



*Consumer Credit Counseling Service
of Maryland and Delaware, Inc.*

Helping people help themselves through Education, Financial Counseling and Debt Repayment

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College Students & Credit:

There's a New Law, But It Still Pays to Be Informed

BALTIMORE, MD - For years, credit card companies have marketed directly to students on college campuses, offering t-shirts, free meals, and other freebies, to encourage them to apply for credit card accounts. But since the Federal Credit Card Accountability, Responsibility, and Disclosure Act became law last February, students are now much less likely to face this scenario. And that's not all. Under the new law:

- Young adults under the age of 21 cannot get a credit card unless they can verify they have the income to support their debt OR their parents co-sign for the credit card account.
- Credit reporting agencies, such as Equifax, Experian, and Transunion, cannot supply the credit reports of under-21 consumers to credit card companies unless the consumer specifically asks that they do so.
- Credit providers can no longer offer tangible gifts to college students in exchange for completing credit card applications at sites on or near a campus.
- Colleges, universities, and alumni associations must annually disclose the terms of any marketing or promotional agreements they make with credit card companies, including how much money they made the past year from affinity credit cards that display the school logo or mascot. The law also recommends that colleges and universities adopt policies to limit credit card marketing at their institutions, such as requiring advance notice before companies can be on campus and restricting their use of locations.
- Credit card issuers must file annual reports with the Federal Reserve Board that detail all the marketing, promotional, and business agreements they hold with colleges, universities, alumni associations, and other school-related groups.

Congressional members who crafted these elements of the new credit card law did so in reaction to a disturbing trend: In the past decade, college students have taken on increasingly larger and larger amounts of credit card debt. Eighty-four percent of undergraduates polled in last year's Sallie Mae study had at least one credit card, and half had four or more. These students carried an average balance of \$3,173, and only 17% regularly paid their credit card bill in full each month. The study found that freshmen carried a median debt of \$939, nearly triple the \$373 owed in 2004.

Seniors graduated with an average credit card debt of more than \$4,100, up from \$2,900 just five years ago.

The new credit card law is likely to limit the flow of credit to young adults and may keep them from filling out credit card applications without thinking, but it won't make them informed financial consumers. Students still need to know how credit cards work and develop the skills to use them wisely and responsibly. Here are a few Cliff Notes on credit:

- **Shop around before you apply.** Don't be tempted by introductory offers that sound too good to be true or offer enticing rewards that conceal excessive rates. Before applying, check and compare account features such as the APR (the interest rate you pay on an annual basis), grace period, fees, and penalties. Unsure about credit card terminology? The Federal Reserve Board micro website (www.federalreserve.gov/creditcard/) has an interactive tool that provides easy-to-understand definitions and other informational resources.
- **Spend wisely.** Used properly, credit cards can help you establish good credit. They also come in handy for online purchases or when you buy big-ticket items, such as textbooks or computers. Avoid using them for impulse buys or when you know you won't be able to pay off the balance when the bill arrives.
- **Steer clear of cash advances and credit card checks.** These transactions generally involve a much higher interest rate.
- **Pay your balance in full each month.** If you can't pay the complete balance, pay as much as possible. Making minimum monthly payments leads to trouble -- and lots of interest. For example, if you owe \$1,000 on a credit card with an 18% APR and only make minimum payments of \$30 each month, it could take up to eight years to pay off the balance, and you will pay almost \$700 in interest. If you'd like to know more about the cost of credit, please visit the Financial Tools section CCCS of MD & DE web site at www.ccs-inc.org.
- **Avoid identity theft.** Only carry your credit card when you need to use it. During in-store purchases, shield it with your hand, and if possible do not let it out of your sight. Never give out your account number over the phone or online unless you have a trusted business relationship with the company and you have initiated the call or transaction. Regularly request and review your personal credit report. To obtain a free, annual credit report from each of the three major credit reporting companies, visit www.AnnualCreditReport.com.
- **Review monthly statements.** Each month, your credit card bill shows how long it will take to pay off your balance if you only make minimum monthly payments. It also lists how much you need to pay each month in order to pay off your balance in three years. This information can help you make more informed spending and payment decisions. If you find unexplained charges on your statement, dispute these using the format required by your credit card company.
- **Seek outside help.** If you know that you're going to be late on a credit card payment, call and alert the creditor. Explain your situation and ask if late fees can be waived. If you find yourself in serious debt, don't wait until the problem gets even bigger. Seek immediate advice from a reputable nonprofit credit counselor.

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