

Jerry:

Welcome to the SeaComm Podcast, your place for the latest on what's happening at SeaComm, and helpful tips on saving and protecting your money.

Dave Cohen:

Hi, everyone. I'm Dave Cohen, communications and outreach specialist for SeaComm Federal Credit Union. With me today is Jerry Manor of business development. We're going to be talking about college students and credit cards. Jerry, credit cards are very, I think, intimidating to a lot of people, and maybe the younger you are, the more intimidating they might be.

Jerry Manor:

Well, the key, Dave, I think, is for people to understand how they work. Now, credit cards are a great tool, but yes, college students are just getting into the world of finance. They don't understand a lot of things, at least some of them don't. Some of them do. But you want to make sure that you understand because you're taking on some debt when you use a credit card, and that's the thing they need to remember.

Dave Cohen:

Absolutely. And I think we should start out by talking about how credit cards work. And it's not just free money, which the younger you are, maybe it's like, oh, you see mom and dad use it. They're not giving anything. They're just giving their credit card. But I think the biggest thing that people need to understand about credit cards, the younger you are, is interest. And that's really the key, I think.

Jerry Manor:

Yes, indeed. And you look at a credit card. You look at a debit card. They look the same. They work differently. Debit card, as most people know, hopefully you know this, is tied to your checking account normally, but it could be a prepaid debit card. But the key is, it's your money. You might load a debit card. You might have money in your checking account. Credit card is totally the opposite. You're borrowing that money. And Dave, what has to happen to borrowed money?

Dave Cohen:

You got to pay it back.

Jerry Manor:

With?

Dave Cohen:

Interest.

Jerry Manor:

And that's what we're going to talk about right now, interest and how it works.

Dave Cohen:

Yes. There is a formula, and we talk about this all the time, whether it's working with students or working with adults, and it's interest is the key. And that's where a lot of people get into a little bit of trouble with their credit cards. But Jerry, what's the formula for interest?

Jerry Manor:

Basically, the formula, interest equals principle times rate times time, the three factors of interest. And if you extend any of those three factors, you pay more interest.

Dave Cohen:

So, principle, say I were to take out a \$5,000 loan, or with a credit card, I use \$5,000 on a credit card. Then, you have the time, however much time it takes to pay it back. Now, with credit cards, you usually have a monthly statement, so you really need to pay attention to that. And now, the rate, that's where it really gets tricky because, say, on a decent loan, auto loan or a mortgage, you may have anywhere from four to seven, even if your credit isn't very good, up to maybe 10%. But for credit cards, what's the interest rate?

Jerry Manor:

Well, right now, the interest rate is averaging somewhere in the neighborhood of 22%. But here's the thing to remember, some of those store cards out there, the department stores have their own credit cards, they can be as high as 29.9%. That adds up.

Dave Cohen:

It does. So, let's do a simple one. Let's do 25%. So, you have \$5,000, and you need to pay it off in the month. Say you pay off half of it, or even a lot of it, say you pay off \$4,000. You still have \$1,000 left to pay. And with 25% interest, that's an extra \$250 that's going to be tacked on the next month. Correct?

Jerry Manor:

Yeah. So it's going to add up quickly. And that's why credit cards, it's important to understand the trick. And this is so important. I harp on it non-stop, because in order to win the credit card game... I like to call it the credit card game.

Dave Cohen:

Sure.

Jerry Manor:

You need to pay in full by the due date. Now, in order to be in compliance with your contract, you can pay a minimum amount. But the minimum amount, it's different depending on the credit card, but usually, generally runs around 4%. So, you can pay just a little bit and still be in compliance. But whatever's left over revolves into the next billing cycle. Hence, revolving credit is what credit cards are called. But you pay interest on what's ever left.

And if you get into the trap, which many people do, of paying just the minimum payment, that \$5,000 you borrow is going to take you forever to pay off, and you'll pay tons of interest. So, whatever you bought for \$5,000 is going to end up costing you 10,000, or even more than that, if you only make the minimum payment. So, the key to using a credit card is only buy something you can afford. That's the

key. And I like to say, only buy something with a credit card that's in your budget, something you can afford.

Dave Cohen:

Absolutely. And I think budget is something that we will also talk about. A college student might not have a typical budget, because maybe they don't have a lot of expenses in the moment. They live on campus, which means that sometimes their room and board is already paid for. Maybe they have student loans that are already paying for that. But there's other things you might need to be paid. I'll give an example.

Jerry Manor:

Okay.

Dave Cohen:

When I was in school, I had a medical incident, and if I didn't have enough cash, or I didn't have the money on hand, which some people might not, and they need to pay a copay or pay a bill pretty fast, what are they going to do? Well, if you have a credit card for emergencies, then that's something that you could put it towards. Emergencies, I think, are a big thing that not a lot of people take into consideration, whether it's budgeting or whether what they need to do.

Jerry Manor:

Well, emergencies are something that you should budget for. And I talk about that a lot, having an emergency fund, so that you don't have to use a credit card. Because if you have the emergency fund, you've got the funds to take care of the emergency. If you use a credit card, it's probably going to cost you more, because you probably can't pay it off in full. But on the other hand, you have to have some way to pay that. So, using a credit card can be something you can do, but try to avoid that if you can.

But I tell everybody, I don't care if you're a college student, a high school student, whatever, start saving a little bit here and there. Even if you only get money at birthdays and Christmas-

Dave Cohen:

Sure.

Jerry Manor:

... save a little bit just in case you need something. And as you get into adult life, even as a college student, make sure you have a little bit put aside, so that you can tap that if you need to. How much? Well, once you get into the working world, they say you should be saving 10%. Some people say more than that, whatever. What I say is, you should save something-

Dave Cohen:

Sure.

Jerry Manor:

... and make it regular. Do it every time you get paid, and then you'll have a little fund to tap if something happens to your car. It breaks down, or whatever happens. We have a medical incident

where you need some money. But again, always be cognizant of the different costs of things, because it can bite you if you're not careful.

Dave Cohen:

Absolutely. And whether it's medical emergency, sometimes you need to travel home if you live far away. These are all things that it's great to budget for and to think about. But if you're in a pinch and you really need it now, then sometimes having an emergency credit card that you only use for specific things could definitely work.

Jerry Manor:

Absolutely.

Dave Cohen:

I think that's something that a lot of college students... depending on where you are. A lot of college students maybe live close enough to home where they can get there. Some college students live all the way across the country. So, there are definitely a lot of different scenarios it could be beneficial.

Jerry Manor:

Well, definitely, having a credit card makes handling your finances easier. But again, you've got to be careful not getting in over your head, because I remember back... Let's go way back. When I was in college, Dave, it was back in the '70s. You weren't even around then.

Dave Cohen:

Good decade.

Jerry Manor:

Yeah. Well, it was. It was. But anyway, I remember, at orientation, the financial institutions would have tables set up, and they were giving out credit cards like they were candy.

Dave Cohen:

Oh, wow.

Jerry Manor:

And now, it's different. You actually have to have some income or have a co-signer in order to get a credit card, but then, they would just hand them out. So, what happens to an 18-year-old kid away from home for the first time? They get a credit card. What do they do immediately?

Dave Cohen:

They probably spend.

Jerry Manor:

Max it out. So, we had students graduating from college. In those days, college debt, student debt wasn't as bad as it is now.

Dave Cohen:

Right.

Jerry Manor:

But coming out of college with not only student debt, but also credit card debt, and that's a tough way to start your financial life. So, again, think about these things when you're going to use them. But on the other hand, there's a lot of advantages to using a credit card.

Dave Cohen:

What are some of those?

Jerry Manor:

Well, first of all, that's a great way to get your credit in shape. We talk about having a good credit score. Well, one of the factors in the credit score is credit utilization and how you use debt. So, to give you a personal example from my life, of my daughter. My younger daughter went to college, and I said, "You know what? I think you need a credit card." And I said, "You're not going to be able to get one because you're going to have a work study job, but you're not going to be making enough money to actually qualify for one. So, I'll tell you what, I'll co-sign on that credit card." And I said, "Well, you are going to have to use it wisely because I'm going to be able to see what's happening, and I can keep an eye on it." And she said, "Fine. That's great." So, she went to college with her credit card, and she used it, which I told her to do.

Dave Cohen:

Sure.

Jerry Manor:

I said, "Use it, but if at all possible, pay it in full by the due date so you don't pay any interest. If that's not possible," like you said before with an emergency or something, "pay it off as quickly as you possibly can." Well, she was away to college for four years, and she did very well with her credit card. She did pay a little interest now and again, but not a lot, was very good at paying it off quickly. So, she gets back to the north country, and she gets a job in town, and she needs to get a car because, hey, we live in northern New York with big distances and not a lot of people.

Dave Cohen:

That's right.

Jerry Manor:

So, she needed a car. She had this old beater, but when she took it in to get it inspected, it would've cost her seven grand to pass inspection.

Dave Cohen:

Oh, wow.

Jerry Manor:

I said, "Time to get a new one."

Dave Cohen:

Yeah.

Jerry Manor:

So, she found one at a used car dealer in the area, and she needed a car loan. I said, "Well, you were good with the credit card. If you need me to co-sign, I'll be happy to do it again." And she went into the lending office here at SeaComm and came out, didn't need me. Because she'd used her credit card wisely for four years at college, her credit score was up in the mid-700s. So, she got the best rate and was able to get the loan because she also had the income needed to get the loan. And that's the other factor people forget about. When you're getting a loan, you also have to have income.

Dave Cohen:

Sure.

Jerry Manor:

Same thing with a credit card.

Dave Cohen:

Absolutely.

Jerry Manor:

You have to have income. So with a college student, it may involve getting a co-signer.

Dave Cohen:

Yep. And getting a co-signer or I think making someone an authorized user to help with credit as well.

Jerry Manor:

I love that. That is such a great technique because if a parent or guardian, or even a good friend, has great credit, they can make another person an authorized user on that credit card. The beauty of that scenario, basically, is you don't have to give them access to the card.

Dave Cohen:

Right. So, let's take your example with your daughter into consideration here. If you're a college student now, look into the future, when you might need a car loan, or you're looking to buy your first home five to 10 years after you're out of college. If you have that four-year head start of using a credit card responsibly, or having yourself as an authorized user on maybe mom and dad's credit card-

Jerry Manor:

Right. Assuming they have good credit.

Dave Cohen:

Right. So, you have that extra time, that extra buildup of credit history, which is another thing I learned. Credit history, not just credit utilization, but also how long you've had credit.

Jerry Manor:

That's absolutely right. In fact, I have my... It wasn't my first credit card, actually. My first credit card, the bank no longer exists.

Dave Cohen:

Okay.

Jerry Manor:

But the second credit card I got, I've had it for 40 years.

Dave Cohen:

Oh, wow. Okay.

Jerry Manor:

And I don't use it very much because I just don't use it very much, because I like to use the SeaComm credit card because of our rewards. But anyway, I still use it occasionally. And that's something else to consider. You don't want to close those old credit cards because they go to length of credit on your credit history. But if you don't use them once in a while, they often will close them on you, because having an unused credit card is a cost to the lender. So, they may close if you don't use it every so often.

So, normally, what I do is, I use it once every two months to buy something I'm going to buy anyway, and just pay it off. But again, keep it. You don't want to close it out. You want to keep it to make sure that you have that long credit history, because that is definitely a factor. And again, you mentioned starting now when you're a college student, because yes, there are things down the road you're going to want to be able to get. And in many cases nowadays, we have to use credit.

Dave Cohen:

Sure.

Jerry Manor:

I like to talk about my grandfather, and that was a long time ago. Growing up next to him, he was a farmer, small family farm, which you can't do anymore.

Dave Cohen:

Right.

Jerry Manor:

He didn't believe in credit.

Dave Cohen:

Everything in cash?

Jerry Manor:

Everything in cash. He saved the milk check. He saved a part of the milk check. And you can't do that nowadays. I mean, if you're wealthy, perhaps, but even wealthy folks use credit to their advantage. So, knowing how to use credit and using credit wisely is an important thing that people need to do. There's lots of information out there that people can research it on their own, but it's important to realize that, number one, you got to pay it back.

Dave Cohen:

Yes.

Jerry Manor:

That's important. You got to pay it back with interest, unless you pay it off in the terms of your credit card. You don't have to pay any interest if you pay it when that statement comes due. But again, it's going to be a part of your life for much of your life. So, it's good to know about it. And a good way to start is when you're in college with a credit card.

Dave Cohen:

That's right. And we talked about building credit history and your credit score. We talked about the emergency safety net that a credit card could be for you. But something else I want to talk about is the good habits that a credit card can actually build, with you learning to manage your finances and manage your money. Because we talked about having to pay it off at the end of the month, but we also talked about learning how to put on your credit card things that are already in your budget.

Jerry Manor:

Right.

Dave Cohen:

So, a credit card, I think, can actually help a college student learn how to make that budget, and realize, "Oh, what am I spending? What am I getting?" Because a lot of college students work while they're in school. So, they do have some money coming in. How do they budget using a credit card?

Jerry Manor:

Well, they have to take a look at what their income is, first of all, okay? What does it have to go to? Yes, you're probably, if you have a student loan that pays your tuition and probably room and board, depending on how you're set up. But what is that income used for? And you can use your credit card to tap that income, but make sure that you can pay it off in full at the end of the month.

And the other thing to remember is not getting into that trap. The credit card, it allows you to spend without really thinking. So, that's important, to always think before you spend. I mean, let's face it. We're emotional creatures.

Dave Cohen:

We are.

Jerry Manor:

Human beings are emotional. We see something we want, we got to have it. Hey, we got this credit card in our pocket, and we can use that credit card for instant gratification. So, that's where... To use a credit card wisely, you start to get away from that. And I like to say, like I said before, use it for necessities-

Dave Cohen:

Yes.

Jerry Manor:

... because you have to pay for them anyway.

Dave Cohen:

Right.

Jerry Manor:

Can you occasionally splurge on something? Not only can you, you should.

Dave Cohen:

Absolutely.

Jerry Manor:

But within reason. And having a credit card teaches you how to handle your emotions and not spending crazily, because if you don't learn how to do that with a credit card, you're going to get in trouble.

Dave Cohen:

Right. No, absolutely. So, going back to that, learning to budget, I think, and learning to use your credit card wisely, getting into these habits now, anywhere from 18 to 21, 22, you're going to have better financial habits, which will, hopefully, in the long run, help.

Jerry Manor:

I like to say good habits, just like bad habits, they're hard to get out of. You get in that good habit-

Dave Cohen:

Yes.

Jerry Manor:

... you're in good shape, of course. You get into bad spending habits, you have to work on that and make sure you're not staying that way, because you'll keep getting deeper and deeper. And that's the credit card trap. You can get deeper and deeper into debt, and those payments keep getting higher and higher.

But again, if you use it wisely, not only can you... it helps you keep track of your budget, but you can also get rewards for using that credit card wisely. But again, if you don't pay it in full, those rewards you generate, you're actually paying for them with the interest. So, it involves thinking a little bit about it.

Now, the other thing to remember, I think, we should mention is the fact that you can't use a credit card for everything without cost.

Dave Cohen:

Yes.

Jerry Manor:

There are fees in certain situations using a credit card. Now, my strategy, and we've talked about this before, is I like to use my credit card for everything. However, there are certain things I don't use it for because it generates a fee, because there is a cost to credit card. Now, if you use it and roll the balance, you pay some of that cost. But if you're a person who doesn't roll a balance, who always pays it in full, there is still a cost. Who pays the cost? The merchants do.

Dave Cohen:

Oh, interesting. Okay.

Jerry Manor:

With the interchange fee.

Dave Cohen:

Got you.

Jerry Manor:

So, in some cases, they won't allow you to use a credit card without a fee. And there are rules they have to follow. We're not going to get into the rules now. But always know, check and see, is there a fee? For instance, you can't pay property taxes with a credit card without paying a fee. And there are certain other things you can't buy with a credit card without paying a fee.

Now, I'm not saying you shouldn't pay a fee sometimes. Sometimes you have to. But when you're thinking about saving money, especially if you're not really flush, and you're trying to save money as best you can, always try to avoid fees. I like to say fees are like throwing money out the window.

Dave Cohen:

Yes, there are things that come with a credit card, fees. But also, we talked about... You had mentioned rewards. Take our SeaComm Visa Platinum, a lot of great rewards. We have our ScoreCard Rewards program as well. What are some of the rewards you think are really beneficial when it comes to credit cards?

Jerry Manor:

Well, I can tell you exactly what they are-

Dave Cohen:

Sure.

Jerry Manor:

... because I use them all the time. My favorite reward is travel. Travel rewards. In other words, with our program, the ScoreCard bonus points, I use for airlines.

Dave Cohen:

Oh, okay.

Jerry Manor:

You can trade your points in for airline tickets, other travel rewards, hotel rooms. You can get cash back. If you want cash back, you can turn your points in for cash. So, there are rewards for using your credit card. But I think the biggest reward, and we mentioned it earlier, is how it affects your credit report.

Dave Cohen:

Absolutely. And that's something that you don't necessarily know that it's happening, but when it comes time to, in a way, cash in on your good credit, it absolutely helps. And that can mean the difference in a rate, the difference in maybe the size of the home, or the type of car you're able to get. A lot of people don't know that sometimes landlords, they check your credit as well-

Jerry Manor:

Indeed.

Dave Cohen:

... to make sure that you are able to pay back or to pay the rent. It's something that people don't necessarily think about, especially younger people, who they don't need a place to live, because maybe they're either still with mom and dad, or they're living on campus. They have that. Maybe they don't necessarily need a car right now, but in the future, they're going to need these things. And you're right, I think the reward of great credit is something that credit cards can really give you if you use them properly.

Jerry Manor:

Exactly. And yes, you can improve your credit by carrying a balance. In fact, credit card companies love that when you carry a balance. You don't have to carry a balance. That's one of the fallacies. A lot of folks think that in order to get that credit benefit from using a credit card, you actually have to carry a balance. That is not true. You do not have to carry a balance. All you have to do is paid as agreed. Pay your card as agreed. And that's anywhere from paying it in full to paying minimum payment. As long as you do any of that, you're paying as agreed, and it helps build your credit. It's a quick way to build your credit. Also, a quick way to get in trouble.

Dave Cohen:

That's very true. So, it's very important to keep track. Think about those habits. Build those good habits now. And a credit card, I think, could definitely help that, especially when you're a college student, who sometimes their only worries are their homework and their exams the next day, which is nice, because once you get into the professional world, sometimes those worries and those responsibilities change. And having those habits built earlier, I think, will help you in the long run.

So this has been a great conversation, Jerry. It's been really, really interesting to talk about all this stuff, especially because I think it's such an important topic, pulling away the negative aura of credit cards. I think that there definitely is a fear with them, but you can use them properly and correctly, and really benefit you in the long run, whether that is building your credit history for now, or for future loans,

emergency issues, learning responsible money management, getting great habits for the future, and plus, talking about the different benefits and the rewards that you have.

Jerry Manor:

And here's another benefit: the fraud protection.

Dave Cohen:

Yes.

Jerry Manor:

A credit card offers really great fraud protection. Debit cards do too, but not quite as good. And using a credit card, I mean, if you're defrauded, you're not liable as long as you report it in a timely fashion. And that leads to the fact that you should keep track of what's going on with your credit card. Easy to do nowadays, because you can set it up. You can look at it on your phone online. Make sure that you know it's going on. And if you see something that's wrong, if you see fraud, report it. And then you file a form that tells you that it's a dispute, really, and you're not responsible.

And some of the credit cards, like ours, for instance, you get some warranty-type coverage on stuff. If stuff you buy is not good, you can dispute it. If you buy something online, you should never use a debit card. Always use a credit card because of the better protections. Because then, if, for instance, it happened to my wife, you order something, it never comes, you dispute it and you don't have to pay for it.

Dave Cohen:

Absolutely.

Jerry Manor:

That's another benefit of credit cards.

Dave Cohen:

And that is just also another good habit, to keep track of your spending.

Jerry Manor:

Oh, so important.

Dave Cohen:

Take a look at it. So, all these great habits, we hope that you can take throughout your life. If you have any questions about our SeaComm credit cards, you could always go to seacomm.org/visa.html. You could always stop into a local SeaComm branch as well. You could also just think about asking questions. I think that's something too. People don't talk about this stuff with each other as much. If you're a SeaComm member, or you know a SeaComm member, ask them questions. Ask them what they like about our credit cards as well.

And of course, there are also different resources that SeaComm offers. If maybe you ever find yourself in a situation where your credit card debt might be a little intimidating, you're not alone because that

happens. That happens to a lot of people. We have a partnership with GreenPath Financial Advisor Services, which can help. And Jerry, a lot of our members have actually used GreenPath.

Jerry Manor:

They are terrific. Very, very, very good resource. They know what they're talking about and their method, and they're really good with people. So yeah, I highly recommend them.

Dave Cohen:

So, once again, credit card for college students, it might seem intimidating, but there are a lot of great things that college students can take away and great habits that they can develop using credit cards.

Jerry Manor:

I remember my parents' first credit card, actually what they called it was a charge plate.

Dave Cohen:

Oh, interesting. Okay.

Jerry Manor:

And I think, if I'm not mistaken, it was for Sears or a department store like that. For those listening who were pretty young, Sears, there used to be a lot of them around.

Dave Cohen:

Oh, yes.

Jerry Manor:

Not any of them around. But you think back on how long these cards have been around, it's been a long time, but they're more prevalent than ever.

Dave Cohen:

And with the prevalence, not only of credit cards, comes online purchases. Credit cards are great for that as well.

Jerry Manor:

With the fraud protection. Yeah.

Dave Cohen:

Absolutely. So, Jerry, thank you so much for speaking with me today.

Jerry Manor:

It's been my pleasure.

Dave Cohen:

It was a lot of fun. Thank you so much for listening. Please check out seacomm.org for all of our information. You could stop into your local branch as well. You can find us on Spotify. You could find us

on Amazon Podcast. If you would like to tune in, subscribe for more episodes coming along the way. Once again, Jerry Manor, thank you so much. I am Dave Cohen, communications and outreach specialist for SeaComm Federal Credit Union. This has been the SeaComm Podcast.

Jerry:

Thank you for joining us for this edition of the SeaComm Podcast. We hope you'll listen in again.