

The Advocate, Spring 2004

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A DCC Educational Newsletter
Spring 2004

COLLEGE STUDENTS AND CREDIT CARDS – RISKY BUSINESS

This is for all those DCC clients with kids who are in or nearing college age or older.

Here you are, doing a great job steadily reducing your debt on the DCC program. Your child is in college this year, or has just been accepted to a college for the fall semester.

In college, he or she will undoubtedly be offered a credit card. Or perhaps you want your son or daughter to establish one, so they always have access to goods and services, “just in case.”

Here’s a typical scenario. Not having much experience with plastic, the student quickly uses the credit card routinely. The balance becomes high, and the student is unable to pay it off. Eventually, as a result of late fees and over-limit fees, the student may not be able to even make the minimum monthly payment.

Often parents feel responsible for bailing out their kids. Or maybe they think they’ll be helping their child by making payments on their behalf. This can cause an additional financial burden that you are not prepared for. And if you make their payments for them, you won’t be teaching your children about how to avoid lifelong struggles with debt. Instead of helping them, your kids can end up on the same dizzying credit-go-round most of us know all too well.

Teach your kids **now** about the advantages and pitfalls of credit cards. Share your own experiences. Explain that using credit cards wisely can be a great way to build up a good credit rating. But also warn them about the potential hazards involved. Teach them how to use credit cards cautiously, by making few purchases, and only when the cash is set aside.

Credit card companies usually offer college students cards with little or no interest, which is appealing. But within a year, long after the student card user becomes accustomed to its convenience, many creditors significantly raise the interest rate. Sometimes there are hidden fees, such as a one time “set up fee,” a one time “program fee,” a monthly “participation fee” and/or an annual fee. Some students have reported being given a credit card with a credit limit of \$250, but with annual fees totaling as much as \$244! Many times if a card user reaches the credit limit on a card, other creditors still offer cards. This is tempting for all of us, especially young adults who may feel a sense of glorious independence, and who learn the hard way that the feeling of independence in the short run is quickly replaced with a real financial burden in the long run.

Review the terms of any credit card agreements and applications with your kids. Take out a calculator and be sure they understand how quickly interest compounds and how **s l o w l y** just paying the minimum monthly charge pays down the principal. They may resist at first and tell you they already know, but be persistent. You can be sure that eventually, they'll thank you for your financial guidance.

THE "CREDIT CARD LOSS PROTECTION" SCAM

Beware of telephone scammers who are scaring people into buying so-called credit card loss protection. You don't need it. If you didn't authorize a charge made on your credit card, don't pay it. Follow the guidelines of your creditor in order to dispute the charge. According to the Federal Trade Commission, you are not liable for more than \$50, no matter what.

PROTECT YOURSELF IF YOUR WALLET WAS LOST OR STOLEN

It's springtime, and summer is well on its way. Many people take a vacation in the months ahead. While you're having fun in the sun, be sure to handle your money and any credit and debit cards securely. If your wallet does get lost or stolen, be sure to take the following steps:

- cancel your credit cards immediately. It's best to have the toll free numbers of your creditors readily available. Keep them where you can find them quickly and easily.
- file a police report in the jurisdiction where it was stolen. It will show the creditors that you are diligent and want to take care of this right away.
- call the three national credit reporting organizations to place a fraud alert on your name and social security number.

Equifax: 1.800.525.6285

Experian 1.888.397.3742

TransUnion 1.800.680.7289

For more information on how to handle credit card theft, contact the Federal Trade Commission, toll-free at 1.877.382.4357 or visit www.ftc.gov