

What's the right way to use your Credit Card?



When used right, your credit card becomes an important part of your financial health. You'll need it for home, car, or business loans, among other major life milestones. They provide ready access to money in the case of emergency. You have an easy source of funds when travelling. And they are by far the most convenient way to manage online shopping reserving hotel rooms, and renting cars. It's difficult, these days, not to have a credit card.

But there are a lot of common missteps and mistakes that are important to steer clear of if you want to keep your credit history clean—and keep yourself out of debt.

#1 Make your payments, and make them on time

Sounds simple, right? It's incredible how many people don't follow this most basic rule of responsible credit card use.

A credit card isn't a way to pay for items you don't have enough cash to cover. Rather, they are another tool in your financial toolkit; useful for building credit history, making convenient online purchases and placing deposits on large purchases. So the simplest rule of credit card use is not to use it to pay for things you otherwise couldn't afford.

Late fees, charges, and interest will build up otherwise, and your credit score could quickly plummet. And the mounting principal debt will become more and more daunting with each passing month.

#2 Don't just pay the minimum

Your minimum payment is likely a tiny fraction of your total bill—but don't just pay off that small number. Credit card companies charge between 10 and 20 percent interest, meaning that big interest payments can add up fast. But if you pay off your entire bill every month, you'll never pay interest on your purchases, and your credit score will rapidly improve.

#3 Check your statements

With millions of credit card users in Canada, each making multiple transactions every month, mistakes happen. Read your statement every month and make sure that the charges listed are valid—you can contest a charge made in error.

#4 Stay below the limit

Don't fly too close to the sun—regularly running a balance too close to your credit limit can negatively affect your credit score. Try to keep your outstanding balance around 50% or less of your total available credit.

#5 Report a lost or stolen card right away

You can be held partially responsible for purchases made on a lost or stolen credit card—but if you report the loss before the card is used, you have no liability. Your credit union will have a 24-hour, toll-free number on its website listing where you can call to cancel your card and get a new one.