

# Using credit cards wisely

Credit cards can help you **build your credit history** if you use them responsibly.

## What is a credit card?

A credit card is a convenient way of paying for something without cash. Some cards let you earn rewards when you use them. When you pay for a purchase with a credit card, you are borrowing money, which you'll have to repay at a later date.

Credit cards generally have a limit—the amount you can borrow using the card—which the issuer sets based on your credit history. When you make purchases, your balance goes up, and the amount of remaining credit available to you goes down.

At the end of your billing cycle, you will receive a statement showing your total balance and minimum payment due. If you don't pay your full balance, it will start to accrue interest that you'll also have to pay off later.

## Key terms to understand



### Interest rate

- Does your card come with a teaser rate that will change?
- If so, when will it change and to what?



### Fees

- Does your card charge annual fees, late payment fees or fees for cash advances or balance transfers?



### Benefits

- How do points or miles accrue?
- Does your card provide free insurance on rental cars or other travel protection?



### Security

- Does your card offer \$0 liability if your card is lost or stolen?
- How soon must you report the card missing?

## Pros and cons of credit cards



### Pros

- Help you **build good credit history** if you pay bills on time
- Are more **convenient** than carrying cash
- **Limit losses** if your card is lost or stolen
- May **offer perks**, such as travel protections and concierge service, or the chance to earn rewards, such as airline miles or cash back
- Come with **flexibility** to use abroad or for online purchases



### Cons

- Can hurt your credit score if you use them irresponsibly
- Often come with high interest rates, making it expensive to carry a balance
- May not be available if you don't have good credit

## Tips for using credit cards responsibly



Understand your card's rate, fees, terms and how any rewards program works.



Pay your balance in full each month to avoid accruing interest. If you can't, make at least the minimum payment.



Set up automatic payments so that you never miss a bill.



Stick to your budget even when paying with credit, as it can be tempting to spend more with a card.



Strengthen your credit score by keeping balances below 30%<sup>1</sup> of your limit<sup>2</sup> and only applying for a new card if you really need it.

## Key takeaways

- Credit cards are convenient and can help you build good credit if you use them responsibly.
- Make sure you understand your card's key terms, including its interest rate, fees and policies in case your card is lost or stolen.
- Credit card rewards programs may offer cash back, points or miles. Some cards also offer perks, such as concierge service or travel insurance.
- If you can't pay off your credit card balance in full each month, try to at least make the minimum payment.
- Keeping your balance below 30%<sup>1</sup> of your credit limit and avoiding applying for new cards unnecessarily can help your credit score.

<sup>1</sup>"What is a Credit Utilization Rate?," Experian Information Solutions, Inc. [www.experian.com/blogs/ask-experian/credit-education/score-basics/credit-utilization-rate/](http://www.experian.com/blogs/ask-experian/credit-education/score-basics/credit-utilization-rate/).

<sup>2</sup>Such as \$300 or below on a card with a \$1,000 credit limit.

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