Credit 201

Using Credit Cards

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What are credit cards?

- Credit cards are tools that can help improve your monthly cash flow, provide rewards based on your purchases and rebuild your credit score.

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Cash Management

- Credit cards used correctly are great tools to manage your cashflow. You should place your normal expenses and purchases on your credit card so you protect the cash in your checking account. In the event the restaurant runs your card twice by mistake or your card is compromised from an online purchase, your cash is protected because you've used someone else's money.
- It also makes it easier to place bills on autopay because you don't have to worry about whether or not the money will be available (assuming you are managing your budget responsibly and you have a high enough credit limit).

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Types of Credit Cards

- You can choose cards that give you cash back, hotel stays, flights, entertainment credits or other rewards based on the amount of purchases you make. However, some cards that offer higher rewards may have annual fees.
- You can also sign up for credit cards that are specific to stores which means they can only be used in that particular store. These types of credit cards are sometimes easier to get approved for since their risk is less than a traditional credit card.

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Unsecured Credit Cards

- Unsecured credit cards are the cards that are commonly referenced and are given to individuals with good credit.
- To qualify for an unsecured credit card, lenders will use your credit score as well as your income. Your credit limit amount depends on your credit score and the amount of your annual income. It is not uncommon for individuals with excellent credit scores to be approved for $10,000-$20,000 credit limits.

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Secured Credit Cards

- If you have bad credit, you may only have the ability to get a secured credit card which is a credit card that is backed by your personal money. In order to get a secured credit card, you must provide cash as collateral and your credit limit will be the amount of cash you provided. For example, if you provide $500, you can spend up to $500 on the card.
- A secured credit card is a good way to rebuild your credit by maintaining good payment history. This payment activity is reported to the credit bureaus.

Interest Rates

- Most credit cards are going to have double digit interest rates, even secured cards. If you know you will never pay interest, you will not have to worry about this. However, if you fall on hard times and do end up needing to carry a balance that is subject to interest, it is good to note that both **daily and annual** interest rates may apply.
- We discuss interest on credit cards in more details in a future course.

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Credit Limit Increases

- You can request a credit limit increase on your cards every 6 months. These are usually soft credit checks with your lender based on your previous purchase history. If you regularly use the card and have good payment history, you are more likely to be approved for a higher limit.
- Even if you will not use the additional credit limit, it is still beneficial because it will add to your overall credit and improve your credit utilization.

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Balance Transfers

- Balance transfers may be offered by one of your existing cards or you may be eligible for a balance transfer by opening up a new credit card. Balance transfers usually give 0% interest for a certain period of time which is their main benefit.
- When a balance transfer takes place, the card that is receiving the balance is making a “purchase” on your existing card to clear the balance. The receiving card will also charge a fee based on a percentage of the balance being transferred.

Balance Transfers

- For example, credit card A has a balance of $1000 and you have an offer from credit card B for a balance transfer. Credit card A will show a transaction from credit card B for $1000 and credit card B will have a balance of $1050 because the balance transfer fee is 5%.
- Balance transfers can be extremely helpful if you suddenly lose income and can no longer pay the account balance that exists. The one-time fee to transfer the balance would likely outweigh the interest you would accrue.

Next Steps

1) Use Credit Karma or another tool to shop for credit cards you may qualify for.
2) Assess the potential impact to your credit score by adding another credit card.
3) Apply for the credit card you want at the appropriate time.

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Be sure to check out our other courses!

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