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Life lessons can shape college students' money management skills

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One of the most frightening things for parents – besides handing over the car keys – is sending their child off to college to manage not just their academic life, but also their finances. But you can head off financial disasters if you have a heart-to-heart talk with your child about managing money. Don't just impart a list of dos and don'ts; have an honest conversation about the financial lessons you learned growing up, your values and expectations.

"What did the parents learn about money and how did they learn about managing money when they were in their 20s?" said Paul Goebel, senior associate dean of students at the University of North Texas Student Money Management Center. "If the family doesn't share those experiences, it's trial and error."

Beth Kent's 18-year-old daughter, Amy, is set to start college in the fall at Texas State University at San Marcos and has done a good job managing her money.

"She has had her own checking and savings account for at least a couple of years," said Kent, an internship adviser at UNT. "She's had four jobs this summer and is saving her money."

Amy makes payments on her car and auto insurance on her own, Kent said.

"She has her own debit card," she said. "She doesn't have a credit card yet. I don't think I'm ready for that yet."

Credit card questions

That is one of the big issues facing parents: Should their child have a credit card and, if so, what should it be used for?

"If a student has to use a credit card, what type of purchase would the family feel is appropriate to put on a credit card?" Goebel said. "Is it food? Is it tuition? Is it textbooks, or is it simply for emergency reasons?"

The Credit CARD Act of 2009 prohibits those younger than 21 from getting a credit card unless they have a co-signer or can prove that they have enough income to cover the payments. For many students, that will make credit cards less available.

Should Kent decide that her daughter is ready to dive into the world of credit, she could co-sign on the card.

But many parents may not be comfortable with that. For one thing, when you co-sign on a credit card for your child, both your credit histories are on the line. If your student defaults on the card, your credit score will take a hit along with his or hers.

"Co-signing should only be an option if your student can use a credit card responsibly," said Bill Hardekopf, chief executive of LowCards.com, a credit card information website. "If the student makes a late payment, it also shows up on the co-signer's credit report. If the student can't pay off the debt, the co-signer is responsible for all the debt."

The other option is to add your college student to your credit card as an authorized user. An authorized user is any person who has permission to use a credit card account, but isn't responsible for paying the bill.

Since you, the parent, are the primary user of the credit card, you can quickly spot any charges your child puts on the card by looking at your monthly statement.

If you co-sign for a card in your child's name, you may not be able to catch spending or payment problems in time because the child would receive the bills.

If your college student does get a credit card, it should be one with a low annual percentage rate, and the student should pay it off each month to build credit, said Weston Burnett, certified financial planner and co-author of *Lessons to My Children: Simple Life Lessons for Financial Success, Wealth and Abundance*.

Banking ins and outs

Of course, managing money in college goes beyond being able to handle credit responsibly. It's also about managing the money the student has in the bank.

"If you're trying to teach kids how to manage their money, they really need to understand how an account works and the ins and outs," said Erin Constantine, senior vice president and product manager for consumer and business deposits at Wells Fargo. "What we recommend is learn to manage your accounts and keep track of your balance."

Parents may also open a joint checking account with their college student.

"It is very common for parents to be on the checking account," Constantine said. "Some of them are not ready to give all that responsibility completely to their student."

Of course, if your child runs out of money and calls you in desperation, you will have to decide how to handle that.

Goebel said parents should try to listen with an open mind and not be judgmental about their child's behavior.

"Try to empathize with your student and help them identify a solution," he said.

At UNT, Goebel's team will engage students through role-playing before they actually have to make that dreaded call home.

"We role-play them calling home, and we have the role as their parents to get them to take responsibility for their actions, and most of all, they need to show the maturity to present a solution," Goebel said. "Don't just simply share the problem, but share a solution to the problem."

Also, be honest about your ability to help your child financially.

Burnett and Goebel said parents should ensure that their college-student child knows exactly how much higher education is costing the family.

"Within 24 hours of any student attending orientation on any college campus, they and their family should know to the dollar what anticipated college expenses will be for the fall semester – tuition, housing costs, meal plans, fees, parking permits," Goebel said. "Many colleges have the information on their website."

That will help them create a budget, Burnett said.

"I am a strong believer in them having some money in play themselves, so it isn't all Mom and Dad or somebody else paying for it," he said. "That's a bad habit to build. They rob the child of the lessons of learning how to do it themselves."

Kent says she's straight up about her financial limits with Amy and with David, her 22-year-old son, who's living at home while attending graduate school at UNT.

"I don't buy them everything they need," Kent said. "I let them know I'm just not going to put stuff on the credit card just because they want it."