



Credit Card Tips For College Students

Making Credit Cards Work for You

Now that you're a college student, you've probably heard from a lot of credit card companies offering you what seems to be a great credit card deal. While having and using a credit card wisely is a common tool to build a good credit history, falling into a credit card trap can ruin your credit for a long time.

Why should this matter? Credit card companies have been successful in aggressively marketing credit cards to college students. According to a 2005 study published by Nellie Mae, a student loan company:

- An estimated 76 percent of undergraduates carry at least one credit card.
- Fifty-six percent of all undergraduates surveyed for the study reported obtaining their first credit card at the age of 18.
- The average outstanding balance on undergraduate credit cards was \$2,169.
- Seventy-nine percent of undergraduate credit card holders regularly carry a balance on their cards, paying interest on those balances which increases the amount that must be repaid to the card company.

It's no secret that paying off credit card debt can be difficult. The more you owe, the harder it is to get out of debt. And with credit card debt, paying your way out can be very expensive.

Good credit can open doors for things like renting an apartment, getting a loan for a car, or even buying a house. Bad credit can put even the most basic essentials out of reach and make borrowing money more expensive, or in the worst case, impossible. A mistake you make when you are 18 will stay on your credit report until you are 25.

Whether you're considering your first credit card, or you've been around the credit card block, here are some tips you can use to build and maintain strong credit and make a credit card work for you.

Tip # 1: Beware of the hard sell, freebies, and the "easy credit" traps. You've probably heard these come-ons:

- **Gotta have it!**
Credit card companies love to make you think a credit card is indispensable. Think twice before signing up for a credit card you may not need.
- **Have a freebie!**
What does that "free" mug or tee-shirt really cost? Once you've agreed to the terms set by the credit card company, you may end up paying a lot more for that "freebie" they gave you when you applied for their card.

Does the card require an annual fee? If so, you will end up owing the credit card company a fee even if you never use the card. Miss a payment or pay late? That will cost you a fee, typically around \$34.00.

Exceed your credit limit? Get ready for another charge. You get the picture. They know how busy students can get, and how easy it is to miss a payment, pay late, or go over your limit. Don't be enticed by a "freebie" that may cost you much more in the long run. Those freebies may simply not be worth it.

- **If you don't like it, you can cancel at any time!**

Don't believe it. Many consumers have reported difficulties canceling credit cards they no longer want. Either the customer service representatives were not helpful or they couldn't cancel the card because they carry a balance they cannot afford to pay off. Many times, those balances were driven up by fees charged on their accounts for late payments, and interest rate hikes. What often begins as "easy credit" can end up becoming a credit card trap that's difficult to escape.

Tip # 2: Before you apply for a credit card, ask yourself these questions:

- **Do I really need a credit card?**

If you are able to pay for what you need with cash, check, or a debit card, you might not need a credit card. On the other hand, credit cards are great for emergencies and are useful for purchasing your essentials online. Paying your credit card on time every single month is also a good way to build your credit history.

- **Can I afford to have a credit card?**

If you pay a hefty annual fee just to have a credit card, or regularly carry a balance on your card and pay a high interest rate, you may find yourself spending a lot just to borrow a little. On the other hand, you can make your credit card work for you by choosing a card with no annual fee and by always paying off any monthly balance when you get your bill. That way you do not have to pay to have the card, and you get the benefit of using someone else's money for a while without having to pay for it in interest payments.

- **What will I use the credit card for?**

You should never finance your college education or your living expenses by using a credit card. Also, using your credit card for things you don't need and can't pay cash for is a bad idea. Sure, it's tempting to whip out the plastic to buy that "something" you've always wanted, but if you're not willing to pay cash for an item, then don't buy it on credit. Eventually you will have to pay for it out of your pocket. If you get into credit card debt because you buy things with your credit card you don't need and can't afford, you'll end up having to dig deeper to find the money to pay for it when the bill comes. You may also use up all of your "credit cushion" that can help you if you have an emergency.

- **How much credit should I get?**

If you are new to credit, or you are a student without a steady income, don't accept a card with a high credit limit, just because the credit card issuer is willing to give you one. Sure, it's flattering to be offered a high credit limit but it might tempt you to charge more than you can realistically pay back. Start out with a low credit limit to test the waters. Also, don't accept an automatic credit limit increase that card issuers often give their cardholders, unless your income has increased sufficiently to pay off more debt.

- **How am I going to pay for this when the bill comes?**

If you can pay off your balance every month, you're making the credit card work for you.

If you think you're okay because you can pay the minimum payment every month, get ready for a very expensive long haul. Though minimum payment amounts can vary among credit card issuers, *one thing is for sure, paying only the minimum will mean you are paying for years after you leave college, even if you stop using the card.*

For example, if you pay only the minimum payment due each month on a \$1,000 balance with an 18% APR, by some estimates you'll spend seven years and an additional \$1,731 in interest to pay back what you owe. Others estimate it could take longer, nearly 13 years, plus over \$1,000 in interest. Either way, by paying only the minimum amount due, you could spend almost twice as long, and perhaps three times as long, paying off a \$1,000 balance as it takes to earn a four-year degree.

Tip # 3: Not all credit cards are created equal. Shop carefully. Make sure you understand all of the credit card's terms.

Getting into deep credit card debt is a lot easier than you think. But there are some things you can do to make sure you have the upper hand on your credit card situation. Pay attention to the credit card terms. They can help you understand how much credit can cost you.

Here are some of the most important considerations that will make a difference in how much credit will cost you. Make sure you understand what's being offered and how it compares to other credit cards before you sign on the dotted line.

- **Look for a card with a low Annual Percentage Rate (APR).**
This is the interest rate you will pay to borrow money with your credit card. The higher the APR, the more the credit will cost you if you don't pay off your balance every month. Watch out for cards that have a "low" introductory rate that goes up at some future time. An unexpected interest rate increase can catch you by surprise and make borrowing on a card much more expensive than you anticipated.
- **Look for a card with a low or no annual fee.**
This is what the credit card company will charge you every year just for giving you the card. You are obligated to pay this fee, which is usually charged to the card, even if you never use the card for any purchases. A card with no annual fee and a low interest rate can be less expensive. However, if you regularly carry a balance, (which we don't recommend), a card with a small annual fee and a lower interest rate might be less expensive in the long run.
- **Learn about the card's default interest rate.**
This is the interest rate a credit card company will charge you as a penalty for making a late payment or for paying less than the minimum payment required. If you make a late payment or paid less than what your credit card company requires, depending upon the default rate set by the card issuer, be prepared to see your interest rate double or, in some cases, triple. The higher interest rate will apply to all future purchases *and* to any balance you already have on the card. If you carry a high balance that you can't easily pay off and trigger a default rate because you were late, the credit you thought you got at one rate will suddenly become much more expensive.
- **Understand the card's "Change of Terms" policy.**
Many credit card companies reserve the right to change the terms of your credit card agreement at any time and for any reason. This means that the card issuer can raise your interest rate even though you have paid as agreed, and they can increase the fees you pay for exceeding your credit limit or for paying late, for example. The end result for you is that the card issuer can raise the price you will have to pay on money already borrowed. This is a good reason why it's best to pay off any balance every month. If you don't like the new rules, you can stop using the card.
- **Look out for "Universal Default."**
Some credit card companies will raise your interest rate even if you always pay your credit card bill on time and in full. That's because they take into account your bill paying history with other creditors. If

you fall behind on your other bills, your credit card interest rate could rise. Make sure you pay your other bills on time.

Tip # 4: Some cards are worse than others. Read all about it.

Check out this October 2007 *Consumer Reports* article about the best and worst credit cards, based upon feedback from 36,000 *Consumer Reports* readers. <http://www.consumerreports.org/cro/money/credit-loan/credit-cards/credit-cards-10-07/overview/card-ov.htm>

Tip # 5: Use your card wisely.

- Pay off the balance monthly and make your payments on time. If you can't do that, pay off as much as you can afford. Make more than the minimum payment every month.
- Pay attention to your balance and do not exceed your credit limit. Sometimes the interest charged on a balance or fees you are charged for paying late can put you over your credit limit which can trigger additional fees.
- Don't take cash advances. The interest rate on cash advances is generally higher than the interest rate charged on purchases made with the card. When you make your credit card payments, the card issuer will apply your payments to the lowest interest rate items first, allowing the debt to mount on the higher interest rate items, such as cash advances, until the balance is paid off.
- If you manage your credit card online, be sure to set up email alerts that keep you informed. Many card issuers allow you to set up alerts that tell you when a payment is due, or when you are close to or exceed your credit limit, for example.

Tip # 6: Keep things simple by carrying only one credit card.

If you must have a credit card, one is all you need to build a good credit profile of on-time payments. Besides, having only one card is a good way to avoid credit card confusion when it comes time to pay the bills.

Tip # 7: If you get into credit card trouble, get help.

Don't be afraid to ask a family member for help. A little bit of help now can save you a lot of grief in the future. You can also contact a consumer counseling agency in your area to get advice. Learn more at <http://www.nfcc.org>

Tip # 8: Get active and learn more!

Find out what you can do to help reform the credit card marketplace. Visit Consumer's Union's website, www.creditcardreform.org

Learn how to keep more money in your wallet. Read, "Low Cost Ways to Finance Your College Education" http://www.consumersunion.org/pdf/General_Financing_Principles.pdf