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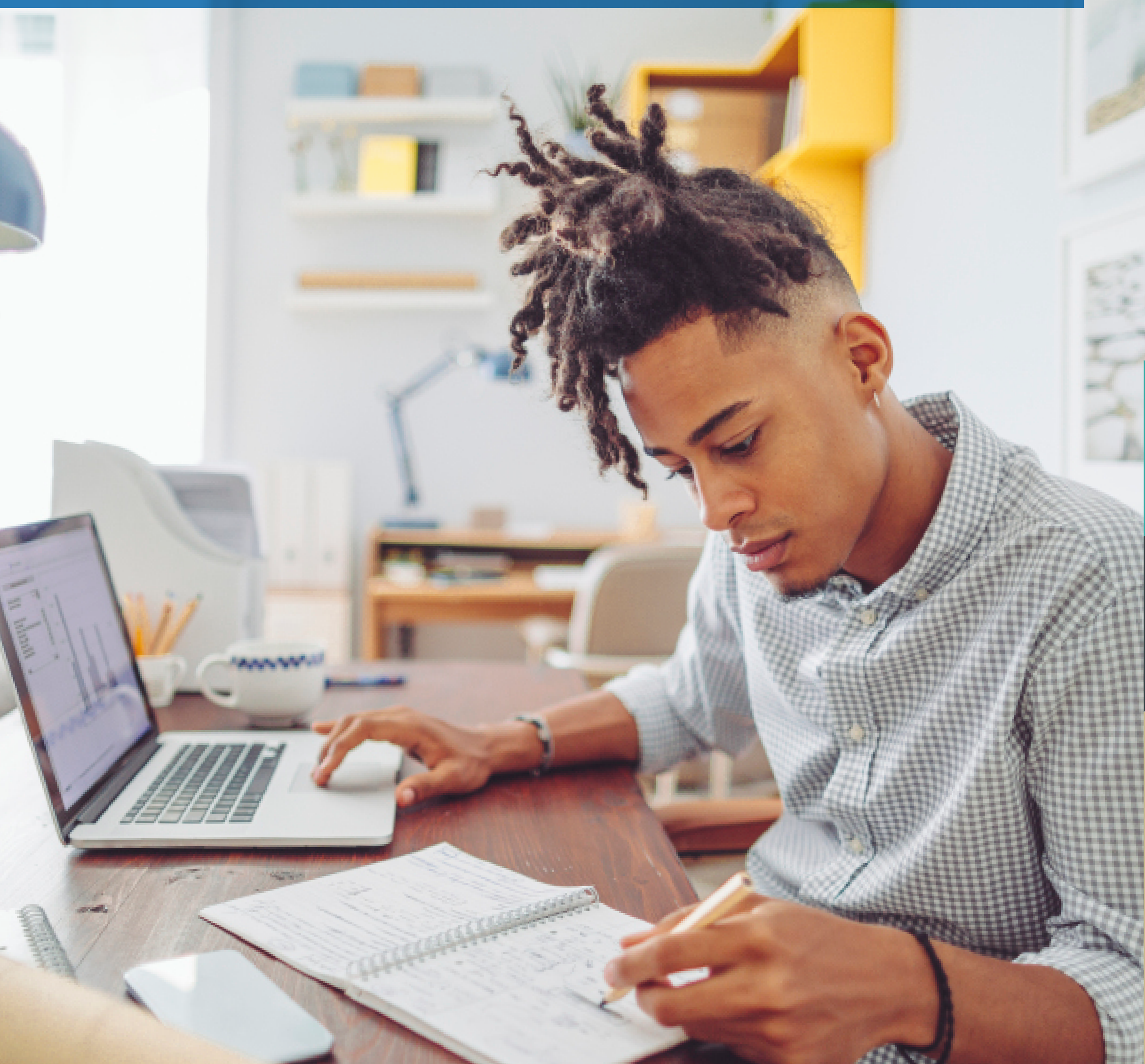
TEACHING TEENS ABOUT RESPONSIBLE CREDIT CARD USE: A STEP-BY-STEP GUIDE



What Teens Should Know About Responsible Credit Card Use: **A Step-by-Step Guide**

Practicing responsible credit card use from a young age can set you up for financial success later in life. Using a credit card provides teens benefits like:

- Insights into exactly how you spend your money, including the biggest spending categories.
- Ability to earn valuable rewards, including cash back that could equate to an average savings of $300 to $400 a year.
- Opportunity to build a strong credit score, which can help when you apply for an apartment or loan, like a car loan or mortgage.

At what age can a teenager get a credit card? Generally, a credit card for teens is available once someone turns 18 years old. For those who don't have an income, a cosigner can help them get a credit card.

Teens even younger than 18 may be added as authorized users on their parents' credit card accounts. According to The New York Times, 17% of parents with children ages 8 to 17 said their kids had credit cards. The Balance reports by the time teenagers graduate high school, one in three has at least one credit card.

In this ebook, we cover tips for teens who are learning about credit cards. Discover what you need to know before getting a credit card, how to select the right card, and how to use your card effectively to earn rewards and build a strong credit score.

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CHAPTER 01

Understanding Credit Cards

According to CNBC, more than 4 out of 5 Americans have at least one credit card. Credit cards provide a physical form of payment that's an alternative to cash, as well as a way to make payments electronically, that offer both convenience and the potential added benefit of earning valuable rewards just for using them.

What Is a Credit Card?

A credit card is a form of payment that offers a set amount of money, also known as a credit limit, that the user can spend, which must be paid back.

The credit card user can spend up to the amount of the credit limit immediately, and then has a set time in which to pay back the money before they'll have to pay interest on what they owe.

For example, say a credit card offers a $5,000 limit on credit usage. The credit card holder can spend $5,000 with their credit card now, and then will be sent a statement that shows how much they owe and when the interest-free payment due date is.

If the credit card holder has an outstanding balance past the due date, the credit card company will charge them interest each month based on the amount owed that's remaining.

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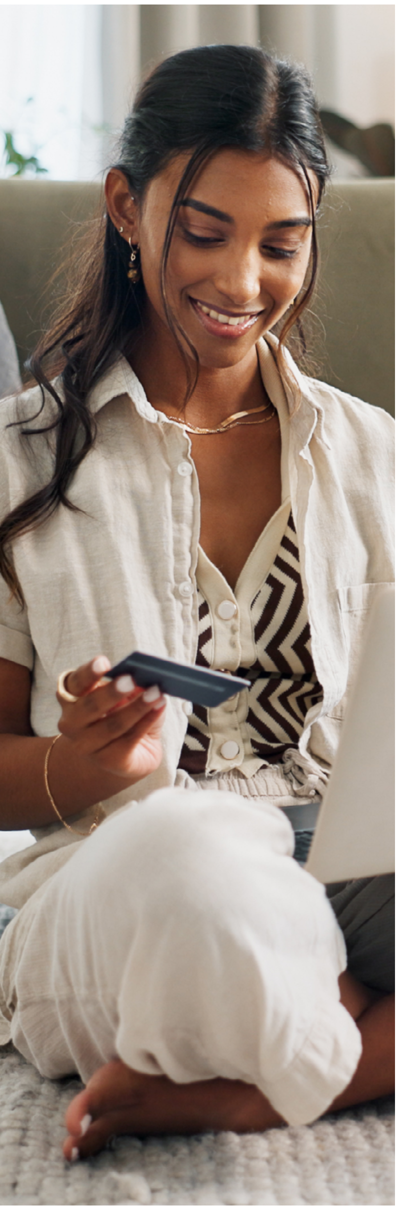

How Credit Cards Work

Credit cards typically include both a physical form of payment, the credit "card" itself, as well as an online account that account holders can use to make payments online or without the card present.

For example, you can use a credit card to order items in an ecommerce store, or use your credit card account number to make a recurring bill payment.

Most credit cards today feature an online account, which you can log in to view:

- Your current balance.
- All charges you've made with the credit card.
- Your current interest rate.
- Current rewards progress.
- Past credit card statements.

To pay off a credit card, you'll need to link a checking or savings account to your credit card account. You'll then use that online account to pay off your credit card balances.

You can avoid interest payments by making credit card payments in full, on time. When you do this, you have the potential to earn free money or other points, simply by using a credit card that offers rewards on purchases.

Risks and Benefits of Using Credit Cards

Using credit cards can literally be rewarding, but there are also some risks involved when they're not managed properly. Like the Education Data Initiative points out, credit cards often have an interest rate of 20% or higher, which is typically higher than other forms of debt, like student loans or mortgages.

Some things to keep in mind with credits cards include:

- If you don't pay at least the minimum payment amount on the card, you may have to pay late fees. Late minimum payments can also result in damage to your credit score and may potentially result in your account being closed and you having to deal with a collections agency.

- Credit card debt can snowball. When you don't pay off what you owe, the next statement will show that you'll owe the previous amount plus interest. That can cause debt to add up quickly.

- According to research by MIT Management Sloan School, when people use credit cards, they're more likely to buy something at a higher price, leave larger tips and make more impulse buys compared to using cash. If you spend beyond your means with a credit card, that could lead to costly debt. One benefit of credit cards for college students is that they typically have lower spending limits compared to other types of cards. They can restrict how much you spend and, in turn, how much debt you can accumulate. There are also secured credit cards that provide additional benefits for new credit card members, detailed in Chapter 2.

While credit card holders should keep these risks in mind, there are also many benefits of using credit cards. Some advantages of using a credit card for transactions include:

- **Gain rewards simply for using your card.** As long as you pay off your balances in full, on time, you can get free cash back or another reward, like free airline miles, simply for using your card.

- **See insights into your spending.** Compared to tracking purchases using cash, with a credit card, you can use financial tools from the provider to gain spending insights. Some credit card companies will display your spending in categories, while others will show you how much you spend with a credit card compared to how much you deposit into a checking and/or savings account. These insights can alert you to spending trends, which could help you improve your financial habits.

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- **Credit cards offer security.** If you lose cash or it's stolen, it's much more difficult to recover, compared to a credit card that you can immediately report as lost or stolen. Also, with credit cards, you can dispute fraudulent charges on the card. That's not possible with cash.

- **Credit cards are convenient.** Compared to having to store and keep track of cash (not to mention how bulky it can make your wallet), a credit card gives you one single form of physical payment to manage. You can also often use your credit card outside of the U.S., which offers additional convenience if you don't want to take out cash and manage foreign currency.

The best way to use a credit card is to only charge purchases that you can comfortably pay back in full, on time. By doing so, you can earn free rewards simply for using your card.

CHAPTER 02

Selecting the Right Card

There are many different types of credit cards to choose from, including secured credit cards, travel credit cards, cash rewards credit cards and dining rewards credit cards. As teenagers create financial goals, the following are some things to consider for choosing the best credit card.

Types of Credit Cards

Many teenagers who open their first credit card account choose secured credit cards, which require a cash deposit that functions as a type of collateral that insures purchases. The deposit is typically the same amount as the credit limit, so a $500 secured credit card would typically require a $500 cash deposit.

In that way, secured credit cards are sort of like debit cards – you're restricted to spend only the amount of cash you've proven you have available. A benefit of secured credit cards is that they're easier for people with no credit history to obtain. You can build up your credit score using a secured credit card, to become eligible for other types of credit cards.

The downside to secured credit cards is that, typically, the credit limit is low. You won't have significant purchasing power with a secured credit card, but it can help make it possible for you to increase your credit limit with another card in the future.

Other types of credit cards may include:

- **Student credit cards:** There are credit cards designed specifically for college students, with lower spending limits. These credit cards may also be secured credit cards, which can help students build up credit.

- **Reward credit cards:** Reward credit cards offer different types of rewards based on each purchase. You can accumulate points for rewards or earn cash back with every transaction.

- **Balance transfer credit cards:** Balance transfer credit cards offer lower initial interest rates, or no interest at all for a specific amount of time, on debt that is transferred over from another card. For example, if you owe $3,000 on a credit card and need extra time to pay it off, a balance transfer credit card could enable you to move the balance over, with up to 18 months or more to pay it off before interest is charged.

- **Zero percent introductory APR cards:** These cards set a period of time where you won't owe any interest on your purchases, typically between a year and 18 months. These could be a good option if you know you want to purchase something expensive and would like extra time to pay it off.

To obtain a credit card, you will have to go through an application process that will involve looking at your credit score. To qualify for the best credit cards, you'll need to build up your credit history to demonstrate good usage. Student credit cards, including secured credit cards, can help you meaningfully build up credit history.

Factors to Consider When Choosing a Credit Card

In addition to rewards and benefits, there are other factors that could influence your credit card choice. As you compare credit cards to choose from, read the fine print to evaluate details such as:

- **Interest rates:** Look at both introductory interest rates and monthly balance interest rates. A difference of just a few percentage points could mean several hundreds of dollars or more in interest owed over time. If you think you may have outstanding balances with interest on them in the future, try to look for the lowest interest rate possible.

- **Fees:** Another financial factor to consider is fees. Fees may include those for not making a minimum payment, for getting a cash advance, for foreign transactions and annual fees.

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- **Credit limits:** Think about how much purchase power you want or need when you're choosing a credit card, because the credit limit will affect that. Remember that while credit cards with higher limits can give you more spending power, it's also important to spend within your means. Otherwise, you could accumulate debt.

Also, if you know what types of purchase you tend to make more of, such as dining out, you may want to look for a card that rewards those types of purchases. Some cards may require annual fees, but they may be worth it, depending on the rewards.

Try to select a card that's going to provide you with the most financial value, including how it supports responsible financial habits, so you can build up your credit score. Let's dive more into that in the next chapter.

CHAPTER 03

Handling a Credit Card Correctly

Credit card debt can negatively impact your finances, both now and later on. Accumulating too much debt could make it harder to obtain a loan for something like a home in the future. It can also create stress and damage mental health.

To practice good credit card habits, keep the following techniques in mind.

Manage Credit Limits

As mentioned, overspending can lead to financial issues due to debt because of interest owed. You shouldn't spend up to your credit limit unless you're able to pay back what you owe.

A high credit limit, even if you don't use it, can positively impact your credit score, however. One of the main factors impacting your credit score is your credit utilization ratio, which is the amount you're borrowing in comparison to how much you can borrow. If you have a high credit limit but have a low amount on your balance, that lowers your credit utilization ratio, which is better for your credit score.

To avoid overspending, be aware of what your credit limit is and what you can realistically pay off in what amount of time. Otherwise, overspending and having a high outstanding balance can negatively impact your credit score.

Make On-Time Payments

It's vital to make on-time payments for at least the minimum amount due so that you can avoid costly fees. When you continue to have an outstanding balance past the due date it was owed, you'll have to pay interest on that amount. Paying off as close to the full balance as possible, on time, can help you avoid having to pay more in interest.

CHAPTER 03

It's helpful to regularly log in to your online credit card account, so you get a reminder of when your credit card payments are due. An extra step could be to set up reminders in your phone calendar, or use a physical calendar to remind yourself of due dates.

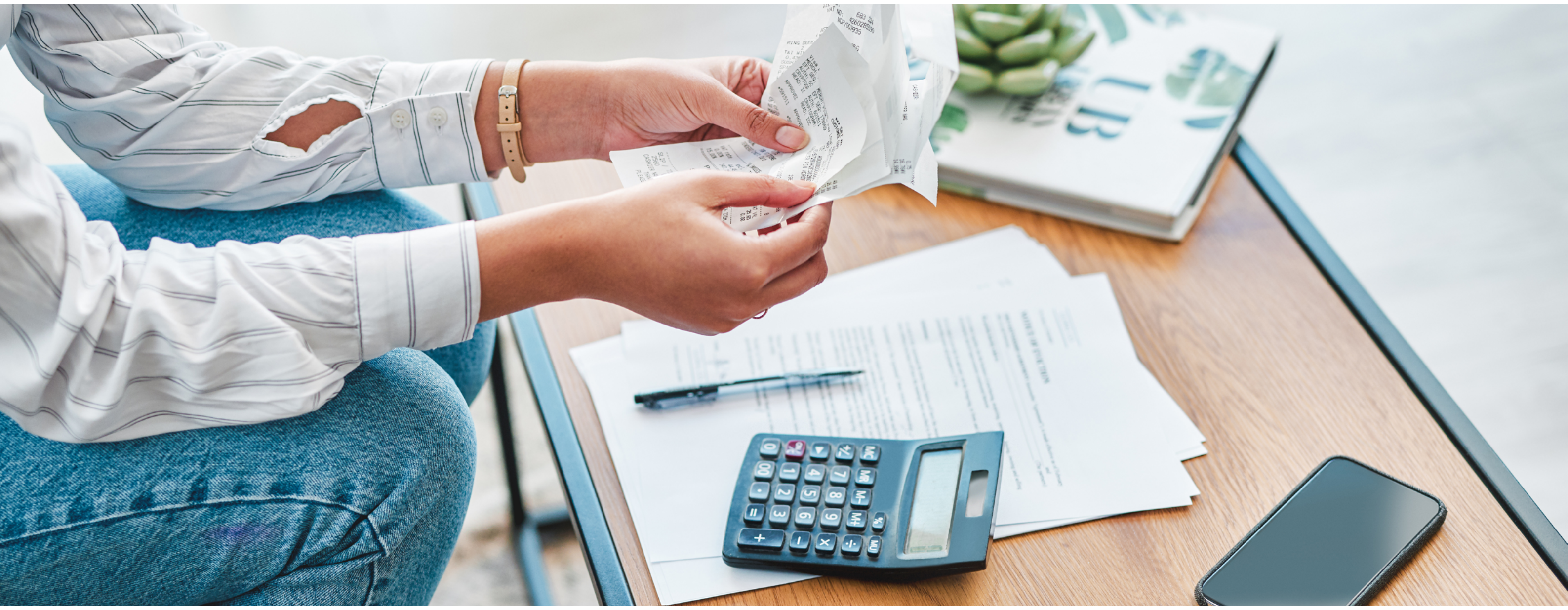
The earlier you can pay off what you owe, the less likely you'll be to make a late payment that results in fees. Many people make credit card payments as soon as they have money available, so that their balances stay consistently lower, and they ensure they're making consistent on-time payments.

Avoid Debt and Other Financial Pitfalls

Overspending can lead to major financial issues that impact the others of your life. Credit card debt could negatively impact your credit score and make it harder to get an apartment or a loan. Getting out of debt may require getting another job or reducing spending in an important part of life. In extreme cases, debt could lead to bankruptcy and a long financial impact over one's life.

There are many strategies for avoiding credit card debt. When you're using a credit card, use these strategies to avoid overspending and to stay within your financial means.

- **Only spend what you can pay back in full, by the payment due date.** Keep an eye on your cash, debit account and savings account amounts. Use what you have available to create a manageable budget.



- **Prioritize saving.** Saving money can help you reach your financial goals, whether it's paying for a college education that helps you get a higher-paying job, or saving for investments that can help you grow your wealth. Before you make a non-essential purchase, carefully consider whether or not your money could be used more wisely to help you achieve your financial goals.

- **Track your spending.** It's helpful to understand your current spending habits so you can use strategies to improve them. Track your spending every day, either by logging into your online accounts, or by manually recording what you spend on what. Identify non-essential areas where you can decrease spending, such as eating out at restaurants, so you can put those savings into something that will benefit your future.

You can also take a break from using your credit card, if you need to rein in spending and want to focus on using cash. Simply having a credit card with a low balance can help you build up your credit score, as credit history length can positively impact your score.

CHAPTER 04

Knowing About Your Credit

With a credit card, you can successfully build up a strong credit score that can help you in other areas of life, such as securing an apartment or getting a home loan. Plus, the stronger your credit score is, the more types of credit cards you'll usually be eligible for. You'll be more likely to be able to get the exact type of credit card you want, whether it's one with big cash back rewards or perks for your favorite airline.

To use a credit card to improve your credit score, keep the following tips in mind.

Build Credit History

There are several factors that can impact your credit score. These factors, as well as the importance broken down by percentage, are as follows.

- **Payment history (35%):** the history of on-time and late payments on credit card balances – the more on-time payments you have, the better the impact.
- **Amounts owed (30%):** how much you owe on your credit card(s) when credit card bureaus check to update your score – the lower amount you owe, the better the impact.
- **Length of credit history (15%):** how long you've had open credit accounts – the longer the length, the better the impact.
- **Credit mix (10%):** the variety of accounts you have – the more variety, the better the impact.
- **New credit (10%):** how recently you've opened credit accounts – the more new credit accounts you've opened recently, the worse the impact.

As you can see, three-quarters of the impact to your credit score is based on financial factors. That's why it's so important to prioritize making on-time payments, as close to the full amount, as possible. Doing that will have the greatest positive impact on your credit score.

And, if you start establishing credit as a teenager, that will positively impact the length of your credit history by the time you're an adult.

Check Your Credit Report

You can monitor your credit score for free, with free annual credit reports through the Federal Trade Commission and by using daily check-in tools like Credit Karma.

It's important to monitor your credit score regularly, because a sudden credit score drop could be the result of something like fraud. Knowing your score in relation to your financial habits can help you increase your awareness to continually improve it and identify any suspicious signs.

Grow Your Credit with Arizona Central Credit Union

Arizona Central Credit Union can help you build your credit as a teen or college student. For example, we offer CU Succeed, a savings and financial education program designed especially for teens, ages 13 to 17. It offers a free checking account with a parent or guardian, an ATM card, low deposit requirements and the opportunity to win one of two $8,000 college scholarships.

College students can open up checking and savings accounts and explore our college loan options, including Sallie Mae loans. They have competitive interest rates, multiple repayment options, no origination fees and no prepayment penalty.

OPEN YOUR FIRST CHECKING ACCOUNT WITH

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Your first checking account can help pave the way for future financial security. With a checking account, you can:

- Write checks
- Automate payments for recurring bills
- Get automatic payments from an employer
- Deposit checks
- Access cash from ATMs
- Go cashless with a debit card
- Store your money in a safe, secure, protected environment

If you're ready to start storing your money with a financial institution that can keep it safe and make it easier to manage, Arizona Central Credit Union can help. View our checking account options to sign up today.