Nebraska Lincoln EXTENSION

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EXTENSION SPOTLIGHT on FAMILIES

College students should be cautious of credit offers

Returning college students become the targets (and victims) of easy credit offers every fall according to Janet LaFon, family financial education specialist, University of Missouri Extension.

"It doesn't make sense that college students would be a prime credit target since many of these students don't have a steady income. But, creditors have learned that in most cases, the parents will bail out their children," said LaFon.

This targeting strategy of credit companies makes late summer or early fall a great time for parents to talk with their college-bound children about money. LaFon recommends setting some strict guidelines regarding the use of credit cards.

"While one card may be a convenience, several cards are not a good idea. Remind them that with credit cards they are spending their future income. Some don't realize that the overall cost of an item can become quite high if payments are made over a long period of time," said LaFon.

A Federal Reserve rule that went into effect Feb. 22, 2010 will help protect many college students from falling victim to excessive credit card debt.

"Anyone under the age of 21 will have to be able to show that he or she can make the payments, or will need a cosigner, in order to open a credit card account. In addition, if he or she has a cosigner, the cosigner must agree in writing before the credit limit can be increased," said LaFon.

For more information about credit card use and all the rules, visit the Federal Reserve Board's website at http://www.federalreserve.gov/creditcard.

Quick loans (payday loans) may also target college students with offers to give cash as an advance for a student's next paycheck. According to LaFon, the downfall is that the annual interest rates on these types of loans can be extremely high.

"College may be the first time many students have their own checking accounts. Teach them how to balance a checkbook; to understand the importance of writing down all checks, ATM withdrawals and debit card transactions; and help them to understand the difference between a debit card and a credit card," said LaFon.

For parents paying for part or all of their child's education, LaFon recommends a written agreement spelling out what college-related expenses the parents will and will not pay for.

"Encourage college students to keep track of spending and do planning each month. Then if financial problems occur, let them use the opportunity to learn an important lesson. It will be tough to stand back and not bail them out at the first sign of trouble. But, it is important to remember that this can be a valuable opportunity to teach financial responsibility," said LaFon.