

Your Guide to Credit Cards and Credit Scores

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What is a credit score and how does it work?

Why does your credit score matter – especially for more long term decisions

A credit score is a number that typically ranges from 300 (very low) to 850 (excellent). This number is used by lenders, landlords, and other service providers as one of several factors to help assess how likely someone is to make payments on time, whether for a credit card, loan, or rent.

A lower credit score can make it more difficult to qualify for certain types of credit, such as car loans or mortgages. If approved, borrowing may come with higher interest rates, which can increase the overall cost. In some cases, providers like utilities or mobile carriers may require an upfront deposit before starting service.

Credit history may also be considered in rental applications, as some landlords review credit as part of their screening process. In certain roles—particularly those involving financial responsibility or security—employers may conduct credit checks later in the hiring process, though this is not standard across all jobs.

On the other hand, a higher credit score can improve access to a broader range of financial products, including credit cards with more favorable terms. For example, many cards with stronger benefits are generally available to applicants with scores in the “good” range (often around 670 or higher).

Where can you see your credit score?

Before applying for any loan, it’s helpful to know where your credit score stands. Keep in mind that submitting multiple applications in a short period of time can impact your score, especially if they result in hard inquiries. When checking your score, opt for free options—checking your score yourself does not affect your credit. Here are a few places you can find it:

- You are entitled to a free annual credit report from annualcreditreport.com (once every 12 months)
- Most major US banks will offer free credit scores that you can access by logging into your bank’s web portal
- Free credit monitoring websites
 - Credit karma: best for scores and reports
 - Credit sesame: best for personalized tips
 - Credit.com: best for monthly updates
 - Wallethub: best for credit alerts

What is a “good” credit score?

Here’s a common way of breaking down credit score values:

- 300 – 580 = poor
- 580 – 670 = ok, but will still incur higher interest rates and difficulty getting loans / lease etc
- 670 – 740 = good
- 740 – 800 = very good
- 800 – 850 = amazing

What defines your credit score?

Payment history = 35% of score

- Never late = best
- Which is why you should ALWAYS pay at least the minimum payment on time

Credit utilization = 30% of score

- Less = better (but you should still make sure to use your credit card on a regular basis)
- Rule of thumb is to keep your usage below 30% (e.g., if your credit line (maximum amount of money you can spend on your credit card) is \$1000, you should not spend more than \$300)

Account age = 15% of score

- More = better
- Which is why you should NOT put off getting your first credit card

Credit mix = 10% of score

- Well rounded = best
- Having multiple types of loans (mortgage, credit, car loan) shows you're responsible to lenders across the board

New credit = 10% of score

- Less = better
- A credit check happens when someone evaluates your eligibility for credit (your credit score is checked when you open a new bank account, apply for an apartment, take out a mortgage etc.)
- Rule of thumb: apply for anything that requires a credit check ONLY when needed. Every time someone checks your credit score, your score falls by a few points.

Here's what's NOT affecting your credit (FICO) score:



Age



Participation in credit counseling program



Race, religion, national origin



Salary



Occupation



Child/Family support obligations



Receipt of public assistance



Residence

How to improve it?

NOTE: Be cautious of anyone promising a quick fix, there's no instant way to improve your credit score.



Automatic Payments

Setup automatic payments for all your credit cards and loans (you can do this online on their respective website or by calling a representative)



Pay off your debt

Work towards repaying your debt. Your credit card company will require a minimum to be paid each month (which you can absolutely never miss; this is detrimental to your credit score), however, paying off only the minimum will grow your debt over time due to interest that builds up. Set a realistic timeline on how to repay your debt and work towards hitting the goal of a \$0.00 balance.

- Focus on repaying the debt with the highest interest rate first (your provider will provide you this information). Getting rid of high interest debt first will free up more of your money to be relocated towards lower interest loans.



Don't close or open new credit cards.

Don't rush to open or close credit cards. Both can impact your score, but it depends on the situation. Opening a new card may temporarily lower your score due to a hard inquiry, while closing one can reduce your available credit or shorten your credit history. If you're not using a card, it's often better to keep it open (especially if it has a long history). And if you're just getting started or rebuilding, a secured credit card can be a solid way to ease in, since you're spending against a deposit while building positive payment history.



NOTE: improving your credit score takes time and requires consistency

What are the biggest mistakes you can make to hurt your credit score?

Missing payments is one of the fastest ways to damage your score. Even one late payment can stick around for a while, so staying consistent matters more than anything.

Carrying high balances is another big one. Even if you're paying on time, using a large portion of your available credit can drag your score down.

Other things that can hurt: applying for a lot of new credit in a short window, closing older accounts (which can shorten your history), or letting accounts go to collections.

Picking a Credit Card

What to consider when picking a credit card?

First and foremost, figure out what credit card you qualify for by finding out your credit score. Most reputable credit card issuers will require certain credit scores. Their offering will also vary depending on your credit score. The better your score, the better your perks.

You can check your credit score for free

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Now that you know what your credit score is, you'll generally fall into these two buckets:

- No credit score (this is the first credit card you'll be opening) or low credit score
 - Student credit cards and secured cards: these credit cards are easier to qualify for (some don't require a credit history), however these are very limited. These types of credit cards require a deposit (minimum \$200) that will act as your credit line (meaning you can't spend more than your deposit). Generally, after 6 months of "good behavior" aka paying your bills on time, you'll qualify for an upgraded version credit card & get your deposit back. These are really good options if you've never had a credit card before or need a last resort way of rebuilding your credit score

A good starting point

First credit card

- Discover it® Secured Credit Card
- Capital One Platinum Secured Credit Card

Student credit card

- Discover it® Student chrome
- Chase Freedom® Student credit card

Next stage

Fair to good credit score (you'll qualify for the same issuers but for different tier deals)

- If you have fair to good credit score (above 670 or, in some case, above 720), you should pick your credit card based on your spending patterns so you can maximize on their perks, cashback and rewards

How to do that?

Take your bank statement from the past few months and see which categories you've spent the most on Frich. Now pick the credit card that offers the best rewards and perks in the category you spend the most on, here is a good starting point:



For Travelers:
Chase Sapphire Preferred® Card



For Entertainment:
Capital One SavorOne Cash Rewards Credit Card



For Gas & supermarkets:
Blue Cash Preferred® Card from American Express



For Online Purchases:
Bank of America® Customized Cash Rewards credit card



For Cash Back:
Wells Fargo Active Cash® Card



For Dining Out:
Chase Sapphire Reserve

If you have irregular income (freelance, contract, etc.), focus on building in flexibility. Try to keep your balances low and consider setting up autopay for at least the minimum so you don't accidentally miss a payment.

APR matters for cost, not your credit score. A lower APR can help if you carry a balance, but it won't reduce the impact of a late payment. What matters most for your score is paying on time, every time.

How to collect points and redeem rewards: How to make the most out of your credit card perks

How to make the most of the perks available?

Start simple. Pick a credit card that rewards you in the category where you spend the most and in a way that you care the most. So if you eat out a lot, pick a credit card that gives you the highest rate for rewards for dining out. And if you care most about traveling, make sure you get to redeem those rewards in airline miles.

How to redeem your rewards?

You can usually do it on the portal of your credit card. Look for a rewards / cashback / points section and see how much you've collected! Check out if your credit card provider has a portal through which you should make your purchases to take advantage of the points you've collected. For example, Capital One has a portal called Capital One Travel – only if you book hotels, rent cars etc through the portal you can earn and use the points you've collected.

How does credit card debt work?

Credit card debt is the total amount of money you owe when combining the outstanding debt (money you've spent) on all your active credit card accounts.

As a consumer in the US, you should open a credit card and start building your credit score as early as you can. Think of using your credit card as borrowing money from your future self (next month's self). When you use your credit card to make payments, you will receive monthly statements that will show your:

- Statement date
- Statement balance (total you've spent)
- Minimum payment (the least amount you can pay so that it doesn't count as a late payment)
- Due date (usually you will receive a grace period ****varies****, when you need to pay by

When you make the payment, the amount you do not pay back will start earning interest. The interest amount varies based on your credit score and the quality of your credit card.

Let's say my credit card bill was \$200 and my minimum payment was \$20, with a June 1 due date. If I pay back \$100 on May 31, every month after that my remaining \$100 will start growing with the interest rate I have on my credit card (you can see yours on your credit card account). If my interest rate is 20% (credit card interest rates are some of the highest interest rates in the industry), in June they become \$120 (\$100 + 20% of \$100), July \$144 (\$120 + 20% of \$120), August \$172.8 (\$144 + 20% of \$144) etc. Now imagine what happens if each month you only pay off your minimum payment, which technically makes you "not miss a payment".

How to repay it?

The best way to repay your credit card is to link it to your bank account for automatic monthly payments. Try to always pay off the entire outstanding balance (the amount you spent) and always make sure to pay it on time.

NOTE: Credit card issuers won't let you pay your credit card bill with another credit card.

NOTE: Depending on your payment method, the payment will arrive on the same day or the next business day. By law, any payment made before 5pm must be credited on the same day.

What's an okay amount of credit card debt?

It might sound like owing zero is the way to go. That's not fully true. You should utilize your credit cards to prove to lenders that in the case where you need to borrow money, you can pay it back on time. If you own different kinds of debt – credit, mortgage, auto – that's good (especially if you are showing on-time payments).

Creditors want to see that you can manage and repay multiple debts on time. Of course, borrow only what you can pay back. When it comes to credit cards, most lenders prefer to see you utilize 30% or less of your available credit.

How to use your credit card properly?

In conclusion, here are important steps to take when using a credit card:

- Be very selective when choosing a credit card
- Don't spend money you won't be able to repay
- Don't open more credit cards than needed
- Set up automatic payments
- Never miss a payment
- Try to pay off as much as you can (the myth that carrying a credit card balance is good for your credit score is false; the correct definition for it is credit card debt)
- Check your credit score regularly

Checklist for Credit Cards

- Figure out your credit score (NOTE: you can only have a credit score if you have legal permit to be in the US and have a SSN)
 - If you've never opened a credit card before, you won't have a credit score

Gather all necessary information to apply for a credit card

Name, birthday (will need a passport or national ID)

- SSN
- Annual income (employment letter, tax return or previous bank statements proving source of income)
- Home address (lease, utilities bill etc)

Do you fall into any of the "special cases"?

- Low credit
 - No credit
 - Current student

Check your bank statement for the last 3-6 months & figure out where you spend your money the most

- Travel
 - Dining out / entertainment
 - Groceries / gas
 - Online purchases

Decide what matters the most to you

- Perks / access (airport lounges, early access etc.)
 - Cash back (btw you can use this directly to pay back your credit card bill)
 - Airline miles

- Use these three pieces of information to filter out the available credit cards from websites like <http://nerdwallet.com>.

- Go & sign up for the card online or in person if you have any questions you want to ask in person!

- Your credit card will arrive by mail and will be activated once you make your first purchase with it.

You've got this!



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