



Money College: Seven Ways to Avoid Credit Card Blunders

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Mar 12th 2010 at 3:02PM

Perhaps no area of life affects undergraduate students more than credit. In this article, Money College writer Peter Sachs offers seven essential tips for credit cards and college.

What better way to take advantage of your new-found financial independence in college than to sign up for a credit card ... or two? The feeling of having spending power in your pocket -- even if you're barely making any money -- is thrilling at first. But financial experts warn there are some big drawbacks to having a credit card as a college student. New laws are changing parameters such as minimum payments and the difficulty of getting a card in the first place. But they won't protect you if you have bad spending habits. Here are some of the biggest pitfalls, and how you can avoid them.

1) If you're trying to get a credit card for the first time, new laws have made it much harder.

Your best bet is to try to sign up for a basic card at the same bank where you have a checking or savings account. Even then, you may need a parent or older adult to be a cosigner on the account -- meaning that if you forget to pay your bill, they are held responsible for the balance. Expect a low credit limit, often less than \$500 at first, and no free pizza or water bottles for signing up.

2) Your credit score matters, but many college students don't realize it.

Every time you apply for a card, even if your application gets rejected, your credit score will drop 5-10 points. Go on a spree trying to get every store charge card you can, just for the 15% discount each time, and you could find your score 50 points lower in a matter of months, even if you pay your balances on time. That could hurt when it comes time to rent an apartment, get affordable car insurance -- or apply for your dream job.

"A lot of employers check credit reports before they hire you," youth financial expert Peter Bielagus told WalletPop in a phone interview. "So if you have a lot of debt and you have a late payment here and a late payment there, certain companies aren't going to want to hire you."

3) Avoid trying to get cards that give you cash back, frequent flier miles or other rewards.

Under the new credit card laws, you probably won't have a good enough credit rating to qualify -- but your score will get dinged for applying. "That's the nice thing about having a great credit score, is eventually you can get the cards with the points and the cash back," Bielagus says.

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4) Keep track of when your credit cards are due.

Pay even a day late and many will hit you with a \$40 late charge, in addition to finance charges (interest) on the balance. Do that a few times and your credit score will be docked heavily -- timeliness of payments makes up 35% of your credit score.

A foolproof solution to this problem? "Set up auto-pay," says Manisha Thakor, a personal finance expert in Houston. "As long as you have funds in your checking account, woosh, it's all taken care of."

5) Understand how the minimum payment works.

Before new laws went into effect in February 2010, it was pretty common to have a flat \$15 minimum payment, even if you ran up several thousand dollars in spending in a month. But that meant if you were carrying a large balance, the minimum payment wasn't enough to cover interest charges, so your balance would keep rising, making it harder to pay off your debt. New laws require credit card companies to assess a minimum payment of up to 5% of your monthly balance. Spend more, and the minimum payment goes up, even if you have a perfect payment history.

6) Resist the urge to swipe just because you can.

People will spend 18% more when they use a credit card than if they made the same shopping trip and paid with cash, says Derek Sisterhen, a financial coach in North Carolina. If you must swipe for the sake of convenience, use a debit card instead. It works just like a credit card, but takes funds from your bank account instead of a credit line.

7) Don't get a credit card just for the sake of having one.

Sure, building up good credit is important, but knowing how to save and spend responsibly has to come first. "Credit cards can be kind of like a financial gateway drug," Sisterhen says. "We get ourselves in the mindset that I have to have a credit card so I can get an apartment or buy a cell phone."

A better approach, Bielagus says, is to have your parents add you as an authorized user on one of their credit card accounts. If they've paid on time for the last several years, your credit score will get an instant boost by being associated with your parents' spending -- even if you don't swipe for a single charge.