



GEN Y FINANCIAL PLANNING

Building good credit starts young and requires some parental help

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As parents prepare their kids for life at college, many are leaving out a crucial piece of information: how to build credit.

The college years are the best time to begin the process. After graduation, adults with no credit history have a harder time renting apartments, obtaining car loans or, eventually, mortgages.

To make things easier, building credit should start at a young age and there are plenty of ways parents of college-age children can help them along.

LACK OF CREDIT PRESENTS CHALLENGES AFTER COLLEGE

Failing to help kids establish credit is “kind of a parenting error,” says Lisa Heffernan, a mother of three in Westchester County, New York, who writes a blog for parents of young adults. “You don’t realize it until after your kids graduate college.”

For Heffernan, that realization came recently when her middle son was turned down for an apartment after graduation. He’d landed a good job and had the paystubs to prove it, but he hadn’t been working long enough to file a tax return, and he had no credit history at all. Landlords commonly check prospective tenants’ credit for signs that they might not pay their rent on time.

But it isn’t too late for Heffernan to help her youngest get a card and build credit while he’s still in college.

“This is a chance for me to teach him some good finance habits,” she says.

Most major credit card issuers offer a student credit card. Some provide perks for good grades or on-time payments, or higher rewards rates for spending at student-friendly businesses, such as restaurants and movie theatres.

The catch is that student credit cards sometimes have the same requirements as regular credit cards: you have to be the age of majority in your province or have a full-time income to get approved. Those rules mean some university students can’t qualify for student cards on their own.

Some students qualify by showing that they earn sufficient income. Vicki Kipfmueller’s son Spencer applied for his own student card while working at a restaurant the summer after he graduated from high school. He was approved with an initial credit limit of \$300. A year later, his credit limit has been raised to \$1,000 because he has handled the card responsibly. He uses it to buy groceries.

On-time payments are the single biggest element of a consumer’s credit score. To make sure Spencer stayed on top of his, Kipfmueller helped him set up automatic payments from his bank account. “We really stressed that one late payment or missed payment, and you could totally wipe out any of the good that we’re trying to do here,” Kipfmueller said.

HOW PARENTS CAN HELP

Even if your children can't qualify for their own credit cards, you can still give them a head start in building credit.

1. Make them authorized users: Parents with good credit can add their teenage children to an existing account as authorized users. The child will receive a card with his or her name on it, but the parent will still be responsible for the bill. Making teenagers authorized users is like giving them a set of credit training wheels, and it can help them establish a credit history.

2. Co-sign: When a parent co-signs on a student's account, both of their names are on it, and they're jointly responsible for the bills. Not all issuers allow co-signers.

3. Find them a secured credit card: These cards require a security deposit, usually equal to the total credit limit. They're often easier to get because the deposit reduces risk to the issuer. Like other credit cards, they have age and income restrictions, but if your son or daughter is nearing the end of college or has already graduated, one of these might be a good option.

4. Suggest a debit card: Debit cards don't help build credit, but if your student needs the convenience of paying with plastic, they can do the trick. Passing down good credit habits to your kids is important. These practices will help them get favourable terms on their first leases, insurance policies and loans.

"We do so much to try to help our kids," Kipfmueller said. "I think that it's important that you do try to give them this good foundation of financial responsibility — and a good credit score."