Student **Date**

Class **Instructor**

CHAPTER 26 How to Get and Keep Credit

Majoring in Debt

Many college students aren't ready for plastic

by Mary C. Hickey

Daniel Pena graduated from the University of California at Riverside last year with a degree in biology—and almost $10,000 in credit-card debt. He had used his three Visas, two MasterCards, and one Discover card to charge books, a computer, video and stereo gear, restaurant meals, and clothing. ''I couldn't even make the minimum payment each month,'' says Pena, 24, who abandoned plans to go to medical school to take a job in computers. ''It's going to take me a few years of living frugally before I'm debt-free.''

Parents of college-bound youngsters take note: Credit-card issuers will once again be all over campuses this fall. Eager to establish brand loyalty among the young, the card companies will be trying to lure students with low introductory interest rates and no annual fee—as well as such freebies as T-shirts, CD cases, phone cards, and airline coupons.

Odds are, the kids will take the bait. According to a survey by Student Monitor, a market research firm in Ridgewood, N.J., about 56% of all college kids have a general purpose credit card in their own name, a number that has been rising steadily for a decade. And the younger they are, the more likely they'll have their own card: Half of college freshmen arrive with plastic in hand, up from a quarter just four years ago. The survey also found that undergraduates charge an average $107 a month, and 42% of them carry a balance forward each month that averages $626, up from $584 only a year ago. Most alarming: Some 10% of college students with cards have balances exceeding $7,000, reports Nellie Mae, a nonprofit provider of student loans in Braintree, Mass.

CREDIT HISTORY 101. Certainly, a card is safer than carrying cash—and it's essential for shopping on the Internet, a must for many students. What's more, a card in their name helps establish a credit history, which they'll need after they graduate if they want to get a car loan or, sometimes, even rent an apartment.

But consumer advocates worry that kids lack the financial knowhow to use cards sensibly. ''Credit-card companies are preying on students who are financially naive,'' says Paul Richard, executive vice-president of the National Center for Financial Education in San Diego. Colleges have begun to restrict on-campus solicitations, and some are offering seminars to students on credit management. Wilkes University, in Wilkes-Barre, Pa., for instance, cautions against misuse of cards at its freshman orientation and has trained peer advisers to help students learn to manage money.

As a parent, you can avoid the issue by providing your teenager with a card from your own account. You'll be responsible for payments, but you'll see what charges are rung up each month. And to impose spending discipline, you can always threaten to take the card away.

Better, though, to help children learn to manage credit on their own. Start with the basics: Make sure your youngster understands the costs of a card's annual percentage rate, or APR. Teach him not to be fooled by tricky promotions, such as cards that advertise APRs as low as 2.9%. Usually, such rates are good for only three months. Then the APR shoots up to around 20%. Also, make sure your child is aware of the annual fee, usually $35. It might be waived in the first year, but it'll kick in after that.

Encourage him to pay his bill in full each month to avoid paying interest—or at least not to buy anything that he can't pay off in three months. Advise him about the penalties of paying late, such as hiked-up interest rates and fees as high as $30 a month. Don't forget to explain that a poor payment record can mar his credit history, which will dog him for decades to come. And remind him to notify the issuer immediately if he changes his address. He could miss payments if he doesn't get the bills.

ALTERNATIVE PLASTIC. The safest bet is to avoid credit cards altogether. For big educational expenses, student loans, at 8% or so, are much cheaper. If your child wants plastic, try stored-value cards, which are issued by retailers and worth whatever you pay for them, or debit cards linked to a checking account and worth only as much as the cash in the account. (Be wary of debit cards with backup credit lines, however.) If your student does get a credit card, it's wise to keep a low credit limit—around $500. But keep in mind that the card's issuer can raise the limit without telling you.

Parents should also teach college-age kids to be realistic about financial pressures after graduation. "Students look ahead to their first job and figure they'll be flush," says Walt Woerheide, professor of finance at Rochester Institute of Technology, in Rochester, N.Y. "But then they find that living on their own is expensive, and that it's more difficult than they thought to pay off debt."

That's precisely what Daniel Pena discovered. Before graduating, he sought guidance at Consumer Credit Counseling Service, a nonprofit agency in Riverside that advises consumers who are financially overextended. The agency gave Pena a part-time job as a clerk, then provided a full-time job in information systems after he graduated. He likes computers and doesn't regret abandoning his hopes of becoming a doctor. What he does regret is it's going to take years before he's rid of all that debt.

