SPECIAL TOPICS

Extra Credit: The 7 Things Every College Student Needs to Know About Credit, Debt & Ca$h

by Bill Pratt
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Universities and colleges focus on preparing students to be well-rounded individuals who are successful in life; however, it seems that these individuals are routinely not prepared to handle their personal finances. Sallie Mae, one of the country's leading student loan companies, indicated in an April 2009 release that the number of college students with a credit card has increased, and nearly 82% of those students carry a balance from month to month (2009). Also increasing are the numbers of student loans; according to the College Board, about $17 billion in private loans were distributed in the 2007–2008 academic year representing a 592% increase from just 10 years earlier (Baum & Payea, 2008, p. 6). According to a briefing paper released by Demo, a non-partisan public policy research organization, Americans ages 25 to 34 are the second most likely group to declare bankruptcy in the country (Draut & Silva, 2004). *USA Today* wrote that twenty-something Americans are more likely to be late in their payments than any other Americans (Fetterman & Hansen, 2006).

Somewhere along the way, college students are learning how to get in debt, but they are not learning how to get out of debt or avoid it all together. One way to combat this trend is to begin discussing money matters with college students from the time they enter the institution. Bill Pratt's *Extra Credit* presents what he considers to be the seven things that every college student should know about finances. Pratt uses an interactive approach and language that is easy to understand. The book is divided into seven sections covering different topics in personal finance. At the conclusion of every chapter, Pratt provides questions that allow the reader to interact with the material. *Extra Credit* is a short, elementary glimpse into financial basics, but this approach may be good for those who are not intrinsically interested in finances.

The first thing Pratt discusses in *Extra Credit* is "Know How Your Money Works." He begins the book by telling his financial story after he graduated from college. Although he was a business major and knew the information behind money management, Pratt still found himself taking out loans for school, a new car, and using multiple credit cards. His view of money management changed when he understood that financial health is about behavior dependant on attitude, not just knowledge of the subject. Pratt outlines that in order for individuals to begin controlling their money and their attitude towards it, they must know the rules of how money works.

The second item that Pratt discusses is credit cards. His past role as an executive at a major credit card company makes his perspective particularly poignant. The author explains how credit cards function and what makes them so attractive to individuals. One highlight of this section is Pratt's insight about credit card marketing tricks. He provides plenty of basic but essential information to students about credit cards.

Debt is the third topic covered. Pratt outlines what debt is, why it should be avoided, and what a student should do when he or she has debt. He outlines several reasons why people should stay away from debt. Some of these are common sense, and others are important but often overlooked reasons. For example, it makes sense that the more debt one has, the more limited that person is when it comes to choices, like necessity of receiving certain salary when making job changes, or even what to do with a paycheck. However, when students make decisions about credit cards and student loans, they may not be thinking about how that debt may affect their ability to rent an apartment in the future.

Pratt addresses the idea of debt as a behavioral issue and writes that “debt reflects on your character” (p. 36). Many students and adults have probably not thought about the behavior issues that got them into debt and what that says about them as a person. The author outlines how to begin getting rid of debt by suggesting that people should stop spending more than they make, then apply the savings toward their smallest debt first. Once that that debt is paid, they can move on to the next account in the line.

Pratt covers the final four areas in less detail; however, they are still important. He explains what a debit card is and how it works. He gives examples of how debit cards help with spending, primarily because in order to use a debit card, one must have money in his or her bank account. Additionally, Pratt outlines several ways in which debit cards can cost an individual money, like ATM fees or other service charges, which shows the importance of knowing the policies on one’s account. Later in the book, Pratt points out that balancing one’s account is important to help keep accurate records of how one’s funds are being spent and plan for upcoming bills.

Pratt further explains why he believes it is best to use cash. Like other financial advisors, Pratt declares that credit is too convenient. Credit and debit cards make it much easier to spend carelessly because one does not actually see the money disappearing. With cash, an individual can see the funds diminishing, and the emotional reaction to that physical depletion helps curb spending.

In *Extra Credit* Pratt concisely covers several topics of great importance to students and adults alike. The book is written in simple language and does not delve too deeply into financial practices. This book may be best suited for high school students. Educating high school students about healthy financial habits and the dangers associated with debt will help prepare them for making responsible financial decisions in college.

On the other hand, if this book were selected for a first-year seminar or any collegiate-level class, the professor would need to be prepared to provide supplemental material to spark discussion and fill some informational gaps. In order for college students to firmly grasp financial matters and handle their finances, they would need to eventually learn how to calculate payoff amounts and estimate the interest that their savings will yield annually. This information is not addressed in *Extra Credit*. Additional reading material and supplemental financial knowledge can provide a holistic approach to educating college students about money.

Another challenge in utilizing this book for a first-year college reading program results from the author’s assumption of parental involvement in the finances of college students. While many students may have close ties to their family members, not all parents have the resources to “bail out their children in a time of financial crisis” (Pratt, 2008, p. 17). First-generation and nontraditional students are less likely to having such a relationship with their parents and may come from lower-income families, thus making it less likely to have parents support them financially (Capriccioso, 2006).

In *Extra Credit*, Pratt provides a good starting point for educating incoming college students about money. If this book were chosen for a first-year experience program, it would be best to supplement it with other resources to help students develop responsible financial habits and deepen their understanding of the issues Pratt raises.

References

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