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Pack college kid off with money smarts

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Thanks to credit card reforms kicking in next year, card issuers will have a tougher time getting teenagers on college campuses to apply for plastic without their parents' knowledge.

But what about now? Students will arrive on campus next month, and card issuers will be there to greet them at many schools. Will card companies make one more big final push to sign up students?

"Issuers will try to continue to market to college students between now and the time the legislation takes effect," says Bill Hardekopf, chief executive of LowCards.com, a site that tracks cards.

If your kids are headed to college soon, don't let them leave home without lessons on money management. That means teaching them to budget and handle a checkbook and debit card before they graduate to a credit card. Even after most of the credit card reforms take effect, students are going to need these lessons.

Card issuers target young adults because people tend to be loyal to their first card, says Christine Lindstrom, U.S. Public Interest Research Group's higher education program director. Plus, young adults are more likely to carry revolving debt and pay late, generating more interest and fees for the card issuers, she says.

Reforms that take effect in February prevent card issuers from extending credit to those younger than 21, unless they show they have the means to pay the bills or they have a co-signer, such as a parent, who will repay if they don't. Card issuers also will need a co-signer's approval to increase credit limits if the cardholder is under 21. And card issuers won't be allowed to offer T-shirts or trinkets on campus to entice students to apply for cards.

Some credit experts say students need a credit card to start building a credit history and credit score. But there's no need to rush this. And it can even backfire if students mismanage cards.

Young adults should worry less about their credit score and focus more on establishing good financial habits between ages 16 and 21, says Craig Watts, a spokesman for FICO, the company that created a widely used credit score. "The credit score will take care of itself," he says.



A survey released in April by Sallie Mae indicates that many young adults aren't savvy managers of credit. The survey of undergraduates last year found that 82 percent racked up finance charges by carrying monthly balances and 40 percent used their card knowing they didn't have money to pay the bill.

Undergraduates on average carried record card debt of \$3,173, or 46 percent more than four years earlier. And half had four or more cards, more than necessary to build a credit history.

Some schools, such as Goucher College and the College of Notre Dame of Maryland, don't allow marketers to pitch cards on campus out of concern for students.

"We don't want to encourage [students] to have debt," says Sharon Hassan, Goucher's financial aid director. She adds the school offers money management sessions to students.

If your children are going away to school soon, start them off with a checking account and a debit card, where money is pulled directly out of their bank account with no interest charge.

After a few years of living on their own, paying bills and managing credit, they can apply for a credit card under their own name when they turn 21.

Never co-sign for them, advises Janet Bodnar, author of *Raising Money Smart Kids*. You're on the hook for the student's debt, plus your child can damage your credit record, she says.

Besides, she adds, students are more likely to learn money skills if they are responsible for their own debt.

Once 21-year-olds have a card and make on-time payments for six months, they will have enough of a credit history to create a score, says Watts. And when they start repaying student loans on time, those payments will further help their credit record.

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