UT Extension
SP681-T

Spotlighting Teen Issues for Parents

Does Your Teen Have What It Takes to Deal With Debt?

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Credit is a fact of life in our economy. Most people cannot afford to purchase everything with cash, so loans for homes and automobiles are a routine part of many family budgets. But it's important to teach your teen that misuse of credit can result in a debt load that will last for years. Today's teens start early building debt. Here are the facts:[1]

- Ten percent of teens 12 – 19 have their own credit card.
- The average credit-card-indebted household of 18-24 year olds now spends nearly 30 percent of its income on debt repayment—double the percentage spent in 1992.
- Fifty percent of college students have student loans. The average college student has $10,000 in debt at graduation.

Review this fact sheet with your teen. Help him understand the consequences of acquiring too much debt early in life.

Talk About Debt

Talk with your teen about where you stand. Don't be afraid to share information about how you manage your money. Teens need to know how family finances work **before** they are out on their own making costly mistakes. Here are some tips.

- Let your teen know you are willing to talk about family finances. Make asking questions comfortable.
- Help your teen distinguish between needs and wants. Food, shelter, clothing and transportation are basic necessities. But, the type of food you eat, the size of home you own, the brand of clothing you wear and the kind of car you drive are based on wants. A college freshman does not **need** an expensive sports car to get around campus!
- Talk about budgeting and living beneath, not just within, your means. Your teen probably has some source of income, whether from an allowance, job or gifts. Suggest making a spending plan using only 70 percent of total income for everyday expenses. Advise allowing 10 percent for giving, 10 percent for saving for wants, and 10 percent for building a fortune through long-term investment.

[1]*"Making the Case for Financial Literacy." JumpStart Coalition for Personal Financial Literacy, 2005. http://www.jumpstart.org/index.cfm*

Discourage Credit Card Use

Credit card companies begin offering credit to teens even while they are in high school. Help your teen understand that charging purchases on a credit card obligates future income. Go over your own credit card statement with your teen, explaining interest and other finance charges. Your teen needs to understand that even though he doesn't see you pay cash at the point of purchase, you do make payments from your bank account. Stress how easy it is to spend too much when you don't have to pay with cash.

Borrowing for College

If your child is planning to go to college, help him think carefully about how much debt he should assume in college loans. Student debt loads can have a significant affect on everyday life. For example, debt has caused 14 percent of graduates to delay marriage, 30 percent to delay buying a car and almost 40 percent to push back buying a home.[2] Finding alternatives to college loans will help your child avoid taking on too much debt early in life.

- Look at available scholarships with your teen and a school guidance counselor. Talk about what he can do to maximize the chances of receiving scholarships.
- Investigate schools offering co-ops or other programs that alternate work with school to offset costs.
- Do what you can to help your child pay for college. Start saving now or increase contributions to your 529 savings plan if you have one.

If a student loan is absolutely necessary, finance the smallest amount possible. Don't be tempted to take the maximum amount offered.

How Much Debt Is Too Much?

Whether your teen goes to college or gets a job immediately after high school, one of the best ways to help your child learn to manage money is by being open about your family finances. If you are comfortable using your own information, help him determine your debt to income ratio using this worksheet. If you're not comfortable revealing your personal information, use a hypothetical situation.

[2]*Nellie Mae. 2005. Quoted in "Higher interest rates increase student debt," The Daily Beacon. Knoxville, TN. July 11, 2006*

Total average monthly debt payments (not including mortgage, rent, utilities)	$
divided by	
Monthly take-home pay	$
equals	
Debt-to-income ratio	$

Rule of thumb for consumer debt

Under 15%	Comfortable
15% – 20%	Caution
Over 20%	Danger

For More Information

Visit these Internet sites for more helpful tips for talking with your teen about debt and paying for college.

The Smart Student Guide to Financial Aid
http://www.finaid.org

Nellie Mae, subsidiary of SLM Corporation (Sallie Mae)
http://www.nelliemae.com

iParenting Media Network
http://teenagerstoday.com/articles/cat_320.php

Kiplinger's Personal Finance magazine
http://www.kiplinger.com/columns/kids/archive.html

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