

Using Credit Cards

Basic Tips to Use Credit Cards Wisely

BY LATOYA IRBY

Updated June 25, 2019

Using credit cards seems simple enough. Whip it out of your wallet, swipe it through the credit card reader (or insert it if you've upgraded to an [EMV chip credit card](#)), and walk away with your purchases.

If only it were that simple! Knowing all there is to know about credit cards is key to staying out of credit card trouble.

The Basics of Using Credit Cards

[Credit card issuers](#) make a certain amount of credit available for you to borrow from over and over.

All you have to do is stick to the terms of the credit card agreement. That usually means paying on time, staying within your credit limit, and not using your credit card to commit fraud or purchase illegal things.

Purchases made on your credit card have to be repaid, but your credit card issuer gives you option to repay your balance over time. You can keep using your credit card even if you have a balance as long as you have enough [available credit](#). For example, if your credit limit is \$1,000 and your current balance is \$400, you still have \$600 in credit available for future purchases.

If you choose to pay over time, you'll have to make at least minimum monthly payments by the due date each month. Otherwise, you'll face penalties for any late payments. In addition, you'll pay interest on any balance you pay over a period of time.

That's the gist of what it's like using a credit card. Let's dive into the details.

Choosing the Right Credit Card

You can't just [choose a credit card](#) at random because you saw it in an ad or received an offer in the mail.

There are dozens and dozens of credit cards on the market with different fees, interest rates, rewards, and other perks. Here are some tips on choosing the right credit card.

Decide what you want from a credit card. Do you want to pay off a balance at a lower interest rate? Earn rewards on purchases? Make a large purchase and pay no interest? Start building or build your credit?

These are the [major types of credit cards](#) you can choose from:

- **Standard or "plain vanilla" credit cards** are basic credit cards that don't offer any special rewards or benefits.
- **Rewards credit cards** pay cash back, miles, or points rewards on your purchases.
- **Balance transfer credit cards** offer a (temporary) low introductory rate on balances you transfer to the credit card.
- **Low interest rate credit cards** offer a low introductory rate on purchases. Some credit cards offer the low rate for both balance transfers and purchases.
- **Premium credit cards** offer higher rewards and other luxury perks. These credit cards typically charge a high annual fee.
- **Student credit cards** are geared toward young adults enrolled in an accredited four-year college or university.
- **Retail credit cards** can only be used with a specific retail store.

Check the fees and interest. Narrow down your options and review the credit card pricing to get an idea of how much the credit card will cost. If you choose a credit card with an annual fee, make sure the benefits are worth it.

Compare similar credit cards. Compare the interest rates, fees, rewards, and perks of credit cards from various credit card issuers. You can view credit card terms online at each credit card issuer's website or by using a credit card comparison website.

Know your credit rating. Your credit history will play a major role in your ability to be approved for a credit card. You'll typically need a higher credit score to qualify for rewards credit cards, credit cards with promotional interest rates, and premium credit cards.

Once you've chosen a credit card, you can complete the credit card application online and find out whether you're approved within minutes.

Understanding Credit Card Fees

Credit cards may come with a number of fees. Some are avoidable depending on how you use your card. Others are required no matter what. [Common credit card fees](#) include:

- **Annual fee.** This is a fee charged once a year to your credit card account. Some credit cards waive the annual fee in the first year.
- **Late fee.** Credit card issuers charge a late fee if your monthly payment is less than the minimum or received after the due date.
- **Balance transfer fee.** When you transfer a balance from another credit card, you'll be charged a balance transfer fee that's a percentage of the amount transferred.
- **Cash advance fee.** If use your credit card to withdraw cash against your credit limit, you'll be charged a cash advance fee. The cash advance fee is a percentage of the amount of your advance.
- **Finance charge.** When you carry a balance on your credit card, you're charged interest in the form of a finance charge.
- **Foreign transaction fee.** This fee is charged on purchases made in other currencies. The fee is typically a percentage of the transaction amount and may be waived with certain types of credit cards.

Transactions You Can Make

Most credit cards allow you to make three kinds of transactions: purchases, balance transfers, and cash advances.

Whenever you use your credit card to buy something, you're making a purchase. The vast majority of your transactions will likely be purchases, which can be made in person, online, or by phone. There generally is no fee for making purchases on your credit card. But, any balances you carry on the credit card are subject to interest.

A [balance transfer](#) is when you transfer a balance from one credit card to another.

You might transfer a balance to take advantage of a lower interest rate or to consolidate your credit card balances. Balance transfers are typically charged a balance transfer fee and may be subject to a higher interest rate than purchases.

[Cash advances](#) are made when you use your credit card to withdraw cash from an ATM. Cash equivalent transactions may also be treated as cash advances. This includes things overdraft protection transfers and the purchase of money orders or wire transfers. Cash advances are typically charged a cash advance fee and higher interest. [Avoid taking out cash advances](#) on your credit card since they're so much more expensive than other types of transactions.

Understanding Credit Card Interest

Credit card issuers charge interest on your credit card transactions. The interest rate is expressed as an annual percentage rate or APR.

Your credit card will have a [few different APRs](#): one for purchases, one for balance transfers, one for cash advances, and a penalty APR charged when you default on the terms of your credit card. The interest rate on your credit card is tied to your creditworthiness. Generally, the better your credit, the lower the interest rate you'll receive.

Most credit cards have [variable APRs](#), which means they can move up and down based on an underlying index rate, like the Prime rate. Your credit card interest rate can also increase to the penalty APR if you're behind on your payments by more than 60 days.

Interest is charged to your credit card in the form of a [finance charge](#), which is calculated based on your balance (or your average daily balance) and your APR.

Your credit card may come with a [grace period](#) during which you can pay your outstanding balance in full and avoid being charged. The grace period is between 20 and 30 days depending on your credit card terms. The grace period may not apply if you started the billing cycle with a balance or the transaction doesn't get a grace period. Cash advances and balance transfers typically do not have a grace period.

Earning Rewards While Using Credit Cards

[Rewards credit cards](#) pay an incentive on your credit card purchases. You can accumulate rewards and then redeem them for cash back, travel expenses, gift cards, and merchandise.

Many rewards credit cards grant more rewards for certain types of purchases. For example, a [travel credit card](#) might pay more rewards on flights and hotels you book with your credit card.

It's important to know the terms of your rewards credit cards — the amount of rewards you earn on purchases, minimum redemption amounts, any expiration date on rewards, and things you can do to forfeit your rewards. For example, if you fall behind on your credit card payments, you can lose the rewards you've accumulated.

Managing Your Credit Limit

Most credit cards come with a [credit limit](#) — the maximum amount you're allowed to spend on your credit card. Your credit limit is determined based on your credit history, income, and the type of credit card you've applied for.

Staying within your credit limit allows you to avoid penalties and to keep your account in good standing. In addition, keeping your credit card balances low relative to your credit limit is better for your credit score.

Your credit card issuer may automatically increase your credit limit periodically as you use your account responsibly and your income increases. You can also request a credit limit increase from your credit card issuer if it's been several months since you received your last increase. When you [request a credit limit increase](#), the credit card issuer reviews your account history, income, and credit history to decide whether you qualify.

Some credit cards don't have a preset spending limit. Having a credit card with [no preset spending limit](#) doesn't mean you have unlimited spending on your credit card. Instead, it means that the amount you can spend on your credit card depends on your typical spending habits, credit history, and ability to repay. You can call your credit card issuer to ask for your spending limit if you're wondering whether you can make a large purchase on your credit card.

Reading Your Billing Statement

Each month, you'll receive a [billing statement](#) that includes all the transactions made to your account within the billing cycle. The billing statement also lists your outstanding balance, your current minimum payment, and the due date.

Your billing statement will arrive at the billing address you've given your credit card issuer. Or, if you've signed up for paperless billing, you'll receive an email letting you know to login to check your online account to view your statement.

Don't take for granted that everything on your credit card statement is accurate. Read through each transaction on your card to be sure that: your last payment and any other credits were applied correctly, you were charged the right amount for all your purchases, and there are no unauthorized transactions on your credit card.

If you find any errors on your billing statement, you have the right to dispute the error with your credit card issuer. Timing of your dispute is important. You have 60 days from

the date the billing statement was mailed to you to make your dispute. To protect your rights under the Fair Credit Billing Act, your dispute must be made in writing. Check your billing statement for the credit card issuer's address for mailing correspondence.

Any [unauthorized charges](#) should also be reported to your credit card issuer so they can be removed from your account. You can also receive a new credit card with a new account number if you suspect your credit card account has been compromised.

Making Credit Card Payments

Under your credit card agreement, you're required to make a payment each month. Unless you have a [charge card](#) (which requires that you pay your balance in full), you're only required to make the minimum payment. The [minimum payment](#) is only a small percentage of your outstanding balance and is usually easy to make.

Even though your credit card issuer only asks you to make the minimum payments, it's typically better to pay more. With minimum payments, your balance only goes down by a small amount each month because a large portion of the payment will be applied to interest. This increases the amount of time it takes to pay off your balance. Ideally, you should pay your balances in full each month.

It's important to make your credit card payment by the due date each month. Otherwise, you'll be charged a late fee for any payment not received by the due date. If your payment is more than 30 days late, the late notice will be added to your credit report and will affect your credit score.

Your credit card issuer will give a few options for making payments. You can mail a check or make a phone or online payment using your checking account and routing number. You can't make your credit card payment with another credit card or even with a debit card. You can even set up autopay to ensure your payments are made on time if you have trouble remembering to make it each month.

The worst thing you can do is simply forgo your credit card payment, no matter the reason. Most creditors will assist you if you let them know before you miss your payment. Call your creditor, briefly explain the situation, and ask for your options.

Closing a Credit Card

Not all credit cards are meant to be kept forever. You might consider downsizing the number of credit cards you have. Or, you might close a credit card because the card issuer has changed the terms of the card. Closing a credit card is as simple as making a phone call to your credit card issuer, but there are some things you should know before you take action.

[Closing a credit card](#) can hurt your credit score, particularly if the credit card has a balance or it makes up a significant part of your credit history. If you want to close a credit card, it's best to pay off your balance first.

If you close your credit card while it still has a balance, [your credit score](#) might take a hit. Fortunately, your credit score should rise as you pay off your balance.

Until you reach a zero balance, your regular monthly payments are still due, even after your credit card is closed. You can still suffer the same consequences of a late payment — late fee increased interest rate, and credit reporting — when your account is closed.

Before you close your credit card, cancel any automatic payments or subscriptions, like a music or streaming service, you've set up with your credit card. Otherwise, these payments will be reversed. You may face cancellation or other penalties from your service providers. Look through a recent credit card statement to get an idea of any automatic payments you've set up with your credit card.

Use any rewards you've accumulated before you close your credit card. Once your account is closed, you'll likely forfeit any unused rewards.

Avoiding Credit Card Debt

Because you're borrowing money when you use a credit card, there's a possibility of getting into debt. Paying off debt can take several years, thousands of dollars, and lots of sacrifice. It's much easier to be proactive and stay out of credit card debt.

The key to [avoiding credit card debt](#) is to make a habit of charging only what you can afford. Once you start using your credit card to fund a lifestyle that's above your means, you risk getting into credit card debt. The more credit cards you have, the easier it is to get in over your head.

Make wise decisions about purchasing items you need versus those you simply want. We've all used the word "need" to describe something we really just wanted badly. Using your credit card responsibly means recognizing which things you need and which you just want.

Avoid using your credit card to make everyday purchases unless it's to earn rewards or better manage your money. Using your credit card as a substitute for cash is a habit that leads to debt. For ordinary purchases, leave your credit card in your wallet and use cash or debit card instead.

Pay your balance in full each month. As long as you're paying off your credit card balance, you're staying out of debt. Once you can't afford to pay your full balance, it's time to rein in your credit card spending until you get your balance paid off.

What to Do About Credit Card Fraud

These days, simply having a credit card puts you at risk of becoming a victim of [credit card fraud](#). Hackers can steal your credit card information from businesses where you've used your card. They're becoming cleverer at skimming credit card information from gas stations and other businesses. And, they can trick you into giving up your credit card information by posing as a your bank or another company you do business with.

Many credit card companies will try to prevent fraud on your account by declining unusual purchases until they verify that you're the one who's attempting the transaction.

You can prevent credit card fraud by protecting your credit card information. Don't enter your credit card information on suspicious websites or post it on the internet. And keep track of your credit card at all times.

Monitor your credit card transactions by [creating an online account](#) with your credit card issuer. This way, you can review your credit card transactions frequently to spot any suspicious charges.

If you spot unauthorized charges, let your credit card issuer know right away so the charges can be removed and you can receive a new credit card. Most credit card issuers have zero fraud liability policies that will keep you from being liable for fraudulent charges made on your account.

Credit Cards and Your Credit Score

Your [credit score](#) is a number that summarizes the information in your credit report. Many creditors and lenders use your credit score to decide whether to approve your applications and to set your pricing.

Most major credit card issuers send updates to the credit bureaus, the companies who compile and maintain credit report information. That means, [how you use your credit card](#) will directly influence your credit score.

Using your credit card responsibly will help you build and [maintain a good credit score](#). The two best things you can do for a good credit score is keep low balance and make your credit card payments on time each month.