

Giving Credit Lessons

by vcmorris - Thursday, August 19, 2010

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It's back to school across the nation and I want to give credit where credit is due. Well intended parents are sending their kids off to college usually with a credit card. I want to help you be sure they steer clear of some common credit card mistakes.

The average consumer has nine credit cards. Don't let your student get caught in the crosshairs of potential debt. Collecting too many credit cards is absolutely *not* a good thing. Even if the cards have zero balances, multiple open accounts mean the account holder is ripe for the potential temptation to max out on all the plastic. So school them well before they get to school and are confronted with all those offers of free giveaways if they just sign up for yet another piece of plastic.

The credit card introductory rate isn't forever. But how many young consumers remember that? If they do their homework, they'll know that once that (usually) six month teaser, introductory rate is over it's not unusual for the rate to jump to 18 or 20%. That is an ugly and unexpected surprise for the uninformed.

A big lesson to be learned about credit cards is the importance of reading the fine print. That's where the (devil and) details of the offer are printed in tiny but all inclusive explanations. Most credit cards have limitations about balance transfer fees, amounts and new purchases. Your student should be well-schooled about the importance of knowing those tiny details.

Be sure to choose a credit card for the right reasons. By this I mean, don't let your student choose a card just because it has other attractions such as a rebate or rewards program or is offered by a well known icon or celebrity. Remind your student that credit card granters aren't their friend. It is a business that wants to earn as much money as it can. So make it your student's business to shop for the card that has the best interest rate rather than the most interesting look.

Regardless the credit card that's chosen as being the right one for your student – make sure they understand that even with the right credit card comes ongoing responsibilities:

- Credit card bills should be paid off at the end of every month. Making a minimum payment only will get them in trouble for a very long time. For example, if your student has a \$1000 balance with a 17% APR and pays the minimum \$25 monthly amount, it will take them 57 months to pay off that debt and cost \$452 in interest charges.
- Always pay on time, every month. Be sure your student knows to check their account statement for the due date and pay at least 3-5 business days ahead of time

It's vital that your student assume responsibility for their own money management. Yes, it is time for them to understand it's their financial thumbprint from now on. It gives new understanding for them when they're told: ***It's your money so take it personally***™.

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