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The need for financial management counseling as a college and university student service

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Abstract

Year after year, thousands of eager, apprehensive, and frightened high school graduates become college freshmen. A common bond unites this diverse group. For all, college is a time to establish independence and demonstrate responsibility. Along with academic responsibilities and training for a career come personal responsibilities and training for life. It is important for students to establish good habits during these developmental years in preparation for their futures as college graduates exposed to the world of work and career professionals exposed to a series of lifetime changes and challenges. Even a top of the class graduate can only achieve so much without well developed personal skills such as stress management, time management, and money management. Even a high salaried professional can only succeed so far without practiced knowledge of financial management.

THE NEED FOR FINANCIAL MANAGEMENT COUNSELING AS A COLLEGE AND UNIVERSITY STUDENT SERVICE

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Year after year, thousands of eager, apprehensive, and frightened high school graduates become college freshmen. A common bond unites this diverse group. For all, college is a time to establish independence and demonstrate responsibility.

Along with academic responsibilities and training for a career come personal responsibilities and training for life. It is important for students to establish good habits during these developmental years in preparation for their futures as college graduates exposed to the world of work and career professionals exposed to a series of lifetime changes and challenges. Even a top of the class graduate can only achieve so much without well developed personal skills such as stress management, time management, and money management. Even a high salaried professional can only succeed so far without practiced knowledge of financial management.

Some students acquire adept financial management skills from family members, friends, or single-handedly. Others give money management a valiant though lacking effort. Still others remain ignorant of the importance of money management. I believe financial management counseling as a student service on college and university campuses would provide profitable skills and knowledge for students to invest throughout their lifespan.

The purpose of this paper is to examine the issues related to: college students and money management in terms of banking, credit, and loans; and the role of the financial aid office in terms of personal financial management, debt management, and loan counseling, with existing programs aimed at these issues described.

College Students and Money Management

A review of the literature on college students and money management uncovered a limited number of specific resources. Several studies spoke directly to the fact that this topic is not well researched and that students would benefit from receiving assistance in the area (Danes & Hira, 1987; Weinstein, 1983).

Of particular relevance, however, was a study conducted by Danes and Hira (1987) to determine the money management knowledge of college students in the areas of credit cards, personal loans, record keeping, and overall financial management. They distributed a questionnaire to 716 students at a midwestern university and received at 45% response rate. Frequency distributions for correct responses were charted according to level of knowledge demonstrated. For example, if a student correctly answered 80-99 percent of the questions related to credit cards, they demonstrated a high level of credit knowledge. On the other hand, if a student correctly answered 20-39 percent of the questions related to personal loans, they demonstrated a low level of loan knowledge.

The following is a synthesis of the information available from the Danes and Hira (1987) survey and other studies on college students and financial management in relation to banking, credit, and loans.

<u>Banking</u>

Little evidence indicated that college students regularly maintained savings accounts. This could be attributed to the fact that the spending needs of the 18 to 25 year old population are greater than their earned income (Bannister & Rosella, 1992). The survey by Danes and Hira (1987) revealed that 94% of the 323 respondents possessed a high level of knowledge in regard to interest compounding of savings accounts. Allen (1987) stressed the importance of encouraging students to open savings accounts as a source of emergency funding.

Checking accounts, however, prevailed among college students. The question is, how well were they managed? An interview with the manager of a student credit union disclosed that an average member bounced at least one check per month (Weinstein, 1983). The error was ascribed to students either not knowing how or not bothering to balance their checkbooks - a mistake which is both irresponsible and costly.

A money management booklet published by Household International (1990) acknowledged that although balancing a checkbook is a skill everyone should have, it is seldom taught. The booklet stressed the importance of recording all transactions in the checkbook ledger and reconciling the account with each monthly statement. Before opening a checking account, students should have considered location, service hours, interest rates, fees and service charges, minimum balance requirements, and availability of cash cards. A word of caution was directed at the use of automatic teller machine (ATM) cards. Receipts should be saved and all transactions recorded. Money should be withdrawn in accordance to a budget, not simply because it is easily accessible day or night.

The survey by Danes and Hira (1987) assessed students' understanding of banking institutions and the responsibilities entailed. In regard to the need to reconcile bank statements monthly, 93% of the respondents demonstrated a high level of knowledge. A medium level of knowledge was revealed by 79% of the respondents in response to the frequency of retaining cancelled checks. Though these responses are positive overall, Danes and Hira suggested that there is a discrepancy between what students know and what they actually do.

Independence for college students entails taking control of their finances. Banking institutions provide services to facilitate money matters. Responsible adults should learn to make the best use of these services. This review suggested that students could benefit from a wide range of financial counseling services. On one extreme, students should be taught the simple but significant task of balancing a checkbook. On the other extreme, students who are informed about the services provided by banking institutions should be encouraged to practice this knowledge.

Credit

The literature showed that credit card companies targeted the student population in their marketing strategies (Credit Card, 1994). In turn, college students found credit easy to obtain. Offering free gifts for completing an application, no annual fees, low introductory annual percentage rates, and pre-approved credit limits were the most popular lures (Potter, 1993). College students found application after application in their school mailboxes, on school bulletin boards, and stuffed inside their newly purchased textbooks (Some College, 1994).

Credit card companies liked college students because they paid their bills in full 53% of the months the card was used - a payment record better than the general population (Some College, 1994). Research also showed that consumers stayed loyal to their first credit card, so many companies hoped to supply students with their initial line of credit. College students were also targeted because their consumption rate was high, they comprised the primary population of future customers, and their income would increase with graduation making them good credit risks (Household International, 1990). College students liked credit card companies because carrying plastic was a symbol of status and independence (Credit Card, 1994). Obtaining credit also provided students the opportunity to establish a good credit rating before graduation (Some College, 1994).

Market research estimated that 60% of full-time students attending four-year institutions owned at least one credit card (Some College, 1994). Some students reportedly owned seven credit cards. In an interview with a representative of Visa, it was reported that one-half of the 18 to 24 year old population on and off campus carried their card. A representative of Mastercard reported during an interview that they had witnessed a 20% increase in use of their card by college students over the last two years.

Potter (1993) reported that in a national test of credit card knowledge students scored an average of 53%, which indicated that they did not understand the consequences of credit. Besides being hurt by over-the-limit penalties and minimum monthly payments, students paid an average of $70 in interest each year. Abuse of credit on campus often occurred because students view credit as a right rather than a privilege (Some College, 1994). Under the illusion of possessing great spending power, students may have purchased television sets and stereos rather than have reserved the card for necessities and emergencies (Credit Card, 1994). A vicious cycle began when students cash advanced on one credit card to pay the minimum balance of another. This "plastic fever" has produced a surge of college students who require financial counseling.

Baran and Tarrant (1982) urged students to weigh the pros and cons of credit before applying. Though credit allowed students to raise their level of living, it also tied up future income, cost more in the long run, and tempted overspending. Credit worthiness is calculated in terms of character, capital, and capacity. To establish a good credit history, Baran and Tarrant encouraged students to open savings and checking accounts and manage them responsibly, apply for a retail charge account and pay the bill in full on time, take out a small loan and repay it ahead of schedule, and apply for a bank card and handle it wisely.

Once a student has decided to apply for credit, they should investigate companies in terms of annual fees, interest rates, billing procedures, and credit line (Household International, 1990). Further, students should plan to pay the balance in full each month and track credit card purchases in their checkbook ledger (Some College, 1994). It is also recommended that students view their credit report as a financial resume.

In respect to credit card knowledge, Danes and Hira (1987) revealed a range from very low to high. Only 28% of respondents were familiar with the procedure followed if faulty merchandise was purchased. Of the same respondents, credit insurance was understood by 43%, while 59% understood billing error procedures. Medium levels of knowledge were demonstrated by 60% in regard to interest accrued if the bill was paid within 30 days, by 63% in regard to frequency of retaining receipts for credit purchases, and by 65% in regard to interest rate computation. Eighty-three percent and 85%, respectively, responded with high levels of knowledge of cost after due date and the use of credit cards for identification. The survey also discovered that upperclass, off-campus, employed, and married students possessed higher levels of credit knowledge. This difference was attributed to the fact that employed students were more likely to qualify for credit, and that more upperclass, off-campus, and married students tended to be employed.

It is evident from this review that credit can be a danger to students who do not use the tool wisely. A substantial need exists for students to be informed of the intricacies of credit. An uninformed college student with credit may be a potential accident waiting to happen. With proper counseling, an informed college student with credit may be a wise consumer in pursuit of financial stability.

Loans

With increasing costs of tuition and decreasing amounts of financial aid, more students are borrowing more money to finance their education (Flink & Baron, 1990). Popik (1985) recommended counseling to enable students to make informed loan decisions as well as recognize the legal and moral obligations they assume as borrowers. Students must be informed of the consequences of excessive borrowing and default (Household International, 1990). Default may result in a damaged credit history, withholding of tax refunds, garnished wages, seized property, and ineligibility for financial aid. Students must recognize their responsibility to contact lenders and make arrangements for missed payments, rather than face the consequences of default.

A survey distributed to graduates of Sweet Briar College ascertained that students' attitudes in regard to loan payments were positive. An average of 4% of alumnus' monthly income was spent on loan payments. Repayment, in general, did not necessitate unfavorable lifestyle choices. Sixty percent, however, reported difficulty in ability to build a savings account.

Ten of the 14 questions related to personal loan knowledge in the Danes and Hira (1987) questionnaire received high and medium knowledge level responses. High knowledge level answers were generated on questions related to total repayment amount, number and amount of payments, policy for missed payments, downpayments, annual percentage rates, penalties for pre-payment, and frequency of retaining loan records. Lender's source of money, balloon payments, and lender's interest rate collected medium knowledge level replies. Students knew less about credit life insurance, dealer-retailer arrangements, and source of highest interest rate. A very low knowledge level of prime interest rate was reported.

Student loans are as prominent on campus as beer parties in dorm rooms and stress during final's week. Hypothetically speaking, before a student decides to compromise their discretionary income upon graduation in order to live in abundance during college, they should be counseled to extend their thinking beyond the present and into the future when making important loan choices. This review signifies the advantage of advising students on the liabilities of borrowing over the alternative of leaving students to learn on their own - possibly the hard way.

Role of the Financial Aid Office

The traditional role of the financial aid office is the equitable distribution of financial aid and the accurate recording of data (Dennis, 1983b). Dennis proposed this role be expanded to include counseling students on their financial futures, or, in another sense, to adopt a student service philosophy of practice. McDougal (1983) identified counseling as the most critical and sensitive function of the financial aid office. He urged the importance of extending beyond the piles of paperwork and mountains of administrative red tape to focus attention on the student as an individual. McDougal further urged that financial concerns often cause and effect other personal problems so it is important for counselors to be empathetic and view the student as a whole. Three major areas in which financial counseling is needed were repeated throughout the literature (Dennis, 1983b; McDougal, 1983). They were personal financial management, debt management, and loan counseling.

Personal Financial Management

Financial counseling with students should begin in high school and proceed through graduate school (Dennis, 1983b). Upon graduation, students should possess the skills and knowledge to continue financial planning on their own. In addition to assistance provided within the financial aid office, input should be included from banking institutions, accounting firms, and employment specialists. Dennis proposed that the following objectives should be met in financial management counseling: (a) identification of short and long term financial plans, (b) preparation of a realistic budget, (c) production of an investment portfolio, and (d) realization of future financial needs and goals.

Bletzinger (1987) defined personal financial planning as "an individual's deliberate, knowledgeable effort to create short and long term plans in order to remain financially solvent and achieve other financial and personal goals now and in the future" (p. 18). Elements identified as necessary for a complete approach to financial planning were identification of short and long term goals; planning for taxes, investments, insurance, and retirement; and estate planning.

Popik (1985) noted the importance of training students in personal budgeting and record-keeping in addition to the required entrance/exit interviews conducted by the financial aid office in accordance with federal regulations. In promoting the use of peer counselors in the financial aid office, Archer and

Archer (1985) stressed the importance of developing peers' people-skills as part of the training. Similarly, McDougal (1983) discussed the advantage of employing financial aid administrators who are educated in the field of counseling techniques.

Existing Programs

Several teaching guides designed to impart money management knowledge to high school and community college students were found. Baran and Tarrant (1981) provided instructional objectives and suggested learning experiences for the topics of money management and consumer credit. A guide by Bannister and Rosella (1992) provided information on teaching the basics of personal financial planning. They discussed the benefits of using a financial plan and the steps to develop a personalized plan. Also covered were how values relate to earning, spending, and saving; influence of age and stage in the life cycle; and a need to identify financial goals. A packet of student materials for a Life Skills workshop sponsored by the Texas College and University System (1987) included several activities aimed at financial awareness. Inspirational messages were provided throughout the packet. For example, the section on money management quoted, "No one ever plans to fail, they just fail to plan" (p. 58).

Allen (1987) identified several issues to address in curricula planning for money management courses. For example, students should receive information on the causes of bankruptcy for individuals and businesses, the importance of savings accounts for emergencies, the necessity of health insurance, the effect of inflation, and the difference between wants and needs. In addition, students should be taught to weigh the cost of items in terms of their value, calculate their debt load capacity, and use credit wisely.

Debt Management

The financial aid office should be responsible for educating students on the financial and social consequences of educational debt (Dennis, 1983b). Administrators/counselors should assist students in viewing their level of debt in relation to their income potential upon graduation. Debt management models should account for an individual's marital status, spouse income and debt, inflation, taxes, and retirement.

Debt management is defined as "the borrower's ability and desire to control the level of his or her indebtedness along with an equal ability and desire to repay the loans that have been assumed" (Bletzinger, 1987, p. 17). Financial aid administrators should teach the skills necessary to accomplish this task. These skills included monthly and annual budget planning, budget monitoring and adjusting, monthly reconciliation of bank statements, and wise management of credit.

Existing Programs

Popik, Bluitt, Bushman, and Moreland (1986) described a dental school course to prepare students to manage educational debt. Objectives of the elective, credit course included: (a) assisting students to control spending by using a budget; (b) providing accurate information on establishing credit worthiness; (c) explaining the cost of borrowing; (d) teaching the process of personal financial assessment; (e) defining the role of bankers, accountants, and other financial professionals; and (f) helping students prepare personal financial statements. Instructors chosen from faculty, administrators, and local professionals presented lectures on various topics related to finances. Overall, the course was evaluated to be a success.

Dennis (1983a) documented another successful program at Georgetown University School of Dentistry. Sponsored by Riggs National Bank, students attend one lecture per semester for four years to increase their financial skills and knowledge. To conclude the program, students attend two exit interviews during the fourth year - one with a financial aid administrator and one with a representative of the loan collection agency.

The University of Illinois at Chicago utilizes a software program, called DebtMgr, with students in addition to counseling sessions (Flink & Baron, 1990). DebtMgr may be customized to fit any institution and provides information to students in modules. Module 1 is specialized to meet the needs of prospective students. Module 2 is aimed at new students and Module 3 is targeted at graduating students.

Saint John's University sponsors day long financial planning and debt management seminars each semester (Belmont, 1984). Banking professionals have presented lectures on fiscal fitness, installment credit, plastic money, and personal financial budgeting. To assist students, the financial aid office has prepared sample budgets for various situations such as a graduate student living in one's own apartment without a car or an undergraduate student living at home with a car.

Loan Counseling

Just as students assume an obligation to repay loans, financial aid administrators should assume an obligation to inform students of the ramifications of excessive borrowing and default (Dennis, 1983b). Counselors should ensure students understand the terms of loan papers before sealing the contract with their signature. Dennis also stressed the importance of distinguishing between educational and consumer debt. Students may experience difficulty in equating the thousands of dollars in the hole to the value of a piece of paper certifying their degree.

Bletzinger (1987) also emphasized the importance of an educational approach to loan counseling. Counseling should provide the opportunity for individual's with loans to "obtain pertinent loan information from a knowledgeable party and for that individual to also have the opportunity to ask questions and clarify his or her understanding of the effects of obligating future income" (p.16). Such pertinent information included the name of lender, principal amount of loan(s), maximum cumulative amount which may be borrowed, interest rate, repayment schedule and options, consequences of default, and effect of debt on personal goals.

This research indicated an upcoming trend for financial aid offices to expand their services and incorporate a more student centered role. A shift of this nature would benefit students who would find the financial aid process less painful and more sympathetic. Not only would financial aid administers calculate student need and monitor eligibility, they would assist students in obtaining the knowledge and skills necessary to take responsibility for their finances.

Conclusion

Students attend college to prepare for a career which, in turn, will provide an income. Ironically, academic curricula and co-curricula programs place little emphasis on instructing students how to manage this future income or their present funds (Danes & Hira, 1987). Findings of the Danes and Hira survey indicated the need for specific money management education. They suggested the creation of a required financial management course as well as the use of lectures, seminars, and workshops.

Jackson and Pogue (1983) discovered that financial difficulties were a reason for attrition in the sophomore year; while Benjamin and Walz (1987) identified financial concerns to be a significant source of student stress. The effectiveness of financial management courses may be extrapolated from a study by Kourilsky and Kehret-Ward (1983) who determined that students enrolled in an economics course extended the knowledge into personal monetary decision making.

In conclusion, educational institutions should take an active role in training students for life as well as for a career. Along with graduation comes a career, an income, and the repayment of educational debt. It is important that the graduate's wealth of knowledge include the requisite life skill of money management among others.

The need for financial management programming for college students provides an excellent opportunity for student services, academic affairs, and community professionals to pool resources and work cooperatively. Personnel should be hired on campus in positions designed to impart skills and knowledge specific to money management. These employees could be housed in the financial aid office, the counseling department, or the finance/accounting departments. However such positions are created, I believe financial management counseling as a college and university student service would provide profitable skills and knowledge for students to invest throughout their lifespan.

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