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Your Money

Credit Card Limits for Youth Can Be Opportunity for Parents

By **RON LIEBER**

If you're having trouble figuring out how to raise financially responsible children, you'll be thrilled with this news: Congress is stepping in to help you set some limits.

This month, large parts of the credit card bill that [President Obama signed into law in 2009](#) go into effect. Among them are [rules governing credit card use](#) by anyone under 21 years old.

Starting Feb. 22, they can't get a credit card unless they have an independent source of funds to pay the bills. Failing that, they'll need a parent to co-sign the application (and submit written permission before the credit limit can rise).

The temptation is to stand up and cheer. Banks will no longer find it useful to [plant themselves at tables](#) outside the student union, luring innocent freshmen with offers of free sandwich coupons or T-shirts in exchange for completed credit card applications.

Still, your children need to learn how to budget. They should have something in place that gives them access to money while in college. And managing a financial account is an important life skill that they probably won't learn in school or from anyone except you.

So it not their own credit card, then what? There are at least three basic options to choose from, depending on whether you're most concerned with your child establishing a credit history or are simply determined to keep anything out of their hands that could get them on a plane to Las Vegas.

Different college students have different needs at different times. That means you may end up testing all of these methods before too long.

DEBIT ONLY Many parents see only risk in credit cards — and not the potential upside of establishing a credit history at age 18.

So they teach their children how to set up a checking account with a debit card that draws on it (or insist they use cash and only cash). No credit. These students start college knowing they're only supposed to spend what they have in the account. If they blow it and overdraw, then they should be on the hook for the fees. That's how they learn (and quickly).

For parents whose children deposit money that they earn themselves to pay daily expenses at school, then the parental oversight may end with setting up the account. It's sink or swim after that.

Other parents, however, transfer an allowance into a joint checking account each month. That way, they can keep an eye on their child's spending using online banking.

Celia Brugge, principal of [Dogwood Financial Planning](#) in Memphis, took the no-credit approach with her two sons, both of whom are in college. "The best approach depends so much on the responsibility level of your kids," she said. "Mine are what you would call free spirits."

Her son Martin, 22, a student at the [University of Memphis](#), isn't crazy about that description.

But he agreed with the approach his parents took, even though he's slipped up and overdrawn his account a couple of times.

"It's still better than spending yourself deep into debt on a credit card with a really high interest rate," he said. "It's not like having free money sitting around, which is sort of how it seems that people think about credit cards. It's this little piece of plastic that lets them get whatever they want, and they don't really consider the consequences."

One consequence of not having a card is that your child is not building a credit history that can make it easier to get a better credit card or [mortgage](#) rate later. But Ms. Brugge said she just did not see the urgency.

CREDIT NOW Other parents start their children on credit as early as possible. [Kathy Stepp](#), a [financial planner](#) in Overland Park, Kan., got her daughter a credit card at age 16. Ms. Stepp co-signed for the account, which is the approach the credit card bill endorses.

"Delaying the process is something that I really don't understand," she said. "You're going to hide the information from kids? If you don't talk to them about sex, do you think that they'll never have sex? Or are you going to teach them about credit and have them use it right?"

So Ms. Stepp looked over her daughter Sammi's shoulder as she paid the bill in full each month. She had Sammi keep a Post-it note in her checkbook and jot down what she charged. And Ms. Stepp helped her switch to a card with better online access at age 18.

The only problem with this approach is that parents are jointly liable for any debts, and their credit gets dinged along with their child's if they don't pay the bill on time. And you may not be able to kick your rogue child off a co-signed account. A [Bank of America](#) spokeswoman said

both co-signers need to agree in writing before one is removed.

A solution is to pay the bill yourself and have your child write you a check each month. After a year of on-time payments, you can turn over payment duties (and perhaps encourage your child to have the card issuer pull the minimum payment from a bank account automatically each month, so there's never a late fee).

THE HYBRID APPROACH There's another way, however, that combines the best of both worlds. [Craig Evans Carnick](#), a financial planner in Colorado Springs, suggests a five-part approach in the "College for Financial Knowledge" program he leads for clients' children.

First, he suggests making your children authorized users on your credit card. This allows them to have their own card and build a credit history, too. Because the account is not technically their own, any impact on their future credit score will result from how well the parents manage their accounts.

Second, explain that the card is for emergencies only, say a tow truck on a snowy night. Pizza cravings do not constitute emergencies. [American Express](#) has a nifty feature that allows you to [cap the spending on authorized user cards](#). It offers this option only on charge cards like the Green and Gold cards that you generally have to pay off each month.

Third, have your children develop a budget. If they haven't started college yet, have them ask older friends for estimates.

Fourth, open a checking account that parents can have access to.

And finally, have a plan for what happens if your child runs out of money. Establish some ground rules; perhaps any bailout comes in the form of a [loan](#) or out of the allowance from a

future month or semester.

These should be enough options for most families. But if you're a student under the age of 21 and your parents have terrible credit or are out of the picture for whatever reason, the new law may keep you from getting a credit card at all come Feb. 22.

[John Ulzheimer](#), president of consumer education for [credit.com](#), which matches people with the right credit products, worried that the law could put those students at a disadvantage. The length of your credit history is a factor in your credit score. So if you're barred from having a card until age 21, it may make borrowing money to buy a car more expensive at age 23. Or it could make it impossible altogether. Sammi Stepp said a friend was unable to lease a car or borrow to buy one on her own because her well-meaning parents had her on the cash-only plan.

That said, students under 21 with jobs could end up qualifying for certain credit cards because the job should count as a source of funds. If you take out [student loans](#), meanwhile, your credit history may begin as early as 18.

And for those with no jobs and no loan, there are still a few days until the law takes effect. What do you want to bet that card company representatives are standing by to take your application?

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