

On the MOVE

Giving yourself credit worth the risks?

Story by Mike Latona

A few months ago, a credit-card application arrived in the mail that led Eileen Webber to do a double-take. The envelope was addressed not to her, but her 16-year-old son, Eric. "I just happened to see it was for a credit card, and I intercepted it. Normally I don't go through his mail," Eileen said.



Having no idea how the credit-card company got Eric's name and address, Eileen quickly

phoned the company, saying she wanted no further solicitations sent to her son. Eric said he agrees with his mother's stance.

"I can't handle a credit card and take the responsibilities right now," said Eric, 16, a parishioner at St. Lawrence Church in Greece. Eric explained that he'd have to be making a steady income before even considering a credit card.

Or, as his mother put it, many people Eric's age "are still working on baby steps toward their allowance."

Meanwhile, Janet Bodnar was a credit-card offer in her mailbox. She set to send back the application — until she ran the idea in her folks.

"I told my parents, 'I'm going to get one.' My mom said, 'No, you're not,'" said Josh, 15, from St. Mary's Church in Bath.

His parents' decision stood, because credit-card applications must be co-signed by an adult if you're under the age of 18.

Josh said he had been tempted to get a credit card because it made him feel important.

"It's just cool I got an offer," Josh remarked.

Apparently, this is precisely the

worth the risks?



assigned credit limits can go as high as several thousand dollars — usually for

adults with larger income and expenses — Bodnar suggested a limit of, perhaps, \$100 for a teen.

On the other hand, Eric noted that he has a friend who owns a credit card — but his parents pay the monthly bill. Eric feels that this arrangement isn't likely to help his friend become financially responsible.

"You're not taught how to balance," Eric remarked.

One alternative is a debit card, which looks like a credit card but acts more like a check. Debit-card purchases are drawn from your checking account, whereas credit-card transactions are essentially loans.

Monica Duncan, 18, owns a debit card and said she prefers it over a credit card, because she only spends what she already has.

"I wouldn't want to have to worry about coming up with so much money when the (credit-card) bill comes. I'd rather know the money's (already) there," said Monica, 18, from Holy Trinity Church in Webster. She's a freshman at Alfred University.

On the other hand, Claire Hamilton has learned from experience that debit cards have their

pitfalls as well. Claire went on a spending spree with her debit card this past fall, and wound up overdrawing her checking account. So not only did her balance go down past zero, but she was also socked with penalty fees.

"It was a lot of small expenses that added up after a while — a \$5 here, or a \$10 or \$20 there, or those \$50 pants that I didn't really need," said Claire, 18, from St. Cecilia's Church in Irondequoit.

Claire, a freshman at Stonehill College near Boston, said that she wouldn't have been nearly as likely to exhaust her account if she'd been using cash.

"Cash is less tempting. If you see it and then it's gone, it's like, 'Oh, man, I threw away \$20,'" Claire explained.

But with a credit or debit card, she said, "You don't feel like you're really paying." until later.

COMING NEXT WEEK: "The talk"

sentiment that credit-card companies hope to spark when they solicit to high-schoolers — as well as college students, to whom the age restriction would no longer apply.

Think of the credit-card ads on TV that mention the privilege, power and prestige of being a Visa, MasterCard or American Express customer. Another come-on is the offer of free merchandise if you apply with a certain company. In Eric's case, he was offered compact discs and tapes.

What these promotions don't tell you are the financial headaches that can come with owning a credit card. Do you love to shop but don't have good financial resources? The temptation is to have a credit card until your first billing statement comes.

How's her credit card works: Purchases are reflected on a statement mailed at the end of each monthly billing cycle. You can make as many purchases as your assigned credit limit allows. Pay your entire balance before the due date and you avoid a finance charge. Make a partial payment, and a finance charge is applied to the unpaid balance.

It's these finance charges, as well as late fees, that keep credit-card companies in business — and send many consumers into financial chaos. Consider this:

If you owe \$1,000 on a credit card charging about 20 percent interest, and you choose to make a required minimum monthly payment of, perhaps, \$20, it will take years and years to pay that debt off. And most of the money will have gone toward finance charges, not your original debt.

Yet Janet Bodnar, in her book *Kiplinger's Money-Smart Kids*, said that it's not necessarily a bad idea for teens to use credit cards, because this can be a tool for learning financial responsibility. Whereas



Not a matter to charge into

Think you're ready for a credit card? Proceed with caution, advised Carolina Edwards and Ray Martin, authors of the 1997 book *The Rookie's Guide to Money Management*.

Edwards and Martin say that credit cards are most valuable in emergencies; for instance, if you're a stranded motorist and need a quick car repair.

But if you're a free spender, credit cards are enemies wearing the mask of a friend. "If your budget is tight now, a credit card will make it easier in the short run and hell in the long run," Edwards and Martin wrote. "Respect the power of a credit card as if it were a loaded gun. Use it for protection, not sport."

When shopping for a credit card, Edwards and Martin advised finding a card with no annual fee and/or a low interest rate. (Rates can range from 6 percent to more than 20 percent.)

Edwards and Martin suggested carrying one credit card, rather than obtaining several credit cards and reaching the limit — "maxing out" — on all of them. With no resources to pay the balance, the resulting finance charges and late fees will put you in a deep, deep financial hole.

To avoid these problems, Janet Bodnar suggested some starting steps for teens in her 1993 book *Kiplinger's Money-Smart Kids*:

- Don't charge anything you can't pay for that month, except in emergencies.
- Don't get into the habit of making only the minimum payment each month.
- Don't charge to your credit limit.
- Remember that a bad credit report can come back to haunt you, even if your parents bail you out. Delinquent payments can stay on your record for years if the card is in your name.

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\$100 Per Ticket!

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