



How to Use a Credit Card for Building Good Credit

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The difference between good debt and bad debt is an important consideration when you're building good credit.

Having a credit card makes a positive impact on your credit as long as you make wise choices in the way you use that card.

Follow these strategies to use credit cards to build good credit:

- 1. Limit your cards.** Too many credit cards will reflect poorly, rather than positively, on your credit reports. Open up only a couple of credit card accounts: a Visa or MasterCard account and a gas card or a card from a store you purchase from often will usually work nicely. *Use these few cards regularly and then pay off what you charge quickly.*
- 2. Use credit limits wisely.** Just as you can call and request a higher credit limit, you can also call and ask for a lower limit or that they not raise your limit automatically. This will prevent you from letting your spending get out of control. Setting your limit to between \$500 and \$1000 usually works well.
 - j If unnecessary spending doesn't tempt you, then it's even better to let them raise your credit limits as long as you don't use the extra credit. *Using only 25% of your allowable credit makes the most positive impact on your credit score.* However, if the limits help you keep your debt under control, then go with the lower limits.

- ' . **Pay balances off completely.** Whatever balance you accrue during the month, pay it off by the due date on your credit card. The best way to show the credit bureaus that you're serious about using credit properly is to pay your balances in full each month.
- ! `Most credit cards have a very small minimum monthly payment. The reason is because they can rack up serious interest charges on your card if you're only paying \$15 on a \$500+ credit card bill. ***Avoid paying the minimum balance at all costs.***
- ! ` ***Pay on time.*** Be very aware of the due dates for your credit card payments. By making your payment later than the due date, you could end up paying fees or a higher interest rate, losing credit availability, or having a negative mark put on your credit score. If you want to use credit to build credit, ensure you use it as carefully as possible.
- (. **Avoid the free offers.** Sometimes credit card applications come with free offers like t-shirts, pizza and other gifts. Signing up isn't going to hurt you, right? Canceling the cards right after you receive them to take advantage of the free benefits *can* actually hurt you.
- ! ``A cancelled credit card shows up on your credit report. Credit inquiries, approvals, and cancellations show up on all three credit reports, impacting your credit score. Avoid applying for anything that you don't plan on following through with.

Keep these things in mind when you apply for or use a credit card. If you don't think you can use a credit card wisely, then it's better for your credit if you don't apply for one.

It's all too easy to let credit card spending get out of control, so make good choices with your credit. Use your cards to build good credit and the time will come when you'll surely be glad you did.