

### Chapter 3:

# Teaching to Borrow

## Summary

Some credit unions that lend to minors require parents as cosigners; others require parental consent but no cosigners. Whatever the default risk of a particular option, parental involvement is the key factor in youth loan program success.

## Highlights

- ◆ It makes sense to help teenagers learn to use credit responsibly while they're still at home under their parents' supervision. They'll be better prepared to resist the credit card offers that will bombard them after they turn 18 and the spending choices of living on their own.
- ◆ Credit unions structure youth loan programs with combinations of terms—interest rates, credit limits, repayment terms, criteria for approval, education requirements—that fit their risk-tolerance levels and business objectives.
- ◆ Credit unions successfully offer youth credit cards without cosigners by screening applicants carefully and teaching them about borrowers' responsibilities to the credit union and to their fellow members.
- ◆ Besides managing the risk of lending to minors with education, credit limits, and parental monitoring, you also can influence repayment positively by clearly communicating that, as members, they have your trust.
- ◆ Making small business loans to qualified youth entrepreneurs is another way to help them learn about credit—while they learn to run a business.

**T**ucker is a freshman in college. When his phone rings, he doesn't answer it.

Why? He's tired of collection agencies calling about his past-due credit card bills.

When Tucker was growing up, his financial institution didn't offer loans or credit cards for people under age 18, so he never learned how to handle credit responsibly. When he turned 18, he got at least one credit card solicitation in the mail every week, with offers that *sounded* unbelievably good.

That's right. *Unbelievably* good. "Zero percent finance charge for six months." "Low 8.9% interest rate unless you're ever late on a payment."

Of course, Tucker didn't read the fine print. He applied for several cards and the shopping began: pizza, pricey athletic shoes, concert tickets.... The balances mounted, and Tucker couldn't even make his minimum payments. Interest on one card immediately went up to a shocking 29%!

Tucker's in trouble. But he doesn't even know enough about money matters to contact his lenders and work it out. He doesn't know what he's done to his credit score. He just listens to the phone ring. What if Tucker had belonged to a credit union that issued credit to teenagers, with or without cosigners, accompanied by education on handling it responsibly? What if he'd made this mistake with a single

one credit card with a \$200 limit while he still lived at home?

His parents and his credit union would likely have helped him fix the problem, and he'd have learned a valuable lesson. Tucker would have avoided the cards with unfavorable terms that he ended up embracing in college. He'd still have a good credit score.

Of course, not every borrower learns his lesson the first time, but what if you could help? This chapter looks at the importance of offering loans with financial education so that young people know how to borrow—before they turn 18 and are inundated with "easy credit" offers.

More credit unions have youth lending programs today—four of 10 responding to a recent survey offer credit cards and auto loans<sup>1</sup>. And those that do make youth loans report success.

For example, Carol Bayreuther, president and CEO of Hartford (Conn.) Healthcare Federal Credit Union, enthusiastically endorses the "Say Yes to Youth" program, designed by the Credit Union League of Connecticut, as very successful for her credit union.

"A big part of the future for credit unions is to establish a relationship with youth today, because within the next 10 to 20 years, they'll constitute our major membership base," Bayreuther says. Hartford Healthcare Federal offers a savers' club for younger members and a teenage program, which includes loans.

Steve Carr, public relations and education specialist at Boulder Valley Credit Union, Boulder, Colo., is a firm believer in youth loans. He notes, "If you're not offering young members checking, debit cards

## You Got That Right

Four of 10 credit unions had youth lending programs in 2005—offering credit cards and auto loans<sup>1</sup>.