

Financial responsibility means extra credit for college students

The annual pilgrimage is beginning. Across the country, thousands of your fellow students are heading back to colleges and universities, where new friends, all-nighters and weekend parties threaten to lure naïve young people away from their studies.

Here's a heads up to underclassmen: Not only will temporary distractions wink seductively at you - some of you will fall victim to a headache that lasts longer than the one from Saturday night's kegger: Credit card debt.

According to Nellie Mae's 2004 study on the subject, 76 percent of undergraduates had credit cards, 56 percent had their first card by 18. Forty-three percent of undergrads reported having four or more credit cards, and, on average, more than \$2,100 of debt.

The good news is, all of those figures are lower than they were when Nellie Mae began tracking student credit card usage and trends in 1998. Even so, many students still have a lot to learn about using credit. For instance, the study found that in 2004, 23 percent of undergrads owed more than \$3,000 to credit card vendors. That number was 27 percent in 2001, a difference of only 3 percent. By the time they graduate, many students have racked up more than \$7,000 in credit card debt. In fact, university administrators have reported losing more students to credit card debt than to academic failure.

This year, MasterCard International forecasts that nearly \$575 will be spent on just back-to-school shopping for each and every student. And that, of course, doesn't include tuition or books. Given the amount of money you're likely to spend, it is also prudent to spend a little time learning about the perks and pitfalls of having a line of credit. Don't be daunted by the challenge - research shows as few as 10 hours of financial education can help you control your spending habits.

When learning to use credit responsibly, the first thing you may want to do is cover the basics. Take a realistic look at how much money you can expect to bring in each month, either through student aid, an allowance, and/or a part-time job. Compare that figure against monthly expenditures - and it wouldn't be a bad idea to have that first number come in a little low and the second figure, a little high. A little financial leeway is never a bad thing, you know. Understand - indeed, embrace - the concept of living within your means from month-to-month: Don't put off until graduation what you can pay for today, so to speak.

The importance of paying all bills on time, and in their entirety whenever possible, cannot be stressed enough. Always make every effort to pay more than the minimum due, otherwise the outstanding balance collects interest charges, which keeps the amount owed

from being reduced. Consider that a \$5,000 debt will cost nearly \$18,000 to settle if the borrower makes only the minimum payment - and it can take 40 years to pay off. Does anybody want to still be paying off college charges when they are old enough to be thinking about retirement? Yikes!

Once you accept the buy now, pay by the 30th approach to credit use, do your financial homework and select the best credit card for your situation. Key features to shop for include low interest rates and finance charges, low or no annual fees when possible, a grace period before fees are tacked on, and additional benefits such as free items or insurance and extended warranties on purchases. And take time to read the fine print! Penalties for late payments, going over set limits and cash-advance fees can financially cripple the novice credit user. Also get into the habit of monitoring how much and what is being charged and of examining monthly bills to avoid overspending and to watch for mystery charges.

Don't underestimate debit cards and stored-value cards, also called Smart Cards. Debit cards deduct funds directly from your checking account, so you can't spend more than you have in the bank. Stored-value cards have a pre-paid amount loaded onto the card, thus limiting the amount that can be spent. Once depleted, the amount on the card can be replenished. However, be warned: Losing a pre-paid card is just like losing cash.

Keep in mind that, when responsibly used, a credit card can help you establish a credit history, provide security in the event of an emergency, and increase your independence and level of responsibility. It's OK for to have a credit card in college; this is a great time to build good credit history.

Just understand that fledgling credit history will affect your entire life. Credit reporting bureaus track your credit record, and lenders, employers and other companies use that information when determining what interest rates to charge, whom to hire and whether or not to approve a home loan.

Long after you have swung the tassel on your miter board, how long your took to pay off that late-night pizza could still haunt you when you are trying to rent an apartment, buy a car or even land your first job. Problems with credit cards stay in credit reports for seven years, or roughly twice the time it took you to get through college.

About the author: The LFE Institute, www.lfeinstitute.com, has provided Financial Literacy Education to more than 250,000 employees in the corporate marketplace since 1986.