How to Prepare Your College Student for Financial Independence

From saving to spending, building credit to using a credit card, here's everything college parents need to know about teaching their student financial responsibility.

CollegiateParent

www.CollegiateParent.com

Introduction

During college, your student will learn and grow in many ways. They're expanding their intellectual and personal horizons, making new friends and living independently for the first time.

As they find their own way through this new landscape, they'll still look to you for advice in a few important areas. One of these is financial responsibility.

56% of young adults say their parents are their primary resource for financial education while growing up.

And 43% continue to see them as the most important source of financial guidance after they are on their own.

From adopting a savings strategy to understanding how to build credit, your college student is at the perfect age to develop smart money habits. You can help them take steps now that will carry them into a stable financial future.

In this guide, we give you the tools and talking points you need to help your student:

- **Learn to manage spending money and stick to a budget**
- **Develop smart saving habits**
- **Control the overall cost of their education and avoid debt**
- **Build credit and use a credit card for the first time**

You might even pick up a few tips yourself!

Budgets and spending money

Learning to manage money is one of the biggest challenges outside the classroom for students adjusting to college life.

Suddenly they're responsible for paying for all sorts of things on their own — from textbooks to groceries to laundry (hopefully!). The convenience of smartphones and debit cards can make it easy to let little purchases add up to a financial headache.

The parent's role? Help your student make a budget, and keep an eye on the money going in and out of their bank account. Use our **printable budget worksheet** to start. There are many useful apps as well, like mint, Budgt, Toshl Finance, iXpenselt, and more.

Start with a conversation

Whether or not your student will receive an allowance (more on that later), most parents agree that students should be expected to earn and save money to cover at least some of their "extra" expenses in college (beyond tuition, room and board).

First, you need to define the extras. Next, be clear about what you're willing to help your student pay for, and why.

Flexible/recreational expenses to discuss with your student:

- **Textbooks, school supplies, electronics**
- **Clothing**
- **Linens and furnishings**
- **Toiletries and laundry money**
- **Food/drink outside the meal plan**
- **Entertainment**
- **Local travel (bus pass, Uber)**
- **Travel home and on breaks (train, plane)**
- **Sorority/fraternity or club/team dues**

Allowances and supervised spending

Some families give their college students a monthly allowance, ranging from $75–$225, to supplement the student's own savings.

After the first year — especially for students making good money through summer employment — an allowance may no longer be necessary. Here are a few strategies for student allowances and supervised spending:

Linked checking account

Create a checking account that's linked to your own account. This way your student can use their debit card as needed, but you can see all their transactions. Your student can use their debit card as needed, but you can see all their transactions. Later you can review their spending habits together and if needed increase the allowance for legitimate expenditures, or cut back in certain areas (like fast food, clothes or entertainment).

Monthly deposit

Another strategy is to deposit a monthly allowance directly into your college student's bank account which is theirs to spend or save. You and your student can decide on an amount before they start school, then revisit it after their first term and again after their first year, agreeing on any changes.

Supervised spending

Some parents help their student budget by taking charge of the student's earnings and then doling it out in monthly installments as an allowance.

A few important considerations:

- **Will your student be in charge of their own savings?**
- **Do you want to control the amount of money available each month, at least for the first term or two?**
- **Will you see their bank account activity?**

Should your college student get a job?

To keep money coming in, many students get campus jobs, even if just for a few hours a week. This can help cover the extras like eating out, clothes and entertainment.

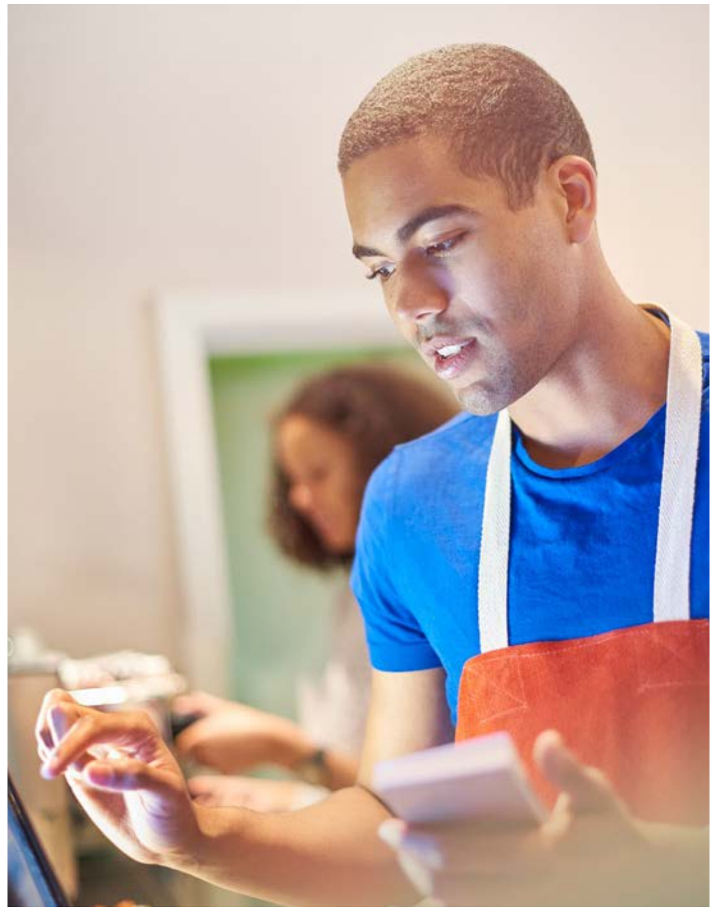
Your student may qualify for **federal work study** as part of their financial aid package. But even students without work study should find plenty of employment opportunities. **On-campus departments** that hire students include the admissions office, dining services, the recreation center, the library, campus museums and performance spaces, and the tutoring center.

Off-campus jobs are a great option for some students. Working at a local restaurant, boutique or day care center can help them feel connected to the larger community in a meaningful way and give them a reason to get off campus.

Most parents agree that students should prioritize their studies and extracurriculars over a paying job, and you may prefer to see your student settle in for a term or two before they apply for a position. For some college students who are athletes, musicians or heavily involved in commitments like the school paper or student government, going to school and holding down a part-time job might be too challenging.

But keep in mind that, in general, students who work part-time during the school year get better grades than those who don't.* Since they have to budget time for study, they tend to be more focused and organized — and making a personal financial investment in their college experience may make them less likely to take the opportunity for granted.

Be sure to revisit your student's financial needs and the intensity of their academic schedule every term to help them figure out how much time they can devote to a campus job.



Other considerations

- **If a big expenditure comes up — a new phone, car repair — talk through it with your student and find a solution, like splitting the cost with them.**
- **Encourage your student to think ahead about the extra expenses that might go along with a semester abroad (primarily extra travel while in another part of the world) — or maybe they want to save up for a special spring break experience!**

**The findings in a 2009 study published by NASPA, "First-Year Students' Employment, Engagement, and Academic Achievement: Untangling the Relationship between Work and Grades" by G.R. Pike, G.D. Kuh and R.C. Massa-McKinley, have held up over time.*

The saving habit: start early

Every college student should learn to plan and execute a smart money saving strategy, no matter their income.

In addition to making a budget for the fall (which you can review together over winter break and adjust for the spring term), encourage your student to keep longer term financial goals in mind. This is especially important for rising seniors who will graduate at the end of the year and may need funds to travel, move to a new place, secure an apartment, and more.

Help your student come up with some numbers. How much money should they have in their account when the next school year starts? How much would they like to have saved up by graduation?

During college their income may come from:

- **Campus and summer job earnings (some students have jobs where they can pick up shifts whenever they're home, including over winter break)**
- **Gift money**
- **Allowance**

The 10% rule

No matter the source of their income, your student should start putting some of it into their savings account (not in checking where they can spend it with their debit card). This habit, if started early, will serve them well when they have their first "real" post-college job.

The easiest way to make this happen? Estimate their monthly income and set up auto-transfer each month from their checking to their savings account. If they have a particularly well-paying summer job, they can set aside more.

Even students who don't work during college (maybe they focus on volunteering or unpaid internships) and who receive a parental allowance can still nurture the saving habit by putting some of that money aside on a regular basis.

Independent off-campus life

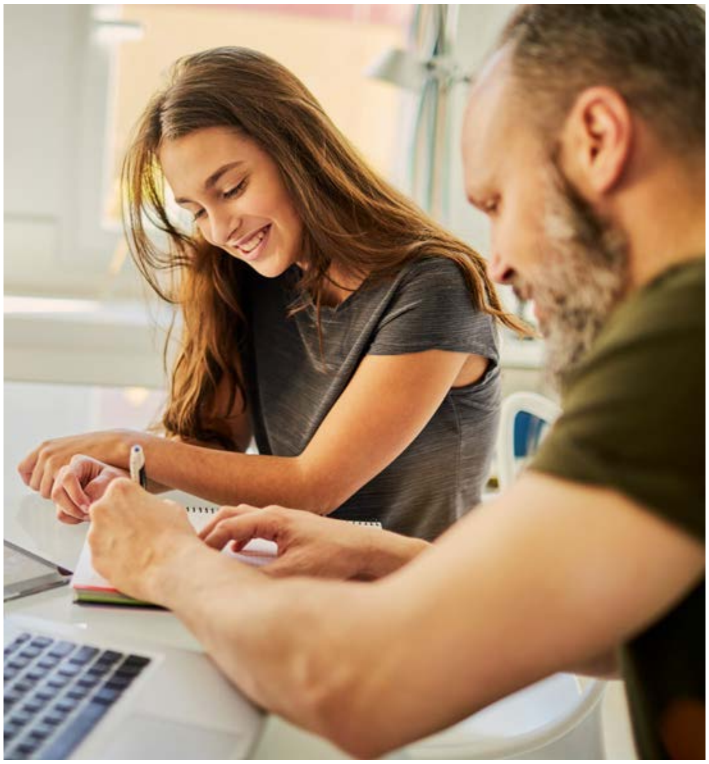
There are more money lessons you'll want to teach your student when they prepare to move off campus, whether as an upperclassman or a new college graduate:

- **How to decide on an affordable rent (based on their income) and then locate a suitable housing situation**
- **Understanding the financial commitment they make when they sign a lease**
- **How to shop for insurance (renters, auto, etc.)**
- **The importance of paying bills (especially rent) on time**
- **Starting a 401(k) or IRA account**

Share your own successful strategies

Many financial experts recommend sharing what you feel is appropriate about your own finances, retirement plans and estate documents with your young adult children. This can be a good teachable moment about money and investments: when to purchase a big-ticket item, when and why to wait, and what kind of considerations go into making these decisions.

You may find you're relieved to have them in the know about how these things work in your household. If you have a budgeting/saving system that works for you, break it down and share it.



Controlling costs in college

During the upcoming school year, and all through college, you and your student can work as a team to keep the overall expense of their education under control so they don't graduate with more debt than they can comfortably manage.

1. Apply for financial aid each year.

Filling out the FAFSA (Free Application for Federal Student Aid) is the doorway to being considered for federal aid and also merit aid from the school.

2. Apply for scholarships, too.

They're not just for first-year students, and can be a straightforward way to reduce any family's higher education costs. To begin the search, your student can contact the financial aid office and career center on campus and use online scholarship search engines, too.

3. Don't forget fellowships.

Many colleges and universities make funds available to students who want to work, study, or travel for an unpaid research or internship opportunity. Your student should investigate and apply.

4. Reevaluate the meal plan.

Don't pay for meals your student doesn't eat.

5. Save on housing.

Suggest that your student apply to be a Resident Assistant next year. RAs typically receive free or reduced price on-campus housing. If your family is really feeling a pinch and your student attends school nearby, they might consider moving home and commuting to campus for a year or two.

6. Count their credits.

If the college accepts AP/IB course credits, be sure your student makes the most of any they earned in high school. Transfer students should meet with a transfer advisor at their new institution to make sure all their credits carry over.

7. Leave the car at home.

Riding a bike is more fun anyway! No need to pay for insurance, maintenance, gas, parking, etc. Public transportation is often efficient (and sometimes free) on and near campus. Membership to a car-sharing service like Zipcar is another option.

8. Keep track of any loans.

Be sure your student understands how much money has been borrowed and who will be responsible for repaying it. They should know the interest rates and who the lender is. Save money by not borrowing more than you absolutely need to. **Click for more tips**.

9. Tweak travel expenditures.

If your student's school is far away, you'll need to negotiate how many times they will come home each school year. By discussing in advance, they can come up with other ways to spend some of those breaks. Many schools plan activities, including service trips, for students who stick around when classes aren't in session.

10. Graduate in four years or less.

Consider summer classes (perhaps at a local community college) if necessary — this will cost less than another full year of college.

Credit 101

What your college student needs to know about building credit & using a credit card.

From signing a rental lease to getting a car loan, credit is an important key to your college student's financial future.

The **Credit CARD Act of 2009** bans credit card approvals for anyone under 21 unless they have an adult co-signer, or can prove they have sufficient income to pay the bills. Still, **67% of 18- to 24-year-olds** have at least one credit card at their disposal.

However, just because a college student can own a credit card doesn't necessarily mean they've learned how these accounts work, and the best way to manage them. Without that education, overwhelming debt and a bad credit rating can soon follow.

Fortunately, you can help your student develop a successful relationship with credit cards. After these 8 basic lessons, they'll understand the role of credit, how credit cards work and how to use one responsibly.

Lesson 1: The issuer's role

Banks, credit unions and credit card companies issue credit cards to qualified applicants. Each card is assigned a credit line, which is the preset sum a cardholder may borrow.

At the end of the billing cycle (about 30 days), the issuer sends the account owner a statement outlining all transactions, the total balance, minimum amount due, and the payment due date.

The account remains in good standing as long as the issuer receives at least the minimum amount due by the payment due date. If less than the full balance is sent, the remainder carries over to the next month's statement and interest begins to accrue.

Lesson 2: The price to pay in installments

Paying the entire balance of your credit card by the due date is ideal. But there are times when paying just a portion makes sense.

For example, maybe your student needs a new laptop costing $1,000 but doesn't have the cash. Charging it and paying over time is always an option, but interest will be added to the revolving balance.

The higher the interest rate (the annual percentage rate, or APR) and the lower the monthly payments, the more money and time it will cost for your student to pay off the laptop.

The chart below illustrates why the best way to repay a credit card debt is by making substantial and steady monthly payments:

If your student makes the minimum payment:

$1,000	17% APR	29% APR
Minimum payment	$30 to start, tapering to $25	$30 to start, tapering to $25
Total interest cost	$451	$1,571
Pay off time	57 months/4.75 years	100/8.33 years

If your student makes a fixed payment:

$1,000 charge	17% APR	29% APR	17% APR	29% APR
Fixed payment	$100	$300	$100	$300
Total interest cost	$86	$32	$158	$56
Pay off time	11 months	4 months	12 months	4 months

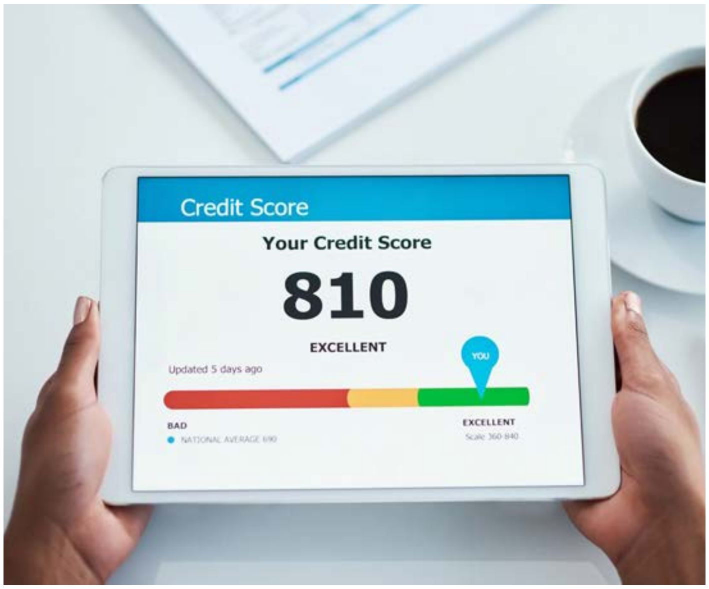
Lesson 3: Additional fees

There are other costs associated with credit cards.

The first is an annual fee, which is the amount an issuer may charge your student to keep a credit card active. Not all accounts have annual fees, but for those that do, the current range is anywhere from $32 on up to hundreds of dollars.

Other fees may be tacked on as penalties. If your college student exceeds the credit limit, the issuer may add $25 or more to the balance. Pay late, and it could cost another $25 or so.

Your student can avoid punitive fees by paying attention to due dates and balances. In addition, the over-limit fee will not apply if your student doesn't "opt-in" to charge more than the credit line.



Lesson 4: Your student's credit report card

Each month, the credit card issuer will send your student's account activity to the three credit reporting agencies: TransUnion, Equifax, and Experian.

These companies create consumer credit reports that house data, including the date the account was opened, the average daily and ending balance, and payment pattern. Your student can access these reports for free once a year from AnnualCreditReport.com.

Anyone with a legitimate business purpose can pull reports, too. For example, landlords and employers will usually want to see a recent copy. Lenders will check, but typically make decisions based on credit scores, which are the numerical expressions of your student's creditworthiness.

Lesson 5: Your student's credit "GPA"

[FICO](#) and [VantageScore](#) are the two major credit-scoring companies in the U.S. They use the same 300 to 850 scale, with higher numbers indicating less lending risk (aka, a better score).

To develop a high score, your student should:

- **Always pay by the due date.**
- **Keep debt at zero or very low compared to the credit line.**
- **Use the card regularly, even if just for small purchases, to avoid having the account automatically closed.**
- **Don't open and close cards. The average age of credit lines is taken into account.**

Simple? Yes, but it does require willpower (as you probably know from your own experiences). Your student will need to resist the temptation to use the card to buy non-essentials.

Lesson 6: Choosing the right credit card

Student credit cards are developed specifically for students enrolled in college, and come in two varieties:

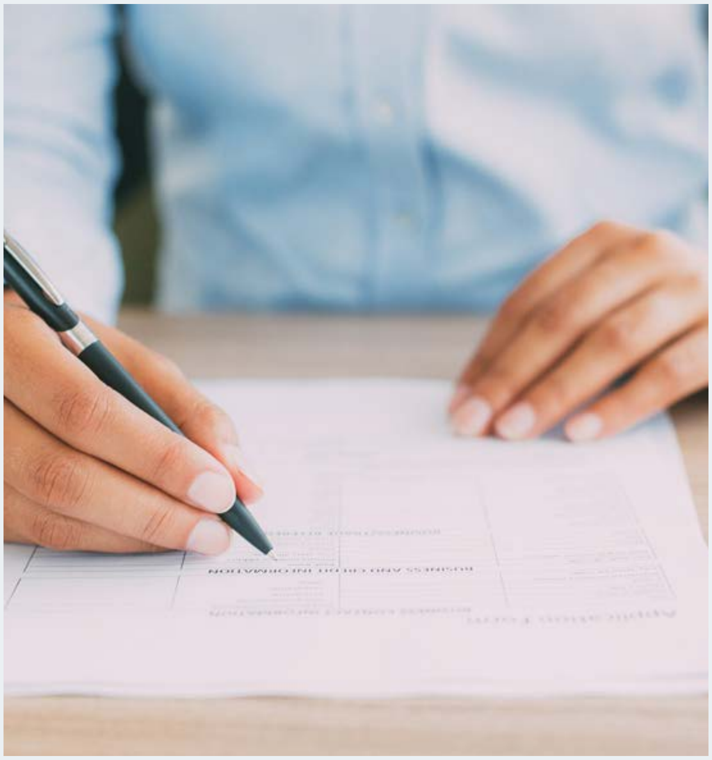
Secured

- **Money is put down as collateral, and the credit line usually matches that sum.**
- **If the student defaults on the account, the issuer can claim what is owed from the funds held in deposit.**
- **These cards are easy to qualify for because the lending risk is greatly reduced by the security deposit.**

Unsecured

- **No money is put down as collateral, so unsecured student cards tend to have higher qualification standards.**
- **If the student has a reliable income source, the issuer may grant an account with a low credit limit.**
- **Another way for your student to obtain a first credit card is to make them an authorized user on your account. That card will show up on all cardholders' credit reports, but only the owner (you) will be liable for the payments.**

Lesson 7: How to apply for a credit card



After you help your student review credit card offers that seem suitable, it’s time to guide them through the application process.

Per federal law, anyone under the age of 21 must complete a written application (either online or by submitting a hard copy in person or by mail) and prove financial capability.

The application will have a field for income source and amount, and the issuer may verify this information. If you provide economic support, your student may include it, as well as funds from scholarships and grants. However, student loans are not considered.

Lesson 8: How to manage the account

Once the credit card is granted, your student should keep their card safe and monitor their account carefully and often.

It’s smart to review activity every few days, either online or via the issuer’s app. Your student will see a running total of their charges and can scale back spending before the balance grows too high.

This is also a good way to be sure they catch and address any mistakes and fraud early. As you also know, perhaps too well, learning to communicate with a credit card issuer’s customer service representative is an essential life skill.

Should you add your student to your credit card?

This is one option if you'd like to support your student financially, but don't feel they're quite ready to manage their own card. Set up is easy; you just need to phone your bank. Remember that managing the account will always be your responsibility.

The advantages:

- **Your student doesn't need a job or their own income to qualify for a card.**
- **Being on your card helps them jump start their own credit history.**
- **You can control their spending, and privileges are easily revoked if they don't follow the rules you set for use of the card.**
- **You may receive extra reward points for adding an authorized user.**

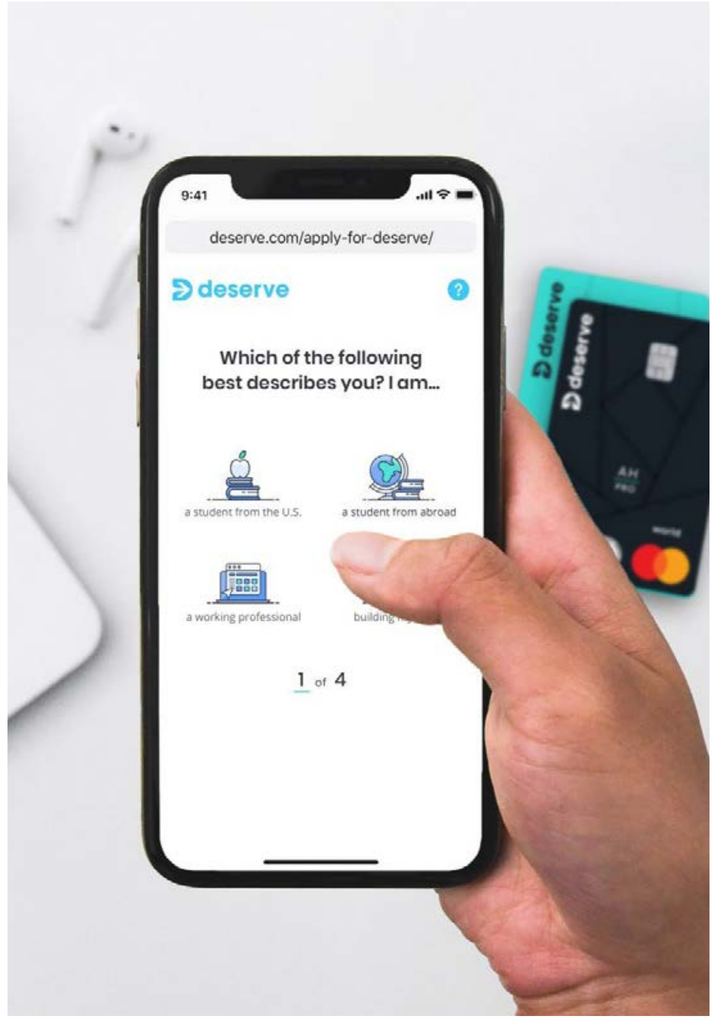
Learn more about adding your student to your credit card by **clicking here**.

deserve

A credit card made for college students

CollegiateParent is a proud partner of Deserve. Deserve is a credit card issuer that offers credit cards to students who either lack a credit history or are looking to build or expand.

Deserve doesn't require students to get a parent to cosign on their application. This independence allows students to build their credit history on their own, without the need for being an authorized user on a parent's card — helping your student get on the path to financial independence and responsibility.



Basics and benefits of a Deserve card

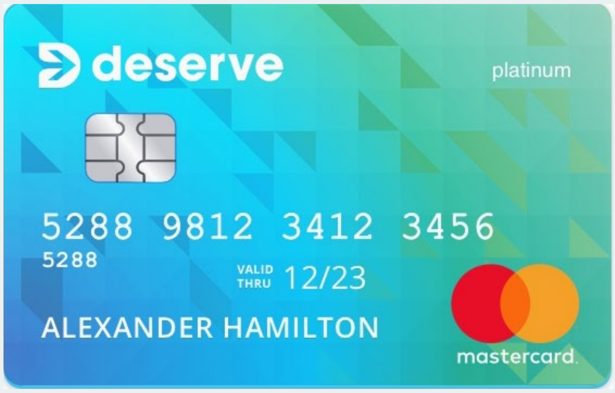
Deserve offers three credit cards: the Deserve Classic, the Deserve® Edu Mastercard for Students and the Deserve® Pro Mastercard. The features of these cards include:

No security deposit required

A report to two credit bureaus: TransUnion and Experian

No foreign transaction fees

Deserve Classic



The Deserve Classic credit card is perfect for college students who are new to building credit.

It has a low annual fee, and requires a Social Security number. For applicants with no credit or low credit scores, Deserve uses its own underwriting process and algorithm to evaluate creditworthiness.

Cardholders won't earn any rewards, but they will get the chance to build credit and to potentially upgrade later to the Deserve® Edu Mastercard for Students or Deserve® Pro Mastercard if they have consistent on-time payments and/or show a credit score improvement.

Deserve® Pro Mastercard

The Deserve® Pro Mastercard credit card is for employed applicants, including new immigrants, who have already started to build or establish credit in the U.S.

The card requires a Social Security number, which is used to determine whether an applicant has established credit. Deserve will then evaluate the applicant's credit score and other factors to determine their creditworthiness for the card.

Many college students who are initially approved for the Deserve® Edu Mastercard for Students credit card can eventually migrate to the Deserve® Pro Mastercard and will get to keep the length of the account on their credit history, which can help their credit score.

Deserve® Edu Mastercard for students

The Deserve® Edu Mastercard for Students is for all eligible students — including international students — who are attending a U.S. college or university and want to get an early start on building credit and earning rewards.

Deserve doesn't require a Social Security number from international students to apply for this card. For domestic students, Deserve will collect their Social Security number to check for any negative issues on their credit histories. Assuming an applicant passes that check, Deserve uses its own underwriting process and algorithm to approve or deny an application for the Deserve® Edu Mastercard for Students.

Deserve® Edu Mastercard for Students cardholders earn an unlimited 1% cash back on all purchases. Rewards automatically redeem as statement credit in $25 increments. The card also includes an offer for Amazon Prime Student. Deserve will cover subscription fees up to $59. Lifetime Value of $59.

All cards come with the following Mastercard Platinum benefits:

Cellphone Insurance

Coverage for up to $600 when your cellphone is stolen or damaged.

Extended Warranty

Doubles the original manufacturer warranty up to a maximum of 12 months on most items.

Travel Assistance Services

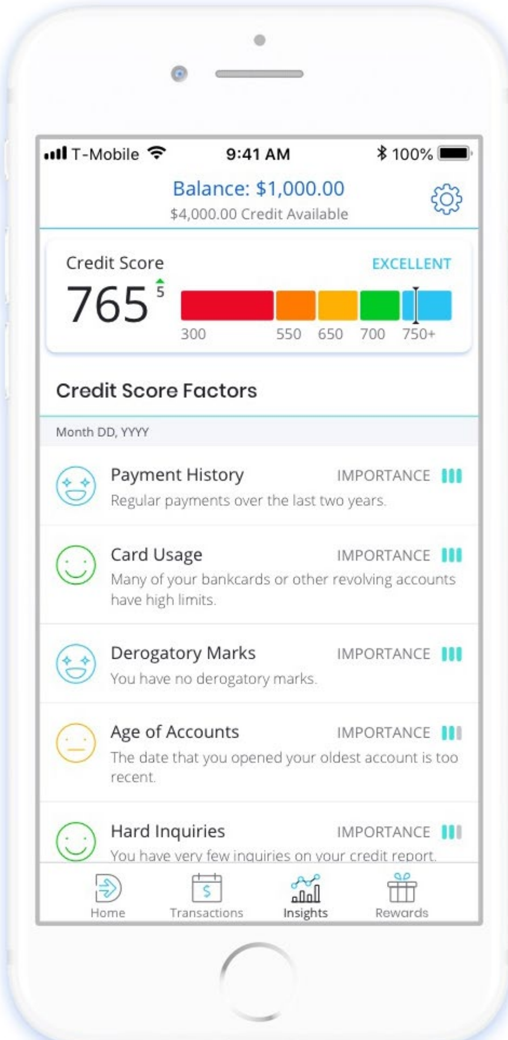
Lost luggage, medical assistance, and legal referrals when you're traveling 50 miles or more from home.

ID Theft Protection

If you believe you are a victim of identity theft, you'll have access to a number of identity theft resolution services.

Nerdwallet put together a quick and easy-to-read chart featuring all the benefits of the **3 Deserve credit card choices** for college students:

Card Name	SSN needed?	Deposit/credit limit	Annual fee	APR	Rewards/perks
Deserve Classic	Yes	None/Up to $1,500	$0	Variable APR of 23.99%	None
Deserve® Edu Mastercard for Students	No for international students; yes for others	None/Up to $5,000	$0	The ongoing APR is 20.99% Variable	Unlimited 1% cash back on all purchases; reimbursement for Amazon Prime Student membership.
Deserve Pro Mastercard	Yes	None/Up to $10,000	$0	The ongoing APR is 18.49% - 25.49% Variable	3% cash back on travel and entertainment, 2% cash back on restaurants and 1% cash back on all other purchases.



How to apply

For college students with established credit and high enough credit scores

- **The application process is just like a regular credit card, with FICO scores determining the results.**

For college students with little or no credit

- **Deserve uses an algorithm instead of FICO scores to determine your student's creditworthiness and ability to pay. The algorithm measures students' credit potential instead of their credit history.**
- **Deserve evaluates the school, major, student visa if applicable, passport ID if applicable, and their likelihood to graduate and get a job.**
- **Deserve looks into U.S. bank account balances to determine an applicant's ability to pay.**
- **Deserve also considers whether contact information — physical address, email address and phone number — has changed over the years (they want to know that they can contact your college student easily).**
- **Deserve doesn't allow co-signers, so all applicants under 21 must prove their independent ability to pay in order to qualify.**

Your student's first credit card can be a gateway to building credit, earning rewards, and learning financial responsibility that can last a lifetime.

See if Your Student Pre-Qualifies