smart
Credit: Choosing a credit card

Credit cards often carry the stigma of irresponsibility and crippling debt. Although the average American owes approximately $6,000 in credit card debt, it is possible to make smart decisions about credit usage. When used responsibly, you are able to make purchases you might otherwise be unable to afford while simultaneously earning cash back or rewards on your credit cards. Some purchases even require a credit card, such as renting a car or reserving a hotel room. Using a credit card also helps you to establish a good credit history and build credit for favorable interest rates in the future. The following hints can help you to avoid falling into the credit card debt trap.

If you plan to carry a balance

The only factor to consider is the interest rate if you will not pay your monthly bill in full. Look for a card with a low APR and avoid rewards cards whose interest rates are typically at least two percentage points higher than other credit cards.

Credit cards may advertise low interest rates as a promotional feature. The card's teaser interest rate is in effect for a limited time period before increasing to a standard APR rate. Be sure to watch the calendar and be aware when the introductory rate expires!

Transfer rates are advertised by credit card companies to allow users to consolidate debt by transferring balances from other cards to their card at a low rate. "Surfing" for credit card offers can be useful to take advantage of temporarily low rates to pay off large balances or reap other rewards. Be sure to determine when these previous balances will need to be repaid to avoid a penalty.

AVERAGE credit card rates

CARD type	APR%
Low Interest	11.62
Balance Transfer	14.12
Rewards	15.14
Cash Back	15.27

Source | Bankrate, Inc

To avoid falling into the trap of increasing debt, monitor your credit limit, pay as soon as you receive your bill (if possible), never miss a payment (avoid "skip a payment" offers), and pay more than the monthly minimum.

If you plan to pay off every month

Consider a rewards card if you plan to use your card frequently and pay the balance in full. Affinity cards and rewards cards are cosponsored by another organization such as an airline, store, or charity. These cards allow users to earn cash back or rewards such as airline miles. Be aware that these rewards accumulate slowly and tend to have higher fees and interest rates. If you do not intend to use an affinity card frequently or plan to carry a balance, this card may end up costing you more than you receive in perks. Beware store credit card offers, which advertise discounts and other perks but also carry high interest rates and may cost you more in the long run if you go on a large shopping spree. In addition, "precious metals" cards (e.g., gold, platinum, etc.) charge high annual fees that correlate with the added perks.

A common misconception is that a charge card, such as an American Express or Diner's Club card, is an ordinary credit card. All purchases made with these charge cards are payable in full each month and cannot be rolled over to another billing cycle. While these cards come with appealing perks, they charge hefty annual fees.

What credit card companies look for in an applicant

Credit card companies consider several different factors when reviewing applications:

- consistent bill paying habits
- stability in job, residence, etc.
- favorable usage ratio

Credit companies prefer that the ratio of outstanding debt to the sum of the credit limits on all your cards not exceed 30%. Keep in mind that canceling a credit card may increase your usage ratio and temporarily decrease your credit score. If you are contemplating a large purchase in the short term, plan to keep all cards active even if you do not add new charges.

If using a traditional credit card does not appeal to you, or if you do not qualify based on poor or little credit history, consider variations on credit cards. Debit cards allow users to track their spending by reviewing the automatic withdrawals from their linked bank account after each purchase; however, debit cards do not offer fraud protection or build credit, which is why users who have their debt under control typically receive greater benefit using credit cards instead of debit cards. Secured credit cards require a deposit which serves as the credit limit. This secured deposit acts as collateral and is accessed in the event of a missed payment. A secured card helps build credit, although often charges higher interest rates and annual fees than other credit cards.

Which card do I choose?

Remember to choose a card that suits your personal spending habits. Focus on finding a card with the lowest interest rate possible if you know you will not always be able to pay off your balance. If paying off your balance is not a concern, the interest rate is irrelevant – select a card with no annual fee and rewards you will use. If neither is an option for you, consider using debit or secured credit cards.