ST. LOUIS POST-DISPATCH

12/09/2003

PERSONAL FINANCE Make financial education part of the three R's

"Generation Debt" lacks the know-how to manage easy credit.

By DEBORAH MATZ

While your kids are at college, do you know how their debt is growing? From the time they arrive on campus until graduation, students' overall credit card debt doubles.

Each college student holds an average of four credit cards. And while the average student carries credit card debt over $2,700, more than one in five are burdened with credit card debt up to $7,000. That's on top of an average student loan balance of $19,400.

Given the current entry-level job market, chances are this excess debt is more than most students will be able to pay off soon. It's no coincidence that bankruptcies among consumers under age 25 have soared 50 percent since 1991, according to a study by Harvard Law Professor Elizabeth Warren.

As today's students take on more debt because of higher tuition and endless credit solicitations, this new generation has been labeled "Generation Debt." Whether we know it or not, all Americans are assuming part of that debt. Millions of dollars in unpaid debts are passed on to all Americans through higher credit costs that amount to hundreds of dollars per family.

But don't blame it all on our children. Many campus credit card vendors make applying for a $10,000 credit line as easy as filling out a sweepstakes entry -- and just as attractive, with free gifts for signing up.

Yet credit card vendors are not entirely at fault either. There's nothing inherently wrong with giving students access to credit. What's wrong is that we don't give students access to financial education.

Every year, we send high school graduates into the work force or college with no financial education. Two-thirds of high school seniors fail the basic financial literacy test from the Jump$tart Coalition for Financial Literacy. Their average score is 50 out of 100.

Most college students don't know how to balance a checkbook, much less manage their credit. They don't know that by making the minimum payments on their $2,700 in credit card debt, they won't pay off that debt for 15 years.

This lack of financial literacy will haunt them the rest of their lives. Millions eventually come into credit unions or other institutions for financial counseling, but in most cases they don't come until they're deep in debt.

Financial burdens often cause academic and psychological problems. Indiana University found that debt is the reason for many dropouts, as students quit school to work full time. Iowa Attorney General Tom Miller found that, in extreme cases, anxiety over credit card debt was a factor in the suicides of several students.

These tragic cases have prompted lawmakers to consider the costs of financial illiteracy. Nearly half of the states have passed laws to study the effects of credit cards on college students or to limit credit solicitation on campus.

But as a federal financial regulator and a parent, I believe we need to do more. Financial education should begin in elementary school. Early knowledge about saving and spending is as important -- and as easy to learn -- as addition and subtraction. Financial education should advance through middle school and high school. Budgeting and credit management are practical, lifelong concepts that would fit into mathematics and home economics courses.

In many communities, financial institutions are willing to send counselors into schools to serve as classroom volunteers and guest speakers. Many of these institutions also underwrite the costs of financial education workbooks and teaching materials.

With all levels of government facing deficits, some argue that we cannot afford to add new programs now. But by capitalizing on public/private partnerships, the costs of teaching financial education are minimal. And the costs of not teaching it -- from troubled students to bankrupt adults -- are too high a price for our society to pay.

Deborah Matz is a member of the three-person governing board of the National Credit Union Administration, an independent agency that regulates federal credit unions.