

Avoid these College Money Pitfalls

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As the parent of a college student, which of these two recent grads do you hope your child will resemble?

The first, Tamanika Ferguson, earned \$80,000 in scholarships to California State University and graduated debt-free last spring. The second, who asks to be referred to only as “Jane,” graduated around the same time. But Jane took out over \$45,000 in student loans and built up \$50,000 in credit card debt by the time she got through school. She currently pays about \$1500 a month in debt payments, with over \$400 of that in credit card finance charges alone.

Communication is the Key

Naturally, you’d love to see your kids graduate in a situation like Tamanika’s. But in an age of skyrocketing tuition and record student debt, Jane’s predicament may sound far more plausible. Fortunately, there are many ways you can prepare your kids to beat the odds and graduate financially strong. According to some experts, it all starts with good communication.

“We find that too many families treat money as almost a taboo topic,” says James Boyle, president of College Parents for America. “Our number one suggestion to parents is to have an open dialogue with their child about all matters related to money.”

That discussion often reveals a surprising lack of financial savvy among otherwise worldly young people. “Some students don’t grasp some pretty basic things, like the difference between a loan and a grant,” Boyle says. “And a vast majority don’t understand the various types of loans available, the payback terms and financial consequences of interest rates.”

A Family Affair

According to Marcia Weston of the National Association of Student Financial Aid Administrators, one way to address this problem is by making your own finances a family affair. “Parents need to be role models,” she says. “They need to do the family’s budgeting along with their kids, so the kids see how it’s done.”

Besides familiarizing them with financial concepts, this involvement shows students the real-life consequences their college spending could have on their families. As Boyle says, “There should be a frank and open dialogue about the impact of college expenses on the family budget, and the impact of any loans on the student’s future. And that’s a good time to talk about what the parents’ and student’s contributions will be.”

Surprisingly, Boyle says, many parents never tell their children exactly how much they're willing to spend on their education. But by being open about your intentions (and limitations) from the start, you can help your kids prepare to cover any remaining costs. Through a combination of budgeting, scholarships, part-time work and school selection, some students are able to manage the expense themselves.

Avoiding the Credit Card Pitfall

Take Tamanika Ferguson: "I had to maintain a budget, and I started off at a community college, which was cheaper," she explains. "And there's been many a time when I've spent weekends—when I could've been out partying—at home filling out scholarship paperwork."

But even with scholarships and budget discipline, most students will need to borrow money eventually – and that's when parental guidance becomes most crucial. Besides helping them evaluate and apply for different loans, you should prepare them for one of the prime temptations of campus life: credit cards. Credit card debt has become such a problem that some parents advise students to avoid the plastic entirely.

But Jim Boyle recommends a different approach. "You should say, 'Credit cards will be part of your life, but it's important to get off to a good start,'" he says. "Explain what a credit history means, and the consequences, in terms of interest, of only making minimum payments."

Learning to Say No

As a precautionary measure, you may even want to open a joint debit or credit card account with your kids. "It's a piece of plastic with training wheels," Boyle says. "Students can use it for essential spending, but there is a limit on what they can spend, and the parent will receive the bill and know what they're buying."

But what if, in spite of careful planning and supervision, you receive a plaintive mid-semester phone call from a cash-strapped kid? "When a student calls and says, 'I need money,' it's important to find out why," Weston says.

"There are always things that happen that are out of their control. But when it's a case of overspending, parents should not bail them out. It's hard to say no, but we set limits because we want them to become self-sufficient. In the long run it's better for students to know that not only do they have limits, their parents have limits too."

QUIZ FOR SIDEBAR

Congratulations - your pride and joy is getting ready for college. But how prepared is your child to achieve financial independence in the coming years? This quiz can help you find out.

1. When did you start teaching your child about finances?
 - a. In high school
 - b. In middle school
 - c. Not yet

2. How many of these concepts have you explained to your child: interest, credit ratings, loan payment schedules?
 - a. All three
 - b. One or two
 - c. None

3. Did your child buy a car in high school?
 - a. Yes
 - b. No

4. Do you have open discussions with your child about money – including your own financial struggles and limitations?
 - a. Yes
 - b. No

5. What advice have you given your child about credit cards?
 - a. Get as many as you think you need
 - b. Get one and use it wisely
 - c. Avoid credit cards entirely
 - d. We haven't discussed it

6. Have you helped your child seek out and apply for scholarships and loans?
 - a. Yes
 - b. No

7. If a four-year college costs more than your child can afford, have you discussed community college?
- a. Yes
 - b. No

ANSWER KEY

Give yourself one point for each correct answer.

1 – b

Experts say that parents should start discussing finances as soon as their kids are old enough to understand. “I think the middle school years are a good time to start,” says James Boyle. “That’s when a student is starting to have a greater awareness of the world of commerce.” Marcia Weston adds, “I think the minute a student either gets an allowance or starts to work, there needs to be an understanding of how they deal with money in their lives.”

2 – a

Don’t overestimate your child’s financial knowledge – even basic concepts like interest are confusing to many students. As Weston says, “A lot of students feel that if they sign loan papers, then drop out of school, they don’t have to pay it back because they didn’t get their degree!” Don’t let that be your child – explain financial concepts to them yourself.

3 – b

Money spent on major purchases like automobiles is money that’s not available for college. And students’ first cars often require frequent repairs, eating up even more of their hard-earned cash. Besides, many universities forbid freshmen to have a car on campus. Unless they absolutely need it for work or school, students should try to avoid this purchase as long as they can.

4 – a

Talking about money with your kids isn’t always easy, especially when your own financial history is less than perfect. But as Boyle points out, “A little humility can go a long way. By telling a student about the time you bounced a check, or didn’t make a payment on time, it brings a note of reality to the discussion. It helps you get across a warning in a way that shows that you once walked in the same shoes.”

5 – b

In Boyle’s view, “One credit card is plenty, in case of emergency or situations that require it. But multiple credit cards can lead to a false impression that you have more money than you really

do.” A credit card doesn’t have to be an invitation to overspend: just ask Tamanika Ferguson. “I had one credit card in college,” she says with a laugh. “I still have it, and it’s had the same credit limit the whole time! I don’t use it at all.”

6 – a

According to Weston, “Many students don’t even know, when they sign a loan paper, how much they owe.” Parents can walk their kids through scholarship and loan applications, clarifying confusing terms and making the process seem less intimidating. Paperwork isn’t fun, but it’s worth their time: Ferguson estimates that she spent around 500 hours filling out the applications that generated \$80,000 in scholarship cash. That averages out to \$160 per hour – a lot more than you can make delivering pizzas.

7 – a

From an employer’s perspective, where you started college matters less than where you finished. As Boyle says, “With the continued rising costs of college, community college is a very smart option. If a student spends their early years in community college then moves to a four-year university to get their bachelor’s degree, the total cost of that degree is less.”

SCORING

6 – 7 points: Good job! You’ve prepared your child well for the financial challenges ahead.

4 – 5 points: Not bad, but a bit more financial dialogue wouldn’t hurt.

2 – 3 points: It’s probably time for a serious conversation about money.

0 – 1 points: For your kid’s sake, talk to them now - before they get their first credit card!