



The Importance of Using Credit Cards Responsibly

We've all heard stories about college students who racked up thousands of dollars in credit card debt. These cautionary tales remind parents about the importance of protecting their children from making bad financial decisions. But, even more so, these stories serve as reminders that newly minted high school graduates can make "adult" decisions that will haunt them for years to come.

As millions of high school seniors prepare to graduate later this month, it's a natural time for these young adults to look forward to greater independence, responsibility and the realities of adulthood. This is also a natural time for parents to sit down with their children to talk about the dangers of credit cards and how to use them responsibly. As part of this conversation, parents need to educate their children about how credit works and empower them to take an active role in their financial future by using credit responsibly.

Building Credit

There is great value in building a healthy history of credit by responsibly obtaining and managing credit accounts. A good credit history can mean paying less for apartment rent and insurance products, and receiving a lower interest rate on future purchases.

Parents and young adults should team up to develop a plan for using credit and building a strong credit history before children begin using personal credit cards. Talk to your local banker about opening a low-limit credit card in your child's name, but put strict parameters around its use. Making one or two small purchases on the card each month and paying off the balance will help your child build a good credit history.

Don't Fall for the Gimmicks

Credit card companies love to lure in young customers with t-shirts and other cheap merchandise, especially on college campuses. However, many of these cards carry annual fees and high-interest rates that can end up costing a great deal more than the "free" item is worth.

Encourage your children to resist the urge to fill out credit applications for freebies, even if they say they'll never activate the credit card upon approval. There are many ways to build credit, and this isn't one of them.

Consider Freezing Your Credit

A useful tool for young people and concerned parents alike is the credit freeze, a service available through credit bureau websites Experian.com, Transunion.com and Equifax.com. When your credit is frozen, no new creditors can look at your credit history without you lifting the freeze. This prevents new credit accounts from being opened without concerted effort. It also protects the credit card user from making hasty decisions about opening new credit accounts and limits potential losses from accounts opened fraudulently.

If you already have credit cards and want to prevent yourself from making impulsive purchases, take the old advice of freezing the cards in a block of ice. Let the card thaw out—without help, of course—and then decide if that purchase is still worth it. Remember, just because you have credit doesn't mean you have money to repay the debt. Be sure to factor in your current financial situation before making a decision to buy on credit.

Commit to Actively Monitoring Your Credit Report

If you don't want to go to the extreme of freezing your credit, you can actively monitor your credit account for inaccuracies and fraudulent activity. Unfortunately, there are many firms that want to charge you for this service that you can access each year for free at annualcreditreport.com, the only site authorized under federal law.

Each of the three credit bureaus—Experian, Transunion and Equifax—allows you to pull the report once per year so ideally, you could rotate pulling your credit report from one of the bureaus every four months.

Annualcreditreport.com serves as a free gateway that allows you to request your credit report from each bureau—there is no need to visit the bureau websites to make these requests. By checking your credit report several times per year, you can ensure that your timely payments are being recorded accurately and no unauthorized activity has occurred.