



How To Choose and Use Credit Cards Wisely

There are many good reasons to get a credit card. They offer convenience (no need to carry around wads of cash), rewards, enable you to take advantage of opportunities (that TV you've been looking at just went on sale and you don't have your checkbook with you), and can get you through emergencies (try giving the tow truck driver an IOU when your car breaks down on the highway). Establishing credit is also a must if you plan to ever borrow money to buy a car or home. However, credit can also get you into trouble. At best, credit cards can make it difficult to stick to a budget. At worst, they can tempt you to overspend to the point of not being able to pay your bills. To enjoy the benefits of credit and avoid the potential pitfalls, you need to understand the basics of getting, using, and managing a credit card.

Do You Want a Credit Card or a Charge Card?

- With a traditional "credit" card, you charge items on your account and receive a bill later, which you have the option to pay in full or in part (at least as much as the "minimum payment due").
 - If you don't pay the account in full, the remaining balance will carry over to the next month and you'll be charged interest on it. This is referred to as revolving.
- The other type of card, often referred to as a "charge" card, doesn't allow you to carry a balance from month to month; you have to pay off the total balance when you get your bill. These cards offer the convenience of plastic without the danger of getting into debt or paying high interest charges.
- Both kinds of cards are offered under a variety of labels (gold, platinum, premier, and the like), each one offering different features and benefits. The gold and platinum types of cards are typically offered to consumers who have an excellent credit history.

Know Terms to Compare Card Offers

All credit cards come with a set of terms or "rules" for using the card. The terms must be disclosed in the card application literature; they're also on the back of every statement.

Some of the most important terms you should be aware of are:

- The interest rate, annual percentage rate, due date, grace period (the interest-free period of time between when you make a purchase and when you pay for it), cash advance rates and fees, the late fee and the over-the-limit fee.
- Always read the card terms carefully before you apply.

Don't Be Surprised by the Costs of Credit

Any credit card that allows a balance to be carried from month to month has an annual percentage rate (APR). The APR is a measure of the total yearly cost of credit (interest plus other charges). The periodic rate is the rate applied to your account balance to determine your finance charge for each billing period. The average annual percentage rate for a credit card was 16.20% as of September 2021 (Creditcards.com). Many cards also charge an annual

membership fee that can range from \$ 25 to \$ 50, or more for gold, platinum and other “premium” cards. There will also be other fees for taking cash advances, making late payments and exceeding your credit limit.

Your Credit Limit Is What You Can Spend, Not What You Should Spend

Your credit limit is the maximum you can charge on your card, and is based on your financial background and credit history. If your balance exceeds your credit limit, you’ll be assessed an extra fee each month until you pay off enough of your balance to bring it back down below the limit. To manage credit successfully, you need to make the distinction between the credit limit and the amount of credit you can afford. Just because the credit card issuer grants you a thousand-dollar limit doesn’t mean you can afford it or should use it.

Choose a Card According to Your Payment Habits

Different cards fit different needs. Some charge lower interest rates but may carry an annual fee. These would be a good choice if you tend to carry a balance (the savings you get from the lower interest rate may exceed the annual fee). Many cards charge higher interest rates but don’t impose an annual fee. These would be a better choice if you pay off your balance every month (if you don’t carry a balance, you’re not affected by the interest rate). Other cards offer rewards for certain levels of usage. These rewards (frequent flier miles or rebates for example) may be attractive to people who travel often for business.

Use Cards with Care to Protect Your Credit Rating

Using credit wisely means:

- Controlling your spending.
- Paying your bills promptly.
- Paying more than the minimum amount due (ideally the full statement balance each month).
- Keeping copies of your receipts and checking them against your monthly bill.
- Keeping a list of all your account numbers in case cards are lost or stolen.
- Guarding against card fraud and identity theft by cutting up your old cards and shredding statements and unwanted credit card offers.

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