Take Charge

Credit 101 — Learn how to take control of your credit cards before they take control of you

By Katie Brodahl
Midland Staff

Credit cards allow almost anyone to have a sense of financial freedom until the bill comes. An annual credit report shows that undergraduates have an average of $2,200 in credit card debt.

Credit cards are accessible to a lot of people, especially students.

Credit card companies usually target college students as good risks because they are in school and if they can't pay the bills mom and dad probably will.

"Credit card applications are offered to students at the bookstores to charge their books, before spring break and other major spending times of the year," Sam Hohman, CEO of credit advisors foundation, said.

Before students get a credit card, they should decide the purpose for the card and then only use them to pay for emergencies, she said.

"I got my first credit card in August before my freshman year of college," junior Lisa Schmitt said.

Schmitt decided to get a credit card because her parents wanted her to have something to use in emergencies.

When she first got her card, she said she used it to pay for everything.

"I would just charge all of my bills to my credit card like stuff I would buy at Wal-Mart," Schmitt said.

Her spending habits increased and so did her credit card bill which led to credit problems.

In September, Schmitt began to become concerned with her credit situation, and in November, she called her parents for some advice.

The three main causes for credit card debt among college students are credit illiteracy, high interest rates and overlooked fees.

"According to credit studies, the majority of graduating seniors are credit illiterate," Hohman said.

By not understanding the most simple credit terms, students can become confused which can lead to debt by misunderstanding their credit situation.

The best interest rates are given to people with a long history of good credit, so students are usually given higher rates.

Hohman said the average interest rate is 18.6 percent and anything lower is a good credit rate.

Then there are the overlooked fees such as late payment fees, cash advance fees and over- limit fees that can quickly accumulate if a student isn't careful.

Also, students should pay attention to their statements because credit card companies will sometimes add additional services and continue to charge them until they are asked to stop.

A student should read credit card agreements carefully for fee agreements because they are usually in tiny, gray print.

"The main reason students succumb to credit card debt is the lack of understanding credit issues," Hohman said.

"College students' credit records usually strengthen as they progress through college because they have jobs or are preparing to look for a job," Hohman said.

Currently, Schmitt said she only uses her credit card in emergencies, is learning how to budget better and to live on the current cash that she has instead of charging in excess.

"If a student falls into credit card debt, the student should call the credit card company and explain his or her situation," Hohman said. "It is important for the student to be up front with the company about his or her situation."

"If you call and ask for your interest to be lowered, they usually do it," Schmitt said.

Do not avoid the creditors. This only causes the student to incur more interest and the credit card company to become more persistent.

If students are not able to speak to the credit card company on their own, there are credit advisors who can assist students as a third party.

"We can help point a student into the right direction by seeing what we can do to help the student," Hohman said.

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Credit for Dummies

APR: Annual percentage rate. The APR is the rate that credit card companies charge over a yearly period for any balance you have on your card. It may look good with only a 5 percent APR, however the APR rates are compounded monthly and then total is given at the end of the year.
Interest rates: The average interest rate is 18.6 percent.
Fees: Charges added to your account for various reasons.
Late fees: A fee for not making the payment on time.
Overlimit fees: A fee for charging more than the credit limit.
Interest rates: They are different for goods and services purchased compared to cash advances.
Annual fee: A yearly fee just for having a credit card.
Minimum fee: For not having a minimum balance in the account
Statement fees: A fee for reprinting a statement.
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