

Financial Literacy for Undergrads



Debt
Credit Cards
Living within your means

simplifying money



Why is it SO easy to go into debt?

Let's say you go on spring break or buy a laptop. If you put \$1500 on a credit card with a 19 percent interest rate and pay the minimum each month, it will take you more than seven years to pay off the purchase. You will end up paying a total of nearly \$2400—about \$900 extra—in interest, and that does not include additional purchases!

"The best way to build good credit is to pay all your bills on time and in full; do not apply for numerous credit cards or loans."

What Otterbein students need to know (for now)

Otterbein students who follow a few simple guidelines and develop good habits now are more likely to enjoy a financially sound future, and they can start long before landing a job.

After graduation, financial literacy will—no doubt—take more and more of your time as you ponder such topics as retirement savings and mortgage payments, but for now, your primary focus should be making financial decisions that will enable you to graduate and start your career with as little debt as possible. This brochure about debt and credit cards will help you do just that.

Debt does not discriminate

Full-time, permanent income is something that normally comes after one graduates. But somehow, you have to find a way to pay for tuition, room, board, pizza, coffee, books, clothes, and the list goes on. As a college student, there is a good chance you do not have a full-time job to pay for these expenses.

The trick here is to go into as little debt as possible. So, before taking out a loan or putting your next purchase on a credit card, ask yourself what you are getting vs. what you are giving up financially.

Student loan debt is an investment in your future. You may not think of skipping or failing classes as a long-term financial decision, but it is. Student loan debt must be paid back—with interest—whether you graduate or not. A car loan is bad debt if the monthly payments eat up a large portion of your monthly income. Credit card debt is good debt if you can pay the balance every month and on time. Otherwise, credit card debt is not good debt. If you are carrying a balance every month, try to pay it down as quickly as possible.

The bottom line is this: If you wish to attain financial freedom, you will first need to be debt-free—or at least on target.

Credit vs. debit

When you use a debit card to make a purchase or pull money from an ATM, that money is deducted automatically from your checking account. With debit cards, there is no interest or monthly bills. On the other hand, if you do not have enough money in your checking account to cover the purchase, your card may be declined, or you may incur an overdraft fee, which means a \$3 cup of coffee could end up costing \$35.

A credit card allows you to borrow money to make purchases. If you do not pay the entire loan back in the designated time, you will be charged interest on the unpaid amount. So, while using a credit card responsibly can help you build credit, using one irresponsibly can lead to problems.



Budgeting 101

Determine your cash flow and see where you spend money every month. Include income and expenses that occur annually, semiannually and quarterly—such as sorority dues. Are you saving money each month? If not, take a look at discretionary spending. If possible, cut some things out. Finally, look at your expenses. Is there any way to lower them so you can live within your means? No? Then talk to an expert.

Few college students seek professional advice, ask how to manage debt or meet with a financial aid counselor. You may want to consider taking their advice. Keep in mind that employers often check the credit reports of graduates applying for jobs; credit scores determine interest rates on future purchases—a car for instance. The better your credit score, the more you will save on interest; the less debt you have, the better your credit score.

Credit cards

Ideally, credit card users pay off the balance in full each month and on time. They apply for only one card that does not have an annual fee but does have cash-back rewards. These folks pay only the amount they charge without paying interest. They only have to pay back the purchase price each month; they get 1-3 percent cash back on their purchases.



Ways to reduce expenses

- ◆ If you do not need it now, save and buy it later.
- ◆ Take advantage of everything Otterbein has to offer—from free workout facilities and entertainment to health center services and educational programming.
- ◆ Rent textbooks from the Otterbein Bookstore or buy them used and resell them.
- ◆ Avoid paying extra for cell phone data plans you do not need.
- ◆ Take advantage of student discounts around Westerville.
- ◆ Use coupons and rewards cards.
- ◆ Use online discount sites.
- ◆ Compare prices online vs. in-store.
- ◆ Take advantage of price-match guarantees.
- ◆ If you have a meal plan, use it!
- ◆ If you drink plain coffee or tea, take your own cup to the Bean or Roost for a huge discount. The Roost also discounts cappuccino.
- ◆ Check out the Otterbein thrift store.
- ◆ Do what you have to do now to graduate on time so you do not have to pay for an extra semester. Dropping or flunking out of college after taking out a loan is a financial debacle!
- ◆ Know the difference between wants and needs, and spend accordingly.
- ◆ Visit the Promise House —Otterbein's very own food pantry—if you need to.



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