

The Four Things To Know Before You Get Your First Credit Card

As a 20-year-old college student, I didn't think I had much need for a credit card. I didn't have an income that covered much more than my Starbucks, I was still dependent on my parents for any larger purchases, and I went to a highly communal college where the handful of local stores happily accept "points" that could be loaded onto special cards by your parents. For the rare times I need something off campus or when I'm at home, I happily swiped a debit card, unaware that there may be any disadvantages to my lack of plastic.

At the time, I was right; I really *didn't* have much need for a credit card. Especially given the Credit CARD act of 2009 which required anyone under the age of 21 to have an adult cosigner, it didn't seem like a practical decision.

I'm not the only young adult hesitant to use a credit card. According to a 2015 [poll](#) conducted by Money Under 30, twenty somethings after the 2008 financial crisis were three times as likely to use cash or debit cards rather than credit cards for purchases as they were before. And while I can relate to the desire to keep things simple and avoid the temptation of debt, the main reason to get a credit card early isn't necessarily for the services it will provide you, but for the sake of building up a history of responsible credit usage.

There are real tangible benefits to starting early that will pay off down the line. In fact, a [full 15%](#) of your credit score is based on the length of your credit history alone. This is the same credit score that employers may look to in background checks and that landlords may check before leasing you your first apartment.

A strong credit history can also be your armor against racial bias and discrimination in the credit industry, which is unfortunately prevalent. A 2017 [Urban Institute study](#) analyzed the predominantly nonwhite and white areas of 60 cities to see which had median credit scores of 660 or lower. In the nonwhite areas, 50 out of the 60 total cities had a 660 median credit score or lower. In the predominantly white areas, it was only four.

Now that we know *why* it's important to build up your credit history early, let's dive into the key terms to know and take into account before acquiring your first credit card.

1. Credit Limit

The credit limit, while intuitive, is one of the most important factors to be kept in mind. This refers to the maximum amount of credit available to someone before they have to pay off the

balance. Credit limits differ from person to person, and are determined based on factors like [credit report and income](#).

The reason why the credit limit is key? Your credit utilization ratio, in other words, how much you've spent against your credit limit, is typically one of the most heavily weighted factors in determining your credit score, accounting for a full third of the overall number. The Consumer Finance Protection Bureau recommends that to keep your credit score healthy, you should avoid letting your credit utilization ratio rise above 30 percent (so, if your limit was \$1,000, your balance should always be below \$300, even if you wind up making multiple monthly payments.)

2. APR: Annual Percentage Rate

The Annual Percentage Rate, or APR, can be thought of as the "price you pay for borrowing money," the [CFPB](#) explains. Often referred to as the interest you pay, the APR can be calculated by [comparing the interest rate](#) and fees to the amount you borrow in a year. While you can avoid paying interest if you keep up with your payments, the APR is an important feature to know because it indicates how much you will owe in the event that you do miss your payments' due dates.

There are many different types of APRs, one important distinction being between Fixed and Variable APRs. Fixed APRs will stay the same even if the cost of borrowing changes, while APRs can change.

3. Annual Fees

It is no longer difficult to find great no-fee credit cards. In fact, [U.S. News](#) reported in 2019 that nearly 70% of credit cards don't have an annual fee, and for the ones that do, the fee averages about \$110 per year.

There are a few common exceptions. The first is obviously luxury credit cards, which justify sometimes large annual fees with generous perks like free travel, lavish cash back and regular airline upgrades. Luxury cards can absolutely be worth it, particularly if you are spending a lot on travel or getting reimbursements through work.

If you have low credit, you may also want to consider a secured credit card, which sometimes have annual fees. With a secured card, you provide a small cash deposit to the bank which is used as collateral against what you borrow. After a period of responsible credit activity, you can

either upgrade to a non-secured card or close the account and get your deposit back, armed with better credit to find a better credit card elsewhere.

4. Benefits and Perks

In part because younger people are less likely to use credit cards than they used to, issuers have looked to benefits and perks as ways to lure you in. When picking your card, think about what perks will be the most advantageous in your own life. If you're a big traveler, investigate credit cards that will get you airline points, if you've picked up an online shopping habit during quarantine, you might like shipping and shopping discounts, provided by some cards, and if you're a college student like me, you might go with the [Discover college student card](#), which offers rewards for good grades.

Another great option for a first time credit card owner is a cash back card. You might sacrifice rewards or travel points, but if you're like me and you care more about getting cash back now than sitting in a fancy airport lounge a few years from now, you might like to choose from one of the many cash back cards. The [Discover Chrome for Students](#) card offers 2% cash back at restaurants and gas stations, which could be a good fit for the student who's maybe old enough to own a credit card but not quite old enough to cook for themselves.

Although it might feel overwhelming, it's worth it to take the time now to do your research, choose a card, and begin building up your credit. Your future self will thank you for being ahead of the game and setting yourself up for success.