



### Credit Card as BFF or Public Enemy?

Credit cards can be a credit builder's Best Friend Forever or worst enemy. As a practitioner, are you up to the challenge of helping every client "graduate" to managing a credit card? This tip sheet provides a bit more than the basics.

Why? Credit cards are very hard to manage well. A credit card in one's pocket can feel like a windfall of extra money, especially for consumers with limited income and who look only at the monthly minimum payment requirements. As such, good credit card management earns a consumer a lot of points on their credit score.

Managed well a credit card:

- **Is credit a consumer can keep forever.** Unlike installment loans, credit cards revolve month after month. They stay open and active for as long as the consumer uses the card - and doesn't close it. This helps consumers build a long credit history and a strong score.
- **Shows that a consumer knows how to use credit.** Good management of a credit card tells the credit bureau -- and their credit scoring models -- that a consumer understands the credit system, knows how to use credit and pay it back.
- **Is the best alternative to a small dollar value pay day loan.** It is how most middle and upper middle income families manage their emergency cash needs. If used wisely so the balance can be paid off in full at the end of each month, credit card users get access to free money -- interest-free money -- for up to 30 days. Twice the length off a pay day loan.

**Practitioner challenge: Help every asset building client "graduate" to a credit card!**

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### Tips to Managing a Credit Card

1. **Have at least one credit card – manage it well and keep it forever.**
2. **Make a payment every month.**
  - *Make one small purchase and pay monthly minimum*
  - *Purchase gas or groceries monthly and pay off monthly – and pay no interest!*
3. **Keep revolving accounts open AND active,**
  - *Monthly activity builds credit*
  - *Longer credit history builds credit*
  - *Higher total credit limit helps you keep outstanding debt ratio lower*
4. **Keep debt below 50% of the credit limit -- less than 30% of the credit limit is even better!**
5. **Negotiate payment dates that works with income schedule.**
6. **Build high credit without high debt – a \$50 or \$5,000 loan will provide similar credit boost.**
7. **Ensure creditors reports the credit limit**
  - *An unreported credit limit may look like the card is maxed out when it is not.*