

# 20 Money Mistakes College Students

## Make

(a guide for  
students and those soon  
to be)

Sample from [20moneymistakes.com](http://20moneymistakes.com)

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Jon is the National Treasurer of the United States Submarine Veterans, the treasurer of a volunteer fire department, and his church. He is a member of the American Institute of CPAs and the Tennessee Society of CPAs.

## Preface

The purpose of this booklet is to provide you some common sense guidance on how to financially navigate the college experience successfully. Most young, new college students have no financial training. You get little formal instruction in high school that showed how to manage or control money. Unfortunately, most students leave college with a diploma but very little practical experience in managing their money.

Most adults are technically broke or bankrupt. They have no real net worth because they can't control their desire to have everything now. I've heard that in 2002, the average American spent 106% of their income. If you live on more than what you bring in, guess what? You're a financial slave -- a slave to debt, credit cards and the ever-popular monthly payment. You can not forget borrowed money has to be paid back.

My goal is to save you some of the heartache and trouble that I've seen college students go through, problems that I experienced myself as a college student. My hope is that you get some knowledge and wisdom out of this booklet that makes your financial path a little easier, a little brighter, and helps to develop good financial habits that will last you a lifetime.

Comments and questions are welcome via email to the author at [jjagues@bellsouth.net](mailto:jjagues@bellsouth.net)

God bless!

**If you received this booklet from somebody other than the author and feel this information is beneficial, please send \$6.00 to:**

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## **Credit and Debit Cards**

The deepest financial quicksand college students fall into is credit cards. On registration day, applications are handed out like free candy. Not surprising, these credit card companies could care less if you have a job or a way to pay them off. They just assume mom and dad will help you make the payments or pay them off for you.

I am amazed at how many college students come to college with a credit card, often with an unpaid or outstanding balance already. Some students entering college have multiple credit cards with substantial balances on them. Quicksand!

As a young student, you have to be very cautious about easy credit. Easy credit is where somebody will extend credit to you (a credit card company, a retail store or gas company) without having a job or any source of income. They don't care about how you are going to repay them. Their main goal is getting you trapped into debt with their company.

Credit cards look easy and convenient but what often isn't seen is the repayment schedule, the interest compounding, or the reporting to the credit bureaus. Not to mention, the interest charged on the outstanding balance each month. Visa, Mastercard and American Express exist solely to enslave you.

Never charge anything on a credit card that cannot be seen, touched or tasted three weeks from now. If you buy \$20.00 worth of gas on May 1<sup>st</sup>,

you won't see that charge until you get your June credit card statement. Then you have to buy gas for your driving in June, plus pay for the gas you've already used up back in May. You are paying a bill for something completely used up by the time you pay for it. The same is true for food or drink. You don't get any enjoyment from items consumed forty-five days ago when you're paying the bill.

The critical mistake most college students make is only paying the minimum monthly payment on their credit cards. Often the minimum payment will only cover the interest due and very little goes toward the amount you owe. In fact, sometimes the amount you owe goes up each month if your minimum monthly payment doesn't cover the interest cost. Then you pay interest on additional interest. After a few months, you can't even remember what it was you bought. The bills just keep coming in month after month.

Is a debit card the answer? No, probably not. When you don't handle cash and pay with a debit card, you don't get the same feeling emotionally as when you pay for something with cash. It just feels different when you buy a fifty-dollar item with a debit card than when you buy it with cash. When you see the cash in your hand, you are more hesitant to give it up. As a college student, pay cash for most of your purchases.

#### Jon's Advice

- You do need one credit card for emergencies.
- Never buy consumable items with a credit card.
- Use cash for most purchases.
- When you charge something on your credit card, write a check or set aside cash that same day to cover the future bill.

### **Student Loans**

Student loans are probably the second biggest financial danger college students face. I've seen clients who've had not thousands, but tens of thousands of dollars in student loans when they graduate or leave college. Loans they have to pay back every month. Sometimes those repayment amounts can amount to hundreds of dollars per month. Some payments exceed \$600 or more. Often these payments stretch for ten or more years.

Imagine if you could use that money to buy a new car or pay for a new house. Sometimes your loan payments can add up to more than half a house payment.

The other danger student loans bring is when students don't get the job you had anticipated or fail to earn the income you had expected. Many times a student cannot afford the student loan payment on top of general daily living expenses. So a compromise must be reached. You either ratchet down your lifestyle for an extended period of time, again often ten years or more, or don't pay back the loans and they eventually go into default.

The problem with going into default with a student loan is that those amounts, with rare exceptions, are never forgiven in bankruptcy or other debt relief programs.

#### Jon's Advice

- Only borrow money for educational costs, not to live.
- Borrow as little money as possible. It is usually better to work than borrow.
- Know the monthly repayment amount when you borrow.



### **Cars and Car Insurance**

Another financial pitfall or trap that a lot of young, new college students fall into is the desire to have a new, upscale car. There are several dangers hidden in your automobile. One is that students around campus are generally not very careful and respectful of other people's cars. So if you have a really nice car and somebody else is driving a junker and they bang your door, are they going to be concerned about damaging your car? Probably not.

The other problem with having a really nice car in college is the financial responsibility not only with payments on the car but with the insurance and upkeep. Many times having a car and trying to pay for it has knocked college students out of being able to continue school. The financial pressure can be hard to handle. It is easy to be derailed by things that appear to make us look good.

One of my favorite stories is about a doctor's son that went to an expensive, private college. While he was there he drove an old red farm truck that was already worn out when he started driving it. Other students were concerned about keeping up appearances and the image they were trying to project to their fellow students, but not this young man. Surprisingly, people still liked him because of his personality, his fun nature and sense of humor. Nobody cared about his old truck.

When you are done with college, you'll be able to count on perhaps both hands the number of people who will remember you and even fewer

who knew what kind of car you drove. Cars are so indistinguishable that unless you drive something that just sticks out, nobody will remember what you were driving. Don't jeopardize your collegiate future just so you can have the nicest car on campus. Don't worry about impressing or keeping up with anybody. It's not worth it. Does anybody really care?

Find a car that will get you from point A to point B reliably. Try to have it paid for as quickly as possible. I've always told my clients the best thing money can buy is freedom. The same is true for college students. While others are making payments on expensive cars, having a car that's paid for, reliable, inexpensive to insure, and easy to maintain makes you the real winner. You'll be much happier, have more financial freedom and have greater staying power in college than the guy making payments to support his image.

Having adequate car insurance will save you a lot of heartache if you have an accident or something happens to your car. If you can't afford to write a check to replace your car, you need full coverage insurance. As a minimum, you must have liability insurance in case an accident is your fault.

Many students convince themselves they can't afford car insurance. They drive around with no liability or comprehensive insurance and hope the car gods look on them favorably. The sad reality is that the smallest fender-bender can cost thousands to repair. If injuries are involved, the costs can run into the many thousands. If you are at fault, you have to pay to put the other person back where they were before the accident.

I know a former college student who did not have any car insurance while he was in school. One Friday afternoon he was driving home and he

fell asleep at the wheel. His car veered over into oncoming traffic and he struck another car. A young father drove the other car. The father was out of work for several months and had no choice but to sue the student and get a judgement against him.

When the student graduated and got a job his wages were garnished by the courts to satisfy the judgment. Sadly, he will be paying on that judgment maybe as long as twenty years. Every penny of financial damage done to that young father has to be repaid. All this financial pain was due to not having liability insurance coverage.

Another critical error is to let somebody else drive your car. Nobody will be as careful with your car as you. Letting someone drive your car is a quick way to ruin a friendship. Chances are, your 'friend' will be gone if he damages your car or other property and you expect him to accept financial responsibility.

Most insurance coverage is written to cover you driving your car. Your premiums are based upon your driving record. Your 'friend' may be a high-risk driver (a known speeder or multiple accidents) and may not be covered by your insurance policy.

The simple solution for avoiding this problem is to not let anybody drive your car.

Making smart car and car insurance decisions can help you avoid financial pressure and disaster.

#### Jon's Advice

- Buy transportation, not image. Drive what you can comfortably afford.
- Have adequate car insurance.
- Never let anyone else drive your car.

### **Campus Obligations**

A common money mistake that college students make, especially young college students, is not taking campus obligations seriously. Campus obligations can be anything from a university parking ticket, an unpaid fee, or a non-returned library book. What happens is that the college will try to collect these monies and then they'll turn them in to the register's office. The register simply puts a note on your academic file concerning the unpaid obligation.

A friend of mine and I were graduating at the same time. About a week before graduation, he turned in his letter of intention to graduate and they sent him a surprising note. The note said he would not be able to receive a diploma on graduation day because he had unpaid obligations to the university. The letter said that not only would he not graduate, the university would not release his academic transcripts to anybody. Nor would he be able to access any of his college records or transfer them to another university or the military until all monies due the university were paid.

Suddenly his world had come to a complete stop. Invitations had been mailed. His family had made necessary travel arrangements to come see him graduate, even grandma was coming. The problem was that he had finished his finals and already gone home. He wasn't planning on coming back until the day of graduation. Needless to say, he had to come back to campus and he had to go to the different places around campus and pay

unpaid fees and fines. After each liability was satisfied, he had to go to the register's office and provide proof of payment.

My point is that you have to take college campus obligations seriously. The college has a tremendous amount of leverage to see that debts are paid. Some colleges have even dismissed students after a certain period of time because of unpaid campus obligations. As a young college student, you need to be as diligent as possible about staying current with any indebtedness you have with the university. Most colleges and universities will not let you re-enroll for the next semester if you have any outstanding campus obligations.

### Jon's Advice

- Take campus obligations seriously.
- Don't underestimate the power of the school to collect campus obligations.
- Verify your satisfactory payment of any campus obligation.
- Review your outstanding campus obligations twice a semester.

### The Envelope System of Money Management

The envelope system of money management is the simplest method of controlling spending and working with a budget. This is the system your grandmother probably used to manage her household. Even though the system is straightforward, it is also very powerful.

For each budget category, get an envelope and put the budgeted amount inside. It's that simple! If your budget calls for \$30.00 for gas and \$45 for food for the next two weeks, get cash and put those amounts in two separate envelopes. When you need gas, take the gas envelope and use the money inside. The same would be true for food. Once the envelope is empty, you've spent all you budgeted on that item.

The envelope system is especially effective with impulse purchases such as clothing or music CDs. Impulse buying can wreck a budget if it is not kept in check. Even savings can be budgeted in an envelope and used in case of an unexpected budget shortfall. You should see a pattern if a specific budget category consistently runs short of funds.

## Emergency Reserve Account

Life is full of surprises. Period. These surprises happen whether you are eighteen, forty or seventy. The secret is to be ready for life's surprises. Remember the Boy Scout motto? "Be Prepared."

As a college student, you will face your share of surprises. I remember when I was in college and the motor in my Honda Civic blew an oil-seal and caused over \$1,200 in damage. Luckily, I had a \$1,000 CD (Certificate of Deposit) that had matured and I used it to pay for the engine damage.

Before you head off to college, you need to have at least \$500 in an emergency reserve account. Your emergency reserve account is NOT your savings account! Savings accounts are used to accumulate money for something you want or need. Your emergency reserve account is for catastrophic financial crises that threaten your wellbeing. Examples of financial crises include getting laid off from your job, an extended illness or large, unexpected bill. These events will happen and usually at the very worst times. Expect them.

### Jon's Advice

- Be prepared and expect the unexpected.
- You need \$500 in an emergency account before going to college.

A diamond with a flaw is still more valuable than the most perfect common stone.

The best time to plant a tree was twenty years ago, the next best is today.

Chinese Proverbs

## **Your Credit Report**

Do you want to buy a new car when you get your first post-graduation job? Or even a new house? Or get a loan to buy something? If so, the decision for somebody to lend you money will depend on your Credit Report.

What is your credit history? Credit information is gathered by three different major credit information gathering services-- Equifax, Experian and TransUnion. They gather information such as payment history, loan amount and times you paid late, from banks, car finance companies, mortgage companies, credit card issuers and other lenders. They then sell this data to other potential lenders.

If you don't pay your bills on time or don't pay them at all, your credit history will reflect that you are a credit risk. Many lenders will avoid extending credit to you or charge you a much higher rate of interest because of your credit score.

Do everything you can to guard and protect your credit history, sometimes called your credit score. You are given a numerical score based upon the data in your credit report and this score determines your ability to borrow. A payment received one day after the expected due date will cause damage to your credit score.

Even worse, if you don't pay back money you owe, you could have what's known as a 'charge-off' on your credit report. A 'charge-off' means the lender wrote off your debt as uncollectable, meaning you're a dead-beat

and a poor credit risk. Eventually you will have to pay back the money you owe before the ‘charge-off’ can be removed from your credit history.

It is extremely easy for college students to cause themselves a lot of financial harm by not guarding their credit history information. Credit cards (See Chapter 1) are probably the main culprit. They can cause problems for many years. Credit cards are the kiss of death if they are uncontrolled. Avoid them like the plague!

To see what is already on your credit history report, you can get a copy of your credit history by going to [www.equifax.com](http://www.equifax.com) and ordering a 3-in-1 credit report (your credit history from all three credit reporting agencies).

Your future ability to borrow money depends on how well you take care of your credit.

Note: Many future spouses are now getting credit reports on their potential spouse to see if they are credit dead beats. I’ve seen bad credit derail several potential marriages.

### Jon’s Advice

- Take credit seriously!
- Check your credit report at least annually.
- Know what makes up your credit score.
- Protect your identity and other personal information, especially on the internet.



## A Few Words On Success

The key to success is **personal responsibility**, followed closely by **desire**. These keys are the common thread of all successful people. Life's events and unexpected turns happen to all of us. How they impact us is completely up to us.

Success is not a destination, but instead is the wonderful journey we all take called life. In life, love and money, activity breeds activity. Action oils the machine of success. Complacency and acceptance of the status quo are the mortal enemies of success. Success is based on doing 'it' today.

Create your own success. Lay out your own plan. Walk to your own drummer.

Set your goals in stone. Once you have your goals, everything else is implementation. Set goals that will become the roadmap of what you want to accomplish. Easy goals are a waste of time. Set meaningful goals.

Be a learner. Learning is growing and growing is moving toward being successful. Dedicate yourself to a lifetime of learning and you'll be successful. Success has very little to do with aptitude, but everything to do with attitude. There will be failures along the way. Failure is an opportunity to learn, grow and evaluate yourself.

Avoid self-imposed stumbling blocks such as laziness, apathy or risk aversion. Look around at what other people are doing, then do something different. Action equals success.

Here are some ideas for you to think about:

- You can't push a rope.
- If you don't get into trouble, you don't have to find a way out.
- Don't paint the wrong wall really well.

Lastly, if you get the chance to dance, I hope you dance.

Good luck! I hope this booklet saves you much financial heartache.

## Recommended Books

These books will give you an outstanding foundation for a lifetime of success, learning and financial security. What did they teach you in high school about handling your finances? The ‘real-world’ prepares you even less. **Education is expensive; pay for it now or pay for it the rest of your life.**

1. *Financial Peace* by Dave Ramsey
2. *The Millionaire Next Door* by Thomas J. Stanley, Ph. D.
3. *The E Myth Revisited* by Michael E. Gerber
4. *Patton on Leadership* by Alan Axelrod
5. *The Art of War* by Sun Tsu
6. *Rich Dad Poor Dad* by Robert T. Kiyosaki
7. *Money Matters* by Larry Burkett
8. *Think and Grow Rich* by Napoleon Hill
9. *The University of Success* by Og Mandino
10. *Book of John, Bible*
11. *Life, Love & Money* by Jon D. Jaques, CPA