

# PROS & CONS *of credit cards* FOR TEENS

UNDERSTANDING CREDIT CARDS:  
THE GOOD, THE BAD, AND THE UGLY



education

COMPLETE WITH STORIES, QUIZZES AND RESOURCES

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## 6 Second TAKE

The way you treat your first credit card will determine the course of your credit for years to come.



**ALLISON MARTIN**  
September 2, 2016

Congratulations on your first credit card! Now it's time to educate yourself on how to manage this shiny piece of plastic so that you can responsibly build your credit over time.

Here are some tips to get you started:

### **1. Only Charge What You Can Afford.**

You're hanging out at the mall with a few friends, and you spot an outfit that would be perfect for your best friend's upcoming birthday bash. So you try it on, and as expected, it fits perfectly. Plus, the price is right.

But there's only one problem: there isn't enough money in your checking account to cover the purchase. To buy or not to buy? The smarter option would be to leave the clothing in the store until you have enough cash on hand.

## 2. Keep Balances Low.

To piggyback off my last point, credit card debt is easy to get into, but extremely difficult to get out of once you're in over your head. Those seemingly small purchases can quickly add up and leave you with a balance that's much higher than you can comfortably afford to pay off each month.

“

*Keep in mind that the amounts owed on all your debts account for 30 percent of your credit score.*

”

So the higher your outstanding balances, the lower your score will be.

## 3. Don't Fall for the Minimum Payment Trap.

Are you thinking you can just pay the minimum payment each month and get out of debt in no time? Well, you may want to think again. This was by far the biggest mistake I made when managing my first credit card. But why? Well, only one percent is allocated to the outstanding balance. Everything else goes to interest and fees.

## 4. Always Pay on Time.

If you don't remember anything else from this list of tips, always remember to pay your bills on time, or your credit score will tank. Case in point: one of my credit cards had a \$12.72 balance from a recurring account that I was unaware of. Long story short, the account was reported to the credit bureaus as delinquent on day 31 of it being past due, my score plummeted by almost 100 points, and I was hit with a \$35 late fee. Even worse, it took several months for my score to rebound. (Side note: late payments are reflected in your credit report and negatively impact your score for two years.)

## 5. Review Your Statements.

Remember that \$12.72 balance from the last tip that destroyed my credit score? Well, I have to admit that it was a result of negligence on my part. I didn't take the time to open the statement because I figured it would be empty. I ended up paying for it big time! Approximately \$47.72 and a mangled credit score, to be exact.

## 6. Understand Grace Periods.

Due dates and grace periods are not created equal. The due date is the day by which you must pay at least the minimum payment to avoid a late fee and penalty APR. By contrast, the grace period is the window of time you have to pay the balance on your purchase before you are charged an interest on it – generally about a month from the date on the statement.

## 7. Read the Fine Print.

You want to understand exactly what you're getting into and the accompanying fee. A few things to be on the lookout for:

- **Over-The-Limit Fee:** A fee may apply if you swipe more than your card permits.
- **Annual Fee:** Some credit card issuers charge you a fee to be an account holder.
- **Cash Advance Fee:** Avoid ATMs at all cost, or you'll pay a hefty fee to borrow – and in many instances, a higher APR. Plus, a grace period may not apply.

## 8. Monitor Your Credit Report.

The best way to responsibly rebuild your credit over time is to make timely payments, keep the balances low, refrain from opening too many accounts at once, and most importantly, monitor your credit profile to ensure the accuracy of the contents of your FICO report.

You can retrieve a free copy of your credit report from each of the credit bureaus once every year at [annualcreditreport.com](http://annualcreditreport.com). You can also sign up for free credit monitoring services, such as Credit Sesame and Credit Karma, which provide instant alerts anytime that activity takes place in your credit file.

**Bonus Tip:** Do not get a second card until you're safely out of college!

## A Final Thought

Credit card debt is super easy to get into, but virtually impossible to get out of if you use your card(s) irresponsibly. So be proactive about responsibly managing your card from your first swipe to the day you decide to add others to your arsenal. The holidays are just around the corner. With some flexibility, creativity, and communication, you still have enough time to plan an awesome and frugal last-minute vacation.

## 6 Second TAKE

A fantastic primer on the basics of credit and how to make sure you rock your credit history by focusing on what matters. It's easy!



## Understanding Your Credit Made Simple



**ALLISON MARTIN**  
June 29, 2016

At some time or another, you've probably heard your parents chatting about credit. While these conversations may not mean much to you now, you'll wish you'd listened closely when you get into the real world. So learn as much as you can early so that you'll save yourself a ton of money (and possibly time) later in life.

### What is Credit and Why Do You Need It?

“

*So what exactly is credit? In a nutshell, it's the ability to retrieve goods or services and pay for them at a later date.*

”

Beyond purchasing goods or services, there are other reasons why you may need to have solid credit:

- Qualifying for a credit card, personal loan, or other debt product.
- Receiving a loan for a new car or home.
- Qualifying for a rental home or apartment.
- Bypassing security deposit requirements for cell phones, utilities, and other service providers.
- Qualifying for employment. (Yes, some employers will look at your credit report.)

### What is a Credit Report?

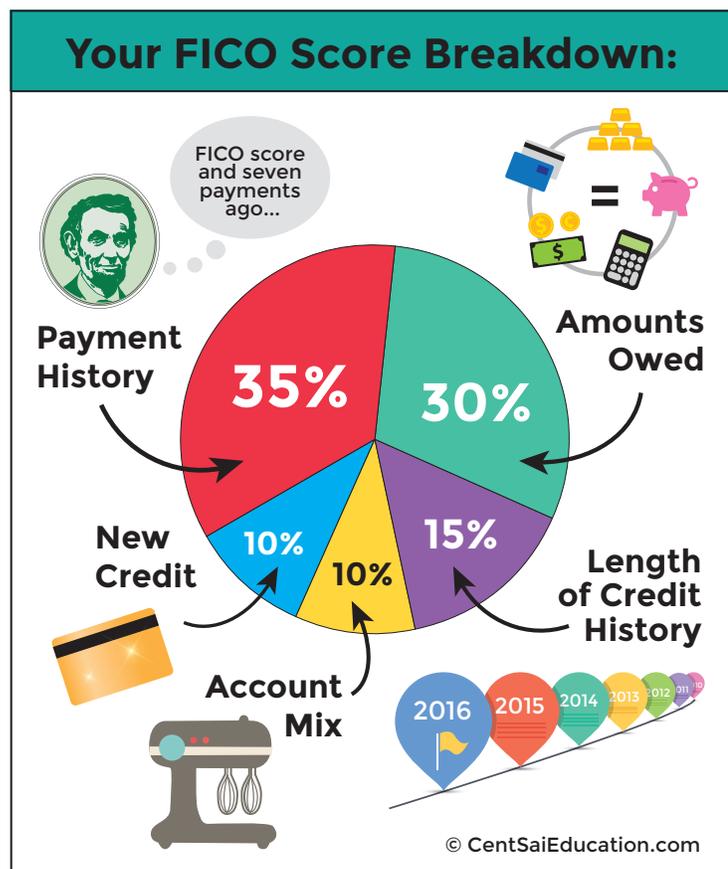
According to myFICO, a credit report is a document that “contains your credit history as reported to the credit reporting agency by lenders who have extended credit to you.” In a nutshell, it’s all your credit activity since you’ve been active in the credit world. It contains identifying information, credit accounts, credit inquiries, public records and collection accounts.

You can retrieve your credit report from each of the credit bureaus, free of charge, at [AnnualCreditReport.com](http://AnnualCreditReport.com).

When attempting to access your credit report for the first time, you may get an error message from the credit bureaus, indicating that there isn’t enough information present. Don’t fret. This just means that you have a thin file, or not enough information to generate a credit report or score.

### What is a Credit Score?

A credit score is a three-digit number, ranging from 300 to 850, that is used to gauge the riskiness of a borrower. It is calculated based on various parts of your payment history, as





shown in the graphic below. Although there are various scoring models on the market, also referred to as FAKO scores, the most prevalent model is FICO, as it is used by 90 percent of lenders. Your FICO score is made up of:

### **What's the Big Deal About Credit?**

Since borrowing money usually comes at a cost, the better your credit score, the cheaper it is to make a purchase on credit.

And in some instances, having poor credit could cost you even when you wish to pay cash for a purchase. For example, if you're attempting to turn your utilities on for the first time in your apartment, or purchase a new iPhone, you may be required to make a hefty security deposit.

Now I know you're just a teen, and you may be thinking, "I have a way to go before any of this stuff matters." You may be right if you're on the younger end of the spectrum. However, I can assure you that being knowledgeable about credit and debt will help you be more proactive when borrowing funds, such as student loans, or borrowing on credit since you'll understand how it all works and what costs are associated with it.

### **How to Start Building Your Credit**

Credit scores take some time to build up but can be destroyed by a single mistake, such as making a late payment. Fortunately, most credit missteps won't haunt you forever. Here are some ways to start beefing up your credit score:

- Practice responsible debt-management before you even have any by paying your bills on time
- Get a secured credit card and keep the balances low
- Become an authorized user on your parent's credit card
- Pay your bills on time

## 6 Second TAKE

Most millennials view credit cards as debt traps, but in the hands of somebody frugal, they can turn a profit!



## Credit Cards: Debt Traps or Useful Tools?



**KARA PEREZ**  
April 13, 2017

As an avowed frugalista, I don't spend money that often – but I love credit cards. When I do spend money, I like to make sure that it works double-time for me, and credit card reward points ensure that.

### **The Benefit of Credit Card Use**

When used responsibly, credit cards can help a frugal person do more with their money. I personally use my rewards points to travel, but you can use them to buy gifts or to erase part of your card balance.



Credit cards offer sign-up bonuses and ongoing rewards programs that incentivize you to use their cards. The Capital One VentureOne card, for example, gives holders 20,000 points for spending \$1,000 in the first three months. You also earn 1.25 points on every dollar spent. Points can be used to book travel or reduce your monthly bills.

Every time I fill up my gas tank or spend money on groceries, I'm also putting money towards my travel account. I hoard my points until I have enough to pay for the travel I want to do. That way, I essentially get a free plane ticket. I use my credit card for all my expenses. Spending that I would do regardless – things like utilities, food, or health insurance – all go on my credit card. By putting my essential spending on my credit card, I not only insure my bills are paid on time, but I also reap the reward point benefits.

To me, this is an easy way to make my money go even further. I'm one of only a few millennials who feels that way, though – 67 percent of Millennials don't use credit cards. Millennials avoid credit cards because they shy away from adding to their debt burden (most millennials have a negative net worth, thanks to student loans), and because they don't see credit cards as a tool to build their credit scores.

Money is as personal as it gets, so to each their own.

“

*I just know that as someone on the lower-income side of things, credit cards have been a huge help to me.*

”

### **The Safety in Using Credit Cards Over Debit Cards**

Aside from the reward points, they add a layer of protection that debit cards don't. If someone gets my debit card info, he can wipe out my bank account. If someone gets my credit card info, I can have the charge removed and a new card issued to me. My money remains safe and sound.

Credit cards can also help those with poor credit to increase their scores. Your credit score rises based on a few different things, but making on-time monthly payments is one great way to boost it. Open a credit card, use 30 percent or less of your available credit, and make your payments every month. Your score will go up in just a few months, I promise.



It's important to note that I only use about 15 percent of my available credit each month, and that I always pay my credit cards off in full. I'm frugal, remember? I don't spend that much. Carrying a balance on your credit card is a bad idea. You lose money to interest that way, which will outweigh any perks you're getting. Only use a credit card if you can afford to completely pay it off each month.

Credit cards are a money tool, the same way that your budget is. When used correctly, they can help your money do more and go further.



### 1. What is a "grace period" on a credit card?

- The number of days between account balance calculations.
- The number of days you can be late paying your credit card balance.
- The time during which you pray very hard you will have the money to pay your balance
- The number of days you can carry your credit card balance without incurring interest or late fees.



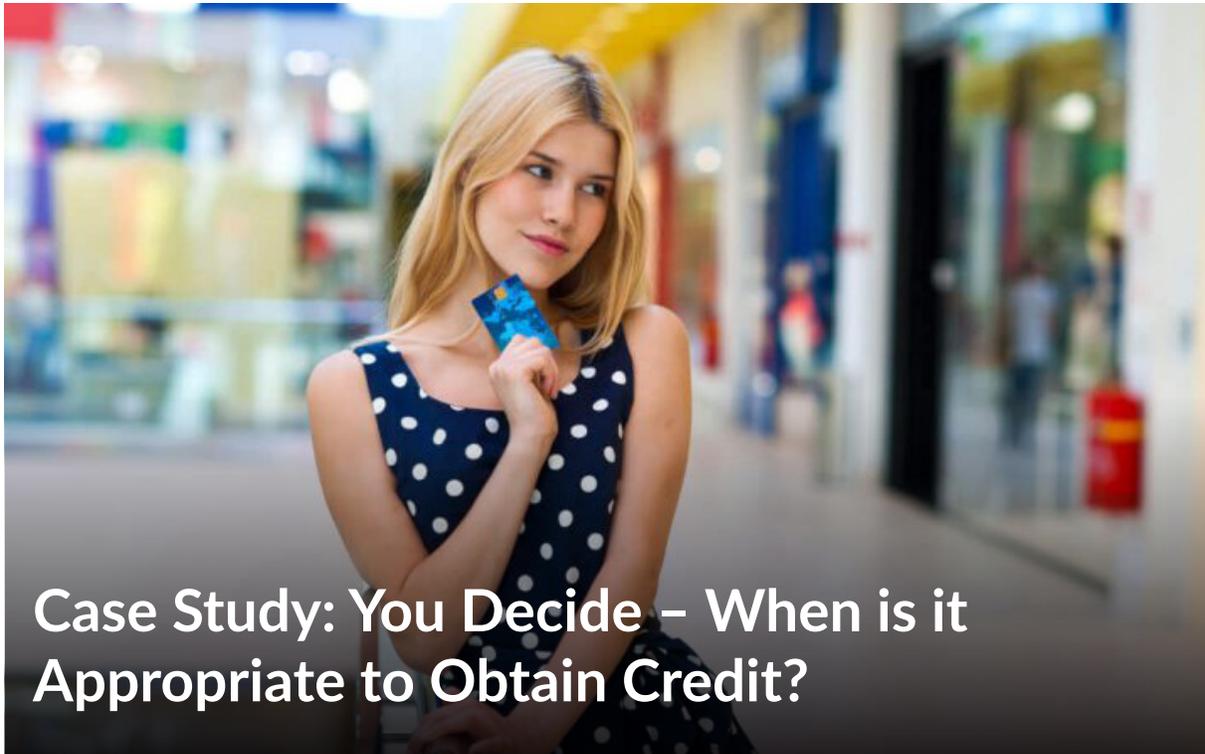
### 2. Credit card interest is based on your ADB. What does ADB stand for?

- Adele, Drake, and Beyoncé
- Average debt balance
- Average daily balance
- Average deficit behind

**To take the entire quiz, click here >>**  
<https://centsaieducation.com/using-credit-quizzes/are-you-credit-card-savvy/>

## 6 Second TAKE

There are many scenarios when you might want to obtain credit – whether for a loan or for a credit card. But when is it actually a good idea to do so?



### Case Study: You Decide – When is it Appropriate to Obtain Credit?

KEVIN SMITH  
May 24, 2017

#### Scenario #1

Mayra is 18, and it's her first semester of college. She recently received her first credit card and is considering making her first purchase with it. Chris Brown is going to be in concert at the music center in a city 20 miles away from campus. Several of her dorm-mates are planning to attend. They also want to go out to dinner before the concert. On top of that, they're planning to go shopping for new clothes and shoes to wear to the concert. After all, they want to make a good impression just in case Chris Brown happens to see them from the stage. They also plan to use Uber in order to get to and from the concert.

“Should Mayra use her card for all of the night's events? After all, how often does Chris Brown do a concert in their state?”

### Scenario #2

Adele has been on her job as a cashier at a major discount clothing store for nearly a year. She typically works about 25 hours each week, and she recently received a raise to \$11.00 per hour. She shares an apartment with two roommates. One of them, Adria, has just returned to work at a new job after being laid off for nearly six months. Adele and the other roommate, Ada – who’s had a job as a bank teller for the past two years – have had to make up the difference several times when the rent was due because Adria’s unemployment checks were very small and Adria likes ordering out for dinner. Adria asked Adele to make a loan to her for \$500 so that she can buy some new clothes, since everyone at her new job dresses so well that it make her feel out-of-place around them.

“

*That said, Adele only has \$1,000 in savings. Should she loan Adria the money?*

”

### Scenario #3

Ravi and Adonis have been friends since they met in preschool and are now both in their third year in college. Both guys have part-time jobs. They also share an off-campus apartment. Mikal works in the campus library, while Adonis works as an office-aid-slash-receptionist in the anthropology department. Both guys seemed to have adjusted to college well and have kept up with demands of their courses. They both have credit cards, but rarely use them.

Next month is the Spring Fling, a major event at their college – particularly for third year students. Along with the related college-sponsored events, many of the students also host events at their off-campus apartments. Ravi and Adonis agreed to host such an event in their apartment, and they decided to hire a DJ and provide plenty of food and other refreshments. They estimate the expenses to total about \$300 to \$400, and the landlord has agreed to let them use the yard. They plan to split the expenses and put most of the purchases on their credit cards.

“

*Should they go ahead with the event and use their credit cards for the expenses?*

”

#### Scenario #4

Diamond's mother has told her that she's going to stop allowing her to use her credit card because she fails to abide by the monthly limit of \$100. Here are some of the charges that Diamond made over the past six months:

- A new tablet (\$300)
- A music system (\$500)
- Clothes (\$200)
- Uber rides (\$70)
- Restaurants and delivery (\$200)
- Room decor (\$200)

She has already reached her \$100 limit for this month, but only has one week to register for the SATs. She also wants to register for two SAT subject tests.

“

*Should her mother give her the go-ahead so she can register for each of the tests on the credit card?*

”

#### Scenario #5

Mario, Franco, Elijah, and M.J. decide to host a “day and night party” on Saturday for Game Seven of the NBA Finals in Mario's uncle's huge backyard. They're all 22 years old, except for A.J., who's still 21. They plan to charge men \$5 and admit women for free, as they have learned that the guys won't come if there aren't a lot of girls – and the girls need incentives (like free admission) to come.

They also plan to rent a projector to watch the game and use various Snapchat and Instagram images and Twitter messages throughout the event. And for \$100, they can get a friend to be the DJ. Mario works part-time at a pizza parlor and M.J works part-time at a chicken restaurant, so they can get deals on pizza and chicken. Elijah and Franco will buy the rest of the refreshments, supplies, and games. They will place all up-front costs on their credit cards and promote the event through Facebook. They don't know how much this will cost, and they don't care to make any money. To them, the cost doesn't matter, so long as they and their guests have a great time.

“

*Should they go ahead and charge the up-front costs on their credit cards?*

”

### Scenario #6

Fantasia has never owned a credit card. She graduated from college nearly three years ago and has a great job as an analyst in an insurance company. She was able to go through college without any student loans, thanks to scholarships, grants, money from her parents and grandparents, and savings from her part-time gigs and summer jobs. She's currently living at home with her parents – in an urban area, where she takes public transportation to work.

“  
*She does all of her purchases with cash, checks, or a debit card, and isn't sure that she needs a credit card. Should she get one?*  
”

### Scenario #7

Tariq has three credit cards. The first is a CreditOne card that has an APR (annual percentage rate) of 23 percent; the second is a Premier card has an APR of 16 percent; and the third is a Bank of the World card has an APR of 18 percent, with an annual fee of \$25 after the first year. He generally uses the Bank of the World card because it also provides many benefits that the other cards don't. He especially likes the preferred access to concerts feature that it has (he was made aware of several concerts – including ones by Travis Scott, Drake, Nas, and J. Cole – before anyone else that he knows). He also likes that you can accumulate points for gift cards and pick your own due date to pay your bill.

“  
*He's planning on making a big purchase of \$500 soon. Which card should he use?*  
”

### Scenario #8

Lily and Solomon, a young newlywed couple, have been shopping for a new car. Lily earns approximately \$50,000 year, and Solomon earns almost \$40,000 a year. They agree that a monthly payment of \$275 is appropriate for what they can afford, considering their current monthly bills, which include \$300 for each of them for student loans; \$1,500 for rent; \$150 for cable, internet, and a landline phone; \$100 for their cell phone service and payment for the phones; \$150 for all other utilities; and an average of \$1,000 total on their credit cards.

They can get a three-year lease in which their payment is \$199 per month, with a \$2,500 down payment. If they lease two cars, the dealer is willing to cut them a deal of \$179 per month for each car, along with a \$2,000 down payment per car. They have \$5,000 in savings, but don't want to use all of it. They think they can get \$1,000 from each set of parents (either as a gift, a loan, or some combination of both).

*Should they take the deal?*

### Scenario #9

Marissa has recently become friends with Tayla and Karyn, who are both used to getting money from their parents whenever they need it, even though they are both 24, out of college, and working full-time. Marissa – who is also 24, out of college, and working full-time – doesn't ask her mother for money (though her father has been out of her life for years), and tries to be independent. However, Marissa is finding out that being friends with Tayla and Karyn is costing her money due to the places they like to go to and the things they like to do. She also enjoys these things, but secretly wonders how she is going to keep up. She's been using her credit card to be "in" with her new friends.

*To what extent should Marissa continue using her credit card to keep up with them?*

### Scenario #10

Imani is a single mother with three children. The oldest child completed community college a year ago and has just finished a six-month, on-the-job training program at her current job. The second child has just started a four-year college where she has some financial aid (loans, grants, and work-study). The youngest child is a freshman in high school.

Imani drives a used car with 190,000 miles on it, which seems to have needed some repair work every other month for the past year. The children of a 90-year-old widow have decided that their mother no longer needs her car and that she should sell it. The car is two years old, has only 10,000 miles on it, and is in mint condition. The widow is willing to sell it to Imani for \$15,000. Imani has excellent credit, has worked at her present job for 15 years, and can get a loan from her credit union for \$12,000. She will cover the rest with money from her savings of \$3,600.

*Should she get the loan and buy the car?*

## CREDIT REPAIR



Could you use some recommendations on credit repair?

[Visit our helpful listing of companies that may be able to help.](#)