

PAPER OR PLASTIC?

Financial Management



"But I can't be overdrawn on my checking account, I still have checks left." This is an old t-shirt slogan that still applies today when it comes to people and their attitudes about managing money. The best words of advice about money management are "you should manage your money; your money should never manage you."

"Budget" and "saving" are the key words when it comes to being successful at money management. And, since you are now an adult and in full control of the monetary choices you are being faced with; now is the best time to fully understand many of these choices with some good tips to assist you now and in the future.

CREDIT CARDS

Considering that the average working American carries 10 credit cards in their wallet (ranging from a single gas station credit card to more than one VISA or MASTERCARD), and that the average individual credit card debt is \$5000.00, you quickly understand that many Americans are not very good at managing money. Did you know that students hold an average of three separate credit cards? Seventy-eight percent of students have at least one credit card, thirty-two percent of students have four or more, and ninety-five percent of graduate students have at least one credit card!

The probability that you, as a new college student, will quickly get deep into credit card debt is astounding. As you walk into the bookstore to buy your books for the semester, you may notice a table or two belonging to any one of the major credit card companies. Many times these companies offer you incentives such as a free hat or t-shirt to entice you to sign up for their credit card. As you open the bag from the bookstore, you may notice advertisements from these companies about their credit cards. As you head into



a sporting event, there may be yet another table offering you sports team memorabilia if you apply for their credit card.

Remember, having a credit card is not a bad thing; it can help you create a good credit history. But, having a credit card also comes with taking responsibility for the choices you make when you use the card and how many credit cards you choose to have. A credit card is a type of loan. It's real money that you must repay, often with interest. Use one card with a low limit and use it wisely. Think hard about "using it only in emergencies" and what that means to you.

WHAT YOUR CREDIT HISTORY MEANS TO YOU

What exactly is a credit report and good credit history? There are three major credit reporting agencies and each will keep a record of all debt that you have. This can be a credit card, a car loan, or even a federal student loan. The credit report tracks all of your debt and your repayment history, recording every time you are more than a few days late with a payment. There is a credit score, determined by your debt and your payment history, which determines whether or not you are approved for your next credit request – whether it is for a credit card or car loan – as well as the interest rate you will be given.

Reasons to Have a Credit Card:

- Credit cards provide you a means to establish your own credit rating.
- It is good to have a credit card in the case of an emergency.
- Having a credit card is safer than carrying a lot of cash.
- Credit cards sometimes offer rewards or airline miles.
- Credit cards often provide insurance or replacement on purchases.

Reasons Not To Have a Credit Card:

- Credit allows you to live beyond your means.
- Many on-line purchases are unsecured.
- When dining out, friends ask you to charge and give you money.
- Introductory rates can suck you in.
- Applying for a credit card is just as risky as opening an account.
- Interest rates are determined by risk.
- Courtesy checks are too convenient.



- Bankruptcy
- Open credit reduces your credit rating.

WHAT TO DO WHEN YOU ARE READY FOR A CREDIT CARD

- ***Shop around for the best interest rates and fees.*** Don't just apply with a company because of the free gift. Use the internet for your research. Various websites will give you a chart with the most important information to compare lending institutions and to get the best rates.
- ***Read the fine print before you accept a credit card and the responsibilities.*** There are usually higher fees assessed if you choose to get a cash advance.
- ***Use credit cards sparingly.*** These days most banks offer a debit card which deducts the money directly from your checking account, not charging you interest, but still acting as a credit card when you don't have cash on hand.
- ***Don't charge more than you are able to pay.*** Think of a credit card as a loan. The credit card company is fronting you the money for your purchase and they expect to be paid. If you only make \$400.00 per month from a part-time job but charge \$500.00 for books and eating out, there is no way for you to pay this off in full at the end of the month when the bill is due.
- ***Keep your debt payments below 10% of your NET income after taxes.*** So if you bring home \$750.00 per month, your payments should be no more than \$75.00 per month.
- ***Pay credit card balances in full as often as possible, instead of just the minimum payment.*** Since very few credit cards are interest free, there will be interest accruing on any outstanding balance you have on your credit card. If you have \$1000.00 in outstanding credit and only make the minimum payment with a 19% interest rate, it will take you seven years to pay it off and cost you \$730.00 in interest.
- ***Always pay on time!*** Late payments not only cost you extra money, but they are reflected on your credit rating.
- ***Keep in touch with your creditors instead of hiding from them.***



BUDGETING

Many people have no idea what exactly a financial budget is, but it is very easy to establish a budget if you first can identify where your money is going. The main purpose of a budget is to teach you to be aware of how you are spending your money. Use that information to see what changes you can make in order to have more money left over at the end of the month to put into a savings account. Spring Break comes before you know it and you may want to join your friends for the “trip of a lifetime,” or maybe you want to save for a car, or to move out of your dormitory. Having money in a savings account is always beneficial.

So where do you start?

- ***Create a spending diary for a week.*** Write down everything you spend money on. List every soda, bagel, gas fill-up, movie tickets, new shoes – whatever you are using cash or a credit card to purchase. Try it for a week. At the end of that week, put each item into a category: food, clothes, car, fun, etc. to see what and how you spent.
- ***Calculate how much money you receive weekly (money from a job, your parents, or financial aid).*** Take your expenses and subtract it from the money you have. Is there still money in your account? The key here is to never spend more than you have. Overspending is what gets people into trouble and deeper into debt.
- ***Once you have created your spending record and your budget of how much money you have, you should review it to see where you can make changes.*** Simple changes can make a huge difference. For example, if you see that for three days in a row you have purchased three bottles of soda each day for \$1.09 each, you have just spent \$9.81 when those same six sodas could have been bought at the grocery store for \$4.99. With a little planning, just one purchase could have saved you almost \$5.00!

FINANCIAL AID

Financial aid is a great resource, designed to assist you and your family with educational expenses like tuition, housing, books, and living expenses.

There are three types of financial aid:

1. ***Grants and scholarships:*** This is free money from the state and federal government, the University, or outside organizations.



2. **Loans:** There are student and parent loans offered through the federal government that have low interest rates. Repayment of student loans begins six months after you graduate or drop below half-time enrollment.
3. **Federal work study:** This program allows students to work part-time (average 10-12 hrs/week) where you are paid twice per month to assist with living expenses, taking your class schedule into account.

IT'S YOUR CHOICE

Money management is all about choices and whether you let your money manage you or you manage your money. In order to live beyond their means, more and more Americans are slipping further into debt through credit card spending and consumer loans. Don't make the same mistake. Always keep in mind this simple equation: never spend more through loans and credit cards than you are able to repay with money you have.

Remember that you get much of your education outside the classroom; and this is an important complement to what you learn inside the classroom. Financial management resources and information are available to you. Only you can decide when and how to use it!

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