

Teen consumers, here's your guide to credit cards

By SUZANNE KENNEDY

There I was, a 20-something sitting in the little apartment I shared with two other girls, when the phone rang. It was a collection agency. Suffice it to say that it was not a great conversation and one of us ended up blubbering into her pillow.

You see, I had a credit card. It was my first one and I'm pretty sure that I applied for it because they were offering an amazing free Frisbee or water bottle with every application. There were tables all over campus and you couldn't escape them. It wasn't that I had a huge balance or anything. I was in college, had moved a bunch of times, and wasn't always the most responsible about changing my address – at least with the credit card company. I had made a couple of purchases a while back, but hadn't received a bill in a long time. In my 20-year-old mind, that meant I had no balance (of course I hadn't kept track of my purchases) and I was going about my merry way.

To be honest, I'm not really sure how I even had a credit card. I know my dad would've never co-signed for me (he is a smart man). In any case, I learned my lesson.

It's pretty common for young people to head off to college with credit cards now. The key is to use the cards to build good credit, not max them out. Here are five mistakes that often derail a young



person's credit – and how to avoid them.

Overspending or underspending. Spending can become addictive and easy when one doesn't pay attention and keep track of purchases. Shopping can actually release endorphins that make you feel happy and boost your immune system. So, yes, it's basically good for you until you spend too much. Look at it this way. Don't buy anything that you wouldn't be able to pay cash for right at that moment. Pay off your card every

month. Less common is underspending. If you never use your card, you're not building your credit score, which was one reason you got it in the first place. The wise consumer will charge something small each month on the card and pay it off right way.

Not understanding credit and annual percentage rates. Credit card companies charge you money to use their service. They do this by charging something called interest. You pay a certain percentage of the balance you keep on the card (the amount you owe); some cards have a 20 percent APR (annual percentage rate) or more. That interest builds each day, based on your balance. This is how lenders make money. If you manage to find a credit card with a zero percent APR, usually the rate

will jump after six months or you can expect to pay a yearly fee. Of course, this can change as you get older and establish better credit.

Cash advances. Cash advances are when you borrow cash from your credit card. This is a terrible idea. Interest on cash advances starts to accrue immediately instead of at the start of your payment cycle. And there's usually an additional fee beyond the regular rate. It's like shopping for your groceries at a mini-mart. It's convenient, but expensive.



Strategies

Missing payments or only making the minimum payment. Did you know that missing a payment could cause as much as a 100-point drop in your credit score? Paying only the minimum amount could cost you money and lower your score at the same time. Imagine you buy a TV for \$200 and only make the minimum monthly payment. On average, you'll end up paying \$226 after more than a year. And that's only if you don't buy anything else. Would you willingly pay an extra \$26 at the checkout counter if you didn't have to? Make it a practice to pay things off as fast as possible.

Having too many credit cards. This is an easy mistake to make. So many stores offer a discount on your purchase if you apply for a credit card. Sometimes it can add up to quite a savings. However, you may not realize that new credit lines account for about 10 percent of your credit score. Not a big deal for older consumers with well-established credit, but that's a lot for newbies to the world of credit. One credit card is ideal for young people.

Having a credit card when you're young doesn't have to be scary. With a little knowledge and responsibility, you can build great credit and have one less financial hurdle to overcome later on.

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