Guide to Securing Your College Student's Credit Future

Credit Future

College students don't always have a healthy relationship with credit. For instance, Stephen Swift (managing attorney for Southern Colorado Bankruptcy Law Firm) relates that bankruptcy attorneys are "seeing younger and younger clients who are seeking bankruptcy protection because they got in over their heads with credit cards." Unfortunately, credit cards aren't the only concern for students – in 2015, the average college student graduated with $30,100 in student loan debt; in 2016, 11.2 percent of student loan debt was in default or delinquent by 90+ days. Even more, the student loan situation is getting worse, not better. In 2005, the average student loan payment was $227 (when adjusted for inflation) – 10 years later, the average payment was 50 percent higher ($351).

A recent study conducted by Sallie Mae highlighted some concerning statistics regarding the behavior and understanding of college students as it relates to credit cards.

•35 percent of students use their credit cards "sometimes" or "regularly" to make purchases that they don't have the money to pay off.

•Older students (21 to 24 year-olds) have an average balance of over $1,000 on their credit cards.

•Only 31% of college students demonstrated that they have a working knowledge of basic credit-related concepts. Only a slim percentage could answer all three questions that relate to interest accumulation, the effect that payment behavior has on the cost of credit, and the effect that the repayment term has on the cost of credit.

Where Parents Fit In:

Some parents may assume that their students will learn proper credit habits and financial behavior in college, but that assumption may not be correct. In fact, 71 percent of college students say they learned money management from their parents, and the percentage is higher (81%) for younger students. Only 12 percent indicated that they learned about financial management from a college course. Overall, parents should help their students find the balance between misusing credit and staying away from it all together. No parent wants their students to graduate with a ton of debt that will haunt them for years to come. To help avoid this, parents can teach their students to view credit as a tool, and they can help them learn how to use it responsibly. Modeling healthy financial and credit behaviors and setting clear expectations are the best ways for parents to secure their student's credit future.

The Purpose of This Guide

The purpose of this guide is to empower parents to help their college students (or young adults of similar age) transition to the real world by avoiding credit pitfalls and developing solid financial habits that will set them up for success.

Part 1 covers these four aspects of personal finance:

1. Credit Reports and Scores
2. Budgeting
3. Introduction to Investing and Retirement
4. The Dangers of Identity Theft and Scams

We will also describe positive behaviors and habits associated with four types of student credit, and provide parents with the resources they need to assist their students in putting them into practice.

The types of credit that we will discuss in Part 2 are:

1. Credit Cards
2. Student Loans
3. Car Loans
4. Payday Loans

Part 3 provides a guide to getting out of debt for parents to utilize if their students get in over their head. We finish by listing additional resources and teaching materials.

The complete Financial Guide can be accessed on the web at:

https://www.thesimpledollar.com/guide-to-securing-your-college-students-credit-future/