

## Credit Cards

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### What is a credit card?

A credit card allows you to borrow money from your bank to make your purchases, whether you're buying a burger or a round-trip ticket to France. As long as you pay back the money you borrowed within the "grace period" of 25-30 days, you don't have to pay extra. If you don't pay it back in that time period, you'll have to pay interest — a percentage of the money you owe the bank — on top of what you borrowed.

### What is a credit score?

Your credit score uses how you've handled debt in the past to predict your likelihood of repaying a future loan or credit card balance.

Credit scores fall along a scale, usually 300 to 850. The higher your score, the better you look to potential creditors. Your score affects whether you get approved for credit and sometimes the interest rate or other charges you'll pay.

Scores are calculated from information in your credit reports, which list your past credit activity as compiled by the three big credit reporting agencies: Experian, Equifax and TransUnion.

### What builds a good credit score?

The two biggest factors in your score — payment history and credit utilization — give you a path to build your credit score:

1. Pay all your bills, not just credit cards, on time. You don't want late payments or worse, a debt collection or legal judgment against you, on your credit reports.
2. Keep the balance on each credit card at 30% of your available credit or lower.
3. Get your free credit report and challenge any errors you find.

### Credit card pros and cons

#### PROS

- You can make a large purchase now and pay it off in smaller chunks
- Your credit card statement makes budgeting easier
- It's easier than carrying around a wad of cash
- You can build up your credit score, which will be useful later on

#### CONS

- You can easily dig yourself into debt if you're not careful about your spending
- The ease of using credit cards can cause you to overspend
- Interest rates can make even a small debt seem larger over time

## Choosing a credit card

When you're deciding which credit card to get, ask yourself one question: Will I be paying interest on my debts?

If you pay your credit card balance in full and on time each month, then you won't be charged interest. In that case, it's worth it to get a credit card with rewards. These cards give you points, cash or airline miles every time you use them. However, rewards cards have higher interest rates — high enough to wipe out the value of the rewards you earn. That brings us to what to do if you do carry a balance (in other words, you don't pay off your debt every month). You'll want to minimize your interest payments, so you should pick a credit card that has a low interest rate.

Your credit card is issued by a bank, like Bank of America or Chase. The bank determines your interest rate, fees and rewards, so it's important to find a bank that offers a card you like. It's processed on a network, like Visa or MasterCard. The network doesn't really affect the card, except for giving you random perks like travel accident insurance. Generally, the network isn't as important as the bank.

In general, the better your credit score, the better the cards you can qualify for. The most generous rewards rates, the best perks and the lowest interest rates are available to those with excellent credit.

## Interest payments and fees

**Credit card companies make money in three ways:**

1. Interchange fees, or fees charged to the merchant every time you use your credit cards.
2. Interest payments, from when you don't pay off your debt in full
3. Fees, like late payment or annual fees

You don't have to worry about that first one. Interchange fees are a problem for merchants. Instead, concern yourself with interest payments and fees.

Credit cards charge a number of fees, from an annual fee to cash advance fees to late payment fees. Your card probably won't have an annual fee, but make sure to make at least the minimum monthly payment on time, or you'll be slapped with a fee, a higher interest rate and/or a lower credit score.

## General tips

1. Choose a credit card that's optimal for your needs. If you carry a balance, you can find great credit cards that specialize in low interest rates or 0% APR periods. If you don't, you can ignore the APR and shoot for high rewards.
2. Remember that you'll need a co-signer on your card even after you're 21 unless you have your own source of income.
3. Having a credit card is better than not having one, but not having a credit card is much better than misusing one.

## References:

Nerd Wallet: <https://www.nerdwallet.com/blog/nerdscholar/credit-card/>