



Parent \$marts

Helping Your Student Get Out of Credit Card Debt

A growing number of students are accumulating large amounts of credit card debt and are unable to repay these balances when they graduate. It's easier than you think for students to get in over their heads. Helping your son or daughter to get out of credit card debt today will help them to borrow \$mart in the future! Here are some tips to help your student reduce their credit costs and pay off their credit cards.

Take Stock of How Much Debt is Owed

Often, when students get into trouble, they are not even aware of how much debt they have accumulated on their credit cards until it is too late. If you suspect that your student is getting into trouble, help them to see where they stand financially with their credit cards.

Have your student get all of their credit card bills together. Then, for each credit card, have them write down the balance they owe, the required minimum monthly payments and the rate of interest on each account. This information is available on their monthly statements. Use the chart at the end of this fact sheet to help your student take stock of how much debt is owed.

Develop a Plan

Look over the balances and help them devise a plan for repayment.

- First, make sure they are making at least the minimum payments each month. If possible, they should pay more than the minimum amount due.



- Second, make sure they are **PAYING THEIR BILLS ON TIME**. If your student is financially overextended the last thing they want to do is miss a payment and damage their credit record.

- Third, advise them to pay off high-interest rate credit card debt first. If your student has large balances on high-interest-rate cards, the interest can add up quickly. In addition, at higher interest rates, more of the monthly payment is used toward paying finance charges.
- Fourth, help them to transfer high-interest-rate balances to low-interest-rate cards. In other words, refinance. It is fairly easy to find a credit card company offering low interest rates even for those with credit records less than perfect. However, when looking for a low-interest-rate card that offers the option of transferring balances, read the fine print. Some companies offer a low introductory rate, then raise the rates substantially after six months or whenever the introductory period has ended.

Avoid Paying Off Your Students' Creditors

It is not uncommon for parents to bail their students out when they get into trouble with their credit cards. While the parents may be well intentioned, they are reinforcing this type of financial behavior and these students frequently get into trouble again.

Before bailing your student out, suggest that they stop making new charges and pay for things in cash. Sit down with them and put together an income and expense list. Help them to identify ways in which they can increase their income and reduce their expenses. Specifically, help them to distinguish between those items that they "need" versus those that they "want." Finally, help them to understand why they got into trouble in the first place so that they break the spending cycle and do not repeat past behaviors.

If Your Student is in Serious Debt

Encourage them to contact their credit card issuers to find out if they are willing to offer a lower rate. Many companies will comply with such requests for those who ask. Some companies may even help them to consolidate

their debts into one easy payment at a low interest rate. But beware! Some credit card companies may offer to let them skip a payment or two. They might even reduce their minimum monthly payment. Students should avoid being tempted by these offers since they will pay more interest in the long run.

If your student is having difficulty negotiating with the credit card issuers, they may want to contact the National Foundation for Credit Counseling (1-800-388-2227) or Myvesta.org (1-800-680-3328).

Only as a last resort should they consider bankruptcy. More college students are turning to bankruptcy as a quick fix to their financial problems. Only afterwards do they realize the consequences of their actions when they are unable to rent an apartment, purchase a car, or get a job because of their poor credit record.

Additional Resources:

For more information on how to help your student manage their credit card debt, check out the University of Illinois Extension publication "Credit Card Smarts." The publication can be found on the Consumer and Family Economics web site at: <http://www.ace.uiuc.edu/cfe>.

Taking Stock of Your Credit Card Debt

Credit Card	Account No.	Amount Owed	Min. Payment	Interest Rate

Prepared by: Dr. Angela Lyons, Assistant Professor and Extension Specialist, Department of Agricultural and Consumer Economics; Debra Bartman and Pat Hildebrand, Consumer and Family Economics Educators; University of Illinois Extension, March 2003.

Copyright © 2003 by the Board of Trustees of the University of Illinois. This material may be duplicated for non-profit educational use, provided that credit is given to University of Illinois Extension. Commercial uses are prohibited.