

## Arm Teens With Good Credit Skills

By SHELLY BANJO

From the minute teen-agers step onto college campuses, they are bombarded with offers of free T-shirts or airline miles from credit-card companies seeking their business. By the end of freshman year, the average student has racked up \$1,500 in credit-card debt, according to college lender Nellie Mae.

To help your child avoid the pitfalls of credit, teach teens credit-management skills early, while they are still at home.

### Education First

There are various choices for your teen's first plastic, including debit cards and prepaid cards as well as traditional credit cards. At whatever age you feel appropriate to assist your child in signing up for a card, make sure you explain that "credit is a tool of convenience, not an extension of income," says Kim McGrigg, spokeswoman for credit-counseling firm Money Management International.

Establish clear guidelines for monthly spending limits and items worthy for credit-card use, and also be clear on which of you is putting up the cash.

Set up online access for accounts, noting user names and passwords, so that you can "monitor your child's spending along with them, keeping an eye on overspending or missed bill payments," says financial adviser William Jordan, founder of Sentinel College Funding.

### Training Wheels

Debit and prepaid cards "can teach children to live within their means, setting the groundwork for responsible credit-card use in the future," Ms. McGrigg says. They also offer a safer alternative to carrying a stack of cash around the mall. One caveat: they don't help your child build a credit history.

When making purchases with a debit card, money is immediately deducted from the checking or savings account to which it is linked. These cards can introduce your teen to the plastic culture, but watch out for overdraft fees that can add up quickly.

Also, fraud protections are weaker with debit cards than credit, so you may be held liable for a stolen card or fraudulent use if you don't report the problem quickly.

With prepaid cards like Visa's Buxx Card and MasterCard's Allow Card, individual purchases aren't directly charged to a bank account. Instead, parents sign up for the card online and then load, say, \$100 in monthly allowance for their teen. Parents can choose how often to re-load the

card and a selected amount can be transferred from your checking account or charged to your credit card.

On most cards, once the balance drops to zero, your child won't be able to spend any more money; in other cases, there could be overdrafts and related charges.

Prepaid cards can allow parents to track their teens' spending closely. For example, MasterCard's Allow Card program sends parents email or text-message alerts on their teens' spending activity. Parents can even block their teens from shopping at certain types of merchants or using automated teller machines.

Carefully review the terms of each card, paying close attention to fees for activation, loading money and monthly maintenance. In most cases, every action entails a separate fee ranging from 25 cents to \$5. To compare prepaid cards, go online to [prepaidcardguide.com](http://prepaidcardguide.com) or [cardtrak.com](http://cardtrak.com).

## **Revolving Credit**

When you determine your teens are ready for a true credit card, you have three main choices: a secured credit card, a joint credit card, or adding your teen as an authorized user to your credit card.

The safest form of a traditional credit card is a secured card, where your teen either sends in a security deposit or links the card to a savings account. This way, if your child misses a payment, the amount is automatically deducted from the deposit or bank account and your child doesn't go into debt.

But watch out for the high interest rates that may accompany a secured card and stress that the balance should be paid in full each month.

Another option is a low-limit joint credit card, where both you and your child are responsible for the debt incurred. A parent must co-sign the card for a child under 18.

Alternatively, you could add your child to one of your accounts as an authorized user. But keep an eye on your child's spending so the bills don't get out of hand.

"Missed payments reflect poorly on both credit scores," notes Laura Levine, executive director of the JumpStart Coalition for Personal Financial Literacy. "One missed payment can remain on your credit report for seven years."

Finally, financial adviser Mr. Jordan suggests sitting down with teens every month to pay bills together. Take this opportunity to teach them simple steps like reviewing each transaction and paying bills promptly, alongside bigger issues of debt and interest rates.

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