

Avoid Credit Card Pitfalls When You Get To College

To most kids, being financially responsible consists of not spending their allowance or part-time paychecks all at once.

Since many kids have no monthly bills, handling money and balancing finances is something they don't even think about.

Unfortunately, such a reality often leads to financial pitfalls, particularly when kids head off to college for the first time. It's no secret credit card companies target college kids, knowing full well such kids are eager to get their hands on the "free money" credit cards seem to be.

However, as many college students soon learn, credit card debt is anything but free.

In general, parents should educate their kids about credit cards and how quickly they can get into serious debt if they don't approach credit cards responsibly.

· Credit is essentially a loan: Most kids fail to recognize that credit is essentially a loan, and that creditors are lending agencies. With that loan comes an interest rate on an unpaid balance.

For young people with little or no credit history, interest rates are

often very high. Kids should know that once they make a purchase with their credit card, they should then pay that item off entirely before the next billing cycle. If not, interest begins to accrue.

· Don't buy what you cannot afford: Many students make the mistake of using their credit card to purchase items they can't afford. Parents should explain to kids that if they can't afford the item in April, they likely won't be able to afford it in May, either, when the bill is due. Help kids determine what's a necessity and what's not.

A new wardrobe is not a necessity, but new textbooks likely are. Save credit cards for necessities and emergencies.

· Pay more than the minimum: If kids can't afford to pay the balance in full, parents should explain that paying more than the minimum is the only way to see the balance decrease.

When just paying the minimum, the accruing interest will only increase the amount owed. However, paying more than the minimum, while it won't help avoid interest charges, will at least mean the amount owed won't increase.

· Credit is a lifelong process: Bad credit as a young person can have negative repercussions when you become an adult.

Many students don't realize that the credit decisions they make as a college student will be considered down the road, when it comes time to get a new car or buy a home. The more responsible a student handles credit as a youngster, the better they'll look to lenders down the road, potentially saving them thousands of dollars through lower interest rates on car loans and

mortgages.

No matter how well parents prepare their children for credit, the chance is always there that kids can get into trouble. Concerned parents should keep an eye out for the following indicators that a child could be in trouble with money:

· Working extra hours to pay off debt, potentially leading to lower grades and less time for other activities.

· Always paying the minimum and allowing interest to overtake the principal.

· Juggling credit cards by using

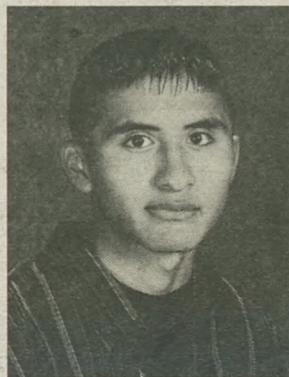
one to pay off another. While this can be a crafty way to handle credit card debt, it's not the best way to begin a credit history.

· Going over the limit, accruing not only interest on the unpaid balance but over-the-limit fees as well.

For parents still concerned about kids and credit, an approach many parents take is to open a joint credit account with your child. This way parents can view the bill each month and see if a problem is or isn't developing.



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