Managing Your Finances and Budgeting in College

College offers an important opportunity to learn about handling your own finances before you enter the real world of a full-time job and all the financial decisions that come with living on your own. Even if your parents are supporting you financially in college, you are still responsible for the day-to-day management of your spending, earnings, and cash flow.

Here are our tips for managing your finances during college:

Determine Variable and Fixed Costs

The first step in learning how to budget is determining what costs you'll have each month. Fixed costs remain the same. Rent, car payments, and gym memberships are examples of fixed costs - you know what they will be each month. Variable costs can change each month. Groceries, gasoline, utilities, clothes, and personal care items are examples of variable costs - they can vary greatly from one month to the next.

Identify Sources of Income

Once your fixed and variable costs are calculated, it is important to determine whether your sources of income will cover the costs. Income can include pay from a part-time job, allowance money from home, grants, scholarships, or loans. If your estimated expenses exceed your estimated income, then there is a problem. You will need to identify ways to either reduce expenses or increase income. There are many ways to reduce expenses. For example, you may be able to carpool with friends or limit entertainment or restaurant expenses to once a week. To help increase income you may be able to get a part-time job - assuming you don't already have one. Just remember that schoolwork must come first.

Write it All Down

It is very helpful (and illuminating) to write down all of your expenses, savings, and income sources. Writing everything down provides a sense of clarity that can help you make decisions. You are not just keeping track of things in your head or guessing. You can see it all right in front of you.

Be Wary of Credit Cards

Once you hit college (or even a little before) you will be bombarded by credit card advertisements. There's a good reason for that - and it's not because they want to help you! Credit card companies make a fortune from college students who are apt to make impulse purchases, buy things they can't afford, and forget to pay their bill on time.

Credit card companies will try every trick to persuade you to get a credit card. While it is true that having credit cards is one way to build a credit history, many students quickly become overwhelmed with debt instead. This is a big problem for many college students who end up paying for bad credit card decisions for years.

If You Want a Credit Card Anyway ...

Keep these tips in mind to help you stay money-conscious and avoid credit card woes.

Shop around for a card. Before you sign up for any credit card, be sure to read the fine print. Find out what kinds of fees come along with the card and determine the Annual Percentage Rate (APR). Try to find a card that offers no annual fee and a low finance charge. Many cards also charge for any cash advances and may charge extremely high late payment fees. Never sign up for more than one or two credit cards, and then only if you can use them responsibly.

Don't fall for the free gift. Many credit card companies try to get college students to sign up for a card by offering them a free gift.

Open an account with a low credit limit. By selecting a credit card with a lower credit limit, you will still be able to create a good credit history but will be less likely to accrue a lot of debt.

Pay the full amount each month. If you pay the total balance of your credit card each month, then you will build a good credit rating and prevent credit card trouble. Not paying off the entire amount each month can lead to big finance charges.

For example, if you have a credit card with a finance charge of 18% (and you **should not** choose a card with an APR that high!) with a balance of $1,000, it could take you TWELVE YEARS to pay it off if you only make the minimum required payments. The total interest cost over those twelve years would be $1,115, meaning that you would pay $2,115 for $1,000 worth of goods. If for some reason you cannot pay your balance off in full during a month, try to pay at least $25-$50 over the minimum payment, and pay it off in full as soon as possible. Credit cards will cause financial chaos if they are not managed correctly.

Pay the bill on time every month. Late fees are completely avoidable, yet credit card companies still make a fortune from them. Sending in payments late will hurt your credit score and incur expensive late fees which do not count toward your interest or your principal debt. Make sure you know when your payment is due each month.

Avoid cash advances. For most cards, the fees for cash advances are steep, and interest rates are usually higher.

Avoid impulse shopping. Use your credit card wisely, or don't use it at all. Many students are tempted to put new shoes or concert tickets on a credit card, even when they know that they won't be able to pay off the bill when it arrives. This is setting yourself up for a financial meltdown. Only use your credit card in case of emergency, or when you know you will have enough to pay off the balance in full when your bill arrives.

Monitor your credit report. It's always a good idea to know what is posted on your credit report. You can review your report for free and look into any discrepancies. Also, credit report agencies can make mistakes, and these are rarely in your favor. If you keep track of your credit report during college, you can come out with a great credit score and set yourself up for a bright financial future.