

CONSUMER ADVISORY

Special to Colleges and
Universities – Fall 2007

By Attorney General Tom Miller

Credit Cards on Student Incomes: Proceed With Caution – and Shop With Care.

Students are flooded with credit card offers, often with “freebies” such as T-shirts, free meals, tote bags, hats, mugs and cash-back offers. The offers are tempting -- credit cards can be convenient and may help some students start a good credit record -- but credit cards also can plunge some people deep into debt and long-term credit problems.

Unfortunately, more and more students are slipping into high credit card debt, with very serious long-term consequences. Some students have trouble getting good jobs because employers review credit reports and frown on high debt. Some students will pay higher rates for car loans or mortgages. High debt may cause psychological problems from stress to suicide. And high debt forces some students to take on more paid work, reduce their academic load, or even drop out of school. (An administrator at Indiana University once said, “We lose more students to credit card debt than to academic failure.”) Credit cards aren’t “plastic money” – they create debt, and some of it is very expensive debt.

“Don’t give yourself too much credit!” If you do get a credit card, determine what you can afford to pay each month for credit purchases, based on your income and expenses. Keep your credit limit low. **Plan to pay off your bill completely every month.**

Proceed with caution. Whatever you do, don’t be seduced into obtaining several credit cards and “maxing-out” on them with a high debt load. Don’t play “the credit card shuffle;” using advances on one card to pay down another can and will catch up with you.

Avoid the revolving debt trap. Don’t think you can avoid trouble just by making the minimum payment each month. Here’s an example: Say that you make only minimum payments and you run up a \$1000 balance on a card with a 13% APR (annual percentage rate of interest.) Even if you never use that card again, if you continue to make only minimum monthly payments you will still owe over \$500 three and one-half years later -- and paying off the debt will take over six years! (It will be worse yet if you make late payments and the card issuer adds late fees and raises your rate to 28% APR or higher.)

To reduce credit card solicitations, ask the credit reporting agencies not to sell your name to credit card marketers and others. Call 1-888-567-8688 (1-888-5-OPT OUT.)

Ask questions and “shop” when you consider getting a credit card!

Before you choose a credit card, shop around carefully. The most visible card may not be the best for you. (Just because a card issuer has on-campus marketing rights does not necessarily mean it’s the best one for you.) Check with your hometown bank or credit union. Shop, compare offers, negotiate a better interest rate with existing credit card companies -- and ask key questions, such as:

- **What is the interest rate -- or rates? That's a crucial question, and you must work hard to determine the answer.** Rates will be stated as the annual percentage rate of interest, or APR. Compare rates -- and read the fine print. Interest rates may vary from about 1% (a very low "teaser" rate) to 21% or more.

Note that rates can change. Some cards offer a low "teaser" rate, but only as an "introductory offer" for a few months -- then they raise it to a much higher "regular" rate. If you miss payments and become delinquent, some cards will start charging you a "penalty" rate of 24% to 30%. No one expects to become delinquent, but it happens. Some cards charge higher interest rates if you pay other bills late! Study the fine print and stay away from cards with penalty rates and other high rates. If the terms are so complicated you can't understand them, stay away from the card.

- **How much is the annual fee?** Some credit card issuers charge annual membership or other participation fees, ranging from \$25 to \$50. If you don't carry over a balance, a credit card with a slightly higher interest rate but no annual fee may be a better deal than a card with a lower interest rate and an annual fee.
- **Is there a "free period" or "grace period"?** Most credit card companies will not impose a finance charge if you pay the balance before the monthly due-date shown on your statement (the free period.) Others charge interest from the date of purchase. (Note: Free periods often do not apply to cash advances.)
- **Are there other hidden fees?** Compare late-payment charges and over-the-limit fees -- which can reach \$30 a "pop" -- and charges for cash advances, or for using the card outside the U.S. Such fees add up quickly and make a credit card much more expensive than you planned.
- **Think twice before you agree to "add-ons" such as credit insurance or credit card "protection plans."** Card issuers often "cross-market" such products. They generally are not good values for the money -- they often just bulk-up the balance on credit card debt and generate extra interest costs.
- **Check out a card's privacy policy.** It will give you a chance to "opt out," so the card issuer may not sell your name to most other companies. That can reduce your "junk mail" and the chance that unauthorized charges will be put on your account.

If you do obtain a credit card, work hard to pay off the balance completely every single month. If you don't do that, you probably will pay substantial interest payments and risk falling into debt and financial trouble.

What's the bottom line? Consider whether you need a credit card at this time and need to take on credit card debt -- especially if you already have substantial student loans to pay off. If you do get a card, be extremely careful in selecting and managing your credit card account. Be sure you read the fine print and understand the terms before you sign the application.

Here are some agencies that can offer more information and assistance: Your county ISU Extension Office, your school's financial counseling office, or the Iowa Attorney General's Consumer Protection Division, Hoover Building, Des Moines, IA 50319 (call 515-281-5926, or toll-free at 888-777-4590.) On the web: www.iowaAttorneyGeneral.org (click on "Protecting Consumers.")



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For immediate release – October 2007.

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Attorney General Cautions: Avoid Campus Credit Card Trap!

**“Students are flooded with credit card offers,” Miller says.
“It’s very easy to slip into damaging, high credit card debt.”**

DES MOINES. Attorney General Tom Miller is urging Iowa college students to avoid slipping into high credit card debt.

“Credit card companies badly want the business of college students, so students are flooded with credit card offers,” Miller said. “Unfortunately, more and more students are slipping into high credit card debt with very serious long-term consequences.”

Miller said studies indicate high debt is forcing some students to take on more paid work and reduce their academic load or even drop out of school. He noted that an administrator at Indiana University once said, “We lose more students to credit card debt than to academic failure.”

High debt or a poor credit record also can result in students paying higher rates for car loans or home mortgages, and lead to psychological problems from stress to suicide.

The Attorney General’s Consumer Protection Division issued a “Consumer Advisory” bulletin titled, “Credit Cards on Student Incomes: Proceed with Caution and Shop with Care!”

“Whatever you do, don’t be seduced into obtaining several credit cards and ‘maxing-out’ on them with a high debt load,” Miller said. “And don’t play the credit card shuffle – using advances on one card to pay down another.”

Miller said credit cards can serve a purpose – they are good for emergencies, and national credit cards can help build a good credit record. “But if you do get a credit card, determine what you can realistically afford to pay each month, and plan to pay off your bill completely each month.”

Before you choose a credit card, shop around carefully.

“Some cards are highly visible on campus because they have marketing rights,” Miller said, “but students still should shop for the card with the best terms for them.”

Customers should compare interest rates, stated as the APR or annual percentage rate of interest. Miller cautioned that some low “teaser” rates only apply for a few months as an introductory offer – then much higher rates kick in. He also encouraged students to avoid cards with high penalty rates – rates of 20% or even 30% if the card holder misses or makes a late payment.

Miller said customers should look for hidden fees such as late-payment charges and over-the-limit fees.

If a student does obtain a card, Miller said, it is crucial to avoid the revolving-debt trap. “Don’t think you can avoid trouble just by making the minimum payment each month,” he said. He gave an example: Say that you make only minimum payments and you run up a \$1000 balance on a card with a 13% APR (annual percentage rate of interest.) Even if you never use that card again, if you continue to make only minimum monthly payments you will still owe over \$500 three and one-half years later -- and paying off the debt will take over six years. (It will be much worse still if you are late on some payments and the card issuer raises your rate to 21% APR or higher.)

“What’s the bottom line?” Miller said. “Consider whether you should just say no at this time to getting a credit card and taking on debt -- especially if you already have substantial student loans to pay off. If you do get a card, be extremely careful in selecting and managing your credit card account.”



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More Sources on Students and Credit Card Debt

Suggested by the Office of Iowa Attorney General Tom Miller

- "Credit Cards on Student Income: Proceed with Caution and Shop With Care" – A Consumer Advisory Bulletin by Iowa Attorney General Tom Miller. Find the Advisory online at the Attorney General's web site: www.IowaAttorneyGeneral.org (Click on "Protecting Consumers," then "Consumer Advisories.") If you would like an e-mail or fax copy of the Advisory, please call Debra Moore at 515-281-8770.
- "Avoid the Campus Credit Card Trap," a PIRG Fact Sheet for College Students. PIRG is the U.S. Public Interest Research Group. Excellent tips for students. Find the fact sheet at www.pirg.org/student/consumer/credit.htm
- "Graduating Into Debt: Credit Card Marketing" a study completed in February 2004 on Maryland college campuses by the Maryland Consumer Rights Coalition and Maryland PIRG. It's available at www.truthaboutcredit.org
- "The Truth About Credit," a project of PIRG has a wealth of other information about credit cards at www.truthaboutcredit.org
Additional documents available include:
 - "Ten Credit Card Traps"
 - "Navigating Credit Card Offers"
 - "Terms You Should Know"

