

# 5 ways to teach your teen responsible card use

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## Teens and credit cards: Four words that can make any parent cringe.

While you may not want to think about it, that's precisely what you need to do before your young adult has access to plastic.

"Before teens wade into the potential hazardous sea of cards, parents need to introduce them to other financial products and educate them on the basics of money, bill paying, fees and interest charges," says Howard Dvorkin, credit expert for Debt.com.

Here are some baby steps to help acclimate your teenager to the world of credit, and hopefully avoid big money mistakes that can follow them into their 20s and beyond.

### Have teens pay some bills

A checking account should be a precursor to kids being allowed to have credit, says Mike Chadwick, CEO of Chadwick Financial Advisors. "You have to start off in regular bill paying and understanding how that works before you start using someone else's money," he says.

That's what he did for his daughters, beginning at around age 11 or 12. By depositing money into their accounts once a month, he helped them learn how to pay their own way, from buying a new shirt to paying for school lunches. "Teens don't have a ton of respect for money if things are too easy for them," he says. By making his girls responsible for their own expenses and learning a couple of tough love lessons early on (such as when they blew their budget and couldn't go out with friends), they were more careful with their spending and learned how to save when they got older and began using credit of their own.

*Credit lesson:* Stay within your budget and be smart so you can get the things you want without going into debt.

### Teach consumer savviness

The marketing messages that teens get is to buy stuff they probably don't need and pay for it later, says Chadwick. That's why it's important to talk about how to be a wise consumer. "If we don't teach our teens when they're young, they'll be drawn to whatever is popular in their world. Uggs, Michael Kors, whatever," he says. His girls still get some of those things, but they've found creative ways to buy them by waiting for good deals and

selling items on sites such as eBay to make money. They take pride in not paying full price for designer items and laugh about people who max out cards for a few pairs of shoes, he says.

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Setting a good example from your own life can help the message sink in as well, says Leslie Tayne, a financial attorney and debt specialist at Tayne Law Group. “When you go to a store and use a card to buy something, talk to your teens about your budget, and how what you’re spending affects it,” she says. And, by all means, if you have a cautionary tale or two about spending mistakes, share those, too.

*Credit lesson:* Change your mindset to “if I can’t afford it now, I’ll wait it out.”

### **Take baby steps toward credit cards**

Before your teen goes full-on credit, a good way to practice with plastic is with a debit card. While this will not begin building a credit history with the credit bureaus, it will give your child a chance to practice swiping, keep track of spending and look over statements. “Debit cards are perfectly fine as long as there is some accountability attached to it,” says Chadwick, such as responsibility for clothes and school supplies.

This is also a good time to discuss security and financial fraud. “Teens put a lot out there on the Web, and everything is date-, time- and geo-stamped,” says Chadwick. That’s why it’s important to talk about smart passwords, not buying from online sites without “https” in the URL or sites they don’t know, and protecting their plastic and PIN codes in public.

*Credit lesson:* Don’t forget that cards — debit or credit — are tied to real money, as well as your personal financial information. Use them wisely and carefully.

### **Tie spending behavior to consequences**

Once your children are ready to move to a credit product, it is important that they understand that credit cards function similarly to a loan, and there are penalties for not paying the bills, says Tayne. “Credit cards are not to be regarded as free or infinite money, and every dollar borrowed must be not only repaid, but repaid in a timely manner,” she says. You should use an [online calculator](#) to illustrate how extra interest can increase the original purchase amount.

Point out that paying the minimum will not suffice, and can literally add years to the amount of time it takes to pay off a balance.

*Credit lesson:* Credit is a privilege that comes with a hefty price known as compound interest. Abuse it, and the financial repercussions could last for years.

### **Teach the importance of credit**

It’s never too early to discuss how credit [card use affects one’s credit report](#) both good and bad, and how bad credit can stand in the way of a future car loan, job or apartment. In short, poor credit can impede your teen’s ultimate goal of being independent.

But also, cards are the fastest way to build credit. Teach them that ideally, they should pay card bills in full and on time each month, and in as little time as a year, their credit will be strong

*Credit lesson:* Building credit is tied to all things independence, and the fastest way to build credit is through responsible card use.

Just as you've guided your teens through college decisions, social situations and making healthy choices, prep them for responsible card use. Doing so will help your adult children build a strong financial foundation for their credit history, and help them avoid plastic pitfalls.