

Too much money at the end of the month: the dreaded income and expenditure problem

Jane Hardy is consultant to Intrabank Expert Witness

In tackling the problem of finances two factors are of critical importance. One is the control exercised over your financial affairs, the other the need for a bank account.

The bank account

First, the second critical factor, which is the bank account. The bank will provide a range of services and funds on an agreed basis. It will also exercise control over the conduct of your account. The control exercised by the bank and the control you exercise yourself should be complementary.

Choosing the right bank is one of the most important decisions to be made in your first year as a student. Ideally this should be at least considered before you become a student, when you are calculating if you can actually afford to study. If you then get it wrong, not only is there "hassle" but it can also be very expensive with banks charging in the region of £30 for every unpaid cheque or standing order/direct debit, not to mention monthly account charges.

Student banking is regarded as offering potential big business by those banks that pursue it. They aim to secure the business of the future leaders in the economic sector and of the enterprises led, in the future, by today's students.

So what do the financial institutions offer students to attract their business? The incentives vary from year to year and between one institution and another. Student preferences are identified through market research and are then reflected in the packages of alleged benefits with which students may be tempted.

A typical student package on offer to students, at the beginning of the past academic year, (this year's will be kept confidential until the late summer for reasons of competitive advantage) included:

- ▶ A free CD, video or DVD
 - ▶ Interest free overdrafts starting at £1,250 for the first year and going up to £2,000 with no overdraft fees . . . subject to certain conditions, less than onerous in their nature
 - ▶ A fee free credit card
 - ▶ Free withdrawals from a wide geographical spread of cash machines
 - ▶ A combined cheque guarantee and debit card
 - ▶ All in one banking through internet and telephone banking services, 24 hours a day
 - ▶ Transfers between accounts held in that bank (said to be ideal for parents transferring money into an offspring's account!)
- Other benefits included discounts off books, CDs, videos, DVDs, games and software, concert tickets, nightclub entry, package holidays, air travel, hotels and car hire.

Benefits from the use of the bank's credit card included:

- ▶ No annual fee
- ▶ Up to 56 days interest free credit on purchases
- ▶ A favourable APR (annual percentage rate) on purchases
- ▶ A favourable credit limit
- ▶ Small monthly repayments.

The moral is clear.

- ▶ Don't accept the first offer you receive
- ▶ Ensure that you compare like with like
- ▶ Don't be ensnared by the offer of free gifts
- ▶ Evaluate each package as a whole
- ▶ Eliminate items that are not relevant to you . . . gifts of, or discounts on, CDs will not benefit those whose interests do not include music
- ▶ Identify those individual items in the package offering the greatest benefits in your individual circumstances . . . can discounts in hotels do anything for those who cannot afford to use hotels

- ▶ Compare the terms on which overdrafts are given carefully
- ▶ Look at the initial amounts offered
- ▶ Do the amounts increase
- ▶ Over what period and by how much
- ▶ What, if any, rates of interest will you be charged
- ▶ Are there any circumstances in which you might be required to reduce/repay the overdraft?

The average student debt, on graduation this year, is estimated to be £10,000, up £7,000 since 1999 according to the *Financial Times* (22 April 2002). Thus, preferential terms and conditions for an overdraft will count for more than the biggest collection of free CDs.

Be sure to ask what will be expected of

you when you cease to be a student. Can you expect to be able to open a different type of account? What will be the relationship between your new account and the student account? Does the bank offer an intermediate account, eg, a “graduate account”, during the period when you might be completing your professional studies?

Having collected the information to enable you to make a choice, systematic comparison is called for. An example matrix is shown below:

Making the choice may not be easy. An intangible factor will be how you feel about the relationship. If, despite the force of the facts and figures in its favour, you don't feel comfortable about the

prospects of committing yourself to Bank X, don't.

Control of personal finances

Control of your finances may be achieved by using various tools, ranging from a computer accounting package to pen and paper. The techniques used are the same. You produce a financial plan or budget, the items in the plan being referred to, in the jargon, as “budget”.

Budgeting

To make money go as far as possible it is obviously essential to know two facts — your income and your expenditure. This applies to all of us.

Features & Benefits	Abbey National	Bank of Scotland	Barclays	HSBC	LloydsTSB	NatWest	Royal Bank of Scotland
Current Account	■	■	■	■	■	■	■
Interest Free	■	■	■	■	■	■	■
Overdraft Allowance	See below	Free up to £100, max £2,000 by arrangement	£200 immediate. Up to £1,250 interest free on request. £1,251 to £3,000 at a preferential interest rate	Interest free to limit in Year 1	Free banking within agreed overdraft limit	Free up to £1,250 by arrangement	Up to £2,000 available until June end of year following graduation.
Year 1	£1,000	See above	See above	£1,000	£1,500	See Above	
Year 2	£1,250	See above	See above		£1,500	See Above	
Year 3	£1,500	See above	See above		£1,500	See Above	
Year 4	£1,800	See above			£2,000		
Year 5					£2,000		
Plastic Cards	Multifunction card including £100 cheque guarantee card, visa debit card & cash machine card,	Multifunction card including free cheque, debit & cash facilities &/or Classic Visa credit card, no annual fee, £500 guaranteed credit limit. Min 5% of balance to be repaid monthly	Multifunction card - debit, cash & cheque guarantee card all in one £600 limit on Barclaycard	Debit & credit card	Electron or debit card &/or credit card	Service card with Switch & student credit card with no annual fee	Fee free credit card
Access to Student Adviser	■	■	■	■	■	■	■
Travel Facilities	Commission free travel monies	Competitive rates		Discounted commission	Commission free		Commission free travel monies
"Freebies"			£50 worth of book, CD & video vouchers.			£40 of gifts	Range of discounts off CDs, DVDs videos, audio & computer games, books, concert tickets, night club entrance fees
Graduate Facilities		Offered	Offers a graduate package	Offered including graduate loans	Offered including graduate loan of up to £10,000		Offered
Postgraduate Facilities	Retain all student account facilities, including an interest free overdraft facility of £1,800 for each year of study.						
Phone Banking		■			■		■
Internet Banking			■	■	■		■
Insurance of Belongings						■	■

■ Denotes Service Available

student finances

Expenditure should be no more than income.

These facts should be estimated before you go to university – to see if you can afford the education. Some students unfortunately do not consider this, go to university, then find they can no longer afford the cost, but have debt. Had they calculated the costs first, they would probably have decided it was a cost that couldn't be undertaken. Another route forward would then have been chosen, avoiding debt and the associated worry.

Calculating the cost

Prepare a budget planner (an example is on the next page).

Does the grand total tally both down for the topics and across for the months? If not re-work the figures.

Is the planned expenditure within income? If not, how will the gap be bridged? The answer must be identified before the debt is incurred.

If the answer is a student loan, borrow the money at the beginning of the academic year and place in a savings account that pays a good rate of interest. The money is then available as and when required. Do not be tempted to use the money other than as planned.

Break down the monthly allowance into daily figures, set a weekly budget according to that month's planned needs.

Use a notebook to record everything you spend. It can be shocking and tedious, but helps to control the budget.

Cost saving options

Buy clothes from charity shops and greengrocery from markets late on Saturday afternoon, when it is sold off cheap. Share the catering, as group cooking can be cheaper per head than catering for one. Otherwise, consider cooking larger quantities at one go and freezing extra portions for use later.

Your costs	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Totals
Rent													
Electricity													
Gas													
Water													
Rates													
Laundrette													
Travel													
Food													
Insurance													
Books													
Entertainment													
Clothes													
Your car													
Maintenance													
Road tax													
Insurance													
Petrol													
AA/RAC													
Other													
Total expenses													
Income													
Net position													

If despite all your best endeavours, financial difficulties loom, address them by contacting your bank or the student debt counsellor immediately.

Once debt gets out of control — and this happens very quickly — the immediate human response can be to ignore it. An extra £10 is treated as incidental until the problem becomes huge. Strong people address the problem of debt. These are the people who will ultimately be successful.

Don't forget insurance

It is unfortunate that students are at a high risk of having their possessions stolen. It is therefore essential to arrange insurance cover. Most banks and building societies offer insurance, some may include it as part of the package. Costs vary considerably. Endsleigh Insurance Services (established by the National Union of Students) will probably offer the most competitive products. Cover can be arranged for a wide variety of needs (eg, personal possessions, travel, motor insurance etc).

The future

Congratulations, you are shortly to graduate. However, you have debts, so what can be done?

Budgeting remains relevant. What will your income and expenditure be excluding loans?

While loans should be cleared quickly, more important is "affordability". Loans should be arranged with comfortably affordable repayments ie, not "scrimping and scraping". Human nature being what it is, the likelihood is an increase in credit card debt "as Peter is robbed to pay Paul". It is preferable to set repayments at a lower figure to ensure credit cards are not relied on to cover a shortfall in monthly income.

When negotiating your new graduate loan to clear the debts, remember to include a deposit on a flat and funds to buy some clothes for your new job — if you do not have cash for these items! 