

# College students and credit cards are a dangerous combination.

## DON'T GET BURNED.

Today, credit card companies compete to enroll every student on college campuses with their card. As a college student you can apply for a credit card at one of the countless campus table promotions or answer any of the handfuls of applications that come in the mail. The problem is that you not only get the promotional t-shirt or coffee mug, but a line of credit you may not be able to afford and likely don't know how to manage.

### Easy Credit

Jenny, a student in nursing school, learned this lesson the hard way. It was very easy for Jenny to get a credit card once she turned 18, and so she did—six of them. And now, at the end of four years of school, she has over \$7,000 in credit card debt.

"It was so easy to get a credit card when I started college, I was pre-approved for almost anything," Jenny says. "And as a freshman, I had no clue what I was getting into."

Unfortunately Jenny is not an exception, but the norm. "I can't think of any of my college friends who aren't in the same boat I am," she says. "Every one of them are in credit card debt way over their head."

Statistics support Jenny's claim. According to a survey by Nellie Mae, a New England Educational Loan Marketing Corp., 67% of undergraduate college students have at least one credit card. Just more than one-quarter of college undergraduates have four or more credit cards. Nellie Mae's survey also found that undergrads carried an average credit card balance of \$1,879, and 10% had more than \$7,000 in credit card debt.

### Easy Target

Credit card companies target this age group for many reasons. First off, in a market that's saturated with offers of easy credit, it's hard for credit card companies to find new customers. College students are an attractive market. Also, according to



*Credit card companies love to target college students, but behind the hype are some troubling statistics.*

Gerri Detweiler, author of *The Ultimate Credit Handbook*, "Students tend to be more loyal to the [issuer of the] first card they get. Loyalty is tough to establish these days in such a competitive market, so issuers hope to be the first one."

Obtaining a credit card is a statement of independence. Initially, you may only plan to use it "in case of an emergency." However, an emergency may come to mean many different things as you go along.

According to Jenny, her credit cards were an emotional rescue during times of stress. "When I would get burned out or depressed, shopping was one way I could bring myself back up." And that meant using her credit card.

Or there was the incentive plan. "During crunch week when I had five tests, I would motivate myself with the promise that if I did well, I would treat myself to a shopping spree," Jenny admits.

Eventually, the money situation got tight enough that Jenny was using her credit cards just to get by.



**You don't have to go it alone.**

“With going to school full time and only having a part-time job, I ended up using my credit cards to pay bills and buy gas and food.”

Other pitfalls students may fall into are “treating the gang” when they go out for dinner or drinks or paying for vacations with a credit card. “I have a lot of friends who charged their spring breaks,” says Jenny.

### **Danger Zone**

The problem only seems to get worse. 90% of recent college graduates have other debt besides credit cards. Most have student loans, perhaps a car loan, and are in need of a place to live after graduation, or in need of money to relocate to find a “real” job. Graduates often have a serious cash flow problem.

With all this debt, it is hard to start a new life. Often the best you can do is make minimum payments on a bill that touts between 19 and 26% interest. Late payments rack up penalty fees and are reported to the credit report companies. These late or missed payments stay on your credit report for years and hurt your ability to get additional loans. A bad credit report may mean you are charged higher insurance rates and, even worse, may adversely affect your ability to get a job.

### **The Solution**

Only 20% of America’s high school students receive personal money management education while in high school and it is not a graduation requirement in either Minnesota or North Dakota. When the National Council on Economics Education tested adults and high school students on their knowledge of basic economic principles, 66% failed.

The problem of education becomes more complicated when you realize that the same study showed 49% of the adults failed the same test. Did you learn financial skills at home? With our own lack of knowledge and today’s hectic schedules, teaching our children personal money management skills is usually not a top priority.

According to Jenny, “Money management was never talked about at my house. It’s funny how your parents will talk to you about sex and drugs, but the topic of money is taboo.”

Education on money management should be a top priority, considering the potential lifelong problems caused by entering the world with a load full of debt. It may be helpful to consider these tips offered by U.S. Public Interest Research Group with your children.

- Stick with one credit card. One national credit card, paid on time, is sufficient for building a good credit record.
- Pay off the full balance on time. Always pay as much of the balance as possible each month, and mail it in early.
- Keep a low limit. Issuers are likely to reward conscientious customers with a higher credit limit. Decline it. Keep credit card limits low to avoid temptation.
- Avoid cash advances. The interest rate on these is higher than on straight purchases.

Another sobering lesson is to see how quickly interest can add up. For example, if you carry a \$1,500 balance on your 17% APR card and make the 2% minimum monthly payments, it could take 23 years to pay off the original debt. This example assumes you never charge another dollar on the credit card and make every payment on time.

Jenny is worried about her brother, who will be entering college this fall. He can’t quite understand how she allowed herself to get into so much debt. “I’m so afraid he will make the same mistakes I did. He doesn’t have any education in money management like me. It’s so hard to understand until you’re in the situation yourself,” Jenny says.

### **A Lesson Learned**

As for Jenny, she learned her lesson well. She entered the Debt Management Program at

The Village Family Service Center and is in the process of becoming debt-free. “The Village gave me guidance and didn’t just tell me everything I did wrong,” she says. “I am only going to have one credit card, with a limit. I won’t let them increase that limit. I will not use it for any kind of entertainment. I will only use it for emergencies.”

Although you find them hocking their cards all over campuses, credit card companies are not necessarily an evil empire out to get us. They are a business out to make a buck like anyone else.

When you equip yourself with the money management tools you need, you can become a truly independent, successful adult. The credit card temptation will always be there, but you will be better equipped to resist.

*If your credit card spending has gotten out of control, call Consumer Credit Counseling Service of The Village Family Service Center at 1-800-450-4019*



**You don’t have to go it alone.**