Your Money and You

ge students
ide to money
gement

Hey, college students: plastic or paper?

by Diana McCabe
September 12, 2000
Knight-Ridder Newspapers

SANTA ANA, Calif. -- Sandra Escala wanted an education when she went to college. She got one a 10-year lesson in personal debt.

After only one year at Saddleback College, the Mission Viejo, Calif., woman had run up a total of $10,000 on nine credit cards she'd gotten as a freshman. She overspent on clothes, dinners and furniture. The card that started the problem a Visa was her very first credit card. And she got it on campus.

Escala had to quit school at age 19 and get a full-time job to chip away at her bills.

"School was out of the question. It became a luxury I could not afford," says Escala, now 29. Debt, she notes sadly, has cost her time. "It took me 10 years to get out. By now I could have had a master's degree."

Escala's experience is a cautionary tale for the thousands of students who are arriving on campuses. It's not tough to get plastic. There are few, if any, income requirements because issuers know most parents will bail out kids who rack up big bills. No credit history is needed.

Just fill out an application received in the mail or at the credit card tables that are set up at on some campuses.

You might even get a free T-shirt as an enticement, possibly distracting you from the high interest rates the cards carry on average, 17.5 percent.

"It's very easy to get a number of cards," says Gerri Detweiler, an education adviser with Myvesta.org, a group formerly called Debt Counselors of America. "The issuers want to grab the students early so they can establish a relationship."

Used correctly, a credit card can help a student establish a good credit history before entering the work force, says Detweiler. If students make payments on time, it shows future lenders responsibility. Once they're out of school, it will be easier to get a car or home loan.

But misuse can lead to deep debt and to blotches on a credit report that will haunt a student long after he or she graduates.

It took Escala almost a decade to conquer her debt. After she quit school, she bought a car, which sank her further into a cycle of missed payments. Debt interrupted her education for eight years.

It ruined an opportunity to become a law-enforcement officer after a background check revealed 74 late payments on her credit report. And in her most humiliating moment, a creditor served her with a judgment at work.

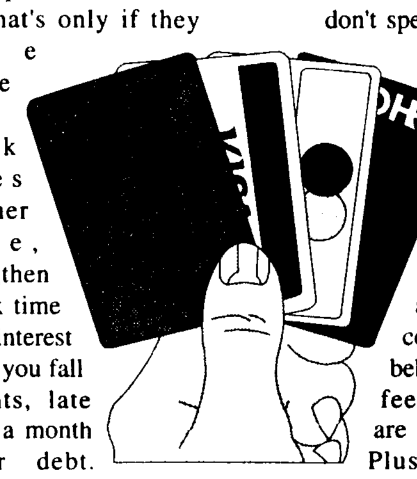
"I blame myself," says Escala, who is now free of credit-card debt. "I didn't think about the minimum payment, interest rate or late fees. I knew nothing."

Students can avoid the credit card trap by understanding how their plastic works and more importantly when to use it.

School supplies, gasoline and car repairs are considered OK purchases to make with credit cards, experts say. Also emergency spending, such as an unexpected trip to the doctor or dentist. But "an emergency does not mean a sale," says Sally Antwiler, an education adviser at Consumer Credit Counseling Service in Santa Ana.

What's not OK to charge? Dinners. Drinks. Clothing. Groceries. Movies. "If you're living off your credit cards, you're in trouble," Antwiler says.

Once students start carrying a balance, the card becomes costly, especially if they're only making the minimum monthly payment. Sure, these cards usually only carry credit limits of $250 to $1,000. But by sticking to the minimum payment, a student would take seven years and $804 in interest to pay off a $1,000 balance on a card with a 17.5 percent annual rate.



That's only if they don't spend more on the card. Add more purchases, rack up late fees and a higher interest rate, and you'll lengthen the payback time and increase the interest costs.

If you fall behind on payments, late fees of about $25 a month are tacked onto your debt. Plus, a cardholder who is late once or twice in a four- to six-month period will see his or her interest rate skyrocket.

Besides the financial pain of late payments, falling behind hurts a student's credit. A bad credit report makes it tough to get a car loan, rent an apartment and as Escala found out a job.

"They told me to come back in a year," says Escala, after her poor credit torpedoed her chance at becoming an Orange County sheriff's deputy. This after three years of struggling to finally pass rigorous physical and written exams.

If you're a student who decides to sign up for credit cards, you should limit yourself to one or two pieces of plastic. If you start to get in over your head, get help before you mess up your credit. Missing a payment or juggling balances between two cards are big warning signs that things aren't right. If that happens, talk to a credit counselor, parents or a financial adviser.

Through Consumer Credit Counseling in Santa Ana, Escala learned how to budget and manage her money. It's helped her move on with her life. She received a two-year associates degree from Saddleback and is now studying criminal law at California State University, Fullerton. Last year, she bought a condo in Mission Viejo and has accumulated $30,000 in equity. She's got another chance at becoming a law enforcement officer.

But no one bailed her out. Escala did it herself by working 14 hours a day at two waitress jobs. She put off her education. Today, she only works one waitress job because she needs to study.

"I learned a very hard lesson at a very young age." Her advice to students tempted by credit cards? "If you can't pay for it, don't buy it."

Are we paying too much for gasoline?

Here is a comparison of Erie gas prices to other cities all over the United States and European countries.

Erie, PA: $ 1.55 / gallon
Chicago, IL: $ 1.87 / gallon
Los Angeles, CA: $ 1.57 / gallon
Miami, FL: $ 1.61 / gallon

Belgium: $ 3.56 / gallon
Denmark: $ 3.75 / gallon
Germany: $ 3.49 / gallon
Greece: $ 2.72 / gallon
Spain: $ 2.85 / gallon
France: $ 3.78 / gallon
Italy: $ 3.76 / gallon
Netherlands: $ 4.01 / gallon
Austria: $ 3.26 / gallon
Finland: $ 3.95 / gallon
Sweden: $ 3.85 / gallon
United Kingdom: $ 4.53 / gallon

Tips for students with credit cards

by Diana McCabe
September 12, 2000
Knight-Ridder Tribune

SANTA ANA, Calif. -- Once you have your credit card:

Remember that this is real money that you'll have to pay back. It is not free, so choose your purchases wisely. A few other tips: Pay on time You're an adult now, so no excuses about the dog eating your bill. If you're even one day late, you'll get socked with a late fee, usually $25, and your interest rate may climb. The late payment will show up on your credit record, too.

-- Pay more than the minimum

If you can't pay your balance in full, pay more than the minimum monthly payment the credit card suggests. The bank wants to make money off you, and they do that by extending the payments and racking up interest. Pay as much as you can, as often as you can.

-- Know your credit limit

Generally, student credit limits run from $250 to $1,000. If you go over that limit, you'll be charged a fee of about $25 for each month you're over. It's important to keep track of what you've charged, too, because a store won't always decline your card if you're over your limit.

-- Don't get cash advances

Rates on cash advances are always high around 20 percent and should be avoided at all costs. Grace periods don't apply to cash advances, so interest is charged the day you get the money. And there's usually a fee of 2 percent or 3 percent of the amount you're advancing for the transaction.

A warning to parents: Don't co-sign for plastic. Certainly, if a student gets into credit trouble, Mom and Dad can bail 'em out. That's what the credit-card issuers expect.

But credit-card companies no longer insist that parents must co-sign a student's credit application. In fact, personal-finance experts say parents shouldn't co-sign.

"The assumption is that if the student can't pay, the parent will," says Gerri Detweiler of Myvesta.org, a debt-counseling group.

Most parents don't want their children to start out with a bad credit history or a pile of bills, so they'll pay the debt whether they've co-signed for the card or not, she says. But it shouldn't come to that. If parents haven't talked to their son or daughter about the responsibilities that come with the card, the kids shouldn't have a card in the first place, experts say.

While co-signing is no longer required to get most student credit cards, some parents continue to sign on the dotted line. It's a bad idea, experts say. A co-signer doesn't get the bills, and doesn't get the late notices. "If the student doesn't pay, it looks just as bad on the parent's credit record," Detweiler says.

That's the big risk parents take when they co-sign: ruining their own credit record. In many cases, parents aren't even aware there is a problem until they see a warning on their own credit record. By that time, it's too late.

I-Banking: Is it for you?

Financial Outlook

Amortya Sinha

money page editor

Investment banking is about gambling in a suit. Most people think it's about money (and given that the bulge bracket firms regularly post multibillion-dollar revenues, one could be forgiven for making this assumption), but the thrill for many players in this domain stems from the risk as much as from the reward. Sadly enough there have been several people who have joined I - banking firms for the money only to find that they have come into the wrong profession or are simply unwilling to put up to the 100 hours plus a week.

Investment banks are experts at calculating what a business is worth, usually for one of two purposes: to price a securities offering or to set the value of a merger and acquisition (also known as a M & A). Securities include stocks and bonds, and a stock offering may be an initial public offering (IPO) or any subsequent offering. In both cases, I-banks charge hefty fees for providing this valuation service, along with other kinds of financial and business advice. When banks underwrite stock or bond issues, they ensure that institutional investors, such as mutual funds or pension funds, commit to purchasing the issue of stocks or bonds before it actually hits the market. In this sense, I-banks are intermediaries between the issuers of securities and the investing public. I-banks make markets to facilitate securities trading by buying and selling securities out of their own account and profiting from the spread between the bid and the ask price. In addition, many I-banks offer retail brokerage (retail meaning the customers are individual investors rather than institutional investors) and asset management services.

Not surprisingly, the center of this industry is in Wall Street in the U.S. Other hot spots include London, Frankfurt, Tokyo, Hong Kong, Singapore and several other foreign metropolises'.

Trends: -
Deregulation

The late-1999 repeal of the Depression-era Glass-Steagall Act marked the deregulation of the financial services industry. Commercial banks, investment banks, insurers, and securities brokerages are now free to offer one another's services. A rush of cross-industry mergers and acquisitions are occuring as I-banks add retail brokerage and lending to their offerings, and commercial banks try to build up their investment banking services. This consolidation has the potential to result in the financial services equivalent of Wal-Mart—a superstore where clients can invest, save, and protect their money all under one roof.

Joining the VCs

Banks started the venture capital industry in the '60s but lost it when their VC experts left to form independent companies. In the '70s and '80s, the industry stalwarts were private firms like Kleiner, Perkins, Caufield & Buyers, Patricof & Co., E.M. Warburg Pincus and Co., and Menlo Ventures. During the '90s, however, established, traditional investment banks have started venture capital departments, and they've been very successful. One of the first investment banks to enter the venture capital business, in the mid-80s, was Chase Manhattan, and more recently Wells Fargo, Fleet Boston Financial, and others have followed suit. One of the advantages a bank like Chase has in the venture capital market is that it can use its own money to make investments and only later sell shares in the investment fund to outside investors—if it chooses to do so. Increasingly banks are so choosing, to spread around the risk should the stock market cease to be so favorable to IPOs.

"Internetization"

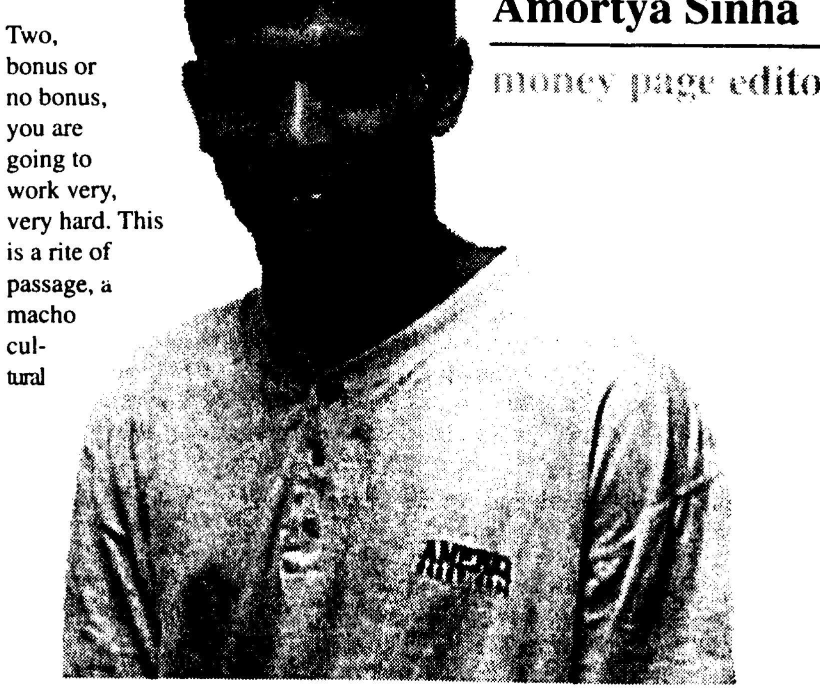
The sheer ease and volume of trading over the Internet is changing the face of the brokerage business. Anyone with a browser and a modem can get the kind of information that once only wealthy clients with multimillion-dollar accounts could obtain. Net centered investment banks—E*Offering, W.R. Hambrecht and Wit Capital—have introduced new formats for initial public offerings. These innovative firms' goals are to capitalize on the multitude of startups seeking public status and also to get a head start in online investment banking. But the bulge bracket is gearing up for online trading too. Firms including Merrill Lynch, Goldman Sachs Group, and Morgan Stanley Dean Witter are trading not only stocks on the Internet, but bonds as well, offering individual investors participation in big corporate bond issues for the first time.

The Breakdown: -
Boutiques and Regional Firms

Obviously, the investment banking world extends beyond New York, but the list of small firms is getting smaller as the market consolidates. The four strongest boutique firms — Hambrecht & Quist, Robertson Stephens, Montgomery Securities, and Alex. Brown—have all been acquired by commercial banks. But that's not to say independent firms are nearing extinction — the equity markets are strong, and that means big business for niche firms focusing on technology, biotechnology, and other high-growth industries. In New York, Allen & Co. and Lazard Frères still do big business in specialized fields. Volpe Brown Whelan and Thomas Weisel are Silicon Valley firms capitalizing on the Internet boom.

Job Prospects

Two things you need to know about jobs in I-banking. One, these jobs pay a lot, with year-end bonuses that can match your salary. Two, bonus or no bonus, you are going to work very, very hard. This is a rite of passage, a macho cultural totem. No one is exempt, and no one, particularly anyone who's already paid his or her dues, is much interested in a crusade for change.



That said, investment banking is one of the best ways a young person can learn about finance and make a lot of money right out of school. Even if you later opt out to reclaim your personal life, the skills you learn on Wall Street will be valuable in most business careers.

The recruiters at the top banks—who, each fall, receive more than 8,000 MBA and undergrad résumés for only half as many openings—will tell you they're looking for excellence and leadership in academics, athletics, the armed services, and even the arts.

Due to the broadening definition of financial services, job seekers' options are expanding quickly. Commercial banks buying up I-banks to expand their services are hungry for talent and hiring like crazy. Several years of experience in these ranks will position you nicely for a move downtown later on. Or you may well decide—as many others have—that investment banking experience from Wall Street has significant advantages and that you're better off as a big fish in a small pond.