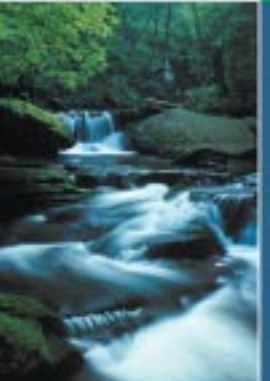


Off to College: How to Use Credit Cards and Not Get in Over Your Head



Let's face it: when it comes to getting credit, most students have it easy these days. Most college students do get credit cards — and plenty of them if they want. According to a recent study for the Education Resources Institute and the Institute for Higher Education Policy, many college students have credit cards and some of them got their first card as a high school student.

The good news is that most college students are pretty careful with their cards and don't run up huge balances they can't pay back. But at Myvesta.org, we've heard from enough students (and parents) to know that some do. When that does happen, it can create a lot of problems. So it's worth the time to help students learn how to use those tempting pieces of plastic carefully and avoid a hefty tab by graduation.



► Myvesta is a nonprofit consumer education organization. We provide a wide range of educational materials to assist those in financial need. Visit us on the Web at Myvesta.org.

The advantages of credit cards are the same for students as anyone else — they’re convenient, you can “buy now, pay later,” and they can help you build an excellent credit rating. After all, the best reference you’ll find on a credit report is a major credit card paid on time, all the time. A good credit rating can be a big plus when you graduate and start looking for a job, a place to live and perhaps even a car loan.

The main disadvantage to credit cards is that they don’t always feel like “real money,” so it’s easy to charge more than you can really afford. You can easily wind up with big balances that will be a huge drain on your finances once you’re out of school. And don’t assume you’ll be able to easily handle those bills when you get your first job. Most graduates are surprised at how far their first paycheck *doesn’t* go. The less debt you have to worry about, the better.

What is the best way for a student to use credit cards?

Don’t feel you have to take every offer that comes along.

Sure, that free T-shirt they give you just for signing up would be nice. But it won’t seem like such a bargain if you’re paying off that card for the next 10 years. You’re better off

sticking with one major card, maybe two if you really need it. There will be less temptation and fewer hassles, but at the same time, one or two cards paid on time will be a big boost for your credit rating.

Remember, it’s not free!

When you do get a card, repeat this phrase, “This is simply a way to access a loan. It is not free money.” You can pay it back sooner (when you get the bill) or later (over time). If you pay over time, you’ll be charged interest. That interest increases the cost of the loan and can really add up. If you just make the minimum payment, for example, you’ll probably find that most of your payment goes to the lender in the form of interest, not to pay off what you charged. Don’t believe it? Look at your statement and see.

The table below shows an example of how much it will cost you in interest alone and how many years (in parentheses) it will take you to pay back your balance at different interest rates if you just pay the minimum payment each month.

Always, always pay your credit card bills on time.

Sounds obvious, but when cash is tight (which it usually is when you’re in school), you may be tempted to let the bills slide for a little while then make a large payment to “make up for

Total Interest Payment Made When Paying Only the Minimum Payment			
	Interest Rate		
	14%	17%	20%
\$500	\$255 (6.3)	\$376 (7.3)	\$584 (9.1)
\$1,000	\$955(13.3)	\$1,590 (17.3)	\$3,085(26.4)
\$3,000	\$3,755(24.2)	\$6,448(32.8)	\$13,085(53.8)

it”— maybe when that student loan check comes through. It’s not a good idea. Not only will many lenders charge late fees if those payments aren’t there on time, but any late payments will be reported to the credit bureaus and stay on your credit report for seven years, *even if you later pay the bill in full*. If you can’t afford to make your minimum payments, a nonprofit agency like OnePay.org may be able to help. The worst thing you can do is wait, hoping the problem gets better while it only continues to get worse.

Check your credit report before you graduate.

Your credit report is going to be just as important to your financial future as that diploma will be to job-hunting. It can be reviewed by lenders, insurance companies and even employers! Get a copy of yours before you graduate to make sure everything is correct and up-to-date. If you find mistakes, fill out the form enclosed with your report to notify the credit bureau so it can investigate.

To order a consolidated copy of your credit report, containing information from all three credit reporting bureaus, visit Myvesta.org online.

Advice for Mom and Dad

Like it or not, your children are going to get offers for lots of credit cards. You’d probably be amazed at how easy it is for them to get credit (even when you’re their major source of income).

You can handle this in one of three ways:

Like it or not, your children are going to get offers for lots of credit cards.

1. Ignore it, hope they don’t get into too much trouble, and if they do, deal with it then. The problem with this approach is obvious: you may one day get that dreaded phone call saying the debt is out of control.
2. Give your student a card

before he or she leaves for school, either by co-signing or adding the student to one of your accounts. If you have the bills sent to you, instead of them, at least you’ll know what’s going on. The problem with this approach is twofold: first, if your offspring does go wild with the plastic, you might end up having to foot the bill or pay the consequences (late charges, marks on *your* credit file); and secondly, if you co-sign and the bills go to your child at school, you may not even find out that the payments aren’t being made until it is much too late.

3. Discuss credit cards with your kids well before they head off to school and then let them make their own decisions. Go over your bills with them so they can see how much those casual purchases add up and how interest does too. Tell them about a time when money was tight and how you handled it. Decide together how many credit cards they should get and how they will use them. This option may be your best bet for keeping your kids out of trouble — and protecting your credit rating, too. Remember, if your student gets a card on his or her own, without you signing it, you won’t be legally responsible for the bills but you may feel responsible anyway!

How did you learn how to use credit cards? The hard way — through experience — right? Maybe your kids don’t have to learn the same way. It may not seem like your teenagers are listening when you try to talk with them about credit, but chances are they’ll remember what you said. Time spent helping them understand the financial choices they’ll soon face will be time well spent.



About Myvesta...

Myvestasm is dedicated to helping people create healthy financial lives. The organization provides a wide range of materials to inspire and inform people so they can break down their barriers to financial and personal success. For more information visit Myvesta.org online.

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