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Credit Card Stats and Tips for College Students

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By The LFE Institute

The annual pilgrimage is beginning. Across the country, thousands of students are heading back to universities, where new friends, all-nighters and weekend parties threaten to lure naïve young people away from their studies.

Not only do temporary distractions wink seductively at students, many of whom are away from the protective enclaves of home for the first time — some fall victim to a headache that lasts longer than the one from Saturday night's kegger: credit card debt.

According to Nellie Mae's 2004 study, 76 percent of undergraduates had credit cards; 56 percent had their first card by 18. Forty-three percent reported having four or more cards, and, on average, more than $2,100 of debt. The good news is those figures are lower than when Nellie Mae began tracking student credit card usage in 1998. Even so, many students have a lot to learn about using credit.

In 2004, 23 percent of undergrads owed more than $3,000 to credit card vendors. That was 27 percent in 2001, a marginal difference. By graduation, many students have racked up $7,000 or more in credit card debt. In fact, administrators have reported losing more students to credit card debt than to academic failure.

MasterCard International forecasts parents will spend nearly $575 on back-to-school shopping for each child. That doesn't include tuition or books. Given the amount of money spent, it is prudent for parents to spend a little time educating their children on the perks and pitfalls of having a line of credit.

Here are tips to help students manage credit wisely:

- Make a realistic evaluation of how much money you can expect to bring in each month, either through student aid, an allowance or a part-time job. Compare that figure against monthly expenditures — and it wouldn't be a bad idea to have that first number come in a little low and the second, a little high. A little financial leeway is never a bad thing.
- Make sure you understand the importance of living within your means: Don't put off until graduation what you can pay for today, so to speak.
- Pay bills on time and in their entirety. At least pay more than the minimum due, otherwise the outstanding balance collects interest, which keeps the amount owed from being reduced. Consider that a $5,000 debt will cost nearly $18,000 to settle if the borrower makes only the minimum payment — and it can take 40 years to pay off. Does anybody want to still be paying college charges when they are old enough to be thinking about retirement?
- Select the best credit card. Bankrate.com's free calculators can help you decide which card is best for your situation. Key features to shop for include low interest rates and finance charges, low or no annual fees, a grace period before fees are tacked on, and additional benefits such as free items or extended warranties on purchases. And read the fine print! Penalties for late payments, going over set limits and cash-advance fees can be financial cripplers.
- Get into the habit of examining monthly statements to monitor how much and what is being charged and to watch for mystery charges.
- Don't underestimate debit cards and stored-value cards. Debit cards deduct funds directly from a checking account, so you can't spend more than you have in the bank. Stored-value cards have a pre-paid amount loaded onto the card, thus limiting the amount that can be spent. Once depleted, the amount on the card can be replenished. However, be warned: Losing a pre-paid card is just like losing cash.

For students, a credit card can help establish a credit history, provide security in an emergency, and increase independence and responsibility. It's okay to have a credit card in college; this is a great time to build solid credit history. But students need to understand how their credit history will affect their entire lives.

Credit reporting bureaus track credit records, and lenders, employers and other companies use that information when determining what interest rates to charge, whom to hire and whether or not to approve a home loan.

Long after they have swung the tassels on their miter boards, how long they took to pay off that late-night pizza could still haunt them — problems with credit cards stay in credit reports for seven years, or roughly twice the time it took to get through college.

The LFE Institute has provided financial literacy education to more than 250,000 employees in the corporate marketplace since 1986.

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