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Q At what age is a credit card appropriate?

There's no particular age at which all children are ready for the responsibility of a credit card. The age at which a card is appropriate for your child will depend on many factors, including his or her maturity and spending needs. It will also depend on your financial situation and your philosophies about spending money and teaching financial responsibility.

Q What are some signs that my child may or may not be ready to use a credit card responsibly?

To get an indication of how ready your child is for a credit card, observe how he or she manages an allowance or gifts of money. If your child often makes impulse purchases, routinely wants to spend more than is available, or doesn't willingly save part of the money, then it may be too soon for a credit card. On the other hand, if your child has income (an allowance or earnings) and handles it responsibly—saves some and makes wise spending choices for the rest—a credit card could be an appropriate next step in his or her financial education.

Q What are the advantages of giving my child a credit card?

The following are some of the advantages of allowing your child to use a credit card:

- A credit card makes an emergency more manageable.

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Note

- Credit card offers and terms vary widely.
- Always consult your cardholder agreement and issuer about your card. The information in this training manual is general in nature and intended for educational purposes. It should not be taken as legal or personal financial advice.

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- It provides a record of spending.
- It gives the child the opportunity to develop independence and decision-making skills, and to make mistakes while the risks are still limited (if the credit line is limited).

Depending on the card issuer and how the card is managed, it may help the child to build a good credit history.

Q What are the disadvantages of giving my child a credit card?

It's possible that your child could overspend, leaving you ultimately responsible for the debt if you cosigned the card or if your child is an authorized user on your card. And, if the card is not managed well and paid as agreed, it could harm your child's credit and damage the credit of anyone listed as an applicant, co-signer or authorized user.

To avoid these consequences, start with a low credit limit and monitor your child's transactions. Meet with your child at least once a month, when the payment is due, to discuss the previous month's transactions. If you wish to require that your child pay for the charges, discuss this upfront and set appropriate guidelines for the card's use in advance. As time goes on, discuss the purchase choices your child made and offer suggestions for improvement.

Be very careful to make payments on time if your child is an authorized user on your card. If you don't, your child's credit may be damaged along with your own.

Q Will a credit card help my child build a good credit history?

If your young adult child has a co-signed card and manages it wisely, it would contribute to a good credit history.

If your child is an authorized user on your card, he or she could build a good credit history if the card is managed responsibly (according to the terms of the cardholder agreement) and if the card issuer reports activity for authorized users to the credit reporting agencies. Policies

vary by issuer—some report on authorized users and some do not.

Q Can my minor child qualify for his or her own credit card account?

No, because minors are not able to enter into legal contracts.

Additional Cardholders and Co-signers

Q What's the difference between an additional cardholder, an authorized user and a secondary account holder?

All these terms mean the same thing—someone who has permission to make charges on your credit card account. Different credit card companies simply use different terminology.

Q How old must my child be to qualify as an additional cardholder?

That depends on your card issuer. Some credit card companies have a minimum age requirement for secondary cardholders, while others do not.

Q Who is responsible for the payments when there is an additional cardholder?

The primary cardholder is responsible for all transactions on the card, including those made by secondary cardholders.

Q Will being listed as an additional cardholder help my child build a credit history?

Yes, if the card issuer reports activity on authorized users to credit reporting agencies, and payments are being made on time, as promised.

Q What is the difference between making my child an additional cardholder on my account and co-signing for my child?

Ultimately, you will be legally responsible for the debt in either case. There are some differences, however.

An additional cardholder, or authorized user, has the privilege of using the card but is not responsible for the repayment of the account.

Also, an authorized user is not required to fill out an application or have their credit score reviewed in order to have their name added to a credit card (though their credit reports may reflect your account activity—good and bad).

An authorized user may request that he or she be removed from the account. Likewise, you can remove an authorized user at any time by following your card issuer's instructions. (However, if your account goes into default, the credit card company may balk at removing anyone, even an authorized user.)

When you co-sign for your child, you and your son or daughter are equally responsible for the debt, under the law. Accordingly, the credit card issuer considers the credit history of both applicants in the account approval process. It can be difficult or impossible to get either owner of the account removed, particularly if there's an outstanding balance.

Q Who is responsible for the payments on a card with a co-signer?

Both parties—the primary applicant and the co-signer—are equally responsible for payment of the debt.

Q How can being a co-signer affect my credit record?

All activity on the account—positive and negative—will be reported to the credit reporting bureaus for both the primary account holder and the co-signer.

Q How can I make sure my child doesn't misuse a credit card that I have co-signed for?

Before you co-sign for your child, establish some rules.

Determine what the credit limit should be. Keep it low at first, say \$200 or \$300. Regulations now require the co-signer's written approval for a credit line increase when the primary cardholder is under 21.

Agree that you will have continuous access (login and password) to the account online.

Check the online statement regularly—daily, if necessary—to ensure that payments are being made on time and your child is not racking up avoidable fees. By monitoring the account, you are in a better position to pay it off and close it down before the balance gets too high or your credit ratings are damaged.

Q What can I do if I decide not to be a co-signer anymore?

Once you co-sign, or open an account jointly, it will be difficult or impossible to get off the account unless the balance is paid in full; in some cases, the account will have to be closed. This is because the account was opened based on credit information for both applicants, and there is no advantage to the card company in reducing the number of account holders who are liable for the debt.

Other Options for Paying with Plastic

Q What are my other options if I want my child to be able to pay with "plastic"?

Other forms of "plastic"—non-cash, non-check methods of payment—include:

- Charge cards

- Prepaid cards
- Secured cards
- Debit cards

As with regular credit cards, there are advantages and disadvantages associated with each of these options.

Q What is the difference between a credit card and a charge card?

With a credit card, you're allowed to repay your charges immediately or over time. When you choose to pay over time, you will be charged interest. A charge card requires you to pay your bill in full each month. Also, there usually is no pre-set credit limit on a charge card. Many charge cards impose an annual fee, however, while many credit cards do not.

Q What are the advantages and disadvantages of a prepaid credit card?

A prepaid credit card is like a gift card that carries a Visa, MasterCard or American Express logo; it can be used at any business that accepts cards with that type of logo.

There are some prepaid cards designed specifically for young people, offering parental controls. Features vary by card, but parents may have the option to monitor spending through an online account, reload the card, deactivate the card, or disable ATM access.

A prepaid card is like training wheels for credit—it removes many of the consequences of making mistakes. There are no required payments, no penalty fees, no interest, and no possibility of accumulating debt. Card activity does not affect your child's credit report, which can be a plus or minus depending on how he or she uses it. A prepaid card may be a safer option, but it won't provide the same opportunity for your child to learn how to manage credit.

And the cards can be expensive, in some cases charging an activation fee, a monthly fee, an ATM fee, and/or a reload fee. Depending on how your child uses the card, there may be cheaper options.

Q What are the advantages and disadvantages of a secured credit card?

A secured credit card can help someone with no credit history establish credit. The card is backed by money the applicant deposits with the card issuer. If the cardholder doesn't make the required payments, the money in that account can be used to cover the debt.

Using a secured card responsibly for at least a year can make it easier to be approved for a regular, unsecured credit card.

Unfortunately, secured credit cards tend to charge higher fees than unsecured cards. These may include a set-up (or processing) fee, a monthly maintenance fee, and an annual fee.

Rates and fees vary widely among cards. When shopping for a secured card, look for a competitive interest rate, low annual or monthly fees (they can range from as little as \$15 to as much as \$75 per year), no or low up-front set-up or processing fees, a grace period (the time between the close of the billing cycle and the payment due date, when you don't accrue interest if you pay your balance in full), and an interest-bearing account for your deposit.

You can find a list of secured credit cards online at Bankrate.com (www.bankrate.com) or CardLocator.com (www.cardlocator.com). Your own bank or credit union may offer secured credit cards. Compare all offers to get the best deal available.

Q What are the advantages and disadvantages of a debit card?

Debit cards offer a number of advantages.

- It's not possible to rack up unmanageable debt since the money is deducted directly from your checking account.
- They're convenient: Cards with a Visa or MasterCard logo can be used anywhere those cards are accepted.
- PIN-based cards provide protection against identity theft.
- Your liability is limited to \$50 if you notify your bank within two business days of your card being lost or stolen.

There are disadvantages to a debit card, as well.

- It may be possible to overdraw your account and incur overdraft fees. (You must give your permission before a fee can be charged for debit overdrafts; if you don't opt in, transactions will be denied at the point of sale if there are insufficient funds in the account.)
- If your card is stolen, all the money in your bank account may be at risk. Even if your money is replaced, you could be without funds at least temporarily. And your liability increases if you don't notify the bank of loss or theft within two days (from \$500 with notification within 60 days of billing, to a potential unlimited loss if you miss the 60-day deadline for notifying the bank).
- Some banks charge fees for debit card use.
- Returning merchandise purchased with a debit card can be more difficult because retailers treat debit card transactions like cash. (The Truth in Lending Act and Regulation Z afford protections to credit cardholders that are not required for debit cards.)

To get a debit card, your child must first open a checking account.

Credit Controls, Tools and Tips

Q Is there a way for me to closely track my child's credit card use?

Yes. If your child is an authorized user on your account, you can view transactions online as they are processed. Visit the card issuer's website to set up online access.

Also, many card issuers, at your request, can notify you by text or email when the balance nears the credit limit, when a certain amount has been spent on the card, or when charges seem out of the usual spending pattern.

Q What tools are there to help my child better manage her credit card?

Many credit card issuers offer one or more of the following tools to help cardholders manage their accounts:

- Online statements showing transactions as they are processed
- Account alerts (statement ready, payment due, payment received, near limit, suspicious or excessive account activity) via text or email
- Online payments
- Year-end statements with spending by category
- Choice of payment due date
- Mobile access to account information

Online financial calculators, available free at many sites, enable credit users to figure out what the monthly payment would be at a certain balance and how long it would take to pay off a balance assuming different monthly payments.

Q How can my child avoid interest rate increases, fees and growing debt?

Your child can avoid penalty interest rate increases and fees by:

- Making at least the minimum required payment by the due date
- Not opting to be allowed to exceed the credit limit
- Not “bouncing” his or her payment

Other fees, such as cash advance fees and the fee for using a customer service representative to make an expedited (last-minute) payment, can be avoided with planning.

The easiest way to avoid accumulating unmanageable debt when first learning how to use a credit card is to get a low credit limit, say \$200 or \$300. As your child proves his or her ability to manage that amount well, the credit limit can be increased.

Q What can I do if my child is not using her credit card account responsibly?

If your child is an authorized user on your card, you can follow the card issuer’s instructions to remove him or her from the account.

If you are a co-signer, you may have to pay off the balance before you can close the card.

Or, you can leave the card open/available but forbid your child to use it until he or she pays the balance in full (or his/her portion of the balance on your card). Experts generally recommend that parents not bail out their children—better that they learn a difficult lesson now, when the stakes are still relatively low.

Make this an opportunity to work together on developing better habits. For example, include your child in your own credit and money management routines. Explain how and why you do things. Be a role model.

If your child is showing that he or she is not ready for a credit card, a prepaid card may be a good alternative. Some prepaid cards are designed specifically for young people and offer parental controls. Work with your child to pinpoint particular problem areas. Is your child having trouble distinguishing between wants and needs, or is he forgetting to make the monthly payment on time—look for specific solutions.

Q How can my child shop safely on the Internet?

Your child can shop more safely online by following these guidelines:

- Shop only with trusted online merchants.
- Instead of allowing the site to store your credit card number for future purchases, re-enter your number each time you purchase something.
- Look for the SSL encryption (“https://” with a “s” after http) in the browser’s address bar and a closed padlock or unbroken key in the browser window frame.
- Confirm the website is authentic. Double-click the padlock and key icons to check

for a match between the name in the Web address and the certificate that pops up when you click.

- Do some online research to see if anyone has complained about the site. Simply enter the site's name plus the word "complaints" in a Web browser.
- Use a credit card rather than a debit card. Credit cards provide much more protection if merchandise is unsatisfactory, undelivered, or damaged. Also, the maximum liability for unauthorized (fraudulent) charges on a credit card is \$50. Liability for unauthorized use on a debit card can be much higher, depending on when you report the loss. And because a debit card is linked to your bank account, a thief could wipe you out, at least temporarily.

Q Could my child become an identity theft victim if she has a credit card?

Anyone with a Social Security number is a potential victim of identity theft.

Your child should use the same precautions that you do to avoid identity theft. That includes not leaving the card or the bill accessible to others, not revealing the card's PIN (personal identification number), and always checking the billing statement for unauthorized transactions.

Request your child's free credit reports at the same time you check your own each year.

Q How can my child go about shopping for her first credit card?

A good place to start is online, at sites such as www.bankrate.com, www.cardtrak.com and www.cardratings.com. She can also compare cards using Consumer Action's annual credit card survey (www.consumer-action.org).

When comparing cards, she should look for a competitive interest rate and no annual fee. She also should consider transaction fees, such as cash advance, currency conversion and late fees, as well as the stated reasons why her interest rate would increase.

Q Where can my child learn more about credit?

There are hundreds, even thousands, of books and websites that can help your child learn more about credit and money. A few sites to check out are:

- Jump\$tart Coalition: www.jumpstart.org (Scroll over "Resources" and then choose "Clearinghouse" from the drop-down menu.)
- Federal Reserve: www.federalreserve.gov/creditcard/
- University of California Cooperative Extension: <http://moneytalks4teens.ucdavis.edu/>

Some studies have found that children are most influenced by their own parents' handling of money. If you have good money management practices, share those with your child. Allow him or her to help you with the family budget, balance your checkbook, pay bills, and manage your credit card. Reveal the process you go through when deciding whether or not you can afford to buy something, how much to save each month, and how to comparison-shop for everything from groceries to a car.

Kids Away from Home

Q My child will be joining his class on a two-week tour of Europe this summer. How can I make sure he has enough money to last the full trip, and that he can carry it safely?

You have a few options.

Credit and charge cards: These will be widely accepted, and they can be cancelled and replaced quickly if lost or stolen. However, most cards carry foreign transaction fees for purchas-

es made abroad, and interest will accrue if the entire balance is not paid by the due date.

Debit cards: There must be enough money in the account at all times to cover purchases, account holds, and cash withdrawals, otherwise the bank will decline transactions or impose overdraft fees. (TIP: Have your child memorize the numerical equivalent of any letters in his or her PIN—for example, SUN39jKr would be 78639557. ATM machines in other countries sometimes do not display letters.)

Prepaid currency cards: Money would be loaded onto the card in a foreign currency from a bank account, cash, or another credit card before travel begins. Additional funds could be loaded onto the card as needed. This can be an expensive option due to various fees. Make sure the balance can be replaced, and quickly, if the card is lost or stolen.

Travelers checks: These can be purchased at many banks, credit unions, and auto clubs. Some travelers “checks” are also available in the form of a pre-loaded card. There are fees to purchase the checks and to cash them.

Credit Card Rules for Young Adults

Q Will my 18-year-old receive the same credit card offers in the mail that I get all the time?

The CARD Act amended the Fair Credit Reporting Act to prohibit credit reporting agencies, such as Experian, Equifax and TransUnion, from providing the credit reports of under-21 consumers to credit card companies unless the young consumer specifically “opts in”. That doesn’t mean your child will never receive an invitation to apply for a credit card, however. If he or she is on a member list anywhere—a

frequent flier program, for example—the offers may keep coming.

Unless your child is actively shopping for a credit card, disregard these offers.

Q My child is going away to college next September, and I’ve heard that credit card companies aggressively market their cards on campus. Should I be worried?

Thanks to the CARD Act of 2009, credit card companies are now limited in how they market on campus. For example, they are no longer allowed to offer free gifts to entice students to fill out a credit application.

Also, any applicant under 21 has to provide proof that he or she has the independent means to repay any extended credit and, if this is not possible, the young consumer must have an adult (age 21-plus) cosigner on the account.

Q Can my nineteen-year-old son apply for his own credit card?

Yes. However, young adults between the ages of 18 and 21 have to show proof of their independent means to pay or get a parent or other adult to co-sign for them.

Q What kind of proof of financial ability is acceptable to a credit card issuer?

Strict guidelines have not been established, so the type of proof required could vary among card issuers. Card issuers are allowed to use scoring models that estimate income. Credit bureaus, like Equifax, have created “ability to pay” assessment tools that review data to estimate an applicant’s financial standing.

Q My son’s college has a special deal with a credit card company to provide a college-branded “affinity” card and to market this card to students. Where can I find out more about the deal between my son’s college and the card issuer?

Many colleges and universities sign an exclusive

contract with a credit card issuer to market an affinity card to their students and alumni. These cards typically sport the school's colors, logo or mascot, and they often provide special discounts and benefits to cardholders. The school earns money from the deal.

The 2009 CARD Act requires alumni associations that are part of a college or university to disclose the terms of their affinity card agreements on their websites, make it available upon request, or both. Alumni associations that are independent 501(c)(3) organizations do not have to do this. However, card companies that contract with colleges and universities to issue affinity credit cards must submit an annual report to the Federal Reserve Board detailing the terms and conditions of their agreements. The Fed will then compile a report and make it available to the public.

You might also find information about the relationship on the affinity card application.

Make sure to compare the annual fees and interest rates on the affinity card with other credit cards on issuers' websites.

Consumer Resources

American Express

www.americanexpress.com

Get tips on money management, fraud protection, travel, shopping online, etc. From the home page, click on "About American Express" and then on "Consumer Resources," then "Ask American Express."

Bankrate

www.bankrate.com

Bankrate provides free credit card tips and rate information.

Consumer Action

www.consumer-action.org

Consumer Action's site features free credit card surveys with interest rates, fees and other terms for dozens of credit cards, as well as free brochures and guides on choosing and using credit cards in Chinese, English, Korean, Spanish and Vietnamese.

Federal Reserve Board

www.federalreserve.gov/creditcard

www.federalreserve.gov/consumers.htm

The Federal Reserve provides a consumer's guide to credit cards, information about credit protection laws, a credit card payment calculator, and more.

Federal Trade Commission (FTC)

www.ftc.gov; 877-382-4357

The FTC offers a wide range of free publications on credit and consumer rights. (It also accepts complaints from consumers for use in investigating violations, but does not resolve individual complaints.)

Jump\$tart Coalition

www.jumpstart.org

Jump\$tart's website is full of guidance and tips on money—all of it geared to teaching young people.

About This Project

"Families and Credit Cards" is a joint educational project created by Consumer Action and American Express. All materials in this series are free and available in bulk or in electronic format that may be freely reproduced by those engaged in educational work.

The "Families and Credit Cards" series includes:

- A brochure designed for individuals, available in Chinese, English, Korean, Spanish and Vietnamese.
- This training manual, which is intended to provide an in-depth backgrounder for staff members of community-based agencies engaged in financial literacy education. It is written in question-and-answer format to help counselors and trainers answer frequently asked questions.
- A PDF training guide that outlines a two-hour training with worksheets and suggested class activities.
- A PowerPoint slide presentation for use during trainings. The slides can be downloaded from the Consumer Action website. Go to www.consumer-action.org/modules and choose "Credit Card Terms."

Contact Consumer Action

Consumer Action, founded in 1971, is a national non-profit education and advocacy organization.

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415-777-9648

Los Angeles Office:

213-624-4631

Washington, DC Office:

202-544-3088

Consumer Action will provide non-legal advice and referrals on consumer problems if you leave a message at 415-777-9635 or 213-624-8327.

Chinese, English and Spanish are spoken.

For advice and referrals via email, write to: hotline@consumer-action.org





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