

# Q&A on Personal Money Management

By Kristin Trace

One major responsibility in living off-campus includes managing money and paying bills. Aside from entertainment and education, utilities for a house or apartment include water, trash pick-up, gas or electric, cable and internet. Personal budgeting is the best way to succeed at managing one's money. Below, College of Business Executive-in-Residence, David Payne, a professor of finance and marketing courses, answers questions to help students live within their means off-campus.

Q.) Should students have a budget?

Payne:

I think it's a great idea for student to have a budget. If you have some kind of idea, as to how much money you're going to spend on housing, food, entertainment, transportation and educational materials, you won't find yourself coming up short.

Q.) How should students plan their budgets?

Payne:

The first thing is to pay yourself first. What is meant by that is that we want students to think about what their financial goals are. In other words, you may want to save money to make a down payment on a house five years after you graduate. You have this financial goal, and you need to save each month in order to reach that financial goal. By paying yourself first, you figure out these financial goals, you figure how much you need to set aside each month to reach these goals, and you budget those first. In other words, what you don't do is figure out how much you'll spend on rent and food, and after all that save whatever is left. Instead, you pay yourself first and pay the financial goals first. Then you figure out rent and everything else and live within your means and your financial goals, and you give yourself a real chance at meeting those goals. That's a very different approach than what most people do.

Q.) How should students prepare for unexpected expenses?

Payne:

This is hard for students, but it's good to have a little bit of liquidity, to actually have a savings account or something that has a little bit of savings in it. Because while it's great to have a budget, not every expenditure in life is planned. The car breaks down, or it's not always a bad thing, it might be planning for spring break. If you have a little bit of money, and somebody says they are trying to put a trip together to Cancun. If you know you have a little bit of money, you can do that. It's nice to have a little liquidity for unforeseen expenses both positive and negative.

Q.) How can students begin to save money?

Payne:

One way students can do this is if they have an internship or summer job, to set aside some of that money and put it into an IRA. Even though students are typically hard up for money, if they try to put aside a little of what they earn in the summer and put it in an IRA, they'll be glad they did down the road. For example, if you save \$2,000 a year beginning at age sixteen, and do that for six years and earn %10 a year in interest, you will have accumulated over a million dollars by the time you are 65. If you start early, saving and investing, because of the power of compound interest, you can accumulate a very large amount of money over time. You don't have to set aside a lot every month, but if you consistently set it aside, over the years it will add up to a lot.

Q.) What are your recommendations for students with credit cards?

Payne:

All students should be cautious about how they use credit cards. A credit card is a great convenience, and that's how it should be used, but it is a poor way to borrow money. If you continue to let the balances grow and don't pay them off every month, then in effect you've borrowed money just as if you'd walked into a bank branch and borrowed it, and the rates are pretty high. Use your credit card as a form of convenience as if you're going to pay it off every month, but don't use it as a way to borrow money.

Q.) How do you choose a good credit card?

Payne:

If you follow my approach, that you're not going to use the credit card to borrow money and you use it as a convenience, then you're not so concerned about the rate. What you're most concerned with is the annual fee because you have to pay that no matter what so you should be looking for a card with minimal or maybe even find one with no annual fee and you'll be less concerned about the interest rates.

Q.) How many credit cards should a student have?

Payne:

There is really no need to have more than probably three credit cards. Here is a place where students often get sucked into something: They're going to the Bengal's game, and they're outside Paul Brown Stadium. A credit card company is giving away t-shirts for people who sign-up for a credit card. What the student says is, "Fine, I'll sign up and I'll get a t-shirt, and I won't be using the credit card so there's no harm done." One of the things that people who look at credit reports look at is how many credit cards do people hold. If you're on record of holding a credit card

that you never intended to use, it will reduce the score on your credit report.

Q.) How can students look at their credit report?

Payne:

It's free once a year, and you can go to various websites. There are three national credit bureaus.

\*See links below.

Q.) What kind of score should a student aim for?

Payne:

Most students haven't really developed a lot of credit history. What they really should be looking for on their credit report, is if there's any inaccuracies. They should also look to see if they've made late payments or if there are negative things on there, so that over time they can try to correct those negative things. So when they go to get a car loan or something, and there are negative things on their credit report, they can speak to it. Information on your credit report come from credit cards, late payments on utilities and anyone you make payments to.

Q.) Are credit cards a good way for students to build credit?

Payne:

You should use the credit card every now and then and pay it off, and that's very good thing to do to build credit history.

Q.) How should students handle student loans after graduation?

Payne:

The responsible thing to do is just to make your payments. It used to be that students would treat their student loans very cavalierly and not much would happen, but the government has gotten a little stricter in that. The student loans, in most cases, are a very desirable form of credit. One, they help you to get a college education, which is obviously very desirable. Two, they are generally very inexpensive, and they offer a long term repayment. There are some student loans available that you can take 30 years to repay. Also, making timely payments on student loans will help you create a good credit history.

## Resources

Credit Bureaus:

- [Equifax.com](http://Equifax.com)
- [Experian.com](http://Experian.com)
- [Transunion.com](http://Transunion.com)
- [Annualcreditreport.com](http://Annualcreditreport.com) (accesses all three bureaus)

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