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Turn College Days Into Financial Lessons for the Future

Those first days on campus offer a wonderful opportunity for parents and grandparents to help students set the right course in personal finance. Here’s how.

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print

It's Tuesday in mid-August, and my wife and I have just left the glimmering dome of Jesse Hall in our rearview mirror. Our cargo van is practically empty, except for a couple of rejected items that did not fit or go in the dorm room. The day was both short and long--trips to the stores for supplies, a trip to the bookstore to pick up pre-ordered fall semester books, and a final dinner before leaving our oldest son, an incoming freshman at the University of Missouri in Columbia, Mo.

See Also: 11 Top Sources of College Scholarships

Jenny, my wife of 23 years, and I are headed back home, and thoughts begin to flow--questions that rookie parents to this process must cope with as you feel your influence diminishing with each passing mile. Have we raised our son to prepare him for this next milestone in his life? We're not thinking about his academic or social success, but simply about the financial decisions he must now make on a day-to-day basis and the long-term impact each can make. It is this knowledge and exercise of financial independence that must emerge over the next four years--not only for his success, but ultimately ours as well.

I have witnessed so many situations throughout my career in the financial services industry in which a lack of financial independence by a child has rebounded back to the parents and grandparents. There is a fine line between enabling and undermining. These conversations and expectations must be both spoken and written to maturing children in a form they understand. They must be held accountable. We all want more for our descendants than what we had--that is natural. But have you ever considered how your success in life has been influenced by your initial experiences with money? The impact on your career? On what you have achieved in life?

To set the stage for the articles I will write for Kiplinger, I ask you to understand that my advice is based on an educational background of legal, accounting and fiduciary work that spans more than 25 years. My experience has been enriched by frontline work, in the trenches of finance, as well as working side by side with families to present the best insights from industry professionals. I also hope to bring to the table the benefit of retrospective thought--by that I mean years of seeing earlier financial decisions play out for families.

Let me share some foundations for success that I would recommend be implemented, if you haven't already, for your college-aged child or grandchild:

Establish two bank accounts:

1) **A Large Money Center Bank**
Many of these institutions have accounts designed for the emerging young adult entering college. Check with the college or university that your student is attending. Establish which banking partner or partners that the school has on campus for ATMs and banking services.

Learning point: This enables the child to start understanding potential banking fees (non bank ATM processing fees, etc.). Also, you are educating the child on potential fees for low balances that are waived with many of these partner banks.

These accounts are easy to transfer money into. They also make it very easy to set-up electronic transfers for paying certain bills, etc. (where we are looking to establish a responsible credit behavior by the child).

2) **A Local Community Bank or Credit Union**
Many of these institutions may have worked with your family for years. They may want to make sure that they are able to maintain a relationship with your family and realize that working with your children is a great way to do this.

Learning point: The most important thing that you can do for your children is to make sure you put them in an environment where everything will be covered with no lapse in service (late payment, insufficient funds, etc). My experience is that the local banks will call to make sure there is no returned check, failure to make a payment, or deposit timing issues. This is very important for initial transactions and purchases in the exciting but stressful period when your child leaves the nest.

I would establish auto loans, mortgage payments and credit-card payments through these institutions. We simply want no errors, and appreciate an accommodative attitude by the institution as the young person learns financial responsibility.

Providing a great glide path will help to build your child's esteem and establish a financial foundation for adult life. Let's give them a tool to help them start measuring how they are doing financially on their own. The easiest and most rewarding way to look at this is their credit score:

- Payment History - 35%
- Amount Borrowed Compared to Available Credit (Credit Utilization Ratio) - now 30%
- Length of Credit History - 15%
- Different types of Credit - 10%
- Hard Inquiries - 10%

Refer to this blog for more detail on each item.

My challenge to parents and grandparents is to develop a way to reward your new college students based on financial responsibility. Think about something like this to offer to your child or grandchild: "Show me you made all your payments on time for the year (auto, mortgage, furniture, student loan, etc.) and I will reward you by paying your largest monthly bill in December."

The holidays are time of the year when many would appreciate a boost! What a nice way to affirm and congratulate them on a job well done. It also teaches them to simply automate as many high-dollar items as possible with electronic payments. Or, think of a reward system based on their credit score improvement or maintenance at a certain level. This will encourage them to keep an eye on things important to their future.

James D. Maher is CEO and Founder of Archford Capital Strategies, an independent wealth management firm with over $525M of Advisory Assets Under Management, located in the St. Louis metropolitan area. The proud father of four boys, he is committed to guiding them in building a solid financial foundation to serve them for the rest of their lives.

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