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## Keeping College Kids From Credit Card Trap

Ray Martin On How To Prep Them For Handling Their Financial Affairs At School

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### Managing College Debt

With credit cards marketed heavily to your college age kids, some sound advice may help them maintain a good credit rating. Financial adviser Ray Martin offers tips to Jeff Glor.

(CBS) College students usually find themselves bombarded with offers from credit card companies when they hit campus. And knowing ahead of time how to navigate those and other financial waters is vital, Early Show money maven Ray Martin says in this column meant for the eyes of students and their parents, alike.

### Financial Preparation for College-bound Students and Their Parents

It's estimated that 17 million students will arrive at college campuses across the nation this fall. Many will be the target of credit card marketing campaigns designed to get them to sign up for credit cards endorsed by their college, and many students will take lenders up on their offers.

According to a national survey on the usage of credit cards by college students conducted by the Nellie Mae Corporation, about 42 percent of college freshman have a credit card and, by the time they reach their final year of college, 91 percent have at least one credit card -- and the average number of credit cards is four-per-student. College students report direct mail solicitation as the primary source for selecting and signing up for a credit card.

### Credit Cards on Campus

Should you tell your college student to avoid credit cards altogether? That's just not practical advice. But it's also not a good idea to obtain a credit card without giving any thought to the consequences of amassing an unmanageable amount of debt and a wrecked credit score.

The learning curve with credit cards is not difficult, but there is little room for trial and error, since making a mistake can have big consequences. Students need to learn to establish and use credit properly and to develop a good credit history before they graduate from college. Often, the first step in this process is getting and responsibly using a credit card. After all, a credit card, when used correctly, can be an important and valuable financial tool. But this can backfire, as having too many credit cards and late payments can result in big fees and ruin your credit score. This can have long-term consequences, such as getting turned down for a car or home loan, or a job. Many employers check credit reports and turn down applicants who have poor credit ratings.

### **Using Credit Cards Correctly in College**

Every student who gets a credit card needs to understand this most basic and essential concept: Each time you use a credit card, you are borrowing money. The credit card company will charge you interest until you pay it back in full. Credit cards never give you more money to spend, they just delay when you have to pay, and can even significantly increase the cost of what you buy when it is charged on your credit card.

### **Tips for Students Using Credit Cards in College:**

- **Shop Around for the Best Cards:** Many of the credit cards offered on college campuses are not always the best deals for students. The best credit cards to get have three key features: no annual fees, a reasonable interest rate (18 percent or lower), and online account management. If the credit card offered through the college's affinity program does not have these features, college students should check out [Bankrate.com](http://Bankrate.com), [Lowcards.com](http://Lowcards.com) and [Creditcards.com](http://Creditcards.com) for lists of the credit cards available to students.
- **Always Make Payments on Time:** Don't mistakenly think it's better to skip a few payments so you can save up to then pay off your card's balance in full. To avoid having a late payment posted to your credit report, you must make at least the minimum payment each month, and it must be made on time. Students who make one or two late payments can see their credit scores plunge more quickly because their credit history is so short. Making late payments can also trigger universal default provisions, in which credit card companies raise the interest rates on all of your credit cards even if you make a late payment on only one card.
- **Always Pay More than the Minimum:** There are two ways to pay off your balance on a credit card. Paying in full enables you to avoid interest charges on purchases, and paying over time will mean you will carry a balance and will pay additional interest charges until the balance is paid in full. On a credit card statement, there is a minimum payment amount that is the absolute minimum you can pay without incurring a late payment fee and to keep your account current. The minimum payment typically includes all of the monthly interest and a small percentage of the balance due. At a very minimum, you should always pay two-to-three times the minimum payment to pay off your balance more quickly and to save money.
- **Never Use For Cash Advances for Tuition:** Credit cards can be used for cash advances, but you should do so as a very last resort -- for example, you need an emergency car repair and the repair shop only takes cash. Using a credit card for cash advances will trigger cash advance fees. The typical cash advance fee is four percent of the cash advance amount. Also, the amount of

your card's stemming from cash advances carries a higher interest rate than the rest of your balance.

Another popular form of using a credit card to get cash is to charge the expenses for a group of friends and have your friends pay their portion of the costs in cash to you. The idea is that you will hold onto the cash and use it to pay for the items charged to your card. The problem is that the cash they give you never finds its way to your credit card, because you quickly spend it. Then you are stuck with no cash and a large credit card balance, with additional interest charges.

About one-in-four college students report charging a portion of their college tuition to their credit cards. This is clearly not a smart move, since credit cards come with higher interest rates and terms that are not as favorable as other education loan options. Students who need to borrow to pay for qualified tuition costs should instead use education loans, which come with lower interest rates, built-in deferment of payments, and money saving consolidation programs to use to pay off these loans after graduation.

Finally, parents need to understand that their son or daughter can apply for a credit card without any parental permission. Parents who want to supervise their offspring's usage of a credit card should never sign up as a joint owner with their son or daughter for the card -- that is an invitation to credit problems and identity theft for both the parent and student when a student's credit card is lost or stolen. Parents who want to monitor their son or daughter's use of a credit card can get set up to receive duplicate statements or set up online access to view the account activity.

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