

Cheat Sheet: Using Your Credit Card Responsibly

Lesson 6.1: Creating a Payment Strategy

Key Terms:

- **Payment in Full:** Paying the entire balance of your credit card bill each month to avoid interest charges.
- **Minimum Payment:** The smallest amount you can pay on your credit card bill without incurring late fees.
- **Automatic Payments:** Setting up your bank account to automatically pay your credit card bill each month.
- **Grace Period:** The time period during which you can pay your bill without incurring interest.
- **Missed Payment Consequences:** Potential late fees, increased interest rates, and negative impacts on your credit score.

Pro Tip:

Setting up automatic payments for the full balance can help you avoid interest charges completely.

Lesson 6.2: Managing Credit Limits and Utilization

Key Terms:

- **Credit Utilization:** The ratio of your credit card balances to your credit limits, expressed as a percentage.
- **Ideal Utilization Rate:** Keeping your credit utilization below 30% is recommended, with the best practice being under 10%.
- **Credit Limit Increase:** Requesting a higher credit limit to improve your utilization ratio without increasing your debt.
- **Impact of Closing Cards:** Closing old credit cards can negatively affect your credit utilization and score.
- **Emergency Strategies:** Options to manage high utilization, such as requesting a limit increase or making early payments.

Pro Tip:

If your utilization is too high, consider asking for a credit limit increase (without a hard inquiry) or making early payments before the statement date.

Lesson 6.3: Common Credit Card Mistakes to Avoid

Key Terms:

- **Overspending:** Using your credit card limit excessively, which can lead to debt.
- **Minimum Payments:** Paying only the minimum amount due, which can result in accumulating debt.
- **Ignoring Statements:** Failing to review credit card statements for errors or fraudulent charges.
- **Cash Advances:** Borrowing cash against your credit card, which typically incurs high interest rates and fees.
- **Multiple Card Applications:** Applying for several credit cards in a short period, which can negatively impact your credit score.

Pro Tip:

Avoid taking out cash advances due to their high interest rates (20%+ APR) and additional fees.
