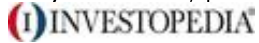


Credit Cards For Kids

Amy Fontinelle, provided by



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Should you give your child a credit card? Maybe.

Credit cards are an increasingly common payment method in today's world, so the sooner your child learns to manage credit responsibly, the better. Can you teach your child to manage credit responsibly, and can your child be trusted to put those lessons into action? By understanding the pros and cons of handing over the plastic, you can decide when and how to take this step.

Teach Credit Management

Some parents give their kids credit cards to help them learn to manage credit while they can still be supervised, says Brette Sember, author of "The Complete Credit Repair Kit."

"You can help your child learn how to use credit and teach them to use it only as a convenience, not as a license to spend. You're there to help them do all this in a controlled environment," she says. "The negatives are that if you don't do this in the right way, you can set your child down a long path of misusing credit and thinking you can just swipe and buy anything you want," she adds.

Sember says it makes sense to give teenagers a credit card once they are driving independently so they will always have money for gas. By adding the child as an authorized user, parents will be able to monitor all spending. She also suggests that children be required to provide receipts for all of their purchases and repay parents for items that are to come out of their own budgets at the end of each month.

If you want to exercise greater control over how much your child can spend, consider a no-fee [prepaid card](#). "Prepaid cards are another great way to give kids a credit experience, but in a controlled manner. This is just like giving an allowance, with the card having a certain amount available each month to use," Sember says.

Consider the Potential Drawbacks

Retired financial advisor Mike Arman of Florida thinks credit cards for kids are a horrible idea. If the child misuses credit, the parents can be held responsible. The parents' credit can be damaged and they can be forced to pay the credit card bills.

"Handing a child a credit card is like handing a child a loaded pistol - one without a safety," Arman says.

"Giving kids credit cards teaches them that using plastic is OK. In fact, using plastic is not OK for

multiple reasons," he adds.

He says that because people spend more when they use plastic than when they use cash, giving a child a credit card teaches them to splurge, buy on impulse and achieve instant gratification.

"Personally, I think that before anyone of any age gets a credit card, they should have to take a course on fiscal responsibility and pass a test to show they've learned it," he says.

Help Your Child Build Credit

What about establishing a credit history? Without one, your adult child will have trouble renting an apartment or getting a loan unless you cosign, which is always a dangerous decision.

"The main reason to give a credit card to a child is to help them begin to establish credit history early, teach fiscal responsibly and set positive patterns for future use of credit cards," says Kimberly Foss, a Certified Financial Planner and founder of Empyrion Wealth Management in Roseville, Calif.

"Secured cards are a great way to get credit in a child's name and establish credit with boundaries," she says.

A secured card requires the account holder to deposit cash as collateral for the amount of the credit line. Secured cards generally have low credit limits of a few hundred dollars. The low limits combined with the collateral limit the damage the cardholder can do, but can help establish credit. When your child needs to rent an apartment or, further down the line, buy a car or a house, he or she will have a credit history and, hopefully, a high credit score that will make it easy to qualify for a rental or a loan. Make sure the card has minimal fees and that it will report your child's payment history to all three major credit bureaus.

The Bottom Line

"Having your child take accountability for their own finances is a great way to help them prepare for their future," says Howard Dvorkin, CPA and founder of Consolidated Credit Counseling Services.

"However, you need to make sure they understand how the card works, starting with the connection between charging one month and paying the next. Emphasize that it's not free money unless the balance is paid in full before the grace period expires. 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," he says.

Only you know how your child is likely to handle a credit card. However, if you use credit responsibly yourself, getting a credit card for your child can be an excellent opportunity to teach him or her sound financial management skills that can help him or her take advantage of the conveniences and other benefits of credit cards while leading a life free of consumer debt.

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