

The Student's Guide to Credit Card Use

College is an eye-opening world for many students. While their biggest expense is directly tied to tuition, books, and room and board, they will, no doubt, have quite a few expenses that may not have been figured into the higher education budget. Electronics and gadgets, fashion, parties, and spring break trips will require additional funding. How can they pay for all these extras that are a normal part of college life? Credit card issuers have the answer with a [student credit card](#). Credit card issuers set up booths around campus, offering freebies to anyone who applies for a student card. Student cards are targeted to young adults who don't have much credit and debt experience. Unfortunately, many college students are quick to apply for credit card after credit card, without a sound debt management plan. Six years of pizza, beer, and minimum payments often leave a young adult with a substantial debt before they've even secured the job that they've received their education for. It may be difficult for an inexperienced credit card user to fully grasp the consequences of over-using a credit card. Everywhere they go, credit cards are an accepted form of payment. Their friends may pay for all their purchases with the swipe of a credit card. The minimum payment is so affordable; they may believe they can pay the minimum and continue their lifestyle until they start making the big money after graduation. The problem is, that many don't realize just how hard it will be to pay off the debt once they do graduate. Life doesn't become much easier once college is finished; it's often even more complicated. Rent, utilities, groceries, student loans, and other debts are a few of the expenses that will take a big bite out of the graduate's paycheck. And they will still have many of the same additional expenses that they had in college; you don't lose the desire to own up-to-date electronics, wear nice clothing, and go on vacation just because you're finished with school. To top off the additional expenses, many students don't enter the workforce making what they may have anticipated. The job market may be tougher than when they enrolled, and they may have to take entry-level positions with lower pay. When that lower income is further reduced by income taxes, they could end up bringing home way less than they thought. They may have thought out their after-college debt repayment plan, but it can't happen if the income's not there to support that plan. So should a student by-pass all the credit card booths on campus and vow to spend on a strict cash-only basis? No, it's important for a student to add Debt Management to their list of required studies. Credit cards are practically a necessity in our modern world; I am not suggesting that a student cut up all their credit cards. Responsible use of credit will build a credit history and increase the student's credit score. A healthy credit score is necessary for the best rates and terms for all types of loans in every stage of life. The student should get some practice in managing their debts during their college years; college is all about learning. Right? The student is smart to start off with one, maybe two credit cards. More than two is over-kill, and only provides the student with more payment due dates to remember and more balances to keep track of; more opportunities to miss a payment and more chances to exceed a credit limit. Even one late payment or over-limit for one day is reason enough for many credit card issuers to apply the default rate; the default rate is commonly as much as 28% APR! There are plenty of cards with [no annual fee](#); look for these to save money. Be aware that if the card has an annual fee, they will not send you a separate bill for it. It will simply be charged to your credit card account, which will immediately reduce your available credit. Also, this annual fee will be assessed every year, whether you use your card or not. You may be able to have the fee waived if you have never exceeded your balance and you've made all your payments on time for a year or more; check with your card issuer's customer service department. With every swipe of the credit card, the student should be very aware of their credit card balance and their available credit. Student credit cards may have a credit limit of only several hundred dollars, which makes the limit even easier to accidentally exceed. Don't count on the card issuer to cut you off when you have reached your credit limit; they will probably approve a charge if it exceeds your limit by just a small amount and then they'll charge you for it. Forgetting that the annual fee payment is due when your card is maxed out is all it takes to get hit with over-limit fees and default rates. Read the entire credit card statement every month. Don't make the mistake of only checking on the available credit and the minimum payment due; that will pave the way for poor debt management. Check that your APR is still what you thought it was; a credit card rate can change to the default rate if you fail to adhere to all the credit card's terms and conditions. Some credit card issuers will increase your APR if you have other delinquent accounts, even if you're still in good standing with them. This common practice is known as "universal default", and can punish you for mishandling any of your debts. Pay the balance in full every month before the end of the grace period to avoid any finance charges. The minimum payment is designed to keep a credit card user in debt for literally decades, and the higher the balance, the worse it is. If you can't pay off the balance every month, at least pay as much as you can afford. It's a hard habit to break, if a credit card user get accustomed to paying only the minimum payment. Be sure that your debt management experience teaches you how to handle debt wisely, and don't fall into the same trap that many other credit card users have fallen into. Be sure to pay your credit card bill in plenty of time to avoid late fees and default rates. On-line bill paying is a fast, secure way to ensure on-time payments. If you bank on-line, you can set up payments in advance with a pre-determined pay date. Be aware that it may take several days to a week to post to the credit card issuer; your bank will probably give you an expected post date when you set up the payment. Also, many credit card issuers allow you to make secure payments directly through their website. They will require your bank account info, and they'll withdraw the payment directly from your checking account. These types of payments typically post to your account the minute you pay on-line, and is a quick way to pay when you "almost" forgot the payment was due. If you want to be sure to never miss a payment and be charged late fees, listen up. This will be the one time I recommend paying the minimum payment. Set up a recurring on-line payment to your credit card with your bank. Set the payment date for a week before the credit card payment due date, and set the payment amount as your typical minimum payment. Read the credit card's term and conditions and cardholder agreement to find out how they compute the minimum payment. The minimum payment is normally 2% of the current balance, with a minimum of \$10 or \$25, depending on the card issuer. If you want to be totally safe, compute the minimum payment by figuring your balance as your credit limit, so even if your card is maxed out, you will have paid enough. With your recurring payment in place, you will have never missed a payment. In addition to your automated recurring payment, you should still make a larger payment every month. Subtract the amount of the

automated payment from that month's balance, and pay the whole thing off before the end of the grace period. If you remember to do this before the payment due date, you will avoid all finance charges. If you forget to pay until after the credit card bill was due, at least you won't be paying late fees, but you'll pay a month's worth of interest. Get in the habit of only charging what you can afford to pay back each month. Doing this will ensure you develop sound debt management skills, prevent you from living beyond your means, and provide you with free use of somebody else's money every month.

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