



THE TROUBLE WITH CREDIT CARDS

Be responsible.

Jones starts using a credit card without thinking of the consequences. But thanks to Warren, he quickly learns how to stay out of credit card debt. The Secret Millionaires Club finds out that credit cards can seem like an easy way to buy things, but it's not a good idea to get in the habit of using them. Using too much credit and getting behind on payments can lead to financial trouble.

Ask kids: What is a credit card? Why do people use credit cards? How can credit cards be helpful? How can people get into credit card trouble? How can people use credit cards responsibly?

Discuss how credit cards work with your child.

Explain to your child that a credit card is a plastic card that lets you buy things without paying for them right away. It may sound great, but at the end of the month you receive a bill for what you bought with the credit card. The money is a loan from the credit card company. If you don't pay the entire bill on time, the credit card company charges you a lot of interest. That means you could end up paying more than if you had used cash. Plus, if you don't pay the bill on time, you are charged a late fee. Discuss with your child why it's important not to borrow more money than you can repay.

Activities:

1. If your child wants to borrow money to buy something such as a new toy or a video game, have him borrow the money from you against his allowance to demonstrate how credit cards work. Explain that you extended your child credit—money that was not his. Have your child pay you back from his allowance, which may take a few weeks. You can even add interest to the unpaid portion to reinforce how credit cards work. Point out that money your child repays you can no longer be used to buy other things. Discuss whether the purchase was worth it. Ask: Why should you be careful about spending money you don't have?
2. Next time you use a credit card instead of cash, talk to your child about the decision and the pros and cons of credit card use. Having regular discussions about responsible spending will help your child establish a strong financial foundation.

Tip: Although most kids don't have credit cards, it's never too early to begin discussing responsible credit card use. Make sure that your child understands that credit cards are not free money. Explain that it's best to charge only what we can afford to pay back when the bill arrives each month.

