

# The Credit Card

## Survival Guide

*How to pick the right credit card for you, negotiate with your bank, use credit cards to build good credit, and not do dumb stuff with credit cards.*

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## First Things First

### Double-edged plastic.

Credit cards can be your best friend or your worst enemy. I know this too well. When I got my first credit cards in my early twenties, I went bananas. I bought booze for my friends, took my girlfriend to five-star restaurants, used cash advances to gamble in Vegas, and even rented airplanes to take flying lessons.

Fortunately, I learned young. I paid my stupid tax (thousands of dollars in finance charges), repaid my debts, and will never do that again. The lesson here? **If you can't control how much you spend, it's best to avoid credit cards completely.**

But for most, credit cards are a convenient way to manage spending. They offer perks like rewards points, purchase insurance, and fraud protection. For these reasons, I prefer credit cards to debit cards or cash; they're safer, more convenient, and offer a rebate.

**As long as you pay off *all* charges every month, credit cards don't have to cost a dime, and can even make you money.**

This Guide will walk you through choosing and using the best credit card for your spending style. No credit history? No problem, I'll cover that. I'll show you how to negotiate with your credit card company to get things like a higher credit limit, lower interest rate, or a late fee removed. Finally, I'll show you how the credit cards you open can help your credit score...if you do things right.

Questions? Hit me up at [david@moneyunder30.com](mailto:david@moneyunder30.com).

Best,



# Choosing the Right Credit Card

Out of 300+ or so credit cards on the U.S. market, how do you know which card to use? After years of following the market, I've narrowed the field to about a dozen. Still, the best card for you isn't best for me. The following chart will help you hone in on one or two cards that will best meet your needs.

**Do you have established credit history?**

If this will be your first credit card, your options are limited. If, however, you have already had one or more credit accounts (credit cards or loans) and have paid them on time, you can qualify for more cards.

**Yes**

**No**

[Orchard Bank® Classic MasterCard®](#)

The Orchard Bank card is a good choice for first-time credit card applicants. These cards have an annual fee but it is more reasonable than other cards that target applicants with no credit.



If you lack sufficient credit history to be approved for a traditional Orchard Bank credit card, you may receive a secured credit card. A secured card works more like a debit card--- you must deposit money in an account before you can make charges---but unlike a debit card, this card will report to credit bureaus and help you build your credit history.

### Do you have good credit?

A credit score of 660 or more is a requirement for most credit cards. If you're unsure, you can check your credit score using one of many free tools like [CreditSesame](#).

**Yes**



**No**

Consider the [Orchard Bank® Classic MasterCard®](#) listed above. You'll likely be approved, and with regular on-time payments using this card will help your credit score improve within a year or two.

### Do you have credit card debt?

**Yes**

If you're currently paying off credit card balances on one or more cards, you should not apply for new credit unless you can transfer the balance(s) to a card with a low APR. In this case, you should NOT use either the new card or the old card until your credit cards are paid off in full. I recommend:

- [Discover® More® Card](#) – Low regular APR and 0% on balance transfers for 15 months.
- [Citi® Diamond Preferred® Card](#) – 0% on balance transfers for 18 months



**No**

### Do you plan to pay off purchases over time?

**Yes**

If you don't have credit card debt now but plan to use your new card to make payments on a large purchase like furniture or a vacation, you want to look for the cards with the lowest APRs.



**No**

Don't be fooled by rewards; no matter how good the rewards, if you're paying interest, they're no benefit. I recommend:

- [Discover® More® Card](#) – Lowest regular APR.
- [Citi Simplicity® Card](#) – Low regular APR and no late fees or penalty APRs.

**On average, do you spend more than \$1,500 a month on your credit card?**

**Yes**

**No**

**Do you prefer cash rewards or points redeemable for free travel?**



**Cash**

**Travel**

I recommend the [American Express Blue Cash Preferred\(sm\) Card](#).

There's a \$75 annual fee but rewards add up: 6% cash back at supermarkets, 3% at gas stations & department stores, 1% cash back on all else.

I recommend the [Chase Sapphire Preferred Card](#) for versatile travel rewards, concierge service, and no foreign transaction fee.

**Do you prefer cash rewards or points good for free travel?**

**Cash**

**Travel**

I recommend the [American Express Blue Cash Everyday\(sm\) Card](#) or the [Chase Freedom Card](#).

I recommend the [Chase Sapphire Card](#).

## Some Exceptions

The above cards are excellent picks for 90% of people. Most other cards, like those below, are marketed heavily to certain demographics. For some, they're excellent choices, but for many people they're a rotten deal.

### Branded Airline and Hotel Credit Cards

Loyalty airline and hotel credit cards are often deals but only if you frequent a particular airline or hotel. For example, the Delta Platinum card's \$150 annual fee is steep, but it comes with perks like a free companion ticket and free checked bags. If you check a bag on three roundtrips a year, the annual fee pays for itself. If you never fly Delta, this is a card with a high annual fee, a high APR, and mediocre rewards.

Card	Notable Perks
<a href="#">Delta Airlines Gold SkyMiles® Credit Card</a>	Sign-up bonus, 1 <sup>st</sup> checked bag is free, priority boarding.
<a href="#">United MileagePlus® Explorer Card</a>	Sign-up bonus, priority boarding, club passes, 1 <sup>st</sup> checked bag is free.
<a href="#">Citi Platinum Select® / American AAdvantage Visa Signature®</a>	Sign-up bonus, priority boarding, 1 <sup>st</sup> checked bag is free.
<a href="#">Southwest Airlines Rapid Rewards® Plus Credit Card</a>	Free flight after your first purchase, no ticketing change fees.
<a href="#">Starwood Preferred Guest® Credit Card</a>	Sign-up bonus, points redeemable at over 1,000 hotels and 350 airlines.
<a href="#">Marriott Rewards® Premier Credit Card</a>	Sign-up bonus, free night every year, no foreign transaction fees.
<a href="#">Hilton HHonors® Visa Signature® Card</a>	Sign-up bonus, no annual fee.

### Charge Cards

If you don't like the idea of being able to charge more than you can afford to pay off, you might want to consider [an American Express charge card](#). I used one for years. They have annual fees, but give you greater financial control. For most users, the [American Express® Premier Rewards Gold Card](#) is the best value.

## Student Credit Cards

If you're a full-time student, many credit cards may not approve you because you don't yet have income. Student credit cards are the solution. The terms and credit limits aren't as generous as with other cards, but get you started building credit and learning to manage credit responsibly.

Card	Notable Perks
<a href="#">Discover® Student Card</a>	Cash back, 0% APR for 9 months, no fee.
<a href="#">Citi® Dividend Platinum Select® Card for College Students</a>	No co-signer required, 0% APR for 7 months, no annual fee, cash rewards.



# Credit Cards 101

## For Beginners: How Credit Cards Work

If credit cards mystify you---for example, you don't understand what a finance charge is and how it's calculated---this section is for you. Read it carefully. Otherwise, you can skip it.

### How Credit Cards Work

When you use a debit card to pay for a cup of \$2 coffee, the coffee shop swipes your card and their computer connects to Visa which connects to your bank and asks: "Does Nicole have \$2 in her account?" If the answer is yes, the sale is approved. If the answer is no, the sale is either declined---or, if you have overdraft protection---the sale is approved and your bank charges you a big fee because you didn't have the money in your account.

That's debit. With a debit card, you can spend whatever money you have in a checking account. With a credit card, you can spend up to your credit limit---the amount the bank decides it will lend you.

That credit limit could be \$500 or it could be \$50,000. It depends on how much money you earn, how good your credit is, and your spending history on the card.

So when you use a credit card to pay for that same \$2 cup of coffee, the coffee shop swipes your card and their computer connects to Visa which connects to your bank and asks: "Does Nicole have \$2 of available credit?"

After the sale, you walk away with your coffee and the shop gets paid \$2 minus fees taken out by your bank, Visa, and the company that processed the payment.

If you paid with a debit card, your bank takes the money out of your account and that's that. But if you have a credit card, you'll get a

bill at the end of the month for the \$2 coffee and whatever else you bought.

Here's where things get interesting.

Let's say you spent \$200 on your credit card this month. You get a bill for \$200. The bill will say something like "Balance: \$200, Min. Payment: \$15."

You can pay the credit card company the \$200 all at once. This is the smart thing to do. As long as you do this, using your credit card is free. In fact, they may even give you \$2 back (1%) in rewards for using their card. The credit card company doesn't make much money from you, but they're still happy to let you use their card because they get a tiny percentage from the stores every time you pay with the card.

## Why Credit Cards Are Dangerous

What the credit card company really hopes you'll do is to pay less than \$200. Maybe you're short on cash, so you'll only pay \$15. As long as you pay on time, you avoid any late charges and you continue to build good credit for paying on time. But, now the credit card company can charge you interest on the remaining balance on your card ( $\$200 - \$15 = \$185$ .)

Let's say your card's interest rate, or annual percentage rate (APR), is 20%. Annually, you'll owe \$37 in interest on a \$185 balance, or about \$3 a month. So next month, your credit card bill will be for  $\$185 + \$3$  finance charges + whatever new things you bought. Say you spend \$200 again, so your new balance would be \$388. If you only pay \$15 again, now the annual interest on \$373 is about \$75, or \$6.25 a month.

These finance charges are not big amounts, so it's easy to shrug them off in the beginning. What happens, however, is when you continue this for long enough you can end up with a \$5,000 and be paying \$1,000 in interest. (At the bottom of my debt spiral, I owed about \$40,000 to credit card companies and was paying over \$600 a month just in interest).

## What Credit Cards Are Good For

As long as you use them carefully, credit cards provide countless benefits. They're a convenient way to manage your monthly spending, they protect your bank account from fraud, and they provide an intermediary between you and a store in the event of a dispute. Not least, many credit cards also offer perks like cash back or travel rewards for every dollar you spend.

Credit cards shouldn't be used as a replacement for an emergency fund, but in a true emergency they are better than nothing if you need to get your car fixed and can't come up with the cash. Just be careful to pay that balance off quickly and avoid getting stuck in a cycle where you pay off last month's bills but need the credit card to pay for this month's expenses. That's' right where the credit card companies want you.

# Negotiating With Your Credit Card Company

## About that 29.99% APR...

You don't know what you might get until you ask. I've successfully called my credit card companies to remove late fees, lower my interest rate, and increase my credit limit on numerous occasions. You can do the same thing, but you *have* to call. (Remember that old saying that 80% of success is just showing up?)

Here are some scripts you can use.

### Removing a Late Fee

**BANK REP:** Thank you for calling ABC Bank. How may I help you today Mr. Customer?

**YOU:** I see that I was charged a late fee last month. Because I've been a loyal customer for two years and never before paid late; I'd like to have that fee reversed, please.

**BANK REP:** I'm sorry, Sir. We appreciate your loyalty but because your payment was received late that is a legitimate charge.

**YOU:** I understand, but I'd like to have that fee removed. What can you do to remove that fee?

**BANK REP:** My hands are tied. I'm not authorized to remove a legitimate fee.

**YOU:** Alright, but I'd really like to get this fee removed. May I speak with a supervisor about this decision?

## Some Notes

**Don't show weakness.** You're calling because you want them to remove the fee, and you're not going to take "no" for an answer. Avoid saying things like "is there anything you can do?" Of course there is. Most reps---or at least their supervisors---have the power to waive fees and lower rates.

**Don't immediately ask for a supervisor;** you'll probably just piss the person off. If, however, the rep indicates he or she doesn't have the authority to give you what you're asking for, this is a good segue to ask for somebody higher up.

## Getting a Lower Interest Rate

**BANK REP:** Thank you for calling ABC Bank. How may I help you today Mr. Customer?

**YOU:** I've been a loyal customer for two years and never before paid late; I've been noticing advertisements for other credit cards with APRs much lower than what I pay on this card. I'd like to request a lower APR of X%

**BANK REP:** I understand you'd like a lower APR on your card; let me see what I can do. [Pause.] Well sir, although I unfortunately cannot reduce your regular APR, I am happy to offer you a great low rate of 3.9% on balance transfers for 12 months. Would you like to take advantage of that and transfer a balance?

**YOU:** Thank you, but no, what I'm interested in is a lower regular APR. What else can you do to reduce that for me?

Although this doesn't *always* work, if you're currently paying finance charges on a credit card balance, this is an easy way to save big money. You'll have more luck lowering your interest rate if you're not maxed out and have good credit. Finally, while it's fine to mention other cards' APRs, don't threaten to take your business

elsewhere unless you really mean it. The reps hear this all the time and, depending on how profitable you are, they may not care if you do.

## Requesting a Credit Line Increase

Requesting a credit line increase is usually straightforward; some cards even allow you to do it online. You'll have the best shot at getting your credit limit increased if:

- You have had the card for at least six months and have not received a limit increase in at least six months.
- Your credit score is good.
- You have a timely payment history on this card.
- Your existing credit limit is not maxed out.

**BANK REP:** Thank you for calling ABC Bank. How may I help you today Mr. Customer?

**YOU:** I've had my card for a couple years now and would like to get a larger credit limit.

**BANK REP:** Okay, let me see what I can do for you. I see that you currently have a \$4,000 credit limit. How much of an increase would you like?

**YOU:** I would like \$10,000.

**BANK REP:** One moment while I see what I can do. [Pause.] Sir, based on our policies I cannot offer a limit of \$10,000 but I can give you a \$6,000 limit.

Many times card companies will only increase your limit in increments, but it never hurts to ask for more. As long you continue to have good credit and use your card responsibly, you can repeat this process every six to 12 months and watch your credit line grow.

### **Credit-Savvy Tip**

It's wise to ask your credit card company whether requesting a credit limit increase will result in a "hard pull" on your credit report. This means that the bank marks an "inquiry" on your credit report similar to when you apply for a new credit card. If you get too many of these inquiries in a year or two, it can lower your credit score. Some banks will periodically review your credit limit for you without noting it on your credit report.

# Using Credit Cards To Build Your Credit Score

## Swipe Now, Save Later

A good credit score is so important because if you decide to borrow money to buy a car, you'll pay thousands less in interest if you have a good credit score. On a home loan, somebody with excellent credit can save more than \$100,000 over somebody with so-so credit.

One of the best ways to build and maintain a good credit score is to use your credit cards properly.

What To Do	Why It Helps
<b>DO NOT pay late.</b>	Even a single missed credit card payment can damage your credit for seven years. If you are late, call the credit card company immediately to request the fee be reversed and ask if they can withhold reporting the information to the credit bureaus.
<b>DO open two or three credit cards, not 20.</b>	Having a couple of open credit card accounts—even if you don't use them much—is good for your credit, but too many accounts can look like you're hungry for credit and can weight down your score.
<b>DO keep your oldest card open.</b>	The longer you've had open credit cards, the more your credit score goes up, so it's a good idea not to cancel your first credit card. The exception? If it charges an annual fee and you no longer use it.
<b>DO NOT max out credit cards.</b>	Obviously you don't want to go into credit card debt. But if the high interest



	rates aren't enough to scare you, consider the fact that maxing out your credit cards will make your credit score drop significantly. That means if your credit card company raises your interest rate, you may not be able to transfer the balance to another card, leaving you stuck with some very, very high-rate debt.
<b>DO use your cards.</b>	Use the cards you have every now and then so the bank doesn't cancel them for inactivity.
<b>DO NOT carry a balance on your card to build credit.</b>	You do not need to carry a balance on your credit cards to get a good credit score; paying on time---even in full---is what matters.

## Wrapping Up

The majority of people who use credit cards end up throwing money away for the convenience of buying now and paying later. But with a little bit of knowledge and self-control, you can use credit cards to improve your bottom line, not eat away at it. Credit cards can pay you back for monthly purchases, make it easier to manage your monthly spending, *and* have the power to help you build a solid credit history. Happy charging!

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