
Random Sampler

Teaching Teens about Credit

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Get "our gift to you, just for using [our] card," read an offer from a company seeking to entice first-time credit-card users. Hooking new credit-card customers through a variety of incentives has been around for years, but what makes this and other similar offers different is that they are being sent to teenagers.

Financial institutions are targeting potential customers who are younger than ever before, potentially creating a habit of making purchases with debt-producing plastic rather than cash. As a result, an increasing number of high school and college students are accumulating debt long before they have jobs. Who pays? Financial institutions are banking on their parents.

One company approves new credit cards for students whose "sources of income" include students' savings accounts, loans, or parents—yet parents do not need to co-sign for such cards. Sometimes parents don't find out about the credit cards until their children are already in debt.

Parents can teach teenage children about the uses and abuses of credit while still in high school. Here are some points they may wish to cover:

- Help older teenagers set up a budget, open a checking account, and decide if or how credit cards will be used during their young adult years.
- Consider various credit companies before acquiring a card. Read the contract carefully and talk with your teenagers about the terms and conditions found in the small print.
- Show teens what happens to a balance if only the minimum amount is paid each month. Help them figure out how long it will take to repay the loan and what the actual cost of the item will be after all credit charges have been added.
- Discuss what happens if the monthly minimum balance is not paid on time, including the possibility of paying late fees or dealing with collection agencies.
- Explain the term "good credit rating," including what the rating is used for and why it is important to maintain one in today's economy. Discuss the consequences of a bad credit rating.
- Talk about the temptations of "easy money."
- Recommend that students, especially, who choose to use credit cards limit themselves to one card and pay off the balance in full each month.

[illustrations] Illustrated by Julianne Allen

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