Extra Credit

What students need to know about cards to avoid debt headaches after graduation

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SMARTMONEY

A credit card is a handy thing to have in college. You can have what you want when you want, and worry about paying for it later.

But the immediate gratification of using plastic to buy an iMac or concert tickets has a way of coming back to haunt college students after graduation.

Despite their lack of a credit history and sizable student loans, most college students can get their hands on credit cards with as much ease as a swipe. And they're often lured into doing so with awards like free T-shirts. Along with the freebies, however, come some not-so-pleasant surprises: high interest rates and a range of fees and penalties.

One reckless night of spending or one late payment can leave students with overwhelming debt and a damaged credit score—which could hurt their chances of landing a job or an apartment after college.

Many graduates know this all too well. More than three-quarters of undergraduates hold credit cards, according to student-loan provider Nellie Mae. Their average debt load: $2,169. And 10% of students graduate with more than $10,000 in card debt, according to a 2008 survey commissioned by TrueCredit.com.

College students "don't realize that anything they do now will stay on their credit report for the next seven to 10 years," says Thomas Fox, community outreach director at Cambridge Credit Counseling Corp.

To graduate with honors in credit-card management, here's what students need to know:

DON'T BE LURED IN BY FREE T-SHIRTS. TrueCredit.com's survey found that four out of 10 consumers sign up for a credit card to receive a free gift or special offer, such as a T-shirt or baseball cap featuring the school's logo. That's a huge mistake, as these credit cards may not serve a student's best interest. Some universities even receive money from credit-card companies for allowing them to pitch their cards on campus, says Daniel Ray, editor-in-chief of CreditCards.com.

Make sure to compare a credit card's terms to other offers by going to Web sites like **CreditCards.com** and **LowerMyBills.com**, before you sign up.

PIGGYBACK ON A PARENT'S CARD. Another option is to accept a helping hand from Mom and Dad. Signing onto a parent's credit card allows a student to take advantage of the more-established credit history (assuming the parent has good credit)—and lower interest rates, says Mr. Ray. This is especially helpful to students who have a hard time controlling their finances.

Once a student signs onto a parent account, the parents are ultimately responsible for the purchases and payments, and will also be able to monitor students' spending habits, hopefully preventing them from racking up sizable debt, says Martha Doran, associate professor of accounting at San Diego State University.

KNOW YOUR (CREDIT) LIMITS. With rare exceptions, all credit cards have limits. And because students lack established credit histories, they often receive fairly low ones—typically no more than $3,000, says Tom Dailey, a credit-card industry consultant. (Limits are often as low as $500 or $1,000 per credit card, says Mr. Ray.)

It goes without saying that exceeding a card's limit can carry dire consequences, but there's also a way to make those limits work in one's favor. By carrying a balance of, say, less than half of the available credit, a student can maintain a solid credit score, says Steven Katz, director of consumer education at TrueCredit.com.

REMEMBER, PROMOTIONAL RATES ARE TEMPORARY. That 0% introductory interest rate is about as tempting as they come, but don't expect it to last.

Introductory annual percentage rates, or APRs, expire, and when they do, they give way to high rates—especially for students. So make sure to find out how long the introductory rate lasts and what the APR will be afterward. (For most college students, the average is 15%, says Mr. Ray.)

WATCH OUT FOR PENALTIES AND UNNECESSARY FEES. No matter how boring it may be, read the fine print of your credit-card agreement. That way, if you make a late payment, it should come as no surprise when you're hit with a late fee or when the interest rate skyrockets.

Another thing to look out for: "universal default," a clause that allows a card issuer to penalize a cardholder—by raising his interest rate—for making a late payment on another issuer's card, says Mr. Fox.

While many credit-card fees are unavoidable, others are entirely unnecessary. If a credit card carries an activation or annual-membership fee, pass on it, says Mr. Ray.

"These days, few people pay annual fees," he says. "They've become a thing of the past."

Big Cards on Campus

Here's a sampling of some of the better deals currently available to students.

Credit card	APR	Additional features
Citi Platinum Select Visa Card for College Students	0% for six months on purchases, cash advances and balance transfers. Regular APR on purchases: 12.99%.	No minimum income required. Free online account management.
Citi Dividend Platinum Select Visa Card for College Students	0% for six months on purchases, cash advances and balance transfers. Regular APR on purchases: 13.99%.	Earn 5% cash back on purchases at supermarkets, gas stations, drugstores and utilities for six months, 2% thereafter. Earn 1% cash back on all other purchases. No minimum income required. Free online account management.
Discover Student	0% on purchases for six months. Regular APR on purchases: 14.99%.	Full 5% cash back bonus in categories like gas, groceries and restaurants. Up to 1% cash back bonus on all other purchases automatically.

Note: APRs subject to change. None of these cards have annual fees.

Sources: CreditCards.com; company Web sites

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