



Learn 11 Things to Know Before Getting Your First Credit Card

Description

Getting your first credit card is a significant milestone — and a significant adjustment. You may already understand how credit cards work and how to use them safely, but the devil is in the details. Understanding those intricacies before you dive in will save you money and help you build good credit faster.

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The best credit cards are not for novices.

As a beginner to credit, you're unlikely to qualify for the finest credit cards, which provide generous rewards and privileges, large sign-up bonuses, and long 0% interest periods. In addition, only applicants with good or outstanding credit (scores of 690+) and longer credit histories who fulfill specific income restrictions are eligible for these top-tier products.

With your first credit card, you'll most likely need to start small, with a product designed for persons with little or no credit history. But it's not all bad news: several of these cards provide good rewards and

don't have annual fees. Consider the following options:

- A student credit card, is often known as a credit card for college students.
- A secured credit card, is often known as a cash deposit card.
- A credit card is targeted at those with fair credit, which is commonly characterized as a credit score ranging from 630 to 690.
- A credit card for which you have pre-qualified, either through your bank or online through NerdWallet's pre-qualification page or other comparable resources.

A security deposit makes it easier to obtain a credit card.

If you're having problems getting approved for your first credit card, perhaps because you have no credit at all, consider a secured credit card.

Secured credit cards are intended for persons with poor or no credit. To open your account, you must first make a cash deposit. Typically, your credit limit is equal to your deposit. Depending on the card, the minimum deposit ranges from \$200 to \$500. Most secured cards allow you to deposit more in order to obtain a larger credit line.

If you become behind on your payments, you may lose this deposit. However, if you constantly pay on time and keep your spending well below the card's limit, you could create solid credit in a few months. At that point, your issuer may upgrade the account to a regular unsecured card, or you may apply for an unsecured card while keeping the secured card open. Your deposit would be reimbursed in either situation.

Your first credit card might help or hurt your credit.

One of the primary motivations for getting your first credit card is to improve your credit score. However, it can have the reverse effect if you're not careful. Everything is dependent on what you do.

Your issuer will report your credit card activity to credit bureaus every month – the firms that create the credit reports that serve as the foundation for your credit ratings. The information presented includes whether your payments were made on schedule and how much of your available credit you utilised. Late payments are undesirable. Maxing out the card is a bad idea.

Before applying, you can view the rates and costs.

Federal law requires credit card companies to publicly disclose certain terms, such as interest rates and fees, before you apply. These are listed in a Schumer box, which is a table that can normally be found on a credit card's application page online (search for a link labeled "Rates and fees," "Pricing and terms," or something similar) or on a slip enclosed with paper applications. For example, the Schumer box has the following cards:

Annual fee, or what it charges cards every year.

APR stands for annual percentage rate. This is the interest rate you'll be charged on accounts carried

over from month to month. Some cards impose various interest rates on different sorts of balances, such as purchases, balance transfers (debts transferred from other accounts to the card), and cash advances (cash withdrawn with the card, usually at an ATM). In addition, some cards, albeit not many, have penalty APRs that apply after a late payment.

Foreign transaction fees, or costs imposed when making transactions outside the United States, are normally 3% of the total amount charged.

Late fees are imposed if you pay even one day late or if you do not pay the minimum amount due.

Credit card fees can be avoided.

Even if you're new to credit, you can avoid credit card fees entirely:

There are numerous fantastic starting cards with no annual fees, including many secured cards.

If you pay on time, there are no late fees.

Foreign transaction costs are irrelevant if you do not intend to use the card to make purchases outside of the United States – and numerous issuers do not impose foreign transaction fees in any case.

The fees linked with these operations are meaningless if you never conduct balance transfers or cash advances.

Overdraft fees, which are charged when you exceed your credit limit, are nearly gone. Issuers can't charge them unless you choose over-limit protection (where the issuer covers charges over your limit), and even then, you can prevent them by staying within your limit.

Interest is also fully preventable.

Speaking of needless costs: You don't have to pay any interest regardless of how high your credit card APR is as long as you pay your credit card bill in full every month. This is due to the grace period on your credit card. Simply put, if you pay your payment in full, interest will not begin to accrue on any purchases until the following due date. Likewise, if you pay your following month's bill in full, no interest will be charged, assuming you only use your card for purchases. If you keep it up, you'll never have to pay interest.

If you do not pay your account in full — that is, if you carry a portion of your amount over to the next month — you will not only pay interest on that carried debt, but interest will also begin accruing on subsequent purchases immediately.

You may and should pay more than the bare minimum.

Credit card statements prominently reflect your minimum payment due, or the smallest amount you must pay to maintain good standing on your account. That can be perplexing. It may appear to be a

nice suggestion: “You can pay the whole amount, but you could also pay this much smaller amount!”

Paying late has a significant cost.

Missing your deadline might rapidly become costly. You may suffer the following penalties depending on how late your payment is:

- Fees for late payments. These fees’ legal limits are changed on a yearly basis. However, the first offense usually costs much over \$20, and additional offenses can cost up to \$40.
- APR penalties The majority of credit cards no longer have penalty APRs, however some do. When you pay late, you will be charged a penalty APR, which can immediately boost your interest rate to 30% or higher for future transactions. If you are more than 60 days late with your payment, the penalty APR will be applied to your outstanding debt.
- Your credit score will suffer. A day late payment will not harm your credit. However, if you pay 30 days or more late, your payment will be recorded as late on your credit reports, lowering your credit score.
- Consider automating payments from your bank account. If you’re concerned about overdrafts, mark your due dates on a calendar as a reminder.

Getting too close to your credit limit can damage your credit score.

Your credit utilization ratio is the percentage of available credit that you use. This is a significant component in your credit scores. When your utilization ratio rises too high — for example, if you have a \$1,500 balance on a card with a \$2,000 limit — your credit scores can suffer.

Your credit utilization ratio should be as low as possible. To maintain your score, aim to use less than 30% of your limit at all times. That way, you can be certain that when the issuer reports the status of your account to the credit bureaus, your balance will not be too near to your credit limit.

Managing credit card fraud is not as complicated as it appears.

If you’ve been putting off getting your first credit card because you’re afraid of fraud, know that credit cards actually provide more security against fraud than debit cards.

Crooks could deplete your bank account in an instant if they acquire access to your debit card information. Of course, you can report the fraud to your bank and retrieve your funds, but this will take time – and in the meantime, you may be cash-strapped.

When your credit card information is misused:

- The money at stake is the credit card company’s, not yours. So you’ll have ample of time to contest any fraudulent charges and get them removed from your outstanding amount, which is usually immediately.
- You are not required to pay. Federal law limits your liability for fraudulent credit card purchases,

and credit card networks' zero-liability agreements, such as Visa and Mastercard, generally limit your liability to \$0.

- It is relatively simple to obtain a replacement card. When you contact your card issuer to report fraud on your account, they will revoke your card and send you a new one with a new number. No one will be able to make purchases using your old card number.
- If you are denied for a credit card, the issuer will explain why. Being denied for a credit card is frustrating, but you can learn from it. Federal law requires card issuers to offer you an explanation for their decision, known as an adverse action notice. For example, an issuer may claim that you were refused because your income was insufficient or you lacked a credit history. This feedback may assist you in determining how to increase your chances of approval the following time.

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