



UNIVERSITY OF MINNESOTA

Financial Literacy Foundations for First-Generation Students

Centering the Student Experience

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Financial Literacy Foundations for First-Generation Students

First-generation (first-gen) college students are the first in their families to pursue a four-year college degree. Navigating college finances for these students can be overwhelming. Without a roadmap or inherited financial knowledge, first-gen students often face steep learning curves in budgeting, managing debt, understanding credit, and planning for long-term financial well-being (Tym et al., 2004). Financial literacy is not just about dollars and cents; it is also about personal agency, confidence, and overall well-being.

This primer breaks down the core elements of financial literacy. It also provides evidence-based tools, campus resources, and reflection prompts to empower students in making informed, financially savvy decisions.

Budgeting: The Foundation of Financial Health

Why it matters: A budget is a proactive plan that tracks income, prioritizes spending, and anticipates future needs. For first-gen students, budgeting can serve as a powerful tool for self-determination. Research indicates that college students who engage in financial planning tend to experience lower stress levels and higher retention rates (Shim et al., 2009).

Core Concepts:

- **Fixed Expenses:** Regular, unchanging costs (e.g., rent, phone bill).
- **Irregular Expenses:** Fixed or variable costs that don't occur every month but still need to be planned for (e.g., car registration, annual subscriptions, software fees).
- **Variable Expenses:** Costs that fluctuate (e.g., groceries, entertainment).
- **Emergency Fund:** A safety net (usually 3–6 months of expenses) that protects against unexpected disruptions.
- **Zero-Based Budgeting:** A system where “every dollar has a job” (income – expenses = \$0).

Tips for First-Gen Students:

- Use tools like Google Sheets, You Need a Budget (YNAB), or your bank's app to track spending.
- Schedule a “money check-in” weekly to review your budget.
- Treat saving like a bill. *Pay yourself first.*

Credit: Understanding and Building It Wisely

Why it matters: Your credit score is one of the most important numbers in your adult life. It can impact your ability to rent housing, qualify for loans, or even secure employment. First-gen students may be unfamiliar with how credit is established or maintained.

Core Concepts:

- **Credit Score Factors:** Payment history (35%), utilization (30%), length of credit history (15%), types of credit (10%), and new inquiries (10%).
- **Good Score Range:** A score between 670 and 850 is typically considered excellent.
- **Secured Credit Cards:** A common first step to building credit with low risk.
- **Annual Credit Report:** You are entitled to one free report each year from each central credit bureau via annualcreditreport.com.

Tips for First-Gen Students:

- Open a student credit card and use it for small, recurring expenses (like subscriptions), paying in full monthly.
- Never miss payments. Automate payments to avoid late fees and protect your score.
- Maintain or improve your score by keeping utilization under 30% of your credit limit (Consumer Financial Protection Bureau, 2015).
- Do not close your oldest credit account unless necessary, as it affects the length of your credit history.

Student Loans and Debt Management

Why it matters: Student loans often represent the most significant financial decision a first-gen student will make. According to the National Center for Education Statistics (2022), nearly 85% of first-gen students take on debt, often without a clear understanding of repayment obligations or alternatives.

Core Concepts:

- **Loan Servicers:** Companies like Nelnet or MOHELA manage your repayment process - know who yours is. You can sign in to studentaid.gov to see your loan servicer listed on

your federal student aid dashboard.

- ***Subsidized vs. Unsubsidized Loans***: Subsidized loans do not accrue interest while the borrower is in school; unsubsidized loans do.
- ***Federal vs. Private Loans***: Federal loans offer more favorable repayment options, forgiveness plans, and income-driven repayment protections.
- ***Grace Period***: Most federal loans offer a 6-month grace period before payments begin after graduation.
- ***Income-Driven Repayment Plans (IDRs)***: Federal plans that base payments on income and family size.
 - **Note**: Due to recent changes in federal law, some previously available IDR plans are no longer open to new borrowers. New borrowers may choose between the standard repayment plan and the new Repayment Assistance Plan (RAP), which calculates payments as a sliding-scale percentage of your adjusted gross income (AGI).

Tips for First-Gen Students:

- Track your loans using studentaid.gov.
- Not all loans are the same. Federal loans usually offer the lowest interest rates and the most borrower protections, so use them first and only borrow what you truly need. If you need additional funds, compare the interest rates on private loans to other options, such as credit cards. In most cases, credit card interest rates are much higher, making them a riskier choice than private loans.
- Monitor your loans using the Federal Student Aid portal: studentaid.gov.
- Consider making interest-only payments while in school to avoid “capitalization” (adding unpaid interest to your principal).
- Compare repayment options early, especially Income-Driven Repayment Plans (IDRs), which adjust based on your income and family size.
- Start paying interest on unsubsidized loans while in school if you can; it saves money long term.

Saving and Investing for the Future

Why it matters: It is never too early to start building wealth, even in small amounts. Saving is more than setting aside money; it is setting aside peace of mind. Even modest savings build confidence and prepare students for financial independence. Investing, meanwhile, introduces first-gen students to wealth-building, which is rarely taught in school or discussed at home (Lusardi, Mitchell, & Curto, 2010).

Core Concepts:

- **Compound Interest:** Money earns interest on both the principal and the interest that has already been earned.
- **High-Yield Savings Account (HYSA):** These are typically online-only banks that offer interest rates far above those of traditional banks.
- **Roth IRA:** A retirement account where you contribute after-tax dollars, and earnings grow tax-free.

Tips for First-Gen Students:

- Save part of every paycheck; even \$10 a week adds up.
- Use visual goals (like a savings tracker) to build motivation.
- Prioritize a High-Yield Savings Account for emergency savings.
- Consider opening a Roth IRA if you have part-time income. Start with a weekly or monthly auto-transfer to a savings account, no matter how small.

Financial Mindset and Money Psychology

Why it matters: Your relationship with money, how you think, feel, and behave around it, is shaped by early life experiences. Understanding this concept helps build a more empowered and abundant mindset. A healthy money mindset helps reframe financial decisions as acts of empowerment, not anxiety.

Core Concepts:

- **Scarcity vs. Abundance Thinking:** Scarcity views money as a limited resource, whereas abundance sees it as an opportunity for growth and learning.

- ***Money Scripts***: Unconscious beliefs (e.g., “I am not good with money”) can affect behavior (Klontz et al., 2011).
- ***Financial Boundaries***: Learn to say no, especially when pressured to support others financially beyond your means.

Tips for First-Gen Students:

- Use a journal to reflect on your early financial messages and how they influence your current decisions.
- Practice positive affirmations, such as: *“I am capable of managing and growing my money.”*
- Discuss your financial goals with a mentor, counselor, or financial coach to develop healthier money habits.

Resources and Tools for Financial Empowerment

Helpful Websites & Tools:

- [Studentaid.gov](https://studentaid.gov) – Track federal aid, repayment options, and FAFSA.
- [CashCourse.org](https://cashcourse.org) – Free budgeting and debt education geared toward students.
- [AnnualCreditReport.com](https://annualcreditreport.com) – Request a free credit report from each bureau.
- [NerdWallet](https://nerdwallet.com) or [Smart About Money](https://smartaboutmoney.com) – User-friendly comparisons of credit cards, loans, savings accounts, and more.
- [UMN One Stop Financial Wellness](https://www.umn.edu/financial-wellness) – Offers a financial wellness program with information on basic financial concepts
- [Finance for the People by Paco De Leon](https://www.financeforthepeople.com) – A practical, engaging guide to understanding money designed for those without prior financial knowledge.

Reflection Questions

1. What messages did I internalize about money from my family or community?
2. What are three things I want to feel more confident about financially by the end of this semester?
3. Which financial skills (i.e., budgeting, credit, saving) do I feel most nervous about, and why?
4. Who can I reach out to for guidance or accountability as I grow in my financial literacy?

Further Reading

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