



Credit

CREDIT CARD SMARTS

Take Charge of Your Cards

Imagine being 30 years old and still paying off a slice of pizza you bought when you were in college. Sounds crazy, but for plenty of people problems with credit card debt can lead to that very situation. Learning about responsible credit card use now can save you from having to dig yourself out of debt after you graduate.

Credit Cards and College Students

First of all, no one is telling you to cut up your plastic and return to the stone age. Credit cards are an indisputable fact of college life and there are many good reasons to have one. Credit cards give you protection for your purchases, allow you to shop online, and provide a cushion in case of emergencies.

If you don't already have a card, you'll have plenty of opportunities to apply for one once you hit campus. Many credit card companies set up booths and tables at the beginning of the semester, offering sign-up incentives such as T-shirts or water bottles. But before you sign on the dotted line, keep these facts in mind:

1. **Credit Cards Are Not Free Money**

In fact, they're really high interest loans in disguise. Here's a breakdown of some typical credit card fees:

- **Annual fee:** Some companies charge yearly membership fees of anywhere from \$20 to \$100
- **Cash advance fee:** Avoid cash advances – fees are steep, and interest rates are usually higher
- **Late payment fee:** Paying late can also result in hiked interest rates.

2. **Carrying a Balance Can Be Costly**

Not paying off the entire amount in your account each month can lead to big finance charges. Take the story of Joe Student:

Joe's average unpaid credit card bill over a year is \$500, and his finance charge is 20 percent. He pays a \$20 annual fee plus a \$25 late fee (he was up late studying and forgot to pay online or mail in his check). Joe ends up owing \$145 to his credit card company, and he still hasn't paid for any of his purchases!

3. **Your Credit Report Matters**

Your college years are an important time to build the good credit history you'll need after you graduate. You'll need to provide a credit report to apply for an apartment or finance a large purchase, such as a car. Employers often review a credit report when they hire and evaluate employees for promotion, reassignment, or retention. Problems with credit cards, such as late or missed payments, stay in your credit report for seven years.

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Be Credit Smart

When you sign up for a credit card, you and only you will be responsible for paying the bills. Follow these rules of credit management and you'll lead a financially healthy life:

- Read all application materials carefully—especially the fine print. What happens after the "teaser rate" expires? What happens to your interest rate if you're late with a payment or fail to make a payment? What's the interest rate for a cash advance?
- Consider using a debit card instead of a credit card. Money is deducted directly from your checking account, so you can't spend more than you actually have.
- Use credit only if you're certain you will be able to repay the debt.
- Avoid impulse shopping on your credit card.
- Save your credit card for a money emergency. (Using your card to pay for a spring break vacation doesn't count.)
- Carry only the cards you think you'll use
- Pay bills promptly to keep finance and other charges to a minimum

Additional Credit Card Advice

The **Federal Trade Commission** (<http://www.ftc.gov/>) provides free information to consumers on dozens of topics related to credit and credit cards, ranging from "Choosing and Using Credit Cards" to "Avoiding Credit and Charge Card Fraud."

They also provide information about obtaining your **free credit report** (<http://www.ftc.gov/bcp/menus/consumer/credit/rights.shtm>).

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American Council on Education. *Student Borrowing in the 1990s, ACE Issue Brief, November 2001.*