LYNN O'SHAUGHNESSY

Credit cards offer college students early danger lesson

September 24, 2006

When students returned to their college campuses this fall, I'm sure it never occurred to them that getting stuck in the slowest line at the campus bookstore or eating dorm food that tastes as if it were prepared by Chef Boyardee are trifling annoyances compared to a potential danger that stalked them upon their arrival.

Every autumn, marketers stack tables with cheap bling on campus quads and wait for the kids to show up. To snag a free T-shirt, towel or maybe even a sandwich, a student simply has to fill out an application. Once signed, the students walk away with a T-shirt made in China and their first credit cards. It's right here that you could insert an analogy about lambs and lions or babes and woods.

Young adults surely spend little or no time contemplating the sort of powers that their new pieces of plastic hold. What's particularly disquieting about this rite of financial passage is this reality: By the time the typical American teenager turns 18, he or she has seen more than 10 million ads.

Combine young adults' easy credit with their craving to be “merchants of cool,” a term used by a PBS documentary, and you've got the ingredient for a perfect credit storm. MySpace, Facebook and iPods will someday turn into quaint artifacts, but credit card debt will remain evergreen and ever a nuisance.

Debb Thorne, an assistant professor of sociology at Ohio University, who teaches an aptly named class called Bling, Bling Blues, appreciates that many students spend more time reading a Chinese takeout menu than they do perusing a credit card contract.

“The students are completely ignorant of the terms of contracts that they sign,” says Thorne, who has had several of her upperclassmen tell her that credit-card debt forced them into bankruptcy. “Almost without exception, they have no idea what the APR is and they have never heard of universal default. They are shocked when they learn that a cash advance costs them more in interest than a card purchase.”

I suspect that young adults are more likely to get mired in credit quick sand because they get introduced to temptation sooner. When I was in college, card issuers were as likely to hand a credit card to somebody like me, who was making minimum wage working in the student union cafeteria, as to a guy doing 25 years to life for armed robbery.

Even after graduating from the University of Missouri debt-free with a full-time newspaper job, I discovered that obtaining a credit card was nearly impossible. My father, commiserating with me after hearing of my serial rejections – even Sears snubbed me! – co-signed for a MasterCard at his bank.

What young adults don't realize is that treating their credit card as a plaything can sabotage their financial lives. An increasing number of employers are pulling the credit reports on college graduates who are seeking jobs. If they spot too much debt or a history of late payments on a credit report, a prospect, who aced her job interview, might never know how she lost out.

Lackluster credit scores will also prevent a college grad, or anyone else, from getting the most favorable interest rates when buying a car or on a home loan.

Thorne, who is a regular contributor on CreditSlips.org, an academic Web site devoted to credit issues, says her students are furious when they learn how the industry jerks them around. For example, if a cardholder doesn't pay his bill on time, the issuer can hit him with a late fee and raise his interest rate.

But that's not all. Other creditors, who are getting paid promptly, could also penalize the student with a much higher interest rate. Imagine if schools adopted this universal default provision. If a kid got a “D” in calculus, his other teachers could pile on and automatically give him the same grade.

How can college students handle credit responsibly? Thorne makes these recommendations:

Unless it's an absolute necessity, wait until you're a senior to get a credit card. You won't need a credit history until then.

Get a card through a credit union, which often has more reasonable rates, or through the financial institution where you have a checking and/or savings account.

Obtain a card with the lowest credit limit possible. What's more, tell the issuer that you don't want the credit limit ever raised without your permission.

Pay the bill as soon as it arrives.

If you leave campus over the summer, make sure your card issuer sends the bill to your new address. If bills pile up over the summer, you'll face a huge financial mess when you return to school.

Note: After receiving e-mails regarding last week's column on reverse mortgages, I concluded that I needed to take one more swipe at the subject. While I mentioned costs in the column, I decided I should have shared some idea of what they are. Typical fees for an FHA reverse mortgage in San Diego could easily be in the $15,000 to $17,000 range. On top of that, your equity will be whittled down by the reverse mortgage's variable interest rate. Don't take one of these loans out on a lark. If you've got questions on reverse mortgages, you can obtain free counseling through AARP by calling (800) 209-8085.

■ Lynn O'Shaughnessy is the author of “The Retirement Bible” and “The Investing Bible.” She can be reached at **LynnOShaughnessy@cox.net**.

»Next Story»
