

TEENAGERS AND CREDIT CARDS

Helping Teens Develop Healthy Credit Habits



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Help Your Teen Understand Credit

Today, just over 35% of teens between 16-19 are working and contributing to the economy. Seeing as they're earning and spending money, it's a good time for them to learn about credit. What is the best type of credit to introduce young people to? Credit cards are an option with the help of a legal guardian or a job.

The Credit Card Act of 2009 prohibits credit card issuers from extending credit to people under the age of 21 unless an adult co-signs the account or they can provide proof of income (for those over 18). So, in most cases, your teen can't just go and apply for a card on their own.

Perhaps you're thinking about co-signing for your teen to get them their first credit card. Maybe they're earning enough to get one on their own and you want to offer them guidance. Either way, it's critical you equip them with the knowledge they need to build their credit and not wreck it.

Here is how you can make your teen's first credit card one of the best financial decisions they make.

How It Works

There are three common ways teens can get access to credit cards before or after they turn 18.

Authorized user on your account: If your child is under 18, they can't get a card on their own. However, you can make them an authorized user on your account. They will get their own card, but the bill still goes to you. The advantage is that in many cases the credit card company will report the payment history on the teen's credit report, allowing them to begin building credit.

Another alternative is applying for a new card, listing them as an authorized user, and then lowering the limit. A 2017 survey by TransUnion found 54% of teens surveyed were 14 or younger when their parents added them as an authorized user on their credit card, so it's relatively common.

A parent or guardian co-signs: A teen between the ages of 18-21 can get a credit card if a parent or legal guardian co-signs for them. The teen gets the card – and the bill – in his or her name. As the parent, you'd be legally responsible for the account and any debt they incur.

Apply on their own: Once your teen turns 18, they can get a student credit card, or one designed for people without a credit history as long as they have a verifiable income source. While the credit limit will likely be relatively low, it's high enough to leave a dent in their credit score if mismanaged. Employment income, scholarships, or grants can suffice to show proof of income.

Types of credit cards

There are two basic types of credit cards: secured and unsecured. If your teen is applying for a card on their own, they'll likely receive a secured one. This means they must put down collateral, like a cash deposit, before they will be granted a line of credit. It's a good way to begin building credit but be sure the provider they choose reports the credit card to bureaus, so it reflects on their credit score.



With unsecured credit cards, you don't have to put down any collateral to gain access to the credit. However, you qualify for

unsecured accounts based on your credit score. Unless your teen has been an authorized user on your account for some years, they are unlikely to be able to qualify for an unsecured card on their own.

How to Help Prepare Your Teen

Now that you know what your options are, how can you prepare your teen for a credit card? How can you keep them from ruining their credit before they reach college or start their career? The answer is financial literacy and teaching your teen positive financial habits.

[A 2019 report](#) by the Consumer Financial Protection Bureau (CFPB) found state-mandated personal finance education in high school improved credit scores, reduced default rates, and helped students shift from high-interest credit cards to low-interest alternatives. This shows starting financial literacy early can make a significant impact long-term.

Start with a checking account

Teenagers aren't too young to have checking accounts; it's an excellent way to introduce them to the world of finance. By having one, they can learn basic money management skills. After they have demonstrated the ability to budget and save, let them use a debit card, which looks and acts like a credit card but is tied to the checking account. This will also be helpful when it comes time to pay off their credit card bills.

If they don't have an account, other ways to teach them how to manage spending is through PayPal. The good thing is they can't ruin their credit and when they've exhausted their money, they won't be able to use the account until they replenish the funds.

When your teen has mastered the basics of money management, decide which is best: getting them a credit card under their name or making them an authorized user. If you opt for the latter, call the credit card company and let them know you wish to add an authorized user to your account.

If they're getting a credit card on their own, encourage them to shop around for low rates and fees. If they do not want to get a secured credit card and can't qualify for unsecured, a retail store credit card may be an option. However, read the terms carefully with them, as retail cards tend to have high interest rates and strict payment terms that they may need to follow to avoid credit issues.

Educate your teen on credit cards

A good way to teach your child about credit cards is to carry them along through the process. If you have a credit card, show them your statement, and explain how the process works step by step.

You can start with the connection between charging one month and paying the next. Emphasize that it's not free money. In fact, if they don't pay the balance in full before the grace period expires, their purchases will cost extra. Explain interest and how it adds up if the debt continues to grow. Look at the fine print and review other key terms such as late fees and interest rates.

Another tip is to share online resources like the [Consumer Financial Protection Bureau](#) page, which shares helpful financial information for teens.

Educate them on safety and why it's critical to keep their card in a safe place. They should also know what to do and the number to call if it's stolen or lost.

Give them responsibility

When your teen understands how to manage a credit card

firsthand, make them responsible for paying all or part of their balance from an allowance or job. Most teens don't appreciate the value of money until they must work to earn it and pay bills.

If a teen wants an expensive gadget, teach them to save the money they make from chores or other jobs. When they have saved the amount needed to purchase the item, they can buy it with a credit card. This practice is a good way to postpone the immediate gratification factor. It's okay to want material things, but sometimes you just have to wait.

Don't forget to ensure they pay the entire balance off by the due date to avoid late fees and interest. To keep them from falling behind on payments, ask them to set reminders on their phone. This can also be a good time to teach them how to set up AutoPay from their bank account. Just make sure to impart the importance of making sure they have funds in the account to cover each payment.

Setting limits

Setting limits is a way to prevent overspending and teach your teen self-control. Supervise their credit usage and define what an acceptable purchase is. Is the card reserved for emergencies or specific purposes such as clothes shopping?

For instance, you might decide pizza at midnight or ATM withdrawals aren't acceptable. Monitor what happens when you give them an amount to spend, say \$150 on clothes. Do they surpass the limit? If so, prepare to penalize your teen to help develop and advance their level of responsibility.

You should also advise them not to spend over 30% of their available credit to keep their credit score in good standing. Emphasize the importance of good credit history and how a poor one can ruin their efforts to buy their first car or rent an apartment. Also, show them how to get a copy of their credit

report from Experian, Equifax, or TransUnion so they can monitor their progress.

That said, keep a close eye on limit increases by the credit card company. Just because the card has, for example, a \$1,000 limit does not mean they should spend it. With a limit that high, it could easily be increased to \$2,000 or \$3,000 within six months by the creditor. Don't let your teen take a higher limit as a license to spend more.

The Internet, Teens, and Credit Cards

This is not the same world many parents grew up in. We now live in a technological age and your kids are "digital natives." Online shopping is more pervasive, and teens are vulnerable to digital advertising and marketing ploys. To keep your teen on track, it's critical you teach them about best practices for online spending and how to protect their identity.

Steer them away from impulse spending

Teenagers are often amenable and susceptible to peer pressure. To help them resist the urge to impulse buy, teach them about the ramifications of buying things on a whim. It could lead to them racking up a bill and ruining their credit over things they don't really need.

Also, keep a close eye on what your teens are buying over the internet. You can set ground rules around transparency and inform them you'll be checking monthly statements to see what they're purchasing. The internet has a sinister side and many teens, armed with a credit card, could be sucked into something over their heads.

Teach them how to stay safe online

Online safety isn't something teens are taught in school, so as

a parent, you'll have to teach them. Here are a few ways they can prevent identity theft.

- **Teach them about personally identifiable information (PPI):** Teach your teens to avoid posting information that can be used by cybercriminals. This includes their address, Social Security number, passport information, or images of their card online.
- **Educate them on phishing scams:** If your teen has an email, explain what phishing scams are. It's when cybercriminals use dubious emails to steal sensitive information. It could look like a fake email from a credit card provider asking for card details. Teach your young ones to verify the sender, check for grammar mistakes, and avoid clicking on unfamiliar links. Make sure to teach the same lessons with text messages when they get their first smartphone.
- **Help them identify scam sites:** Scamming sites are common and can lead to identity theft. As with phishing emails, tell teens to check if a site is legitimate before shopping there. Some ways to check include using Google Safe Browsing Transparency Report, ensuring the URL has "https" in front of it, the presence of a green secure padlock next to the URL, and confirming contact information.

Getting a Card at 18

Once your teen is 18, they might be keen on getting a credit card on their own. If they have income, they could be approved for a card without your knowledge. Have a



conversation with them before their birthday and ask them to speak to you before signing up for one.

Note that credit card companies reaching out to teens or minors with major credit cards must follow the same federal disclosure laws they do for marketing to adults. Thanks to the Credit Card Accountability Responsibility and Disclosure Act of 2009, credit card issuers can't market pre-approved cards to individuals under 21 without consent. Also, whether they are selling by mail, telephone, or the internet, banks are required to reveal costs such as annual fees and finance charges.

Parents – Educate Yourself

If you want to teach your teens how to use a credit card responsibly, it starts with you.

What message are you're passing onto your teen about credit cards? Make sure you're modeling positive financial habits as your kids are always watching.



Keep yourself up-to-date on financial matters so you can pass that knowledge to your teen. This could include things like looking for 0% introductory credit cards, shopping for low APR, and making use of cashback points.

Teamwork

When it comes to money habits, you can be your teen's best resource and teammate. Try and build trust so your teen feels comfortable talking about money matters and any challenges they have.

Try setting financial goals with them such as building their credit score to 800 in the next 5 years. It's a way to keep them motivated and focused on the bigger goal.

You and your teens can also investigate and learn about fiscal responsibility and credit cards by researching online together. By working as teammates, you can help your young one become credit card savvy and financially secure.