

Radio Glencoe Podcasting

It's Your Money

Episode 2—Credit Cards and Building Credit

Glenn and McGraw interview a credit counselor who explains the differences between ATM, debit, and credit cards, and how to budget and control the use of credit.

Glenn Good day, everybody. Welcome to Radio Glencoe Podcasting. I'm your host Glenn Coe.

McGraw And I'm your host McGraw Hill. You are listening to *It's Your Money*, where we bring you interesting interviews about money and personal financial success.

Glenn Today our guest is Carla Mancuso, a credit counselor who specializes in helping young people understand the world of credit cards. Hello, Carla.

Carla Hello, listeners out there. What can I tell you about credit cards?

McGraw Let's start out with a basic question: Why do teens need to learn about credit cards since, for legal reasons, they really can't get their own until they are 18 years old?

Carla Well, for two reasons. First, as teenagers go out into the world either to college or to a job, they are going to need to establish credit for themselves. Many teens and college students find themselves in debt before they are 25 years old—but you can avoid that by learning to use credit cards responsibly. Second, today's world is becoming more digital day by day, and believe it or not, electronic cards are replacing the use of cash for a lot of people. So teens really need to understand these electronic cards.

Glenn What are the electronic cards you are talking about?

Carla There are three main electronic cards: the ATM card, the debit card, and the credit card. They are all a little different, and it is important to know how to use each one properly.

McGraw Why don't we go through them one by one?

Carla Sure. The first one is the basic ATM card, which you can use at ATMs, or Automated Teller Machines. Many teens already have an ATM card if they have a checking account at a bank. ATM cards are great because you can get cash anywhere in the world with them by using the vast network of machines that many banks share. But you have to watch out for fees that banks charge if you use ATMs outside of their systems.

- McGraw** Well, that is a good point. Those fees can sure eat up your money, right?
- Carla** Yes, and there are so many private ATM machines now in stores, gas stations, and other locations. Some people lose \$10 to \$20 a month in fees—and that is \$100 to \$200 per year.
- Glenn** Tell us about debit cards. Are they different than ATM cards?
- Carla** A debit card is similar to an ATM card in that it is tied directly to your checking account, but the difference is that you can use the card to charge purchases at stores and other locations. Like an ATM card, the amount you charge is taken out of your checking account immediately. Debit cards are not credit cards.
- McGraw** So then, what is a credit card?
- Carla** A credit card is very different than an ATM card and a debit card. First of all, you have to apply to get one—and to do that, you have to be 18 years old. This is because getting credit is like getting a loan: You must sign a contract.
- Glenn** But can parents get a credit card for their high school teen?
- Carla** Yes, parents can get an extra credit card and give it to their son or daughter. But the parent must have the credit, not the teen.
- McGraw** As soon as teens turn 18 years old then, can they get a credit card?
- Carla** These days many banks are offering credit cards to full-time college students or to teens with full-time jobs and enough income.
- Glenn** What determines if a bank will approve you for a credit card?
- Carla** Banks look at several factors when you apply for a credit card—including your income, your credit history, and your character—because these factors help the bank determine whether you *can* and *will* pay off whatever amount you owe each month.
- McGraw** But once you get a credit card, you can go out and charge as much as you want, as long as you pay it off later—right?
- Carla** Not exactly. If you get approved, the bank will tell you how much you are allowed to charge. That is called your “credit limit.” Typically, for your very first credit card, banks set a limit of \$500 or maybe \$1,000, just to make sure you can handle that credit responsibly.

- Glenn** So let's say I have a credit line of \$500 and go out and charge \$200. What happens?
- Carla** OK, let's take this example: At the end of the month, a bank sends you a statement showing your charges totaling \$200. On the statement, the bank sets a due date and tells you the minimum payment that you must make. So now you have a choice to pay the minimum or the entire amount—or anything in between. But you must make the payment by the due date.
- McGraw** What happens if you are late?
- Carla** The bank charges you a late fee. But more importantly, your late payment is reported to the credit bureaus, which keep track of people and their credit, and compile their credit history. If you end up with lots of late payments, you will have trouble getting more credit later in life.
- Glenn** So what does a credit counselor like you recommend to teens when they get their first credit card?
- Carla** I have three very important recommendations: First, shop around for a credit card to get the lowest interest rate possible. Second, use your credit card wisely by charging only what you can realistically pay each month. Third, pay off your balance in full every month on time to avoid interest fees and late fees.
- McGraw** Why does it make a difference if you take years to pay off your balance? I mean, the bank is making money on your interest payments, right?
- Carla** Sure, the bank is happy, but the problem is that some people go into debt for years. Month after month, they overspend their credit limit, or they can only pay the minimum amount each month. This means that they end up carrying big balances on which they are paying interest. For these people, having a credit card is like walking on a treadmill that never stops. They always owe money, and they just can't catch up to their budget.
- Glenn** So if credit cards can be financially dangerous, why should people get them?
- Carla** You need to establish credit. Having a good credit record is very important for many basic things you might want to do as an adult. You need good credit to rent a car, buy a house, get a business loan, and even just to get a higher credit limit from the bank. But you need to learn to use it responsibly.
- McGraw** Carla, we have just enough time to take a call. Who's on the line?

- Matt** Yes. Hi. I'm Matt. I've heard about all this identity theft going on these days with credit cards and ATM cards. What can I do to make sure I don't get my identity stolen?
- Carla** Unfortunately, Matt, this very true. There is a lot of crime these days with stolen credit card and bank account numbers, so you need to be very careful. There are three things I recommend: First, don't lose your ATM, debit, or credit cards—but if you do, notify your bank immediately. Second, don't let anyone see your personal identification number or Social Security number. And third, on the Internet, don't reply to any strange e-mails that promise you a fast way to make money or tell you that you need to click on a link and enter your bank or credit card number—or your PIN. These are almost always fake e-mails intended to steal your information. Sending these fake e-mails is called “phishing.”
- Glenn** Carla, this has been very helpful, and we thank you so much for being with us. Unfortunately, that's all the time we have today. I'm Glenn Coe, saying goodbye.
- McGraw** And I'm McGraw Hill. Remember, everyone, it's your money, so make the most of it.