Money Management 101: Financial Tips for Avoiding Money Pits

The world of credit cards, checkbooks, monthly statements, debit cards, minimum balance, monthly fees, and savings accounts can be overwhelming if this is your first time handling your own financial affairs. You will undoubtedly face many financial issues, ranging from smaller expenses such as going to the movies and photocopying to larger expenses such as paying for tuition, rent, and car payments.

Everyone’s financial situation is different, therefore the best question is how can you make the best financial decision for you? A good place to start in making smart financial decisions is to first have a basic understanding of how to create a budget, as well as banking and credit issues.

Budgeting

The most important thing you can do to protect your financial situation is to budget! Creating a budget will help you see how much money you receive and how you spend your money. Make a list of your current and anticipated expenses. Think about your weekly expenses such as gas, food, childcare, and entertainment. You also want to consider your monthly, quarterly, and annual expenses such as rent, utilities, and car insurance.

You should also make a distinction between your fixed expenses and your variable expenses. Fixed expenses remain consistent from month to month. Examples of fixed expenses are rent and car payments. Variable expenses are expenses that can vary greatly from month to month. Examples of variable expenses are entertainment and clothes.

After you tally up your expenses, list your income. What are your sources of income? Do you receive a monthly allowance from a family member or do you work part-time? If your expenses exceed your income, then you may need to adjust your expenditures or find a way to acquire some extra money to help you pay for major non-negotiable expenses like tuition and housing.

One thing you want to avoid is going into debt, which can create additional stress and worry in your life. One way to steer clear of debt is to think about how
much you spend on variable expenses. Can you think of creative ways to reduce your expenses and save money? If you find that you are not able to reduce your expenses substantially by finding spending alternatives, you may need a “plan B,” which can be increasing work hours, getting another job, searching for scholarships, or taking out a loan.

**Loans**

While having a balanced budget is the best advice, it may not be practical. If you decide you need additional money that you do not have right now, you might consider taking out a loan.

All loans are not the same! When you choose to borrow money from a bank or other financial institution, you should always read the information they give you, especially the fine print, before you sign an agreement.

“Many people think that the cheapest loan is the one with the lowest interest rate and the lowest payments. But that’s not the whole story. The length of the loan and the fees you pay are essential in figuring the loan’s real cost,” according to the Wall Street Journal’s *Guide to Understanding Personal Finance*. Lenders are required to tell you what a loan will cost per year in terms of the annual percentage rate (APR). APR is the combined fees of the loan with a year of interest charges. Knowing the APR is useful because it gives you a way to make an accurate comparison between loans.

Be careful to note any additional fees such as application, attorney, credit search, and origination fees. The best way to protect yourself when taking out a loan is to ask questions of the lenders and make sure the lender is reputable. Some common types of lenders are commercial banks, savings and loans, and credit unions. Keep in mind the old saying “if it’s too good to be true, it probably is.”

**Credit Cards**

As you walk around malls at various times of the year, you may see tables with cool prizes or gifts on them such as water bottles, rainbow slinkies, or pens. Often there is someone behind the table saying, “All you have to do is fill out this credit card application and you can get one of these!” Twelve water bottles and three weeks later, you have a pile of new credit cards sitting at home.

“It is getting too easy for students to get credit,” says Erika Cohen, former assistant manager and loan officer at a major bank. Many people do not realize the problems credit cards can cause until they are thousands of dollars in debt. Cohen suggests signing up for only one card.

You should pay attention to the minimum balance fees and be sure to ask exactly how the minimum balance is calculated. If you pay off your credit card balance each month, you will avoid paying high interest fees and building up a large amount of debt. Cohen says, “In my years at the bank I saw a lot of people who had amassed a large amount of credit card debt.” Don’t let this happen to you!
So what do you do if you have hit your credit card limit one too many times? “Go to the bank and talk to the customer service representative. They are there to help,” Cohen says.

**Debit Cards and Checking Accounts**

Debit cards differ from credit cards in that they work like checks. They take money directly from your checking account and transfer it to the seller’s account. Although they may have a major credit card company’s logo on the front, debit cards do not create a separate balance with the credit company, like a credit card. The logo simply means that you can use your debit card anywhere that the credit card is used.

You need to be careful when you use a debit card. You still must record each purchase you make with a debit card just like you would with a check. So keep your checkbook around so that you can maintain accurate records and know how much money you have left in your account. Cohen suggests that students keep track of their checkbook and checking account balance carefully. Each month you will receive a statement from your bank that should balance with the amount of money you have recorded in your checkbook.

In addition to tracking your debit card withdrawals, you should also write down every Automatic Teller Machine (ATM) withdrawal into your checkbook. According to *The Wall Street Journal’s Guide to Understanding Personal Finance*, “Most regional banks belong to a system that gives their customers access to every bank in the region and beyond.” However, many banks differ in the fees they charge their customers to use these machines. Some charge $5-10 to withdraw money and these charges can add up.

There are many banks from which you can choose. Some banks even have special packages for college students like no minimum monthly balance requirement or no fees per check you write. You have to read all of the fine print to be aware of all the fees. Remember, if opening a checking account is a new experience for you, you may need to ask a lot of questions so you can make a wise decision.

Managing personal finances can be confusing to people of all ages. As you make your financial decisions, be sure to carefully read the information you collect from financial institutions and the documents you sign. Even with careful planning and research, anyone can make a mistake. Remember, you always have options and choices.

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