

Teenagers & Credit Cards



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Teenagers and Credit Cards -- Beware

Did you realize that credit card companies are setting their sights on the teenage population as their next great consumer group? Although most teenagers don't fully understand the repercussions of using a credit card, and the impact it can have on their future financial situations, it's not stopping credit card companies from luring them in.

More teens are working full or part-time jobs and are spending their own money. Last year, youngsters shelled out \$105 billion of their own money, compared with \$94 billion in prior years, according to Teen Research's survey of 2,036 respondents in demographically selected areas.

Because of this "rich" market sector, credit card companies, such as Capital One, are targeting high school juniors and seniors with a co-signed MasterCard that is solicited through the Internet and mailings addressed to their parents. Because of this new trend of marketing to teens, one out of three high school seniors use credit cards, and half of them have cards in their own names, according to a 2006 survey by the Washington, D.C. based Jump\$tart Coalition.

The Capital One card has an alarming fixed annual percentage rate and no annual fee. Credit limits range from \$200 to \$1,000. The child gets the card--and the bill-- in his or her name, but the parents are legally responsible for the account. But are teens prepared to take on the responsibilities of using a credit card? Jump\$tart says teens aren't ready for credit cards.

The group quizzed 723 12th-graders in public schools around the country on topics such as paying taxes, using credit cards and retirement savings. On average, participants answered only 52 percent of the questions correctly, a failing grade. They did worse than a few years ago, when 57 percent was the average score.

How to Help Prepare Your Teen

How can we help prevent our teenagers from ruining their credit even before they reach college or find a "real" job? Most experts agree that parents should set up a program to help their kids understand finances.

Here are some helpful hints

First, make certain that the teen has a checking account. Teens should first understand the basic skills of writing a check and tracking money. After they have demonstrated the ability to balance a checkbook, let them use a debit card, which looks and acts like a credit card but is tied to the checking account.

When the teen has mastered those basics, apply for an extra credit card under the parent's name on an account at a retail store or local bank. Tell the teens how the card works--starting with the connection between charging one month and paying the next. Emphasize that it's not free money unless the balance is paid in full before the grace period expires. Explain interest and how it adds up if the debt continues to grow. Look at the fine print and review other key terms such as late fees. Be sure to set some ground rules. Is the card reserved for emergencies or specific purposes such as clothes shopping?

Emphasize over and over again the importance of a good credit history and how a poor one can ruin their efforts to buy their first car or rent an apartment. Show them how to get a copy of their credit report. Give the teen responsibility for paying all or part of their balance from an allowance or job. If the teens aren't earning the money, it's not a beneficial exercise. Most teens don't really appreciate the value of money until they are out working hard and being rewarded with a paycheck.

The Internet, Teens, and Credit Cards

Consumer advocates are worried that credit cards will give minors access to the Internet's unsavory side-- pornographic Web sites, or illegal alcohol and weapon sales. Internet companies such as DoughNET, iCanBuy, and RocketCash are countering those issues by setting up virtual malls with stores appropriate for teens. Parents set up prepaid accounts for their children. Some of these sites incorporate learning tools to teach kids about banking. But parents should always be wary and keep a close eye on what their teens are buying over the internet. The parent and teen could form a pact, meaning that anything bought on the Internet would be revealed. The Internet does have a sinister side and many teens, armed with a credit card, could be sucked into something over their heads.

Parents -- Educate Yourself -- Educate Your Teens

Some parents may wonder why so many groups are making such a clamor? After all, most parents never experienced a course on personal finance and they're getting by - and in some cases, barely getting by or worse.

Parents must learn to change their old attitudes. This is not the same world that parents grew up in. Teens and children are being saturated with a devious advertising message: Buy! Spending is portrayed as an entitlement of young people. The ramifications of over spending are not found in this advertising message. Immediate gratification is the only thing that matters. To make that easier, credit card companies single out teens and newly graduated high school students with their message --Buy! If a teen wants an expensive toy, parents should teach the teens to save their money they make from chores or other jobs. When they have the money, the teens can use a credit card. When the

bill comes due, the entire balance needs to be paid off. This is a good way to postpone the immediate gratification factor. It's okay to want material things but sometimes you just have to wait.

Teamwork

When it comes to money habits, parents can be their teen's best resource and teammate. But again, that may require some change on the part of the parents. What is the message being passed onto teens? Most teens don't have to look any further than the way their parents go about their business with credit cards. Parents can become more aware of the marketing ploys credit card companies have adopted and be there to educate their kids on what can happen when a teen goes "credit card wild."

Parents and their teens can investigate and learn about fiscal responsibility and credit cards by surfing the web together. They can help each other and, as a result, become more credit card savvy and financially secure. Some great resources are:

www.cautionwithcredit.com

www.jumpstart.org

