

Getting and Using Your First Credit Card

A "first" credit card can be exciting, tempting and intimidating. Credit cards are a great convenience, but they are also a huge borrowing responsibility. Here are some ideas to keep in mind as you get your first credit card and begin to use it.

Choosing a credit card — fees, interest rates and benefits

Ideally, the credit card you choose should have the lowest fees, the lowest interest rate and provide the most benefits when you use it. Unfortunately, there is probably no card that has the best of all three. Choosing the card that is best for you involves weighing these factors and considering how you will use it.

Fees include annual fees which can vary from zero to \$75 per year. Ideally, you would want to choose a card with no annual fee. There are also fees that issuers charge for late payments. Be sure to check the terms of the credit card agreement, especially if you may occasionally be late with a monthly payment.

Interest rates can also vary greatly and can exceed 20%. Be very careful of low "teaser" rates, or special rates for a limited time if you transfer balances from another card. The rate after the special rate expires may be higher than you currently pay. Another way issuing companies increase the amount you pay is by how they calculate the interest. Be sure to read the details of the agreement.

Rewards cards offer benefits for using the card. Using a credit card can bring the rewards of airline mileage, discounts on travel, points toward retail purchases and other benefits. A rule of thumb is that the benefits are usually worth about 1% of the charges. If a card with these types of benefits is important to you, make sure the benefits are ones you will use and that the interest rate and fees of the card do not offset the benefits of the rewards.

Simple example

Assume that Bill Smith is evaluating three cards with the characteristics listed below. Also assume that Bill has an average balance of \$3000 on which he pays interest and that he charges \$2000 per month.

Card A - No annual fee, 18% interest, no benefits for using it.

Card B - No annual fee, 12% interest, mileage benefits for using it.

Card C - Annual fee of \$50, 10% interest, discounts on electronics for using it.

	Annual Fees	Interest Charges	Benefit Value	Net Cost
Card A	\$0.00	\$540.00	\$0.00	\$540.00
Card B	\$0.00	\$360.00	-\$240.00	\$120.00
Card C	\$50.00	\$300.00	-\$240.00	\$110.00

As you can see, the differences are substantial. The differences become even more pronounced if the unpaid balance or amount of usage is higher. The example above is quite simple and the cards are not meant to represent actual cards offered by any institution.

Be sure to read and understand the terms of any credit card before accepting it. Be sure your credit card provides the right combination of fees, rates and benefits. If you do not carry over balances and pay finance charges, you might be willing to accept a card that has high rates and maybe even an annual fee, if the benefits were your main focus. However, if you normally pay finance charges or interest, pay extra attention to the interest rate.

Guidelines for using your credit card

1. A credit card is serious business. The issuing company is lending you money and you have responsibilities to pay it back.
2. One card is probably enough. Avoid temptation by limiting yourself to one card.
3. Keep the credit limit low. Depending on how you are going to use it, \$500 or \$1000 is high enough for most first-time credit card users. This will prevent you from spending more than you can pay back.
4. Pay off the entire balance each month. Avoid charges and build a good credit record.
5. Make the payments on time. This helps build a good record and avoids late payment charges.
6. Use the card for emergencies. Start off slowly with this new convenience. Keep using cash and checks for most purchases, especially until you get comfortable with the card.
7. Never let others use your card. You are responsible for all charges on your card. Do not let others borrow it or give out the number.
8. Keep track of your use of the card and compare your records against what shows up on the monthly statement.
9. Keep the card active. Even if you are only using the card for emergencies, use it for small purchases every three or four months just to keep it active. Then be sure to pay off the balance before any interest is due.
10. Avoid using the card for cash advances. The interest rate charged for advances is usually high and interest is charged immediately.
11. Create a spending and budget plan. Do not let your credit card payments exceed 20% of your monthly income.
12. If having a credit card turns out to be a problem, get rid of it or stop using it for a while.