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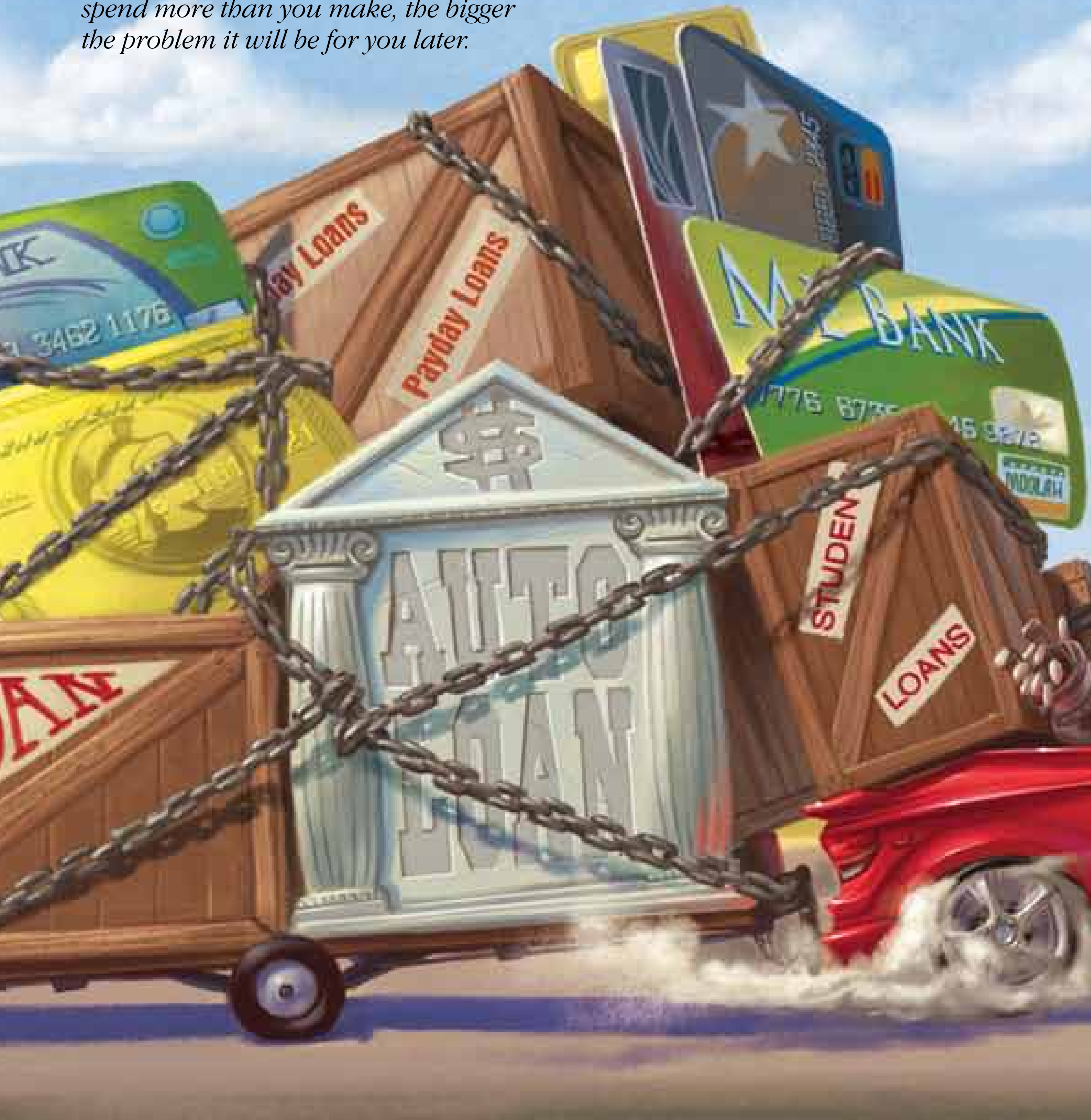

YOUR FUTURE

Tips for Young Single Adults

BY DONALD N. HESTER
Certified Public Accountant and Retired Professor of Accounting, University of Alaska

Did you know that on the whole Americans spend more money than they earn each year, and the average household carries about $8,000 in credit card debt?[1] To a young single adult, debt may not seem like a big deal right now. But the longer you spend more than you make, the bigger the problem will be for you—and your future family—later. Even if millions of people believe in a bad idea—it's still a bad idea!

So what can a young person do to stay out of debt? The key is knowledge, along with self-restraint. You need to understand the different kinds of debt and how creditors try to trap you. Without sufficient knowledge and self-restraint, a person of any age can become enslaved by debt. Elder Robert D. Hales of the Quorum of the Twelve Apostles said in a recent commencement address at Brigham Young University:

"Brothers and sisters, we live in a world being destroyed by debt. When we are in debt, we not only lose our agency to act, we also lose our opportunities to give both temporal and spiritual service. If you have had to go into debt to obtain your education, I encourage you to repay your debts as soon as possible. Then go forward with commitment not to finance on credit any item of any kind, except perhaps a house and vehicle that are well within your means."[2]

So why are so many young people in debt? Often it is because they have been enticed by "buy now, pay later" lures, and they do not understand how creditors operate. Creditors exist to make money, and many have devised cunning schemes to draw you in. If you don't understand some basics, you may become trapped and end up spending years paying back loans with costly interest.

The following basic information can help you avoid excessive debt.

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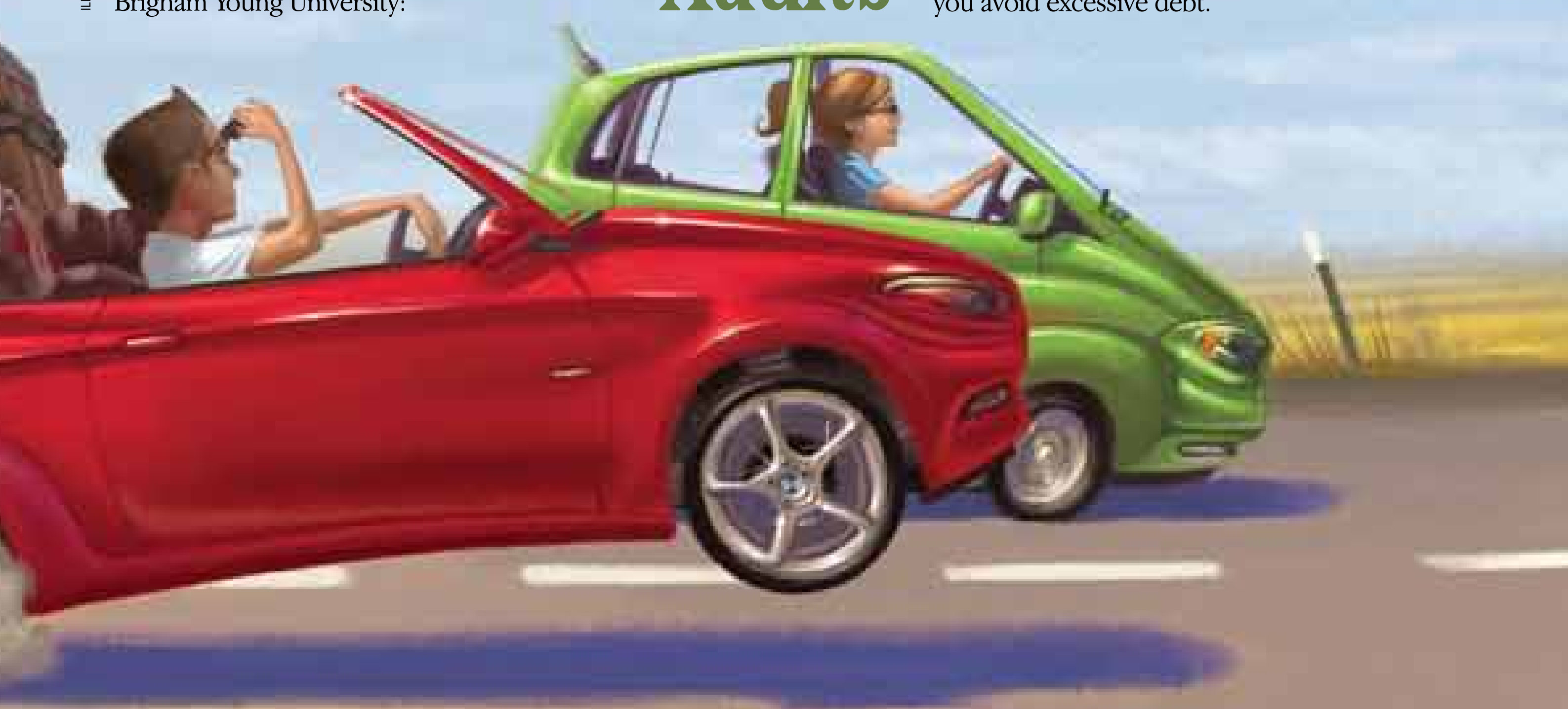


Credit Cards

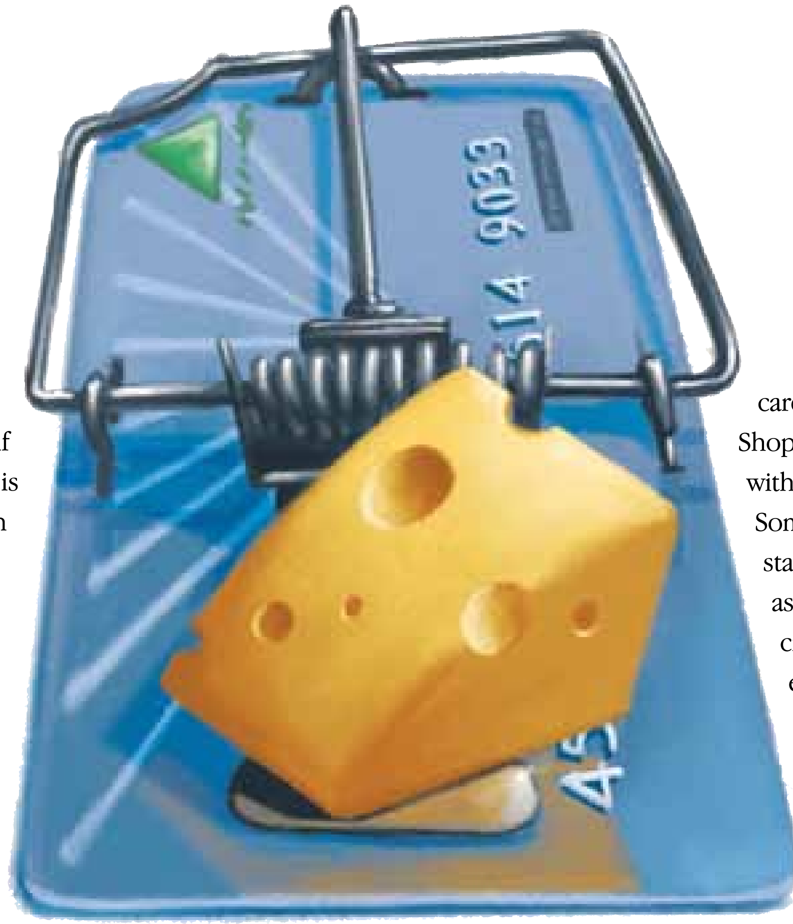
A credit card can be a helpful financial tool if the total amount owed is paid in full every month before any interest is charged. Otherwise, the credit card could become a trap.

Credit card companies like to provide low monthly payments so they can extend the debt out indefinitely. The creditor hopes the debtor will never be able to pay off the principal. If the debtor becomes financially stressed, the creditor will likely show little mercy and will sometimes even increase the interest rate, which may result in the balance going up every month instead of down. The debtor is then caught in a trap and can't get out.

When choosing a credit card:

• Read the fine print. Make sure you understand the terms offered.

• Do not ask for higher credit limits. If you get excessive available credit, you may be tempted to use it and become overwhelmed by the monthly payment. As a rule, you should be able to pay back at least 10 percent of your total balance every month. So if your total credit card balance is $5,000, you should be able to pay at least $500 the first month. Don't get more credit than you can handle. You may find yourself using it, even if you don't think you will.



Unless a credit card is paid in full every month, it could turn from a helpful financial tool into a dangerous trap.

• Don't just take the first card that comes your way. Shop around to find the card with the lowest interest rate. Some companies charge starting interest rates as high as 29.99 percent. Many credit companies also offer enticing promotions such as zero percent interest for a specified period of time—but don't be fooled. The offer lasts only a few months, so be sure you know what the interest rate is after the campaign ends. Also, if a payment is late, interest rates may jump anywhere from 18 to more than 35 percent. What sounds like a good deal may be a trap in disguise.

• Understand the 2 x 24 rule. The *2* stands for 2 percent, which most credit card companies use to calculate your minimum monthly payment. A lower monthly payment is the hook, the enticement. This lures the debtor into a false sense of security, causing him to think, "I can do this." For example, if you have a debt of $5,000, you would multiply the unpaid balance of $5,000 by 2 percent, giving you a monthly payment of $100. Each month the minimum monthly payment will go down as the balance goes down. The *24* stands for a 24 percent annual percentage rate (APR) of interest. Here's the catch: If a creditor requires only a 2 percent minimum monthly payment and charges 24 percent interest, it is impossible to ever

Most of your financial concerns will be under control once you master the skill of budgeting. It will help you be on your way to financial success.

pay off a single penny of the principal balance. And if this same card were to have an interest rate *higher* than 24 percent, the debt would actually *increase* every month, even if no more purchases were made. With a relatively low interest rate of 12 percent, it will still take more than 19 years to pay off a $5,000 debt and cost $4,393 in interest, almost doubling the original balance.

If you already have several credit cards with regular payments, pay off quickly the smallest balances first, thus freeing up funds to pay off the larger ones in turn.

Student Loans

Although interest rates and terms for student loans are often very good, they still have to be paid back. What can you do to keep your future payments reasonable? Don't borrow more than you need. Many students are offered loans for thousands more dollars than they need, but they are not required to take the entire amount. Borrow only what you need. Don't create unnecessary debt that may have to be partially paid back by a future spouse.

Also, understand the difference between subsidized and unsubsidized student loans. The interest on a subsidized loan is paid by the federal government as long as a student is enrolled at least half time during each regular semester of school. But with an unsubsidized loan the interest accumulates from the date the loan begins, and the student must make payments while still in school.

Payday Loans

Another debt trap for young people to avoid is the payday loan. A payday loan can be obtained quickly with little or no collateral. It is easy, convenient, and enticing, but the payback is always painful and costly. Such a loan may carry an interest rate from 100 to 1,800 percent! The demand to pay such a high rate of interest may lead a person to obtain another payday loan to pay off the interest on the loan. This can snowball out of control until the debt and interest owed require a person's entire wages—and then some. There is no debt more devastating. Do not be tempted; it is the guaranteed fast track to financial ruin.

Automobiles

Sometimes young people believe their car is an extension of their personality, so they may spend too much money in order to have the "hottest" ride around. But don't buy a car, new or used, that will paralyze your budget. Shop around for good deals, and try to buy used. You can often buy a fairly new car with low miles and a good warranty for thousands less than the same car new. Also try to limit the length of a car loan to three years. If the loan is longer than that, you may be paying too much. Shop around and find one that will fit within your budget.

Budgeting

Probably the most effective way to stay out of debt is to budget your money. Most financial concerns will be under control once you master this skill. Invest the time and effort to learn how to budget today, and you will save an untold amount of time and money in the future.

Become a master of your financial future. By acquiring the right knowledge and making educated financial decisions, you can avoid the pitfalls generated by creditors who would trap you in debt. ■

NOTES

1. See Martin Crutsinger, "Few Pennies Saved: Americans Spending More Than They Earn," *Seattle Post-Intelligencer,* Feb. 2, 2007, http://seattlepi.nwsource.com/business/302138_lowsavings02.html; PBS, "Secret History of the Credit Card," *Frontline,* Nov. 23, 2004, http://www.pbs.org/wgbh/pages/frontline/shows/credit/view/.
2. "Go Forth to Serve" (Brigham Young University Speeches, Apr. 27, 2006), PDF, 4, http://speeches.byu.edu.