

Loan debt accruing interest

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(U-WIRE) FAYETTEVILLE, Ark. - A college degree is becoming more of a requirement in the modern world, and students are doing whatever it takes to pay for classes, including accruing more debt than ever.

Nearly two-thirds of all four-year college graduates now have student loans, according to Student Debt Alert, a combined project of a number of student public interest research groups.

While loans represent one side of the debt that students have, credit cards are another. Lenders use information on how people have handled financial obligations in the past when determining whether to approve or deny credit. Credit card applications take about five minutes to fill out online, and companies generally send letters in the mail regarding the status of the application, even if it is denied.

Credit reports can be used to determine eligibility for an apartment rental, employment and insurance.

"If you don't need a card while in college, don't get one," said Mark Foster, director of education at Credit Counseling of Arkansas.

"It's too easy to use it to subsidize your lifestyle of pizza, movies, Abercrombie, etc.," he said. "Aim to use cash, checks, debit cards and pre-paid gift cards."

Foster said students who want to establish credit might want to use store credit cards -- such as Express or Victoria's Secret -- which are usually more generous in terms of extending credit than a bank card such as Visa.

"However, it's easy to rack up charges on a store card," he said. "And you are limited on credit to buying only what that store sells, of course."

Interest rates on store cards are higher because the companies are not as picky about who they give a card to, Foster said.

In turn, the interest rates for those cards are generally higher to cover the risk of extending credit to people without a proven track record, he said.

Foster said one of the major contributing factors to student debt is students' overly optimistic views of their financial future.

"It's not uncommon for a college student to go ahead and rack up debt today because they overestimate their post-graduate income while at the same time underestimating their post-graduate living expenses," he said.

Students can avoid detouring from the road to establishing good credit by following a few tips.

Students should pay on time, and send payment checks before the due date to avoid late fees and finance charges.

They should also stay within credit limits and demonstrate the ability to pay back debt by keeping account balances to less than 50 percent of their available credit.

"Getting behind in your finances so early in life can take years to overcome. So it's best to not get behind in the first place," Foster said.

Many credit card companies offer free gifts such as beach towels to students who apply for a credit card. But Foster said it's not a good idea to apply for a card just for the freebies, even if you have no intention of using the card.

"But once they received the card, it was easy to use it for Christmas presents, a spring-break trip, etc., and they ended up in over their heads," Foster said.

Foster also had advice for students experiencing problems with credit card spending. "If a student ends up having some difficulty with the credit card bills, then he or she needs to consider plastic surgery," he said. "Cut up those credit cards, because it's difficult to put out a fire as you're pouring more gasoline on top of it."