

Preparing Your Graduate for Life After High School: *Credit Card Options for Young Adults*

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*Credit cards...to have one or not to have one...
That is often the question faced by thousands of families as their high school graduates have their first experience living away from home. The answer should be carefully thought out by parents and children, alike.*

Undoubtedly, there can be many advantages to having and using credit cards. They're convenient. They certainly can be useful in an emergency such as car trouble away from home or medical emergencies. And, when payments are made in a timely manner, they also can help a young person establish a favorable credit history.

But many young adults away from home for the first time have not yet mastered the financial skills required to successfully manage credit card debt. High school seniors involved in a test to measure their understanding of money scored an average of just 51.9%. The National Endowment for Financial Education says, "Only 21% of high school and college students between the ages of 16 and 22 have taken a personal finance course."

Yet this group of American consumers is one of the most highly sought after market targeted by credit card issuers. In addition to the many "pre-approved" credit card offers received by mail, college students also may be greeted on campus with a barrage of incentives offered by companies just for applying for a card — everything from free T-shirts to duffel bags. Robert Manning of Georgetown University estimates that 70% of undergraduates at four-year colleges have *at least* one credit card.

For many of these inexperienced youth, the misuse of credit cards can spell disaster — not only financially but also academically and psychologically. Among other research findings:

- Students who carry a balance forward from month to month have an average indebtedness of more than \$2,000. In fact, nearly 20% of those surveyed carried debts of more than \$10,000.
- Burdened by out-of-control credit card debt, many students take on additional part-time jobs which results in lowered performance in the classroom. Still others quit school altogether to re-pay their debts. The Consumer Federation of America quotes a University of Indiana administrator as saying "we lose more students to credit card debt than to academic failure."
- Students with poor re-payment histories may have difficulty securing jobs after graduation because some employers are now reviewing credit reports as part of the hiring process.

So...how can **you** structure an environment that will help ensure success for **your** student's first independent financial management experience? There are many options for families to consider when deciding about credit alternatives for young adults. Some provide total independence while others allow for the first-time credit experience to receive some oversight from adults. Discuss the following choices and choose the plan that seems best for your family's situation.

Options providing total independence for youth:

- Youth ownership of the traditional credit card. Although legally minors in many states, people 18 to 21 years of age are considered adults and are legally responsible for credit card debts. *Because young adults holding traditional cards receive monthly bills at*

their “away from home” address, they are **solely** responsible for managing the amount charged and making payments in full and in a timely manner to avoid interest and late fees. Parents may not be able to monitor the amount of charges or the way in which payments are being made.

- Youth ownership of a traditional credit card with parent as co-signer. Having a parent co-sign makes credit card companies more willing to issue a card to a young adult. However, bills still are mailed directly to the official card holder at his or her “away from home” address. While parents may not be able to monitor the card’s use, they are still legally held liable for debts if their children are unable to pay.
- “Student” cards. Similar to traditional cards, the young adult is still considered the primary cardholder and assumes responsibility for debts incurred. However, “student cards” generally have lower credit limits. On the other hand, they also may contain provisions such as above-average interest rates. (When considering this option, be sure to read the terms of the contract carefully to be sure it is truly a “student” card with lower credit limits rather than a “traditional” card which is simply being offered to students!) *While this option provides total independence, the lower credit limit reduces risk as long as the young adult only holds **one** card and repays debts promptly.*
- Secured cards. Intended for those with little or no credit history, these cards require a deposit equal to the credit limit on the card. They also may carry a higher interest rate. *This option allows total independence within the limits established by the deposit.*

Options providing some supervision by adults:

- Parental ownership of traditional credit card with the young adult added as an approved user. This option authorizes children to make charges to their parents’ account but since bills are mailed to the primary cardholder, parents will receive the monthly statement of charges incurred. *This option provides the security of knowing credit is available to young adults but allows parents to monitor both the types of charges being made and the total amount of indebtedness being incurred.*

- “Teen” cards. These are not truly “credit” cards. Rather, these are actually “smart” cards. Money deposited into an account by the parent is made available to the young adult but each time the card is used, the amount of the “purchase” is deducted from the funds available. When the funds are exhausted, the account must be replenished or the card can no longer be used. *Although more flexibility is provided for young adults over 18 years of age, some companies allow parents to place restrictions on the types of purchases that can be made and some allow online monitoring of the account by parents.*

Whatever the choice...

Visit with your young adult about using credit cards responsibly. Encourage your son or daughter to:

- Establish a budget and live within his/her means. Discuss the difference between “wants” and “needs.” Define what an “emergency” really is!
- Resist the “free” offers made to those who apply for credit cards. Experts recommend that students, especially, limit themselves to just *one* card.
- Keep track of charges to credit card accounts. Researchers have found that using a credit card “wrap” can help limit credit card debt. For details, see Credit Cards: Using Credit Cards Wisely (NF02-510).
- Pay monthly bills in full and on time. Over time, interest and late fees can add substantially to the total amount owed.

Resources

Consumer Federation of America (1999), *Credit Card Debt Imposes Huge Costs on Many College Students*. Retrieved February, 2002 from: www.consumerfed.org/ccstudent.pdf

Jumpstart Coalition (2001), *Improving Financial Literacy: What Schools and Parents Can and Cannot Do*. Retrieved February, 2002 from: <http://www.jumpstart.org/pdf/financialliteracybook.pdf>

National Endowment for Financial Education (2001), *College Bound Teens May Need a Crash Course in Money Management*. Retrieved February, 2002 from: <http://www.nefe.org/news/news072301.html>

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