

# THE DAILY RECORD

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## An 18-year-old needs a credit card?

For years financial educators have pleaded for some reasonable regulation of credit cards for college students and other young people under 21.

The good news is that it has finally happened. One of the provisions of the Credit Card Accountability, Responsibility and Disclosure Act, that will go into effect Feb. 22 is that young people no longer will be able to obtain a credit card unless they have an adult co-signer or can demonstrate they have the “independent means” to repay any credit they are given.

As you know from the many articles I have written on behalf of the CARE Program — [www.careprogram.us](http://www.careprogram.us) — and the Greater Rochester Area Financial Literacy Initiative, for the past 20 years those of us in the bankruptcy system have seen ever-increasing and more severe consequences suffered by young people as the result of their naive abuse of credit cards.

Consequences have included as many as 10 percent of college students dropping out of school because of credit problems; young people losing out on jobs, student loans, admission to graduate school, apartments and many other things, because almost everyone, including 70 percent of employers, are checking credit. Bankruptcy filings for those younger than 25 increased by 96 percent in the 1990s.

The good news regulation may not be the end of the story, however, because a number of concerns have been expressed about its implementation.

The first concern is that it is too early to know whether the credit card industry or others may try to get around the regulations in order to maintain the under-21 market. It has been important to the industry, both for profitability and to built relationships, since studies show people tend to be loyal to the first credit card they obtain.

Will we see liar loans like those that contributed to the sub-prime mortgage crisis, where the income students earned during the summer is annualized in order to assert that they meet the “independent means” test? Will there be new debit card products for young people who can't find a co-signer or pass the “independent means” test? Perhaps, a debit card that would have a substantial over-limit line of credit, but no over-limit fees, so that it would work exactly like a credit card? Will an industry develop to provide adult co-signers for a fee? Perhaps the most important question is exactly who will regulate and enforce the new regulations?

Another concern is that parents, family members or friends will not stop and think twice before co-signing for a credit card for a young person who cannot meet the “independent means” test, but still insists they need a credit card.

In today's world, a young person who cannot pass the “independent

means” test really does not need a credit card. They can do everything they need to do financially, including shopping online, renting a car and checking into a hotel, with a checking account, a savings account and a debit card (it's important that they get one without over-limit protection).

As a result, we have a unique opportunity to say “no” to co-signing, and say “yes” to working with that young person to make sure they know how to budget, save, make smart financial choices and live within their means without a credit card. If they do, when they turn 21 it is likely they will handle a credit card responsibly, and never suffer those ever-increasing and more serious consequences from naive abuse of credit cards.

In addition, young people under 21, contrary to what you may often hear, you don't need a credit card to establish good credit or increase a credit score.

Having a cell phone, apartment and utilities in your name, and paying those bills on time, as well as handling a debit card, savings account and checking account responsibly will establish good credit.

Although it is true that a credit card that is used responsibly will help a credit score, young people under 21 who are not in the military or holding down a full-time job generally are not buying a home or applying for a business loan, so they don't need that better credit score quite yet. What they may be looking for, however, is a car loan, where an improved credit score may help them to obtain that car loan, or at a more favorable rate. But consider this: If you would be inclined to co-sign for a credit card for a person who is younger than 21 — something that could get them into real financial trouble if they don't use it responsibly — why not just co-sign for a reasonable car loan if you think the young person really needs the car and can afford it.

If, in addition to having that debit card without over-limit protection, checking account and savings account, there is still the belief that a credit card is important or necessary for someone who is younger than 21, why not have them consider a pre-paid or a secured card? It will impart the lessons of responsible credit card use, but not get them into the kind of financial trouble we have seen too much of in the last 20 years.

Let's hope the new regulations are monitored and enforced, and that there aren't efforts to get around them. Let's also hope they provide an opportunity for families and young people to re-think whether they actually need a credit card before they turn 21.

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