

“Teens and Credit: Handle with Care”

by Jim Burns, Ph.D.

For better or for worse, credit is a part of the American landscape. The average American carries about \$6,000 in credit card debt. Today, it is not unusual to for teenagers to have access to credit cards – either using their parents’ cards – or possibly having their own. College undergrads, for example, carry \$2,000 of credit card debt on average. One of the biggest dangers of teens using credit is that it is possible for them to believe that with credit they can buy *anything* and *everything* they want. Parents will do well to begin the process of teaching their kids how to handle credit wisely. The following are tips may help you get started.

1. Teach your kids that purchases made by a credit card are not free.

This may seem obvious – and not necessary to tell your child – but if that were the case, millions of American adults wouldn’t get themselves into credit card debt problems either. Be sure to teach your child that each purchase made by a credit card is like a mini-loan. Within weeks, the bill will arrive and needs to be paid.

2. Kids should know that carrying a credit card balance costs money.

Sure, credit card companies allow the bills to be paid back over time, but be sure your kids know that the companies charge extra if bills are not paid completely. For example, the average American pays \$900 a year at 18% interest on their credit card debt. Interest rates vary between credit companies and even between different cards – so kids should be aware of what the specific interest rate on a card is and how much maintaining a balance is costing them. If you allow your kids to have credit card access, be sure to teach them accountability and responsibility in the process. Don’t simply bail them out if they misuse credit.

3. Teach kids that their credit rating matters.

Be sure to teach your kids whenever they use credit, *someone* is paying attention. They will be responsible for the credit rating they develop. If kids don’t pay bills on time or miss payments, companies may not be willing to extend credit to them in the future, or at good interest rates. On the other hand, if they demonstrate responsibility in how they use credit, it will help them get needed credit in the future, a mortgage for example, at good interest rates.

4. Kids should learn to discern when it comes to credit cards.

Not all credit cards are created equal. Encourage your kids to learn discernment when it comes to items such as interest rates; grace periods, credit limits, late fees and annual fees. Teach them that signing up for a credit card just to get a free t-shirt isn’t a good idea.

5. Teach kids that credit card companies are in the business of making money.

Kids should learn that many credit card companies will solicit them to sign up for their credit cards – and not because the companies are nice – but because they hope to make money. Teach your kids that credit card companies target young people *exactly* because they tend to make credit purchases and carry credit card balances over long periods of time. In addition, talk about how advertisers spend millions of dollars to try to convince young people to buy their products and that combining this “purchase pressure” with the easy accessibility of credit cards can be a dangerous combination.

6. Kids should learn that a credit card may be useful in unexpected situations.

Situations can arise where having a credit card can be helpful, for example, when a car breaks down or if emergency transportation is needed. This doesn't mean that the costs involved in an emergency purchase can be ignored, but there simply may be times when using a credit card may resolve a problem when a purchase must be made, but cash isn't available.

7. Start your kids with credit slowly.

Some parents believe that no teenager should have access to credit. Other parents give their kids credit access but provide no restraints on credit usage. On either extreme, kids may go without being taught anything about this very important subject. Wherever you come down on this issue, understand that most kids, when they turn 18 need no parental approval to obtain their own credit cards. If they haven't learned about how to handle credit, they are more apt to give in to the temptations that arise with having a credit card. You may wish to consider easing your kids into the world of credit. It can be helpful for kids to learn about using credit while they are still at home – while you can still be directly involved. But, go slowly! There are a number of “adolescent credit” programs available. Visa Buxx is one program. It essentially functions like a debit card. Sufficient money must be on hand in the account in order to “charge” on the card. These kinds of programs start kids out into the world of credit; but provide safeguards.