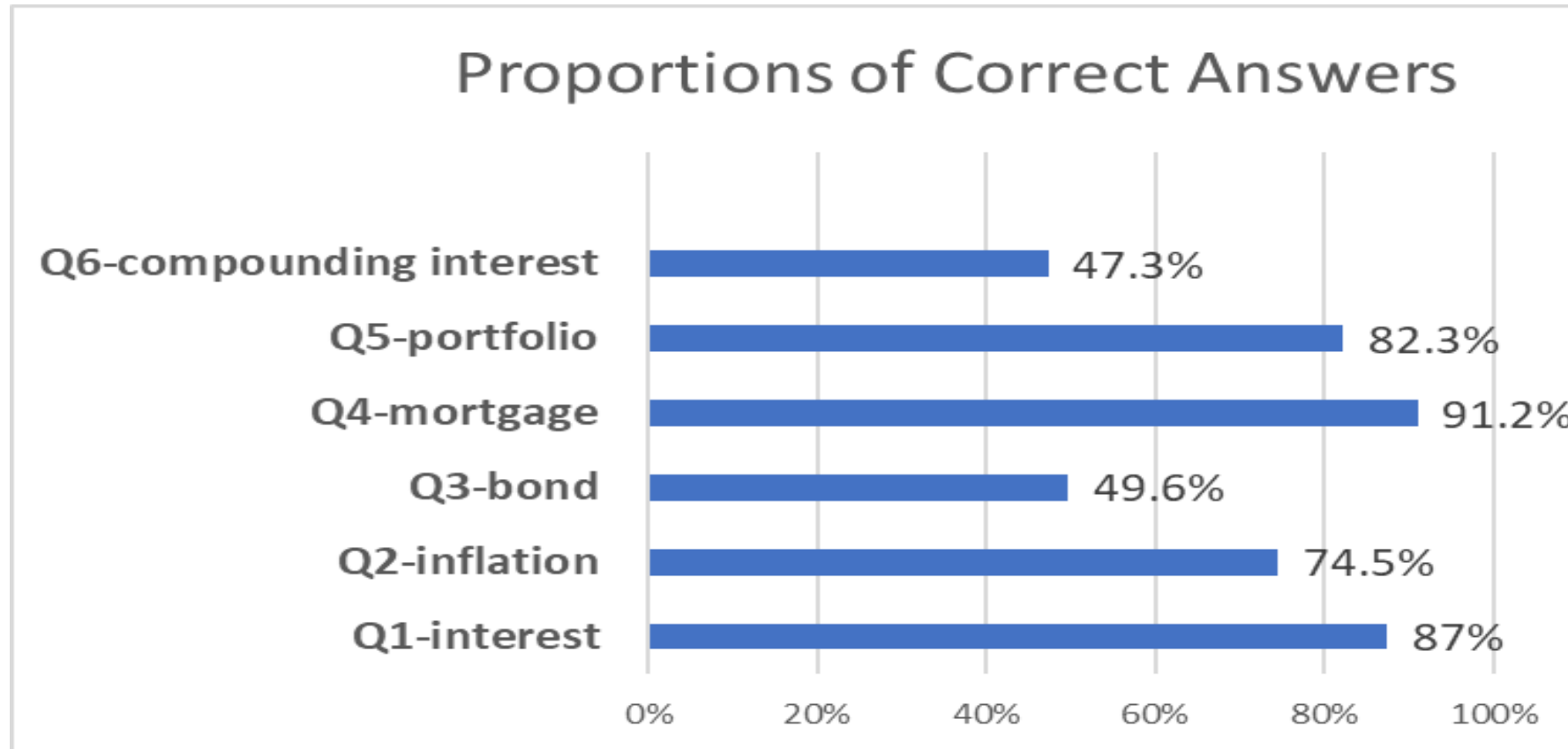
- Financial Knowledge – objective, subjective
- Financial Ability
- Financial Education

- **Socio Demographic Variables:**

- Age, Income, Gender, Marital Status, Race, Education, Employment Status

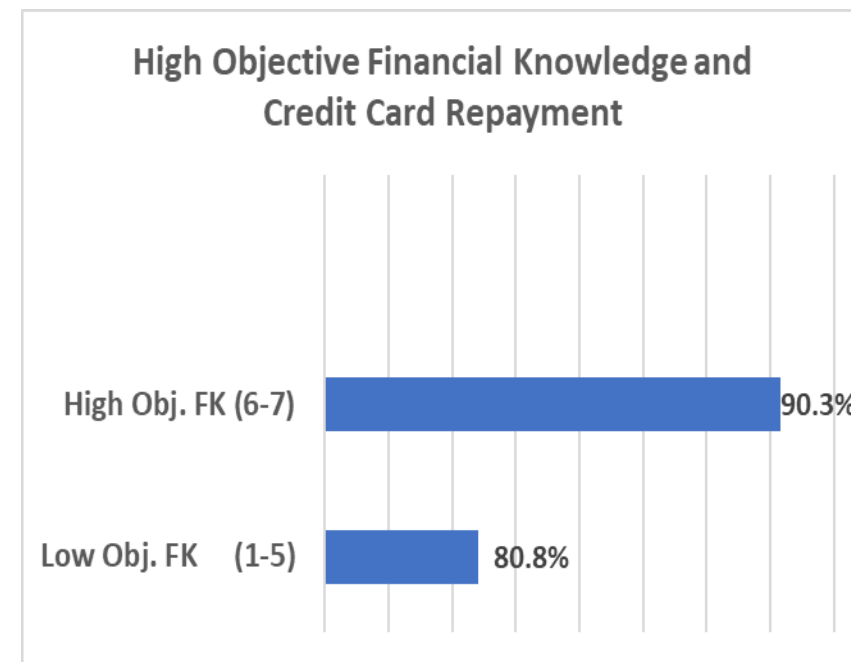
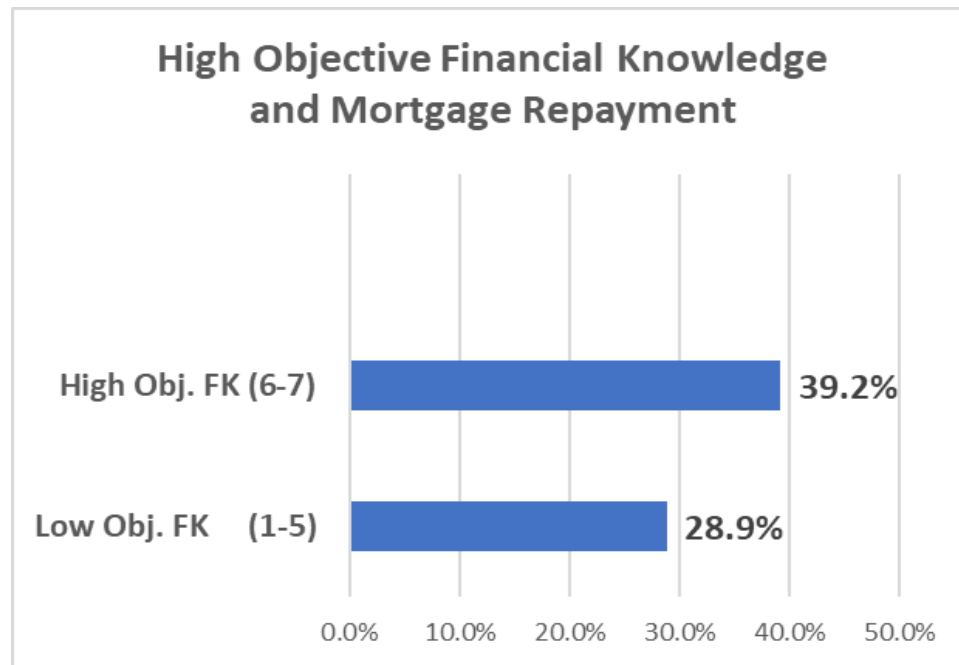
# Six Quiz Questions (= Objective Financial Knowledge)

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# Proportions of High and Low Objective Financial Knowledge among those with Never Missed Debt Payment

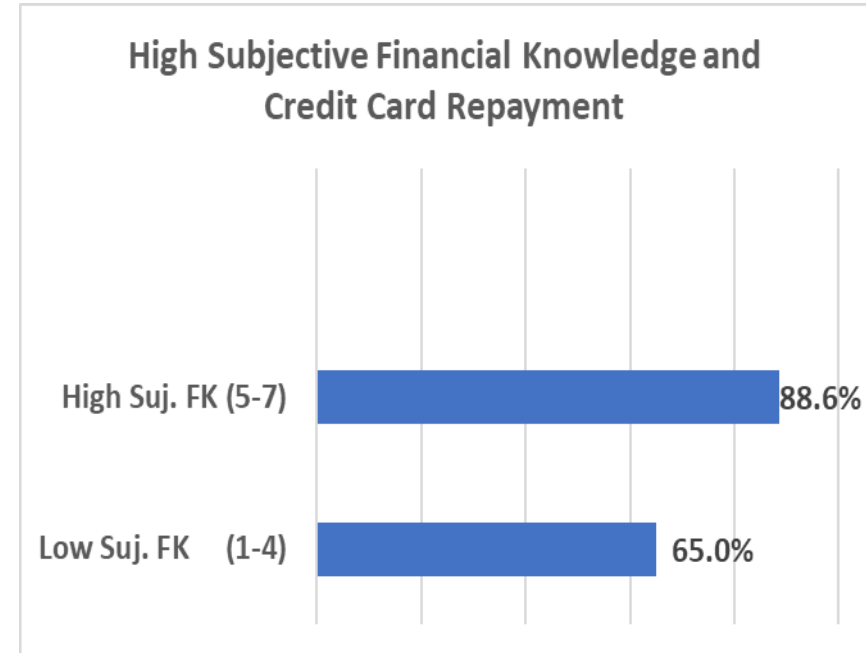
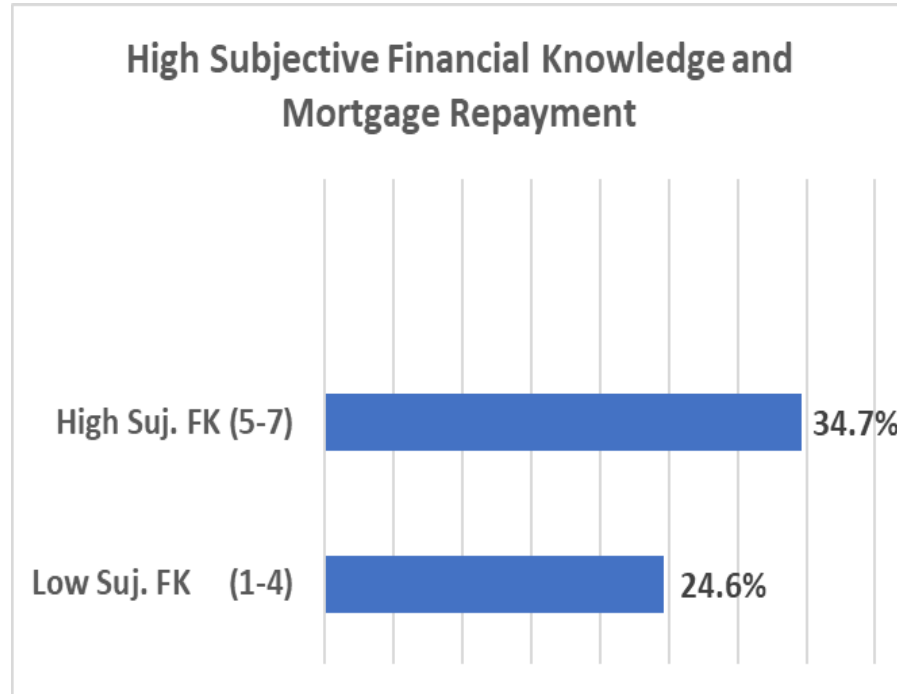
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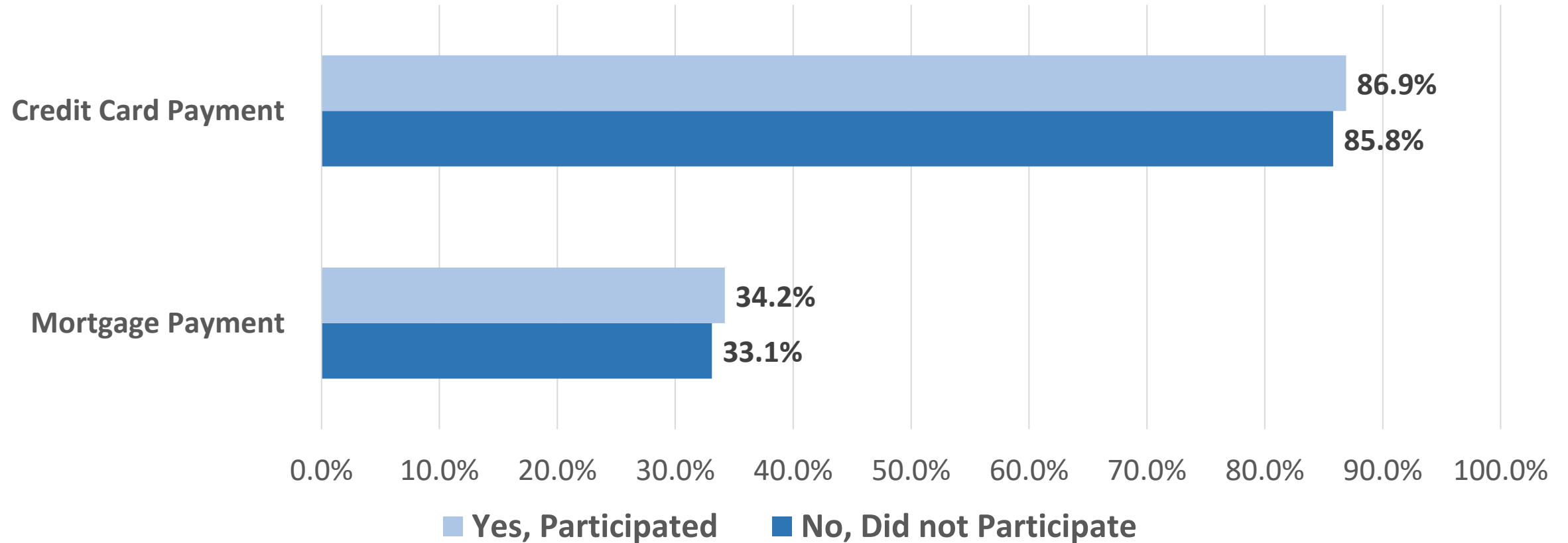
# Proportions of High and Low Subjective Financial Knowledge among those with Never Missed Debt Payment

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# Descriptive Results - Financial Education and Repayment Behavior

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# Logit Results: Objective Financial Knowledge & Mortgage Payment Behavior

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## Quiz Questions:

- Interest: 23% more likely
- Inflation: 51% more likely
- Mortgage: 95% more likely
- Stock: 53% more likely
- Bond: 17% less likely
- Compound Interest: 5% less likely

# Logit Results: Financial Education, Age, Income & Mortgage Payment Behavior

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- **Age:** (Age 68+): Age 28-37: 53% more likely; Age 38-47: 125% more likely; Age 48-57: 91% more likely; Age 58-67: 41% more likely
- **Income:** (Income of \$100,000+): less than \$25,000: 80% less likely; \$25,000-\$49,999: 63% less likely; \$50,000-\$74,999: 37% less likely; \$75,000-\$99,999: 30% less likely

# Logit Results: Objective Financial Knowledge & Credit Card Payment Behavior

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## Quiz Questions:

- Bonds: 16% more likely
- Compound Interest: 26% more likely
- Interest: 30% less likely

# **Logit Results: Subjective Financial Knowledge, Ability, Self-Efficacy, Risk Tolerance, & Credit Card Payment Behavior**

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- Subjective Financial Knowledge: 17% more likely
- Subjective Financial Ability: 2% more likely
- High Self-Efficacy: 148% more likely
- High Risk Tolerance: 40% more likely

# Logit Results: Financial Education, Age, Income & Credit Card Payment Behavior

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- **Age:** (Age 68+): Age 18-27: 61% less likely; Age 28-37: 66% less likely; Age 38-47: 73% less likely; Age 48-57: 68% less likely
- **Income:** (Income of \$100,000+): less than \$25,000: 88% less likely; \$25,000-\$49,999: 74% less likely; \$50,000-\$74,999: 55% less likely; \$75,000-\$99,999: 30% less likely

# Discussion

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- **Hypothesis 1** supported; financial knowledge is positively associated with debt repayment behaviors.
- **Hypothesis 2** was supported; high financial ability is positively associated with debt repayment behavior.
- **Hypothesis 3** was not supported; receiving financial education is positively associated with debt repayment behaviors.
- **Hypothesis 4** was supported; younger individuals are less likely to display positive debt repayment behavior than older individuals.
- **Hypothesis 5** was supported; low-income individuals are less likely to display positive debt repayment behaviors than higher income individuals.



# Implications

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Financial Educators/Counselors:

- Continue Building Individuals Financial Knowledge
- Target Vulnerable Populations

Policy Makers:

- Should Financial Education be Mandatory?
- Quality of Education
- Quantity of Education

# Conclusion

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- Complex Financial Decisions
- High Levels of Objective Financial Knowledge
- Subjective Financial Knowledge
- Subjective Financial Ability
- High Self-Efficacy

# Contact Info

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Questions or Comments?

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