

New York State Senate  
Albany, NY 12247

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## *Credit Cards & College students*

Dear Friend,

Like the cooler weather, the beautiful foliage and the kickoff of football season, young New Yorkers heading off to college is a sure sign that fall has arrived.

Many students head to campus with the basics: clothes, school supplies, a computer and, in some cases, a credit card. While some students use credit cards responsibly, others may make purchases they cannot afford. Students who arrive on campus without a credit card can obtain one easily. Lacking some sort of credit education, these young people unwittingly put their credit future in serious jeopardy.

Because I do not want to see this happen to my young constituents, I have created this brochure detailing the relationship between college students and credit cards, the pitfalls that can occur and simple tips for parents and students to get an edge in the credit card game.

A small piece of plastic can have a big impact—positively or negatively—on one's credit history. Being smart about credit cards is an important lesson for college students to learn in their time on campus.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jose Peralta".

Senator Jose Peralta  
13th Senate District



## *Plastic 101: Learning the Right Lessons About Credit Cards*

Every fall, New York's colleges and universities welcome thousands of incoming freshmen to their campuses. It's a safe bet that many of them will leave school four years later with a good education, a college degree and lots of memories.

And, quite possibly, something else: a ton of credit card debt.

Today, many young professionals are trying to keep their heads above water as they struggle to pay off thousands (sometimes tens of thousands) of dollars in credit card debt accumulated in college and, in the process, rehabilitate credit histories that have damaged their chances to get a car, a job, or a home.

Of course, credit cards in and of themselves are not bad things; indeed, they are a great way to establish a positive credit history, which can lead to bigger purchases like automobiles and real estate. There is no doubt in our increasingly paperless society, credit cards provide flexibility and convenience.

More importantly, credit cards offer freedom and independence, two qualities that appeal to those who are just starting out and are looking to establish their own identity. Credit card companies play into this desire, flooding student mailboxes with offers or setting up tables where students congregate to offer free T-shirts, frisbees and mugs just for applying. Additionally, the Internet makes it easy for students to get plastic from the comfort of their own dorm room.

According to a national report, more than 80% of college students own a credit card and 56% of them have more than four.

And what do college students purchase once they get their plastic? One study reports that 71% of students purchase food with their card; clothing comes next at 68%, and cosmetics/toiletries was third, purchased by 49% of students.



### *Buy now? Pay Later.*

Many first-time credit card holders—some with little or no education in personal finances—use credit to buy whatever they want, whenever they want it. What many fail to realize is that this so-called “free money” is actually a high-finance loan with a low introductory rate that balloons after a few months. And if they pay less than the minimum monthly balance—as 11% of survey respondents said they did—the finance charges pile up, making it difficult, if not impossible, to catch up.

Little wonder that by graduation day students will amass an average credit card debt of \$3,173, according to the national survey. Using that number as a balance on a card with an APR of 16.99%, if a typical graduate made minimum monthly payments of \$50, it would take nearly six years to pay off that balance, which rockets to more than \$3,200, thanks to interest. Put another way, he or she will still be paying for that burger and fries years after the last bite.



# *Finding the Right Credit Card*

Credit cards can go a long way in helping to establish good credit, so long as they are used responsibly. Here are a few simple tips to remember:

- Before you fill out a single application, ask yourself three questions: Do I need a credit card? Can I afford a credit card? Will I be able to pay off the balance each month? If you can answer “yes” to each of these questions, then you’re ready for a credit card.
- Shop around for the best interest rate. Like any class in college, finding the right credit card requires a little bit of homework. Look for a fixed rate, not a low introductory rate that’s temporary and won’t last. A good place to compare rates is at the New York State Department of Financial Services website ([www.dfs.ny.gov](http://www.dfs.ny.gov)).
- Some credit card companies charge an over-the-limit fee, a late payment fee, a cash advance fee, and an annual fee just for being a card member. Read the fine print and look for a card with no or low annual fees.
- Settle on one card and pay the balance in full each month and on time.
- Request a low credit limit—\$500 to \$1,000— that is sufficient enough for emergencies, yet reduces your temptation to use it for big-ticket items.

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## PROVISIONS OF THE CREDIT CARD ACCOUNTABILITY, RESPONSIBILITY, AND DISCLOSURE ACT OF 2009 INCLUDE:

- Credit card companies are banned from using free giveaways, such as pizza and tee shirts, to entice students to sign up for credit cards at on-campus tables.
- The law bans credit cards for people under the age of 21 unless they have adult co-signers or show proof that they have the means to repay the debts.
- Credit card companies are required to get a parent’s or guardian’s written permission before raising credit limits.
- Colleges, universities and alumni associations have to disclose the nature of contracts they sign with credit card marketers allowing access to student and alumni contract information.

## *Other Options*

Debit cards are a viable alternative. Like credit cards, debit cards are accepted nearly everywhere. Since funds for purchases are taken directly from the bank account of the cardholder, it helps develop fiscal accountability for spending and budgeting money.

Parents may also want to consider adding a card, with an established credit limit, in their child’s name on their account—many credit card companies offer this option. Monthly statements help parents keep track of any purchases made on that card and provide a valuable tool in teaching children about how to use credit responsibly.

# Resources

Where to go for information on credit cards, interest rates, and more tips on becoming credit smart:

*New York State Banking Department:*

[www.dfs.ny.gov](http://www.dfs.ny.gov)

*U.S. Financial Literacy and Education Commission:*

[www.mymoney.gov](http://www.mymoney.gov)

*Federal Trade Commission:*

[www.ftc.gov](http://www.ftc.gov)

*Consumer Credit Counseling/Debt Management Services:*

[www.moneymanagement.org](http://www.moneymanagement.org)

*Truth About Credit:*

[www.truthaboutcredit.org](http://www.truthaboutcredit.org)

*College is a time for students to grow as individuals and gain knowledge that will last a lifetime. Learning to use credit wisely is an important lesson.*

