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Carried away?

Credit debt growing among young adults

By Tom Raithe, Courier & Press staff writer 464-7595 or raithe@evansville.net

When Indiana State Treasurer Tim Berry was in Evansville recently, he told a story about waiting in line at a university campus store.

Students behind him were talking about making purchases and one said she could not use her credit card because she had already used up her credit limit.

Curious, Berry turned to ask her what she had spent it on. Books, of course, then pizza, new clothes, entertainment. In fact, just about everything a young person would spend money on was included in the list - not just educational items or emergency purchases.

Berry knew this wasn't an unusual student. In many ways she was typical.

"We're giving individuals a four-year degree... and no one talks to them about managing their own finances and budgets," Berry said. And that is having dire consequences for young people today.

Networks Financial Institute, a program of Indiana State University, has gathered some findings that support Berry's concern.

Of course, bankruptcy is a national problem, the numbers of bankruptcies having almost doubled in the last decade. More people will file for bankruptcy this year than will graduate from college, according to the Institute.

But the problem is becoming surprisingly acute among young people. The fastest growing group declaring bankruptcy in this country is the young-adult group age 20 to 24, the Institute said.

Berry points out that while loss of a job, divorce and medical expenses are chief causes of personal bankruptcy, among young people these reasons are less common. The reasons appear to be more due to financial mismanagement.

He and others offer a variety of reasons for this trend.

For one thing, young people today are spenders. They have become used to "being able to satisfy their wants and needs. They have a lifestyle that is more expensive to keep up with," Berry said.

Greg Valentine, professor of business and economic education and director of the Center for Economic Education at the University of Southern Indiana, agreed. "It's called instant gratification. This is a here-and-now generation."

Valentine said that students are bombarded with requests from credit-card companies asking them to fill out a form for a pre-approved line of credit. "Students just fill that stuff out and they get a credit card. They don't know what to do with it, and they go crazy."

Of course, it isn't all the young person's fault. Credit-card companies are aggressive in seeking out students. Berry said that today's young people "have been inundated with the request for credit cards right after high school."

David Godsted, director of outreach for the Networks Financial Institute, the inundation of offers of credit "is getting worse and worse and worse." He said that one bank has even introduced a "kiddy" credit card aimed at youngsters aged 9 to 12. The bank claims it is teaching youngsters about responsible use of credit. Godsted says they are teaching them how to spend.

But it isn't just the fault of young people and the credit-card companies. "We think that, to a certain extent, they (young adults) lack a foundation of financial literacy skills," Godsted said.

Teachers assume that personal finance is something students learn at home. Parents assume it is being taught in schools, Godsted said. In some cases, parents themselves "aren't comfortable with their financial literacy," Godsted said. What's the solution? Said Valentine: "We need to educate our young people about the good, the bad and the ugly about credit."

Walayet Khan, professor of finance at the University of Evansville, teaches a course on personal finance to business majors and minors at the university. Khan thinks it would be a good idea to require such a course to all students at all universities.

"We should make a change in our curriculum at the national level," Khan said. "This is very important for our country, for our youth."

Marsha Jackson, a spokeswoman for the University of Evansville, said campus officials are considering including instruction on personal finance that would be open to all students. She also added that the university does not allow credit-card companies to make pitches on campus.

Valentine said that credit-card companies are banned from soliciting on USI's campus, too. Valentine also teaches a course on personal finance that is open to all majors.

On the national level, the JumpStart Coalition, a non-profit national group promoting financial literacy, is helping to develop materials that can be used in kindergarten through high school to help teach students about financial literacy. These materials can be integrated into math, economics and business courses.

But personal finance should be taught in the home, too. "The best thing that parents can do, especially with their high school students, is to sit down and tell them what they do for a budget," Valentine said.

Berry agrees. "I think all issues of financial literacy... (can be addressed)... through parents sitting down and talking to their children about money," Berry said. "Unfortunately, we don't do enough of that."

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