

Costs and Benefits of Credit as a College Student

Credit can be a blessing or a hindrance. Establishing a credit history is important and being without a credit card can be limiting: you can't reserve a hotel room, purchase on-line or over the telephone.

However, if you let your credit use get out of hand, you could be suffering the consequences for years to come.

When you go to college for the first time, you will be bombarded with hundreds of offers for quick credit, promising free airfare, gas and much more. It may be difficult to resist the lure of immediate accumulation of the things you would like to have.

- Remember that credit card companies make most of their money from interest - money you pay for the convenience of carrying a balance. Many students get into serious financial trouble by mismanaging credit. Some will drop out of school or will spend the first several years of their new careers paying off debt instead of establishing a new home and life.

As a student, it can be difficult to know how much credit you can manage.

If you and your parents plan for you to use a credit card, establish your limit and a strategy for use before you receive the card. Steps to managing your credit effectively include:

- Own only one card. Set your minimum balance low (\$500) to help control your spending.
- Never get a second card to pay the balance on the first. Don't charge more than you can afford to pay off each month.
- Consider your available funds. Will you be able to pay the entire balance each month?
- Consider keeping the card for emergency uses only, and establish what constitutes an emergency.
- Watch the costs of credit. Be sure you know the Annual Percentage Rate and how it is calculated. Shop around for the best deal. Read the fine print carefully.
- Avoid unnecessary charges. Late payment and over-limit fees can add substantial amounts.



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- Avoid maxing out your credit lines. Spending up to your limit suggests that you overspend.
- Pay bills promptly and pay more than the minimum.
- Protect your card from theft.
- Save receipts and review them every month. Check to be sure that all credit charges are accurate.
- Keep a record of your charge as you go, so your balance will not be a surprise when your bill comes.
- Close accounts you are not using. Open, unused accounts are still considered a part of your available credit limit because you could use it any time. If it appears that you have more credit than your current income and credit history qualifies you for, you could be considered as a high credit risk. Some of your credit options could be canceled or result in higher interest charges. Too many credit cards can affect your ability to get car loans, student loans, mortgages or to rent an apartment.
- Keep your oldest account open, as length of credit history can increase your credit score.
- Read and understand credit card insurance offers. Consider carefully if the cost of the insurance equals the benefits.

Cash Advances Credit Tip: While cash advances can look attractive, keep in mind that interest usually accrues from the moment you accept the cash. If you add in the transaction fees and the higher interest charges for cash advances, they may be more expensive than you anticipated.

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