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Credit Cards 101: Finding the Right Plastic

by Lauren Young
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The dreaded freshman 15, those extra pounds that come from eating all those carbs in the school cafeteria, isn't the only thing your kids need to worry about when heading off to college this fall. Sudden access to easy credit could get them into a heap of financial trouble. The National Foundation for Credit Counseling reports that nearly one-half of college students saddle themselves with more than \$3,000 of credit -card debt by the time they graduate.

Chances are students will be inundated with credit-card offers from the moment they set foot on campus. Unfortunately, Personal Finance 101 isn't part of the college curriculum. Here's a guide to help college students identify the best and worst credit cards.

The smartest move for newbies to the world of plastic is to find a credit card with no annual fees and a low interest rate. But chances are you won't find them amid the free water bottles, T-shirts, and other giveaways lenders are offering up at school. "A lot of the companies setting up booths on college campuses or mailing stuff to kids are not offering the best cards for students," says Greg Daugherty, executive editor at Consumer Reports. "Many of them are mediocre."

More from BusinessWeek.com:

- [Majoring in Credit-Card Debt](#)
- [Confessions of a Debt Pusher](#)
- [Fixing the Credit-Card Mess](#)

Big Names Get Low Marks

According to Consumer Reports' latest ratings of credit cards, some of the largest credit-card issuers, including JPMorgan Chase (JPM), Bank of America (BAC), Citibank (C), and Capital One (COF), do not get high marks from customers. Readers who use those banks' cards complained that they were assessed unfair late fees or experienced unexpected interest-rate increases. These banks, incidentally, are also big players in the student credit-card market. By contrast, top-rated issuers by Consumer Reports keep rates low, fees to a minimum, and offer stellar customer service.

And that's exactly what students should be looking for when they are shopping for credit cards. To find the best credit cards for students, start your search online. [Bankrate.com](#), [LowCards.com](#), and [CreditCards.com](#) all feature sections on student credit cards with information on the best deals. If you are in the market for a card, make sure you check these sites often since interest rates change frequently.

Another good option for would-be cardholders is to keep walking past the tables loaded with freebies and into the credit union, assuming there is one on campus. While credit

union membership at colleges used to be limited to employees, the requirements for joining are much looser than they used to be. At some schools, such as the [University of Southern California](#), these financial institutions open their doors to students and offer credit cards to students, among the other financial products. "Credit unions are much easier to deal with if you have problems, and they are much less likely to jerk you around on interest rates," Daugherty says.

Pay Attention to the Fine Print

If a credit union on campus can't serve students, chances are another credit union can, says Pat Keefe, vice-president of communications at the [Credit Union National Assn.](#) Check with family members to see if they have an affiliation with a credit union.

Before you sign up for any credit card, pay careful attention to the rules of the [credit-card game](#). Although students should get into the habit of paying off their balances each month, chances are they won't. Doing your research ahead of time could save you hundreds of dollars because interest rates on student cards can vary widely. The [annual percentage rate](#) is 10% on a [Sovereign Bank Student Mastercard](#) while it is upwards of 18% on the Chase Student Flexible Rewards Card.

To the uninitiated, these may just be numbers with little significance, but by playing around with credit-card calculators on [bankrate.com](#), you can see the impact of higher rates on an account with \$1,000 balance. To pay off the Sovereign card over the course of a year, you'll pay \$87.92 each month at 10%. To pay off the Chase Card at 18%, it will currently cost \$91.68.

Avoid the Temptation of Rewards

In addition, experts say students wading into the credit waters for the first time should look for a card with a low limit -- \$500 worth of credit should suffice until they demonstrate a responsible track record using their plastic. And, as tempting as free airline tickets or other perks may be, they usually don't justify the high interest rates that accompany rewards cards. "A lot of people get tempted by rewards cards because they think it will cover the bill when they are traveling home," says Gail Cunningham, vice-president of business relations for the Consumer Credit Counseling Service of Greater Dallas. You are usually better off paying for it out of pocket, she adds, especially since it is hard to redeem those miles when you want to use them to take a trip during spring break in a sunny climate.

Keep in mind that a credit card isn't the equivalent of an ATM card, so it should not be used for cash advances, except in an emergency. "This may be an easy way to get cash in a crunch, but it is extremely expensive," says Bill Hardekopf, chief executive officer of [LowCards.com](#). "The rate is between 20% and 25%, and the fee is 3%. If you don't pay attention, this can put you over your [credit limit](#), which will generate (an additional) \$39 fee and can cause problems on your [credit report](#)."

To learn more about managing debt, check out [Whatsmyscore.org](#), a new Web site geared to the college set. It teaches college students all about credit how to get it, how to use it, how not to abuse it. More advanced students of life can get advice on credit reports and scores. So they should party on. But, whenever possible, have them pay with cash.

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