Credit Cards Users: Beware

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File

As a freshman at Lehman College in 1998, Adelina Cuevas signed up for a credit card and got a free pen. Four years later, she has piled up around $13,000 in debt and seven credit cards.

Cuevas is not alone. Carrying a credit card has become very trendy among college students in the past years. A 1999 survey of 1,200 full-time college students at 100 colleges conducted by the marketing research firm Students Monitor, showed that more than half of students at four-year colleges usually have at least one credit card by the end of their first college year. According to a 1999 survey by the New England Loan Marketing Association, a nonprofit provider of students' loans, 14 percent of the students surveyed had balances of $3,000 to $7,000, and 10 percent owed amounts exceeding $7,000.

These numbers have increased in the last years. According to the student loan corporation Nellie Mae, in the year 2001, 83 percent of undergraduate students in America owned at least one credit card. Of that 83 percent, 32 percent said they owned four or more cards. Some studies are taking place to determine the current statistics.

It is clear that the credit card industry is targeting college students. College campuses are heavily invaded by credit card issuers who use different strategies to get students to sign up for their cards. They scatter around the different campuses offering free gifts such as T-shirts, flashlights, pens, and drink coolers, as enticements to sign up. They post their announcements all over campus: in the cafeterias, bookstores, classrooms, and bulletin boards. These companies make the students' cards more attractive by offering various discounts that are tailored to students' interests such as travel, music, and books.

In their eagerness to get students to obtain their cards, credit card companies ignore the income and credit history of the students. "They don't care whether or not you have a job, they just want you to get stuck with them paying them money," says Cuevas, who was only asked if she was 18 or older when she signed up for the card.

Most students do not make enough money, if any, to afford the things they want such as clothes, shoes, CDs, cell phones, pc programs, and palm pilots, so they take the "advantage" offered by credit cards to spend money they do not have. A combination of unaffordable credit lines, increasing education-related expenses, peer pressure to spend, financial inexperience, and low minimum monthly payments "make the slide into debt too easy," says sociologist Robert Manning from Georgetown University.

In addition to monthly payments, credit card holders have to pay either monthly or annual interests, known as APR, that vary among cards from 9 percent to 25 percent. These interest payments are required by credit card companies no matter how often the cards are used, even if they are not used at all. As Manning says, the combination of their uncontrolled spending, low monthly payments and APRs, makes students reach and exceed their credit limit, which in the case of college students ranges from about $300 to $1,500 at first and it is increased after a while. Once they exceed their credit limit is when some students realize that they are in debt.

Credit card companies face growing criticism for pushing students toward irresponsible spending, and for taking advantage of the vulnerability of students. But card issuers say that they provide a service students want. "They are an active force of the marketplace, and they deserve to have the same services and offers as everybody else," says Catherine Pulley, a spokeswoman for the American Bankers Association.

When she first started college, Cuevas was receiving financial aid, which covered her tuition and books expenses. But in the Fall'02 semester, her financial aid was terminated causing Cuevas to apply for a student loan of $4000 to pay for her college tuition and expenses for the 2002-03 academic year. Cuevas's debt adds up to around $17,000 so far. "Right now I'm desperate, I don't know what to do. I have the credit cards bills, many other bills and now the loan," she says.

Findings by the Consumer Federation of America indicate that students who charge credit cards with abandon may suffer a heavy financial and psychological toll. These students may endure anxiety, drop out of school, file for bankruptcy, or even more tragic consequences. According to the U.S. News & World Report, a number of student suicides have been linked to credit card debt.

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Cuevas too has faced a great deal of stress and anxiety as a result of her debt. A year ago, when she found out that her bills were being sent to a bills collection agency, Cuevas dropped out of school and got two jobs to pay off her debt. "I was killing myself working on one full-time job and a part-time job to pay my credit card bills," she says. However, the money she made was enough. She stayed out of school for a semester, but she has gone back to school to struggle with a full-time schedule of classes, a full-time job, and the same frustration of being in debt.

"The worst feeling I've felt in my life is having to accept that I am irresponsible and that that irresponsibility will affect me greatly in the future," she says with watery eyes.

Many believe that colleges are also to blame for allowing credit card advertisements on campus without educating students on credit. According to Shannon Buggs, from the "Houston Chronicle," there is little evidence of colleges doing much to change the habits that induce students to take on consumer debts. But there are some exceptions. Some schools, like Boston College and Northeastern University, do not allow credit card companies on campus.

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Debt advisers say that students should have only one credit card with relatively low credit limit and never exceed that limit. They should choose a credit card with low interest rate (APR) and be aware of the tricky rates set by the credit card companies. Students should pay on time and more than the minimum payments. They also advise students to pay cash whenever possible and to avoid cash advances. And most important, students should never get a credit card if they do not have a job.