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UNIVERSITY HONORS PROGRAM

SENIOR PROJECT - APPROVAL

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PROJECT TITLE: First Year Finance 101: A Comprehensive Guide to Financial
Responsibility for College Students

I have reviewed this completed senior honors thesis with this student and certify that it is a project commensurate with honors level undergraduate research in this field.

Signed: Bonnie P. Riechert, Faculty Mentor

Date: July 26, 2001

Comments (Optional):

April's project on smart finances for undergraduates combines scholarly review with practical suggestions, representing a unique and needed contribution.

Furthermore, she has developed a public relations campaign to address this issue; employing all the elements of strategic planning. She describes realistic objectives and suggests appropriate tactics to achieve these. An outstanding student majoring in public relations, she has approached this issue from the point of view of the public relations professional, developing a precise plan that can be implemented.

First Year Finance 101:
A Comprehensive Guide to Financial Responsibility for College Students

April M. Moore
Senior Honors Project, University of Tennessee
Faculty Mentor: Bonnie Parnell Riechert, Ph.D., APR
Summer 2001

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Abstract

Title: *Freshman Finance 101: A Comprehensive Guide to Financial Responsibility for College Students*

Across the country, colleges and universities are coming under increased scrutiny to help undergraduates manage their finances responsibly due to rapid increases in student debt. The University of Tennessee alone has been singled out on the CBS Evening News (May 3, 2000), in Business Week (Sept. 20, 1999) and a host of other journals, newspapers and news broadcasts for its 7-year \$16.5 million agreement with First USA for exclusive rights to market credit cards to alumni, students, faculty and staff. In response to concerns, President Gilley released a statement on April 4, 2000, saying that UT “shares the widespread concern about students’ increased accumulation of debt” but is “in fact . . . assisting students in controlling their credit card debt by limiting campus solicitation to only one corporation and exercising control over that one.”¹ Several legislative acts to ban universities from selling credit cards on campus were introduced in the Tennessee House and Senate in response to the First USA agreement. All were struck down in part because of lobbying and in part because undergraduate students are recognized as adults. Recognizing a need to inform and educate undergraduate students about their financial options, the purpose of this project is to give students easy access to information that will not only help them to understand the credit card offers they receive, but also to understand their student loans, checking accounts and how to manage their money on a long-term basis.

¹ Arthur, Nate. “Credit Deal Leaves Many in Debt.” The Daily Beacon. 25 July 2000.

Introduction and Review of Literature

Introduction

The financial world of today is vastly different from what it was even 10 years ago. Today, with Internet banking, online trading, automated telephone systems and the increased use of debit and credit cards, a newcomer to personal finance may feel overwhelmed if he or she is not prepared.

College students are especially susceptible to this financial disorientation. Living on their own for the first time, many students struggle just to do their own laundry correctly. Add in the responsibilities of classes and a new social setting, and the stress increases dramatically. With all of these new experiences, students' personal financial responsibilities may get pushed aside.

In fact, many students do push their financial affairs to the side. Some who have experience in personal finance management will be able to control their finances enough that they can correct any financial problems before they start. However, there are the students who do not realize they have mismanaged their finances until they receive a bill with their total purchases on it. By that time, many have created a debt so large that they will still be paying it off well into middle age.

Virtual Finance for a New Generation

Why is carrying a large debt so common in today's society? Part of that answer lies in the technology created to make life easier. In order to buy something on credit at the beginning of the 20th century, a person had to physically walk into the store and obtain a loan from the owner. If the person defaulted on the loan, he or she would have to come in contact with that owner every day. Not only would that owner (who probably

was also a neighbor) know that a person had defaulted on a loan, but the entire town would probably know as well.¹

In today's financial world however, paying for anything is as easy as using a debit card, a credit card or even having funds automatically withdrawn from an account on a monthly basis. Large amounts of money can be transferred without the feeling of actually *spending* the money. Plus, with technology comes anonymity; no one need know how great a debt a person creates, nor if he or she is even able to pay for it. Then, even if the neighbors do find out, today's acceptance of "easy public repentance and bare-all TV shows" has created a financial environment where many people do not feel that an unpaid debt carries the social stigma it once did.²

What do these changes in attitudes and increases in technology mean for the generation of Americans coming of age in this era of virtual finance? Certainly, growing up in "a culture of debt" produced from "easy credit, a booming economy and expensive lifestyles"³ is going to make a lasting impression on today's newcomers to the world of financial independence.

Today's Undergraduate

That lasting impression of easy credit and large debt truly shows in today's undergraduate. According to 2001 study by student loan company Nellie Mae, 78 percent of college undergraduates carry credit cards; of those students, 32 percent carry more than four. The average debt carried by undergraduates with a credit card is \$2,748, up almost \$1,000 from 1998.⁴ A study by USA Education, Inc. shows 10 percent of

students with credit cards owe more than \$7,000 and 25 percent owe more than \$3,000.⁵ Compare those figures to 1990, when the average undergraduate debt was only \$900.⁶

In addition to credit card debt, undergraduates will take on an “estimated \$14,000 to \$16,000 in loan debt . . . to finance a college education.”⁷ In the past 10 years alone, student loan debt in households under 35 years of age has increased 142 percent,⁸ showing how great the growing trend of debt is.

Although there are no exact measures on how much students spend using cash or a checking account, student research firm Student Monitor estimates that undergraduates spend more than \$21.6 billion per year combined.⁹ This large amount of spending has left many companies fighting for a share of the undergraduate market.

The New Market Player

In the battle for a share of the undergraduate market’s dollars, there are the usual players: retail chains, restaurants and entertainment venues. In recent years, however, a relatively new player has entered into the fight for a part of this market. Seeking an unsaturated market, credit card distributors have taken the college campus by storm.

Of course, there are other reasons that credit card marketers have started aggressively marketing to students. “Americans have an intense loyalty to their first credit card, keeping it for an average of 15 years.”¹⁰ After gaining loyalty, the credit company can then “market other products such as first mortgages, car loans, and . . . debt-consolidation loans.”¹¹

In addition to those reasons to target undergraduates, the Consumer Federation reports “70 percent of [students] with cards at four-year colleges have \$2,000 or more of

revolving debt.”¹² Also, many students “are less of a credit risk than the general population because their parents often pay their bills.”¹³

Colleges Need Funds, too

For all of the aforementioned reasons, credit companies look for every possible way to place their card in the hands of a college undergraduate. A now popular way to accomplish this goal is through a partnership between a university and a credit company. With many large state universities facing a lack of funding, it is hard for them to resist the money that credit companies offer. This partnership arrangement is so popular, in fact, that it was covered on CBS News in May 2000¹⁴ and made the cover of *Business Week* in September 1999.¹⁵ Some of the schools included in these features were Georgetown University, Michigan State University, the University of Hawaii, the University of Ottawa and the University of Tennessee.

The University of Tennessee’s deal with credit card issuer FirstUSA Bank of Delaware made perhaps the biggest impact on the media. The 7-year, \$16.5 million arrangement,¹⁶ one of the largest of its kind, landed now-retired President Joseph E. Johnson on the cover of *Business Week*. In addition to the guaranteed \$16.5 million to fund academics and athletics, the university “receives 0.5 percent of every transaction charge, which could amount to an estimated \$4 million annually.”¹⁷ In exchange, the University of Tennessee gave FirstUSA exclusive marketing rights to the university system’s 42,000 students and 270,000 alumni by providing a contact list of affiliates 18 and up.¹⁸

Creating a Nation of Debtors

This arrangement between universities and credit companies has caused a public backlash against credit card marketers, who seem to have received the sole blame for rising student debt. Some members of Congress are pushing to pass legislation that “would deny cards to any applicant under 21 without either a job, a co-signer or completion of a credit course.”¹⁹ Last year, about a half dozen states began creating legislation that would greatly restrict the marketing of credit cards on college campuses.²⁰ In addition, “colleges ranging from New York’s SUNY Buffalo to Georgia Tech in Atlanta have banned credit-card marketers from campus.”²¹

But is it really the credit card issuers on campus who are creating financial problems for the young? To some extent, the answer is yes. Most undergraduates “have never been financially independent, they have modest incomes and they have not received adequate financial information,” said Stephen Brobeck, director of the Consumer Federation of America. “Yet as early as freshman orientation, they are bombarded with credit offers from issuers who frequently extend thousands of dollars of unaffordable credit lines.”²²

However, the University of Tennessee’s affinity card through FirstUSA allows students a \$1,000 credit limit²³ – a limit lower than the average undergraduate debt. This fact alone helps the university’s and FirstUSA’s case that their arrangement is a responsible one. In a statement from past president J. Wade Gilley, he says the university “shares a widespread concern about students’ increased accumulation of debt” and is “assisting students in controlling their credit card debt by limiting campus solicitation to only one corporation and exercising control over that one.”²⁴

If the university thinks it is helping students to control debt, it is mistaken. The Consumer Credit Counseling Service in Knoxville counseled “one college student [who] ran up \$30,000 in credit-card debt in just two years.”²⁵ Although this was an extreme case, the service says balances of \$5,000 or \$6,000 are more common for the approximately 900 college students who seek help each year.²⁶

These massive credit card bills, combined with student loans and rising tuition costs, have left many students wondering where to turn. Unfortunately, more and more are turning to bankruptcy court. “Bankruptcy filings by those 25 and under rose 51 percent in the 1990s.”²⁷ Today, this same age group accounts for 7 percent of the nation’s bankruptcies.²⁸

Help for Students

As more undergraduates seek help or turn to bankruptcy because of their financial difficulties, the public is beginning to ask what can be done to keep more financial ruin from happening. While lawmakers seem to feel legislation is key, financial experts have a different answer: education.

Since children have access to money and are spending it at earlier ages, they should be familiar with financial services by the time they are 18 according to American Bankers Association Spokesperson Catherine Pulley.²⁹ Unfortunately, studies show 30 percent of teenagers say their parents rarely discuss finances with them.³⁰ Schools probably won’t be able to fill this financial education gap left by parents, since very few states require financial literacy in school programs.³¹

This lack of education not only costs students' money, but ultimately costs their state of residence money also. A 1997 study by Jumpstart Coalition, a national nonprofit group working to increase financial literacy, shows there is a correlation between high school seniors' financial knowledge and their state's personal bankruptcy rates. The less knowledge the seniors had, the higher the rate of personal bankruptcies filed.³²

Enforcing the Solution

If parents and high schools are not going to help young adults learn about personal finance, that leaves colleges and universities in a position to help those most at risk for financial ruin.

University of Tennessee Associate Professor of Finance Phillip Davies told a reporter at *The Tennessean*, "College may be the first chance [to see] if a student can handle money."³³ He "favors letting a responsible student have a credit card with a low credit limit, usually \$500."³⁴ In addition, he wants students to know that if they can't control their spending, they should stick to a checking account – without overdraft protection.³⁵

How can students find this information? Purdue University Professor Flora Williams has one answer. She has designed a book to be read in an hour giving college students advice tailored just to them.³⁶ The publication includes financial aid tips, student loan advice and information about the transition to full-time work. It is available on the Internet and at the university's bookstore.³⁷

Here at the University of Tennessee, no such financial education is offered for incoming and current students. With a 15 percent increase in tuition, a multi-million

dollar credit card deal and the looming of a drop in student loan interest rates, it seems that University of Tennessee students are well in need of all the financial education they could get. Information the university could provide to students may save them a lifetime of bad credit – and a trip to bankruptcy court.

Notes

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² Ibid.

³ Christine Dugas, "Debt smothers young Americans," *USA Today*, 13 February 2001, 1-2(A).

⁴ Ibid.

⁵ Charles Haddad, Ushma Patel and Nicole St. Pierre, "Congratulations, grads – you're bankrupt," *Business Week*, no. 3733, (21 May 2001): 48. Available from proquest.umi.com; Online; accessed 20 June 2001.

⁶ Susan Carpenter, "Bankrupt at 24; for more and more young adults, credit cards, student loans and unwise spending add up to overwhelming debt – and some are using a last-resort measure first," *Los Angeles Times*, 23 January 2001. Available from www.lexis-nexis.com/universe; Online; accessed 18 February 2001.

⁷ Susan C. Thomson, "Student's credit cards add to hefty tuition debt; congress, campuses trying to restrict access of bank firms," *St. Louis Post-Dispatch*, 8 July 2001. Available from www.lexis-nexis.com/universe; Online; accessed 17 July 2001.

⁸ Dugas, 2(A).

⁹ David L. Marcus, "Students start early and charge often," *U.S. News & World Report* 130, no. 11, (19 March 2001): 58. Available from www.usnews.com; Internet; accessed 27 March 2001.

¹⁰ Ibid.

¹¹ Marcia Vickers, "Big cards on campus," *Business Week*, no. 3647, (20 September 1999): 136-138. Available from www.lexis-nexis.com/universe; Online; accessed 23 April 2001.

¹² Ibid.

¹³ Ibid.

¹⁴ "Students Hooked on Credit," *CBS News*, 3 May 2000. Available from www.cbsnews.com; Internet; accessed 19 January 2001.

¹⁵ Vickers

¹⁶ Ibid.

¹⁷ Ibid.

¹⁸ *CBS News*

¹⁹ Thomson

²⁰ *CBS News*

²¹ Haddad

²² Cindy McCampbell, "Credit cards force students to learn hard lessons about debt," *The Tennessean*, 14 June 1999. Available from www.tennessean.com; Internet; accessed 23 April 2001.

²³ Nate Arthur, "Credit deal leaves many in debt," *The Daily Beacon* 84, no. 15 (25 July 2000). Available from dailybeacon.utk.edu; Internet; accessed 22 April 2001.

²⁴ Arthur

²⁵ Richard Powelson, "Duncan backing student credit lid; many facing big card debt," *The Knoxville News-Sentinel*, 1 November 1999. Available from www.lexis-nexis.com/universe; Online; accessed 23 April 2001.

²⁶ Ibid.

²⁷ Haddad

²⁸ Ibid.

²⁹ Thomson

³⁰ Vanessa E. Jones, "Teens take charge," *Chattanooga Times / Chattanooga Free Press*, 6 June 2001, 10 (E). Available from www.lexis-nexis.com/universe; Online; accessed 17 July 2001.

³¹ Carpenter

³² Ibid.

³³ McCampbell

³⁴ Ibid.

³⁵ Ibid.

³⁶ Christina McCarroll, "Careful with that credit: Guide offers tips for college students," *Christion Science Monitor*, (10 July 2001): 14. Available from www.lexis-nexis.com/universe; Online; accessed 17 July 2001.

³⁷ *Ibid.*

Campaign Plan

Campaign Plan

Campaign Goal: To create more financially responsible undergraduates at the University of Tennessee through education.

Objectives:

- To prevent students with financial difficulties from taking extreme measures to solve their financial problems.
- To decrease the average number of students seeking credit counseling from 900 to less than 700 (approximately 20 percent decrease) within one year.
- To increase the number of parents who teach their children about the importance of strategically managing money from 70 percent to 75 percent.

Key Publics:

- **Incoming freshmen**
- **Current undergraduates**
- **Parents**
- **Faculty, staff and administrators**

- **Key Public: Incoming freshmen.** Traditional students entering the university are often overwhelmed by new responsibilities of being independent. Financially, many have had some education. However, even the students who are knowledgeable and have money management skills may feel overwhelmed by sudden independence. Students who are not prepared to be financially independent will suffer more than their counterparts, and may risk great financial difficulties.

Self-Interests: Making new friends and fitting in socially, meeting demands of classes, adapting to life in residence halls, paying books and tuition, keeping up with purchases of other students.

Influentials: Fellow students, parents.

Message design: Managing financial obligations as a college student is not time consuming or overly difficult. Creating and following a semester budget lowers financial worry and averts many financial difficulties.

Strategy: Inform incoming freshmen of the basic strategies of financial management.

Tactic 1: Financial education booklet containing tips on budgeting, managing a checking account, selecting and using a credit card and managing student loans presented to students at orientation.

Tactic 2: Financial education booklet and use discussed in resident assistant program and First Year Studies after students arrive on campus.

- **Key Public: Current Students.** Current undergraduates of the university have settled into a routine and are used to college life. Many may not have adequate financial education. While sophomores and juniors are still building debt, seniors may be facing leaving college with large debts from credit cards and student loans.

Self-Interests: Enjoying college life, participating in extra-curricular activities, making time for a job, keeping up with classes, preparing for life post-graduation.

Influentials: Peers, parents, respected educators

Message Design: Managing finances while juggling the demands of a busy life is possible with financial knowledge and planning. Debt from student loans and other sources is manageable; planning and preparation will allow you to graduate with less worry about repaying debts.

Strategy: Inform current undergraduates that personal financial planning information targeted to college students is available.

Tactic One: Make copies of the personal financial education and planning information given to freshmen at orientation available to current

students in college advising offices, residence halls, Career Services, campus libraries, the University Center and the Bursar's Office.

Tactic Two: Send a news release to *The Daily Beacon* providing information about the financial status of the average college undergraduate and the financial information now available to students at UT.

Tactic Three: Information table located on the University Center Plaza providing financial education information and advice from a person knowledgeable in college students' financial concerns (professor, counselor, etc.).

- **Key Public: Parents.** Parents and guardians of undergraduate students at the University of Tennessee have a great influence on students. Parents have access to students before they enter college – the best time to prepare students for financial independence. They can provide knowledge to their children about managing money responsibly and serve as a counselor if needed.

Self-Interests: Protect children from financial ruin, prevent children from spending all of the parent's and the child's own available funds, help children in process of becoming an independent person.

Influentials: Children, other family, peers and financial advisors.

Message Design: Teaching your college-bound child about personal finance is not difficult and saves both money and worry in the future.

Strategy 1: Inform parents of the benefits of teaching their children about personal finance.

Tactic 1: Provide information to parents during orientation about financial situations and pressures unique a campus environment (student loans, rigorous financial services marketing, etc.).

Tactic 2: Provide parents with information at orientation about the financial situation the average undergraduate is in today. Include statistics

showing the correlation between education and good financial standing in the undergraduate age group.

Strategy 2: Provide parents with the means to educate their children.

Tactic 1: At orientation, encourage parents to review the financial education booklet provided to incoming students with their children. Provide extra copies for parents as needed.

Tactic 2: Mail a financial education checklist with topics of discussion to parents of incoming students before the semester begins. This list will help parents know if they have covered important topics about personal finance with their child.

- **Key Public: Faculty, staff and administrators.** The faculty, staff and administration of the University of Tennessee must support personal financial education in order to allow the program to reach its potential. The administration holds the power to allow booklets to be distributed on campus and to provide for the printing of financial literature. Faculty and staff can support the program through ensuring it is promoted during orientation sessions and readily available at target areas on campus.

Self-Interests: Financially fit students are better able to pay tuition and fees, helping students provides for a good relationship between students and the university, students will be better able to concentrate in class studies if they can correctly manage finances and possibly work less hours.

Influentials: Colleagues, peer institutions, Board of Trustees, the state government, alumni, parents and students.

Strategy: Inform public that financial education is a worthwhile endeavor at the university.

Tactic 1: Provide statistical information with personal accounts from students.

Appendix

BUDGETING

101



Getting off to a good start in college can be tough enough without worrying about money.

Now that you're on your own, you're going to have to use your head to use your money wisely. Creating your own budget, also called a spending plan, will help you accomplish this task. A budget will help you keep your spending in check so that you don't run out of money in the middle of the semester. To help you get started on the road to smart spending, here are a few guidelines to help you set up your very own budget step-by-step.

1. Determine how much money you have. At the beginning of the semester, sit down and think about how much money you have to survive on for the next three months. Count any income you have; this includes money from a job, student loans, scholarships and any other financial aid. Next, subtract all of the money you will need to pay for your tuition, room and board, books, course supplies and

course fees from this amount. The money left over is what you have to spend for personal needs. Finally, take this amount left for personal needs and divide it by the number of weeks in the semester — this final number is the amount you can spend per week without going broke.

2. Figure out where your money will go. Now that you know how much money you have left to spend every week, you need to figure out what the necessities will cost. Food, of course, is a top priority. Even if you have a meal plan, you might want to order in pizza or keep food (other than campus food) in your room for a snack. Other necessities many students forget to budget for are laundry supplies, shampoo and other personal items. Don't worry about getting the numbers exactly right; a rough estimate will work when figuring this cost. Keep in mind that

the cost of necessities adds up very quickly. Be prepared to spend a large amount of money on this part of your budget. Yes, you may have to skip buying that new c.d., but you won't have to borrow money from your friends for food, or worse yet — soap.

- 3. Expect the unexpected.** You've paid for tuition, your room, your books and all of your necessities, so you're ready to spend what's left, right? Not yet. Most people underestimate expenses, especially when starting out. That's why it's a good idea to pad your budget by about \$10 per week in case you've forgotten to allow for anything.
- 4. Stick to your budget.** This is the hardest part of the budgeting process: trying to stay within the spending limits you created. It may be easy at first, but as the semester goes on it will become harder as you try to keep up with your friends, classes, social

events and other activities. Writing down your purchases or only withdrawing a certain amount from your bank account may help you stay within your limits. If you do spend too much one week, try to cut back and spend less the next. This method will help keep your budget on track.

5. **Ask for help!** Remember, managing your own money isn't an easy task, it's something that takes time and effort to learn. Even people who have been

managing their own money for years sometimes make mistakes. If you think you're in money trouble, call your parents immediately. If you don't feel like you can talk to them, find a person you trust who can help or can refer you to someone who can help. Talking to someone experienced will help you take care of your problem. Not only that, it will probably set your mind at ease.

See how easy it is to create your own budget? The best part is, it

only takes about 20 minutes to set up. To make it even easier for you, a sample budget and space to fill in your own financial information is set up below. Just follow the steps you read about. Remember, ask for help if you need it! By following the guidelines listed, you'll be managing your money like a pro in no time. Mom and Dad will be so proud, they might even send you more!

— Some information taken from Melissa M. Ezarik's April/May 2001 Career World article "Budgeting tips for college freshmen."

Sample Budget Plan (one semester plan)

	Example	Your Budget
Add:		
Scholarships	\$1500.00	_____
Loan Amount	4800.00	_____
Expected income from job	2100.00	_____
Other income	<u>500.00</u>	_____
Total Income	8900.00	_____
Subtract:		
Tuition	\$2000.00	_____
Room and Board	5000.00	_____
Books	350.00	_____
Fees (Lab, etc.)	25.00	_____
Class Supplies (Notebooks, etc.)	<u>25.00</u>	_____
Total School Costs	7400.00	_____
Total Amount Left for Necessities	\$1500.00	_____
Divide by number of weeks	15	_____
Weekly budget	\$100.00	_____
Subtract:		
Necessities		
Food (per week)	\$30.00	_____
Personal Supplies (per week)	30.00	_____
Subtract \$10 per week for unexpected expenses	10.00	_____
Total Remaining Funds	\$30.00	_____

EXTRA CREDIT

Getting your first credit card can be pretty exciting. Now you can take all of your friends to dinner and tell your server to charge it to your credit card, right?

Maybe not.

Credit cards, while convenient, may not be the best choice for paying for smaller items. If you plan to pay your balance in full every month, then items like c.d.'s, movies or pizza might be okay to use the card for — if you keep careful records of how much you spend and when. These small purchases add up quickly. So quickly, in fact, many people are surprised when they get their credit card bill.

The Young and the not so Debtless

Surprised is an understatement for how many college students feel when they get their credit card statements in the mail. In 2001, the average college undergraduate's credit card debt was \$2,748 according to student loan company Nellie Mae.

At some colleges and universities, that amount will almost pay for an entire semester's tuition. Sometimes the bills are so high, however, tuition becomes something students won't have to worry about anymore. That's because undergraduates around the country are discovering they can't afford to finish school because of their massive credit card debt.

Eenie Meenie Miney Moe: Selecting the Credit Card for You

How can you avoid this fate? If you already have a credit card, make sure

you know important information such as your interest rate, your credit limit and your current balance. If you don't have a credit card and are planning to apply for one soon, here are some tips on how to select and manage your first card.

The Rating Game

Credit card interest rates are more important than you might first think. If you pay off a purchase over more than one billing period, interest will begin to add up. Eventually, you may be paying for the item twice.

Consider this example from an article in *The Knoxville News-Sentinel*:

"Say a 25-year-old receives a \$2,500 credit line on a card charging a 19.8 percent annual interest rate, common for people who carry a balance from month to month. If that card-

holder dutifully pays the \$52 minimum in each billing period, the balance would never be paid off. In fact, by age 65, the borrower would have paid \$24,960 in interest on a balance of \$2,500, according to calculations by Consumer Credit Counseling, a nonprofit agency in Richmond, Va."

Now it's easier to see why it's best to shop around for the lowest interest rate possible. A good starting place would be your bank. Someone there would be happy to tell you what card the bank offers and what the average interest rates on credit cards are. From there, you can decide if other offer, such as the ones you undoubtedly receive in the mail, are worthwhile.



Making Sense of Credit Card Jargon

Annual Percentage Rate (A.P.R.) — Your card's interest rate for the year. This is the rate you should compare when looking for a credit card because it determines the amount of interest charged to your balance during a billing period. APRs may be fixed or variable (they could change).

Annual Fee — A yearly fee some credit companies charge for the use of their credit card. While some credit cards may not have an annual fee, others may have an annual fee of up to \$60 per year.

"If a person maxes out a card with a \$2,500 credit line at 19.8 percent interest and pays the minimum balance each month, the debt will NEVER be paid off."

When looking for a low interest rate, be sure to watch out for "teaser rates." Often referred to as "low introductory rates" or "special offers," these rates will often start out as low as 2 percent. After a set time, usually six months to one year, these rates will jump, sometimes as much as 18 percent. This new interest rate is the one you will keep for as long as you use the credit card.

If you decide to get a credit card with a "teaser rate" be sure to remember when the introductory rate ends. Keeping track of when your rate will increase will save you from a surprisingly high bill later.

But Is It "Fees"ible?

All right, you've checked your interest rates. You've narrowed it down. You're ready to get that credit card. But, have you checked for annual fees?

Annual fees are not charged by all credit card companies. While some fees may not be considered very high, over the course of a few years the fee will add up to a large amount. Since not all cards have annual fees, try to find one without them.

Remember to ask point blank if

the credit card has an annual fee. This fee is one that credit card companies may not tell you about voluntarily.

While you're asking about fees, don't forget to ask for information on late-payment fees. Some of these fees, like the annual fees, are very high. You could face paying \$25 per day for every day your payment is late. Don't fool yourself by thinking you'll never have a late with a payment and don't need to worry about these fees. Late payments happen to

Fast Facts

- **78% of college undergraduates have at least one credit card**
- **32% of college undergraduates carry more than four credit cards**
- **The average college undergraduate has a credit card debt of \$2,748**
- **The average debt of college undergraduates in 1998 was \$1,879. In 1990 it was only about \$900.**

—Sources: *Nellie Mae as quoted in U.S.A Today and Susan Carpenter for the Los Angeles Times*

the best of us sometimes (especially during the holiday season when finals are looming!).

One for the Road

You've shopped around and found more than one good credit card. So how many do you get?

Unfortunately for those who love

to spend money, the answer is one. Owning only one card makes it easier, especially for first-time card users, to keep up with purchases. Also, if you have more than one card, your risk of going into debt goes up. Why? If you have only one card with a \$500 limit (the recommended limit for undergraduates), you can only go into debt \$500. On the other hand, if you own three cards, each with a \$500 limit, your potential debt increases to \$1,500.

On your mark, get set . . .

You're finally ready to spend some money. But before you hit the nearest store like that credit card will self-destruct in the next 10 seconds, you need to know how to pay for your purchases.

Find out what your credit card's billing cycle is. The billing cycle, usually 20 to 30 days, determines how many purchases will be on your bill according to when you made purchases.

If you can, pay your entire bill every month. This method of payment will keep you from paying large amounts of interest and will save you money.

If you can't pay your full bill each month, pay more than the minimum. You may also want to make more than one payment each month. Not

only will this keep your bill low, but it will also build your credit rating. ■



Cash Advance — A credit card with a cash advance means you can use your the card at an ATM to get cash. This options carries a higher APR than usual.

Teaser Rate — A low introductory interest rate, usually below 10 percent. This rate will increase about six months to one year after you've gotten the credit card.

Line of Credit — How much a credit company will let

you charge on a credit card.

Credit Rating — Tells how well you pay off debts. Shows number of credit cards owned and how often payments on debts are made.

Minimum Monthly Payment — The lowest amount you can pay towards your credit card bill and not be penalized by the credit card company. This amount is listed on the monthly bill.

