

Credit card debt among college students and other young adults is on the rise. The credit card companies know that college students will either have mom or dad to lend them money to pay the bill, or at least will have a job in a few years. This makes college students an acceptable risk for credit lenders.

A study done by Nellie Mae, a student loan provider, reports that the percentage of students with credit cards rose from 67% in 1998 to 78% in 2001. Of the students that own credit cards, the average balance was \$2,748. And you can bet that the interest rates on these students' cards were not low, at least for long.

There are certain things that every high school senior should know how to do before leaving home. These are essential for maintaining healthy finances, even with little money. Every college student should know how to do these five things before ever setting foot on a college campus:

- Ways to Save Money
- How to Balance a Checkbook
- The Difference Between a Credit Card and a Debit Card
- How to Create a Monthly Budget
- How to Read a Credit Report

Ways to Save Money

Make a Grocery List

When shopping for groceries, the best way to manage your money is to create a list before you go to the store and stick with it. There are too many items in a grocery store to just go down each aisle, grabbing whatever and throwing it in the cart.

Doing this will most likely result in shock at the checkout counter. Once the groceries have been scanned and bagged, most people won't think about asking the clerk to take items off of the total – this certainly isn't the way to make friends with people behind you in the checkout line.

Without a list, it's very easy to get stuck with a bill that is two or three times as much as you wanted to spend.

Watch your Wallet when Dining Out

Eating out is another way money can leak out of a young adult's budget. There is a certain attitude change that takes place when some people eat out. They tell themselves "I don't go out to eat often, I might as well make this worthwhile." Then they order the most expensive thing on the menu, along with an appetizer, drinks and then dessert, of course.

This is fine for the person that eats out at a restaurant once every two months. But if the number of restaurant visits is closer to twice a week, or even more, being careful about overspending at a restaurant is a wise spending decision. This goes for all types of restaurants, too. Whether it's deciding not to order the tiramisu for dessert, or opting not to "super-size" your value meal, being reasonable while dining out is not only healthy for your finances, but for your body as well.

Don't Pick up the Tab Every Time

Then comes the bill. It's important to be careful about picking up the tab for everyone else. While it's a nice gesture, there is no guarantee that your going to get that favor returned anytime soon. Think about it – all of your friends are college students, and probably just as broke as you normally are. Save the generosity for after you graduate and find a job.

Until then, just split everything down the middle. Or better yet, ask the waiter or waitress for separate checks. This will ensure that you're not spending your money on someone else's food or drink.

Leave the Credit Card at Home over Spring Break

That spring break trip is going to cost you two to three times as much as you actually spend before you get your credit card balance paid off. If you plan to use your credit card for all of your spring break expenses, take your projected expenses and multiply them by two or three. This should tell you what the real cost will be and hopefully persuade you to use cash instead of credit or to take a less expensive trip.

Take a Close Look at How Much Money Goes into your Stomach

The average student spends hundreds of dollars each month on fast food, take out and food delivery. Brown bagging your lunch and stocking up of groceries can make some extra room in your budget each month.

Shop Around for Textbooks

If you're a college student, no one needs to tell you that textbooks are expensive. Try checking the library for textbooks or purchase used textbooks from the student bookstore. Look around campus for fliers advertising used books – chances are you'll get a better price from an individual than you would from the student bookstore.

Websites like Half.com and StudentMarket.com sell textbooks for low prices, many times for less than college bookstore prices. You can also sell used textbooks at these and other online bookstores.

Use Coupons

If you can save money by just clipping a few coupons from the Sunday paper, what's stopping you? Look for coupons for items that you'll actually use and be careful about coupons that save you money only if you buy a certain amount of the item, like "Save \$1.00 off two boxes."

Look for supermarkets that double coupons.

Economize

There are countless ways to save money by changing the way you do everyday things. Fill and empty space in your freezer with plastic bottles filled with water to save money on electricity costs. Cut dryer sheets in half. Reuse plastic bottles.

Refer to the \$pend \$mart Home Study Course for tons of useful tips.

Look for Student Discounts

Student discounts are everywhere, especially if you live in a college town. The discounts you are eligible for might be so plentiful that they fade into the background. Ask for student discounts regularly.

Responsible Checking Account Management

Managing a checking account is very simple, it just takes diligence to keep accurate notes of where your money is going. There are five simple rules for keeping your checking account in the black:

1. Don't write checks that your account cannot cover.
2. Write all deposits and withdrawals down in your check register immediately.
Make sure to include any fees or extra charges your bank may charge to your account.
3. Balance your checkbook monthly, every time you receive a statement.
4. Double check your arithmetic. And then check it again.
5. Report any lost or stolen checks to your financial institution immediately.

See the EMD handbook on Checkbook Basics for detailed information about writing checks, using a checkbook register, balancing your account and other important checking account information.

Using ATM and Debit Cards Wisely

Besides looking just like a credit card, a debit card has little in common with its plastic cousin. A debit card is used like cash, or more accurately, a personal check. A debit card subtracts existing money from a checking or savings account while a credit card spends money that you do not have yet.

According to the American Bankers Association, 2001 was the first year that credit card use fell behind debit card use. Twenty-six percent of all retail transactions were paid for with a debit card. This is compared to the 21% of purchases made with a credit card.

Debit cards can cost you more money than you're actually spending, just like credit cards can. Read all of the fine print that your bank gives you when you open an account with a debit card. Many banks refer to their debit cards as check cards, meaning that they work just like a check.

This means that if you use your debit card to make a purchase that is more than what is in your account, it is just like writing a bad check. There is a chance that your bank will charge you for an overdraft charge. Other banks will just deny your bank card. Check with your financial institution to see what their rules are.

However, as far as security is concerned, you should treat your debit card just like any credit card. Keep track of all your receipts; report a lost card to the bank immediately; keep track of all debit card purchases and be sure to record all extra charges in your transaction register.

Making a Budget

The first step to drawing up a budget for yourself is to determine what you actually need to survive as opposed to what you would simply like to have. Make a list of needs vs. wants. Needs include your utility bills, food, rent, etc. Wants are items like a widescreen TV, video game consoles and expensive vacations.

Wants can be thrown out of the budget completely. If you're actually taking the time to make a budget, or even just thinking about it, do you really think you can afford that new flat screen TV?

Make your Budget Flexible

Unexpected expenses will turn up, unexpectedly. It's what they do. Leave room in your budget for car repairs and other emergency money.

Keep your Budget Simple

If you want to stick with it, you're going to need a budget that you can understand.

There's no point in making a complicated budget. The easier it is to follow, the more likely you will be able to stick with it, and the more successful it will be.

Be Honest with Yourself

Don't underestimate your expenses in certain areas, and maybe more importantly, don't overestimate. If you try to cut back your spending in a certain area that you overestimated, you'll be trying to save money that you never had in the first place.

Keep Accurate Records

You're going to have to look for records of your expenses over the last few months to determine your expenses, so you'll probably soon realize just how lousy your recordkeeping is. After you outline a budget, make a promise to yourself to keep every receipt. Get a folder or box to keep them in.

You can't control your spending until you know what you are spending your money on.

Pay Yourself First

The entire purpose of creating a budget is to see which expenses can be cut or reduced, and to reallocate that money elsewhere. Set up a savings plan to put your extra money away for future expenses or emergencies.

Be sure to look at the EMD educational handbook, "Budgeting and Best Time to Buy" for details on how to actually create your budget, along with tips to time your buying to save money.

Using Credit Sensibly

Credit has changed the way Americans spend money. Just a few generations ago, people had to save for months, even years to buy things like cars, houses and other big-ticket items. Nowadays, credit allows people to have the things they need and want right away, sometimes before they can afford it.

If you are a college student, then you already know just how easy it is to get a credit card. Credit card offers are everywhere: at your student bookstore, at your student union building, in your dorm lobby, even in your classroom. Even if you don't have a job, you are pre-approved for credit if you are a college student.

The problem is, many students don't know how to properly use credit, even after they get it. This often leads to credit abuse. Credit is borrowing money with a promise (a legal contractual promise, that is) to pay it back within a certain amount of time. This sounds simple enough.

Although many students are bright enough to understand what credit is, many more students misinterpret a credit card as a ticket to free money. Think about the above definition of credit: it is borrowing money with a promise to pay it back. This means that credit really isn't money that you're never going to have; credit is just spending money that you haven't made yet.

If you are a freshman in college, start getting used to the fact that you are not going to have any substantial amount of money for at least three more years. Even then, who's to say what the job market for your major will be like. When you leave college and enter the real world, you may find that you have a legitimate and immediate need for credit. So don't spend your college years wrecking your future credit.

There is one simple rule for using credit responsibly: don't charge more than you can pay back when the next billing cycle comes around. "But what is the point of using a credit card if I can already afford what I want to buy?" you might ask. Paying off credit card bills on time will establish a great credit record. Once you start buying things you can't afford, they remain just that: things you can't afford but still take up space in your living room.

Credit Card Terms

APR: This stands for Annual Percentage Rate. This is the interest rate that the credit card company is going to apply to your balance each year. So, if you have a credit card with a 20% APR, this means that over a year, you will owe the credit card company everything that you spent, plus one-fifth of your entire balance.

Annual Fee: A yearly charge that you must pay the credit card company for the privilege of using their card. Not all cards have annual fees, stay away from the ones that do.

Balance: The total amount of money owed to the credit card company by you. This is all of your charges, plus interest, plus any other fees you have agreed to pay.

Cash Advance: Stay away, stay far away. Some credit cards allow you to use your card at an ATM with a PIN (personal identification number) to take out cash. There is a hefty percentage premium for this service in addition to the interest you are already paying. You can't use your card for cash advances without a PIN. So, if your credit card company asks you if you want a PIN for cash advances, tell them no. If they send you one automatically, destroy it.

Credit Limit: This is the maximum outstanding amount that you can charge on your credit card at any time.

Grace Period: A time between the statement date and the payment due date when no finance charge accrues, provided no previous balance exists. If you pay off your balance completely before each grace period ends, you won't pay any interest.

Late Fee: A charge for not paying the minimum payment on time. Late fees differ from card to card, but they are usually around \$30, no matter how small your balance is.

Minimum Payment Due: The smallest amount of money you need to pay the credit card company to stay current and avoid late fees. If you only make the minimum payments each month towards a large balance, you will make those payments for years and years before the balance is cleared.

Over-limit Fee: This is a fee for exceeding the maximum balance on your card. Your credit limit doesn't just refer to charges, it includes late fees, cash advance charges, interest accrued, and ironically, over-limit fees. Example: if you have a balance of \$676 on a card with a limit of \$700, and you are charged \$30 for missing a payment, you now owe \$706. You're over your credit limit, so the credit card company charges you an additional \$40. Now you owe \$746, and the interest is still running. If you don't make a large enough payment next month to get the balance below \$700, expect to get slapped with another over-limit fee.

Choosing a Credit Card

When you look for a credit card, make sure you read all of the fine print on the application. Be wary of credit cards offers that have a huge “**0% APR!**” offer on the front of the application. The bigger the print in which the company advertises its great APR, the higher the actual APR probably is after a few months.

The term “introductory” is very vague. When a credit card promises a “low introductory rate of 0% APR,” that could mean that you have that rate for a month. This is like having a free grace period, and then the APR shoots up to 22.19%. Most introductory rates last a few months, but it's the rate in the fine print that matters from there on out.

If you are getting your first credit card, avoid ones with annual fees and/or deposits. These cards are either issued to people whose credit is well below average and the credit companies insist on money up front, or to people who can afford to pay an extra premium to get a Platinum American Express card with a limit high enough to buy a nice home.

Either way, this probably isn't you. You should be able to find a card without a annual fee or deposit.

An APR of about 22% is average for a college student. After you have paid your bills on time for a few months, call the credit card company and ask to negotiate for a lower rate. On the flip side of the coin, expect to see your APR rise if you have missed a few payments.

How APR Works

Let's say you apply for a credit card and in a few weeks, it comes in the mail with a balance of \$1,000. You assume this must be some decimal point error on the part of the credit card company, so you decide to spend the money before they realize their grave mistake.

So you run to the store, point to a home theater system costing roughly \$1,000 after taxes, and slap your card down on the counter. You make this purchase just a day or two before the end of the billing cycle. When you get the monthly statement in the mail, the minimum payment is only \$50. You easily make that payment, and spend the rest of the month skipping that incredibly boring geology class to sit at home and enjoy Dolby Digital 5.1 sound.

Then next month's bill comes. Instead of seeing the \$950 you expected to see as your balance, it is \$966.63. How did this happen? Your card has an APR of 21%. This means that your monthly percentage rate is 1.75% (21 divided by 12 months). So each month, The credit card company takes your balance, multiplies it by 0.0175, and adds that to your balance. For just those 30 days, you were charged \$16.63 in interest.

If you only pay the minimum payment of \$50 each month, it will take you just over two years to pay for your home theater system. You will have paid \$241.61 in interest alone.

Credit Card Tips

- Copy the customer service number and/or website address from the back of your card and keep it in a separate place. This way, if your cards are ever lost or stolen, you can quickly notify the company.
- Carefully review your statement each month. Credit card companies make mistakes; make sure you report them immediately.
- Save receipts from credit card purchases. Besides being useful to keep track of your credit spending, receipts sometimes have your entire card number and expiration date on them. Keep receipts in a secure place.
- Create a monthly credit budget. Limit your purchases to only the amount you can afford to pay off each month.
- Make your payments on time. Late payments will have a negative effect on your credit rating. Make sure you allow five to seven days for your payment to reach your creditor by mail. Or, you can see if your creditor allows you to pay your bills online.
- Pay off your credit card balance each month. If you can't afford to pay off the entire balance, at least make more than the minimum payment.

- Don't apply for more credit cards than you can handle.

Credit Reports

Everyone starts out with a clean slate in the credit world. When you miss a payment, a negative remark is placed on your credit report. Any negative remarks will stay with you for several years. The only way to improve your credit rating is to diligently make payments on time and wait.

Here's what is contained in a typical credit report:

- **Negative credit ratings** – These are accounts on which you are either late or delinquent, which means that the account has gone unpaid for several months. Any public records such as bankruptcies or judgments made against you will also appear here.
- **Positive credit remarks** – All of your accounts which are in good standing and current.
- **Personal information** – Your credit report will contain your full name, address, previous addresses, current and past employers, your Social Security number, birth date and any other relevant personal information.
- **Previous requests for credit** – Every time you apply for a credit card, any type of loan, mortgage or even a job, someone looks at your credit report. This is called an inquiry. All inquiries are listed on your credit report.
- **Personal statements** – The Fair Debt Collection Practices Act (FDCPA) allows you to add a personal statement of up to 100 words to your statement. If there was a legitimate reason for one of your accounts becoming late or delinquent (such as you being severely ill or laid off), you may explain this on your report. How much weight your statement carries is up to the creditor reading your report.

Frequently Asked Questions about Credit Reports

How can I get a copy of my credit report?

There are three main credit reporting agencies in the U.S. They are Equifax, Experian and TransUnion. Contact one, or better yet all three to see a copy of your report. Different agencies may have different information about you.

Double check the contact information below at each agency's website, as credit agencies tend to change addresses and phone numbers often.

Experian National Consumer Assistance Center

P.O. Box 2104
Allen, TX 75013-2104
1-888-EXPERIAN
www.experian.com

TransUnion Corporation

P.O. Box 2000 Chester, PA 19022
1-800-888-4213
www.transunion.com

Equifax Credit Information Service

P.O. Box 740241
Atlanta, GA 30374
1-800-685-1111
www.equifax.com

How much does a credit report cost?

The cost of obtaining a credit report will vary from state to state. If you live in Colorado, Maryland, Vermont, New Jersey or Massachusetts, your first report is free. If you live in Georgia, your first and second reports are free of charge. Residents of all other states will pay a small fee between \$2.00 and \$9.00.

Also, if you have been denied credit within the past 30 days, you are entitled to receive a free copy of your credit report.

When should I request a copy of my report?

You should review the information contained in your report before any major purchases, such as a car or a mortgage. You should also request a copy of your report if you feel you have been a victim of credit fraud.

What should I do if I find an error on my credit report?

First, make sure that you understand all of the information in the report and are interpreting it accurately. Once you are sure that it is a mistake, write to the credit bureau to dispute the information. The credit bureau then has 30 days to respond. If they do not respond within 30 days, send another letter. If two months go by without any response at all, contact the Federal Trade Commission (www.ftc.gov) to file a formal complaint.

You should contact all three credit bureaus to make sure that the mistake hasn't been

repeated. If it has, you will have to deal with each credit agency separately.

If the credit bureaus insist that the disputed item belongs on your report and you know that it doesn't, you may add a statement to your report explaining your side of the story.

If you follow the guidelines listed in this handbook, your good financial health will follow you as you leave college, find a job, a spouse and a home. Then good credit will really matter.

Taking good care of your finances isn't hard work – you shouldn't feel overwhelmed. Besides keeping accurate records of your income and expenses, responsibly managing your money is really just a passive process. You don't need to do much except not spend money. Don't use credit for things you can't afford because – guess what – you still can't afford them if you need to use a credit card.

Many students leave college with the burden of a poor credit history and many more graduate with thousands of dollars of debt. Listen to the suggestions described here, and you will find yourself in the more fortunate minority.