



College Students Dealing With Credit Card Debt

From the Office of Minnesota Attorney General Lori Swanson

The cost of college is skyrocketing higher than ever and student debt in America is approaching \$1 trillion per year. According to the New York Times, the average college graduate who took out loans left school owing \$24,000 in 2010. Unfortunately, the cost of everything from utilities to transportation to health care is increasing at the same time, leaving many students financially squeezed. Many students have turned to credit cards as a means to finance their education or living expenses while they pursue a degree.

Many college students may struggle with the high cost of credit, as well as a host of fees and charges that credit card companies assess to consumers. In 2009, Congress made an attempt to address some of the issues facing student credit card borrowers by passing *The Credit Card Act of 2009*. This law went into effect on February 22, 2010 and makes some changes to the way credit card companies deal with college students and other young adults. Specifically:

- To obtain a credit card, anyone under the age of 21 must have an adult (at least 21) co-signer or demonstrate sufficient income to pay the credit card debt. A co-signer is liable to pay the debt if the account holder doesn't pay or declares bankruptcy.
- Credit card companies cannot give away gifts to induce college students to sign up for credit cards on or near a college campus or at college-sponsored events.
- Credit card companies cannot offer preapproved credit cards to anyone under the age of 21.
- The terms of marketing agreements between colleges and credit card companies will be publically disclosed.

Before You Apply

Read the contract to understand the terms and conditions. You should closely review any contract and terms before you agree to take out a credit card from a given company. Do not take for granted the promises and sales pitches from telemarketers, credit card companies, or other advertisements. The credit card industry spends billions of dollars per year marketing their products. Do the research and know what you are buying.

Hidden terms and rate increases. Credit card companies often advertise low introductory rates or other incentives to obtain new customers, but what happens after these terms expire? Here are several questions to ask when reviewing a credit card contract:

- **How high can the rates and fees go?** A credit card company can raise rates and fees but must give you 45-days notice and an opportunity to opt out of the higher rates and fees. This notice, however, may not apply to all fees. Low introductory rates can turn to high rates after six months and can cause a spiral of debt.
- **What is the cost of credit?** The cost of credit includes more than just the interest rate you pay. Be on the lookout for other fees and charges. Some credit card companies charge high up-front fees just to obtain a credit card. Sub-prime credit cards, which often target people who have challenged credit or no credit, may apply high up-front fees toward a customer's credit balance. If the account has a low credit limit, the borrower may very quickly be over their limit.

- **What happens if your payment is late?** Under many credit card agreements, if a customer misses a payment or is late in paying, the credit card company may charge you a late fee. If you are more than 60 days late, your interest rate may increase.

Managing Your Debt

If you decide to get a credit card, plan ahead on how you will use it. Will you use it for only emergencies, or will you use it for other essentials? Are there other financing options available instead of using your credit card for books and tuition? Consider that every day use of your card for incidentals like coffee or food can quickly add up and you may take years paying for that pizza.

If you can afford it, pay your full balance on time every month. This is the best way to avoid the high cost of credit and will also help you build your credit rating. Even during months where you are not able to pay the full balance, make sure you pay on time to avoid pricey late fees. Try to pay more than just the minimum payment whenever you can.

Limit the number of credit cards you have. Your credit score determines how much you pay for credit. If you have too many credit cards, your credit score may be lowered. This may make it harder to obtain other credit when you try to buy a car or home. Consider having only one card while in college.

Closely review your statement every month. Watch for notice of changing terms, increases in fees, or interest rate hikes so that you can act within the opt out period to cancel the card if you choose. In the event of any such changes and you don't want to opt out, call the credit card company to negotiate better rates and terms. In this age of Internet purchases and identity theft, watch for unauthorized purchases. Under the federal Fair Credit Reporting Act, your liability is limited to pay for such charges if you report them in a timely manner.

Difficulty Making Payments

If you are having a hard time making payments to any creditor, either during or after college, consider the following options:

Examine your situation. List all your debts and your income to see if you can figure out a debt payment plan that will work for you. Remember, you will also need the discipline to follow through with it.

Talk to your creditors. Don't wait until your payments are late; call right away. Creditors may be willing to work out a revised payment plan with you, but they can't help if you don't contact them.

Seek help. Nonprofit credit counseling services offer low-cost or free counseling. They can help you figure out a debt repayment plan, and also work with you on budgeting and other money issues.

Caution

When dealing with any kind of debt, be cautious of these scams that prey on people in financial difficulty:

Advance fee loan scams. These may sound appealing, because ads promise that companies can deliver loans no matter what your credit situation. Often you are asked to make some type of up-front payment. This is illegal. Usually you'll lose money and never see a loan.

Debt counseling and reorganization plans. Businesses and some nonprofit organizations that offer these plans may charge high fees and fail to follow through on services they sell. Others may misrepresent the terms of a debt consolidation loan, failing either to explain high costs or to mention that you're signing over personal property as collateral. For more information on debt assistance, obtain a free copy of the Attorney General's publication entitled *Beware of Debt Assistance Scams*.

Credit repair. Companies offering this service promise to clean up your credit history. These con artists can't deliver. They may charge you to do what you could do for yourself for free. They may also advise you to do something illegal. No matter which approach they take, they are likely to disappear with your money, leaving you worse off than you started.

File segregation. In this scheme, you are promised a chance to hide unfavorable credit information and establish a new credit identity. The scheme is illegal.

For help and more information contact these consumer agencies:

Office of Minnesota Attorney General

Lori Swanson

445 Minnesota Street, Suite 1400

St. Paul, MN 55101

(651) 296-3353 or (800) 657-3787

TTY: (651) 297-7206 or (800) 366-4812

www.ag.state.mn.us

National Foundation for Consumer Credit

(800) 388-2227

www.nfcc.org

(for help with money management, budgeting and debt counseling)

Better Business Bureau

2706 Gannon Road

St. Paul, MN 55116

(651) 699-1111

(800) 646-6222

www.bbb.org

(to check out the complaint data about a company)

Lutheran Social Services Financial Counseling

(in-person or phone counseling)

(888) 577-2227

www.lssmn.org/debt/

Family Means of Minnesota Credit Counseling

CCCS Appointment Desk

(651) 789-4014 or (800) 780-2890

cccs@familymeans.org

(click on link to enter personal, income, expense and debt information)

