Student Date

Class Instructor

CHAPTER 25 What Is Credit?

Tapping Teens' Plastic Potential

While Visa and AmEx say their new cards teach fiscal responsibility, marketing experts worry that the products are just a ploy to hook kids early

by Heewun Wee in New York

The next time you're out shopping, standing in line behind teenagers, don't expect them to fish out a few wadded twenties as payment. If credit-card companies have their way, more teens will be using their own cards, complete with their names embossed on the pieces of plastic, to buy everything from the latest must-have pair of jeans to movie tickets.

Credit-card company representatives have been signing up card members on college campuses for years. But in a new twist on the concept of plastic and young people, several credit-card giants, including American Express and Visa International, have developed cards specifically for the high school set and younger. MasterCard International also has plans to launch a teen credit card later this year, a spokesman said.

THEY LOOK REAL. The new cards look like real credit cards, but they're actually reloadable stored-value cards that function like prepaid telephone cards, or those cards that many colleges and universities issue to students for shopping on campus for books or food.

Credit-card companies describe the new cards, which debuted last summer, as an educational tool to help introduce youngsters to personal finance—before potentially debt-heavy habits kick in during the college years. "It's a way to initiate the conversation about financial responsibility," says Steve Diamond, vice-president for stored-value products at Visa USA, including the teen card Visa Buxx. Visa also is affiliated with two other teen cards, PocketCard and M2Card.

Desiree Fish, a spokeswoman for AmEx, describes the company's Cobaltcard for teens this way: "It's definitely not a ploy to get them hooked on plastic. It's an opportunity to teach them about financial responsibility."

CEMENTING THE RELATIONSHIP. But marketing experts say the new cards really are about attracting new customers early on—and for a lifetime. As Dominique Hanssens, a marketing professor at the University of California at Los Angeles, explains, it costs financial-services firms more money to acquire a new customer outright than to retain or expand a relationship with an existing one. "And by tapping a teenager before [other] credit-card companies can tap him or her, they are able to cement a relationship," Hanssens says.

Others on Wall Street say plugging into the teen market illustrates credit-card companies' need to find new customers in a flooded market. "This shows how saturated the basic card market is," says Meredith Whitney, a financial-services analyst with First Union Securities.

Others believe the new teen cards simply are about giving teenagers tools to shop online without chasing mom and dad down for a credit-card number and expiration date. "I think the main purpose of these cards is to help kids spend money online," says Janet Bodnar, a parent and author of *Dollars & Sense for Kids* (Kiplinger Books, 1999).

DEBT AND USE RISE. Whether you view teen credit cards as a convenient, safer-than-cash way for parents to dole out allowances or cringe at the concept of combining plastic and precollege students, one thing is for sure: Credit-cart debt is climbing. The average credit-card debt per U.S. household was more than $7,500 in 1999, compared with nearly $3,000 in 1990, according to CardWeb.com, an online publisher of data on payment cards. And credit-card use is also rising. About half of all purchases in 10 years will be made using credit cards, compared with roughly 30% today and 15% a decade ago, notes Whitney of First Union Securities. So it was only a matter of time before we passed our plastic-happy culture on to our teenagers.

Here's how teen cards work: A parent usually adds money to each stored-value card, and the teen buys stuff until the money runs out. Parents can refill the card over the phone or via the cards' respective Web sites using a credit card or debit card.

The teenager can't spend more than the amount of money available on the card. In other words, the card can't accumulate debt like a credit card. If the teen plops on the counter a pair of Diesel jeans that cost more than the amount available on the card, the vendor will deny the transaction.

INTERNET SIGN-UP. Wherever American Express and Visa are accepted, so are the teen cards. Teens can even use them to withdraw cash at some bank machines. But applying for a card requires the involvement of a parent or guardian. In general, there are no application fees, and signing up via the Internet is encouraged. Parents and teens also can monitor account activity over the Web. And because these are stored-value cards, no one, including the teenager, is racking up a credit history.

But with no debt balance and no interest-rate charges, will the credit-card companies make money from the teen cards? Yes, according to company officials. While keeping the details close to their vest, these execs cite revenue streams from the new cards that include advertising from associated Web sites, fees paid by merchants who accept the cards, interest from the money stored on the cards, and various marketing agreements.

Whitney of First Union Securities notes more than 60% of AmEx' profits come from vendors who pay to use the company's card and participate in the card's network. So whether it's stored-value cards for teens or adult credit cards, more plastic in circulation translates into increased revenue. "The more hands [American Express] puts its cards into, the more money it will make," Whitney says.

TEEN BUDGETING. So, how does a parent teach a child to use plastic responsibly? Finance author Bodnar and Marlys Harris, an editor for *Consumer Reports*, urge parents to have a serious discussion about budgeting with their kids before signing them up for a card. Many of the teen cards feature Web sites with detailed personal-finance tools. "Work on a budget. Ask, 'What does allowance cover? What are possible expenses?'" Harris says.

But who can make a case against teaching youngsters about finance at a time when studies suggest financial literacy is declining among high school students? A study last year, for example, found high school seniors knew less about personal-finance topics—such as using a credit card, paying taxes, or saving toward retirement—than did their peers three years ago. The study was conducted by the Jump$tart Coalition for Personal Financial Literacy, a nonprofit group that focused on financial competency for students before high school graduation.

If you're a parent interested in getting a stored-value card for your child, follow the process closely. And if you're a teen, use it with caution. This new marketing gambit by credit-card issuers could be a positive learning experience—or the first step down the path to fiscal irresponsibility.

