How to Use a Credit Card Responsibly

Credit cards can be a powerful tool to build credit history through healthy financial habits. Credit cards offer both convenience and the ability to save money or earn discounts through reward programs. While using a credit card can help your financial situation, be careful to avoid the expensive cycle of carrying debt from month-to-month. Here are several tips on using a credit card wisely.

» **When you make purchases, be sure to pay your card balance in full each month.** Avoid carrying a balance from month-to-month; doing so saves interest costs and builds a positive credit history by showing your ability to pay off a card every month.

» **If you do carry a balance, be sure to always make payments on time every month.** This can also help you build a positive credit history.

» **Avoid making just the minimum monthly payment on a card.** Always try to pay extra (to save interest costs and get out of debt sooner).

» **Never skip a monthly payment.** If you do, you'll likely incur late fees and extra interest. Skipping a payment will also have a negative impact on your credit score.

» **Stay below your credit limit.** Don't max out your card; try to stay in the 30% usage range. In some cases, exceeding this range can negatively impact your credit score. For example, if your card limit is $5,000, try not to charge more than $1,500 in any one month.

» **Check your monthly statement** to verify all purchases and transactions are legitimate.

» **Use the card for needs, not wants.** It is not economical to pay interest on a pizza. Know yourself—if you are prone to making impulse purchases or going on spending sprees, leave your card at home.

» **Beware "balance transfer" promotions.** Teaser rates last for maybe a year at best; then a card's normal interest rate (much higher than the teaser rate) will apply. Be aware that opening multiple new cards over time can hurt your credit score.

» **Avoid cash advances.** Interest typically accrues immediately, and you may pay a higher interest rate than your typical purchases.

» **Take advantage of rewards:** cash back, travel rewards, points or miles. Just make sure the card you use has the rewards you want and will really use.

When Is It Better to Pay Cash?

You may find yourself in a financial emergency that cannot be paid in one lump sum, such as a medical bill or home repair. Before you charge that expense to a credit card and potentially compound that financial problem, contact the company's billing department. In some cases, you can be put on a monthly payment schedule that has low interest costs or maybe even interest-free.

It may also make sense to use cash for your day-to-day spending: groceries, gas, or leisure activities. By only having cash on hand, you will minimize the chance of overspending.

When Is It Better to Use a Credit Card?

There are times when you typically must use a credit card, such as when you want to rent a car, buy an airplane ticket, or reserve a hotel room. Use a credit card for big-ticket purchases (maybe an appliance or a TV), especially if your card will provide some type of purchase protection or extended warranty.

Use a credit card for online purchases; if fraud occurs, you're not out any money. If you use a debit card for online purchases, you may eventually get your money back if fraud occurs, but that can take time.

Using a credit card for tracking expenses for budget purposes is typically easier than using cash.

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