What you need to know before you apply for your first credit card

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It can be little overwhelming to apply for a credit card
at first but knowing what to expect makes the process a lot easier. Your credit card will work like your debit card, except rather than the money coming out of your account when you use it, it builds up for a few weeks. In this way, it's kind of like a short-term loan from your card issuer. Every month you will make a payment that covers your expenditure, either partially or fully.

When using your first credit card, you'll probably come across some terms you might not have dealt with before so let's take a look at them.

Annual percentage rate (APR)

APR is the total cost of borrowing with your card and it includes any interest and fees. You can compare the APR for different cards to find the one that works best for you. Generally, though, the lower the rate the better.

Be aware that card issuers only have to provide their advertised rate to 51% of successful applicants; the rate you are actually offered will depend on your own financial situation.

Credit limit

The credit limit is the amount you are allowed to borrow. You don't really want to be going anywhere near this anyway, but the only way you could exceed it would be to opt in to over-the-limit charges. Even then, your card may be declined.

Fees

You may be charged an annual fee, but you should also be aware of any late fees and penalty rates. These will be added to the amount you owe so they aren't exempt from interest being added unless you pay it in full.

Minimum payment

Minimum payment is the lowest repayment you can make each month to avoid penalties. To improve your credit score and avoid any risk of building up debts, it is best to pay your balance in full each month. However, your minimum amount will likely be between 3-5% of your balance.

Grace period

You will receive a monthly bill and a date to make your minimum payment by – this gap is the grace period.

Credit Utilisation Rate

A general rule is to have a credit utilisation rate of 30% This means that you should try to avoid using more than 30% of your credit limit. If you spend more and get closer towards your limit, your credit score will begin to suffer as a result.

Conclusion

The most important thing when it comes to getting your first credit card is to get into a good financial habit.

How exactly you use it will depend on the kind of card you've got and what you use it for, but it's always best to clear the balance in full every month and be fully clued up on the potential penalties that come with your card, as well as the benefits.

Getting your first credit card can be exciting but using it sensibly for regular and small payments is the best way to get used to it and avoid problems.

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