

Is Your Teen Ready For A Credit Card?

by Reyna Gobel, MBA—www.investopedia.com

Once teenagers reach the age of 18, they will be able to acquire their own credit cards, regardless of whether they have learned how to monitor how much to charge based on what they can afford to pay back.

Many parents want their teens to learn fiscal responsibility while they can still monitor their spending habits. Getting your teen a credit card is one way to do this, but is it a good idea? In most cases, it depends on your child and whether he or she is ready for the world of credit. We'll provide some simple guidelines on how you can spot this readiness in your teenaged son or daughter.

1. Evaluate Your Kid's Responsibility Level:

Honesty is the best money policy: If your child asked you for \$100 for a new calculator and school supplies, is he or she likely to come back with a few music CDs instead? Before teens get a credit card, they need to show that they can be honest about how much they're spending and what they're buying - because your maximum limit is far more than \$100.

Everyday spending: Your kids are already living within a budget and a set income level - whether it's yours or theirs. If they get a weekly allowance, they have to budget so that their money doesn't run out before the end of the week. The same goes for if they have a part-time job. If they don't get a weekly allowance or have a job, they still have to live within your budget for back-to-school clothes and other items they need or want. It's crucial that children learn to manage their everyday financial lives before they get their hands on credit.

Missing deadlines: How often does your child ask for a homework extension or leave the kitchen before the dishes are washed? If you can count recent occurrences on one hand, this is another issue that must be reconciled before your son or daughter is given a credit card.

Six month fix: Rome wasn't built in a day and neither is fiscal responsibility. Make a list of where your child falls short in his or her responsibility level and provide six months to fix it. Make sure the lines of communication are open so that your child can ask for help.

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Tips For Teaching Teens the Wise Use of Credit

The plight of college students in deep credit card debt is reported in the media almost daily, but for many young people, credit card issues begin in high school, not college. Should teens have credit cards?

According to the Jump\$tart Coalition, an advocate for financial literacy, one in every three high school seniors uses credit cards. Teens today are consumers, pumping billions of dollars into the economy, so there's something to be said about teaching them to use credit cards responsibly before they go off to college or out on their own.

Why Should Teens Use Credit?

Credit cards offer convenience, but their main purpose should be to establish a good credit history so your teen can, when the time comes

- qualify for car loans and mortgages
- be able to rent an apartment
- qualify for favorable interest rates on all types of loans
- obtain lower auto and homeowners insurance premiums
- qualify for a job (employers are increasingly checking scores when evaluating job candidates)

The best way to learn is often by doing. Having a credit card in high school can be beneficial if

- the teen is responsible
- the teen is given a credit card with a low credit limit
- parents monitor the teen's spending and payments monthly
- parents discuss the choices made, the implications of those choices, the obvious and hidden costs with the teen
- parents suggest positive changes

How Should Teen Credit Cards Be Handled?

Before acquiring a credit card, teens should have their own checking and know how to:

- write checks
- keep their check register up to date
- balance their checkbook every month

They, and not their parents, should write the check that pays the teen's monthly credit card balance, so the teen understands the connection between cash and credit and how one affects the other.

Teens should keep a record of the credit card purchases they've made during the month, with a running total. When they've reached the amount they can afford to pay off at the end of the month, they should stop using the card until the next month rolls around.

Parents and teens should discuss what types of purchases are appropriate with a credit card. For example, appropriate purchases do not include anything you can eat, drink, or wear.

THE WALL STREET JOURNAL: The Wallet—WSJ Blogs

Roughly one-third of graduating high-school seniors feel unsure or unprepared to manage their personal finances, according to a survey of 500 students conducted by Capital One Financial Corp. And only 27% say their parents are a primary resource for financial guidance.