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FISCALLY FIT
 By TERRI CULLEN


College Students, Watch Your Credit

Terri Urges Students to Avoid the Mistakes She Made by Taking on Too Much Debt
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Some college students get into incremental trouble with debt -- they apply for a credit card one year, one or two department-store cards the next, and over the years their credit limits rise just enough to allow them to borrow more debt than they can manage.

Not me. My introduction to credit in college was fast and furious. It was my second day on campus, and I ventured out with a friend to the student center to find my mailbox. There, I was approached at table after table and offered all kinds of free gifts -- T-shirts, radios, coffee mugs, discount coupons and other items adorned with our university logo. All I had to do in return was apply for a credit card. *Free stuff? Awesome! Where do I sign?*

TALK WITH TERRI



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How did you learn² to manage credit-card debt? Were your parents involved in educating you about credit cards, or did you learn by trial and error? What would you have done differently if you had to do it all over again? Join me and your fellow readers **in a discussion³** about managing credit-card debt.

I didn't bother to read the fine print because I didn't actually think I'd get any of the four cards I applied for that day. My parents had badly mismanaged their credit, and by the time I left for college they weren't able to get

approved for credit cards. I assumed their borrowing history would reflect badly on me and I wouldn't be approved either. So I could barely contain my excitement when the shiny new cards started showing up in my campus mailbox.

And I wasted no time in using them. Before the end of freshman year I had run up a few hundred dollars in debt -- but I could afford the minimum monthly payments on my meager work-study pay, so I didn't fret much about it. In fact, I worried so little about it that occasionally I'd lose track of the bills and miss a payment here and there. And throughout my school years I kept signing up for new cards and borrowing more.

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ABOUT TERRI CULLEN

Terri writes the "Fiscally Fit" personal-finance column every Thursday for The Wall Street Journal Online, in addition to other personal-finance articles and features. Terri is an assistant managing editor and one of the original team of editors who helped launch the Online Journal in 1996. Terri is the author of "The Wall

It wasn't until I left school that I realized my careless borrowing habits would come back to haunt me. I had amassed more than \$15,000 in debt, including my student loan and wallet full of credit cards, and I needed to borrow more to buy a car to get to and from my new job. I cringed as the salesman at the car dealership chuckled derisively at one of the negative entries on my credit report. "How could he possibly know about that?" I wondered. I'd never heard of a credit report, and had no idea that making late payments might prevent me from qualifying for a car loan. In the end I got the loan, but because of my credit history I didn't get the low finance charges advertised.

Street Journal. Complete Identity Theft Guidebook," published in 2007. Terri also is a contributor to "The Wall Street Journal Online's Guide to Online Investing," published in 2000. In 2002, she won the Medill School of Journalism Financial Writers and Editors Award for best national financial columnist.

Send your comments about "Fiscally Fit" to Terri at fiscallyfit@wsj.com¹⁵.

The first few years out of college I struggled to keep up with my debt payments and spent more than a few nights lying awake worrying I was in over my head. The day my husband Gerry proposed, I resolved to get my debt under control. I spent the next year-and-a-half working two jobs and living off soup and peanut butter until I got my debt down to just a few thousand dollars.

The silver lining is those 18 months taught me a hard lesson about managing money. But I could have saved myself a lot of grief -- and hundreds of dollars in interest payments -- if I'd learned about the dangers of abusing credit in high school.

There are signs that today's students are getting the message I missed. The average outstanding balance on credit cards of undergraduates who applied for student loans was \$2,169 in 2004, down from \$2,748 in 2000, according to a study by Nellie Mae, a unit of student-loan company SLM.

But parents who want to help their children build good credit -- and keep some control of their spending habits -- now need a new strategy. It used to be that parents could add their children as authorized users on their own credit-card accounts, with a long history of on-time payments to the parent's account noted on the student's credit history, helping both of their credit scores. But starting next month, children will no longer be able to benefit from their parents' good habits. Fair Isaac, the company that provides FICO credit scores, [announced recently](#)⁴ that as of September consumers who are added as an authorized user on someone else's credit card won't be able to benefit from the account owner's credit history.

Adding children as authorized users can still help parents monitor their spending while away at college, however. But it's not a cure-all. Before handing over a credit card, sit down and give the child a crash course on how to use it wisely. Start by setting a monthly spending limit -- you can adjust the amount after the student starts school, when you have a better idea what monthly expenses will be. Explain the difference between finance charges for purchases and for cash advances⁵, and the dangers of [universal default](#)⁵, where card companies penalize you with higher rates if you make late payments elsewhere. Then make a habit of going over statements with your child.

If after a year your child proves able to manage credit wisely, consider opening an account in his or her name to start building a good credit history. Search for cards with low finance charges and fees [here](#)⁶. Don't limit your search to cards marketed solely for students -- you may find better terms with other cards. And stay away from cards with low spending limits of a few hundred dollars or so -- those could lead to steep over-the-limit charges.

Urge your child to come to you if the debt becomes a burden. Don't just offer a bailout -- instead, discuss ways he or she can repay you or perhaps repay the debt on his or her own.

This is a good time to educate your child about the value of developing good borrowing habits. Make sure he or she knows the consequences of making late payments -- in addition to late fees, the interest rate on the card may rise. And explain the dangers of late payments -- one late payment can shave your credit score by as much as 100 points. Get a free copy of your own credit report at Annualcreditreport.com⁷ and go over it with your child, showing how negative information is reported and that it can stay on your account for as long as seven years. Serious debt problems, such as court judgments or bankruptcy filings, can stay up to 10 years. Fair Isaac's Myfico.com⁸ has a helpful chart that shows how much more a borrower with a bad credit score will pay for a loan than someone with a good score.

College students may find it hard to get worked up about how their credit scores affect their ability to borrow -- after all, car loans and mortgages are years away. So make sure they know that their credit score may also hurt their chances of getting a job. As [this article](#)⁹ explains, more companies are checking credit reports to get an idea about the stability and creditworthiness of prospective employees. When considering two qualified candidates, the one with the low credit score may lose out.

Finally, encourage your child to resist the urge to open a bunch of new card accounts -- as I discovered, the freebies and discounts offered are more than paid for by the fees and finance charges eventually racked up. And having to keep track of a bunch of credit accounts may lead to late or missed payments, damaging your child's credit score. Besides, one credit card is all any student really needs.

How did you learn to manage your credit-card debt? Were your parents involved in educating you about credit cards, or did you learn by trial and error? What would you have done differently if you had to do it all over again? Write to me at fiscallyfit@wsj.com¹⁰, and then come [join me in a discussion](#)¹¹ about managing credit-card debt.

Or, join me and your fellow readers in [a continuing discussion](#)¹² on [last week's column](#)¹³ about so-called how the credit crisis in the financial markets is affecting consumers like me.

Write to me at fiscallyfit@wsj.com¹⁴.

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