



7 Perks of Plastic

The Motley Fool

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Despite the lending industry's less-than-centered ways, credit cards can be a tool for good in the hands of a savvy consumer.

Their popularity is clear: More than 80% of U.S. households have at least one credit card. And we certainly give our cards a workout.

Lenders like our credit card reliance and have cooked up many ways to help you "get the most from your credit card." Need some quick cash for a vacation? How about a "convenience check" (or "cheque," for those impressed by Olde English)? What your lender neglects to mention (or at least mention in a typeface that is readable by humans) is that those "cheques" usually carry conveniently high fees, not to mention a higher interest rate that has no grace period.

Another popular selling point is the "bill breather," a perk that typically appears around the holidays or summer vacation. "Go ahead and take a one-month break from making a payment — on us," they say. You won't get socked with a late fee or have your credit report marked with a delinquency. Oh, but there is that little matter of interest that is accruing if you carry a balance. Did someone forget to point that out? (These are just a few of the tricks up their sleeves. There are plenty more where that [came from](#)).

But there are true perks (besides those offered by rewards cards) to carrying a credit card that works to your advantage. Consider these:

(1) Convenience: Convenience is one of the lending industry's top selling points. No need

to bundle up a few Gs to take that gondola tour of Venice before it sinks into the Adriatic or to hit Nordstrom's annual shoe sale — either in stores or online. All you need to have on you is one paper-thin slip of plastic that can pay for your purchases down to the dime.

Convenient for you, and profitable for lenders. They take a cut from retailers who accept credit cards, so they're banking on the widespread convenience of plastic.

Compare the convenience offered by a credit card to that of a debit card, which is linked directly to a person's checking account. Some debit cards have charging limits (e.g., you cannot put more than one \$500 transaction on your card in a single 24-hour period). Try ordering a Dell computer online with one. (We did. No luck.)

There are ways around the limitations. You can use your debit card as a credit card by signing for purchases instead of using your PIN. If you don't have enough money in your account to cover the purchase, the bank will most likely cover the excess — essentially acting as a creditor. But they'll charge a hefty insufficient-funds fee for covering your shortcomings.

(2) Budgeting technology. If you're good about paying your bill in full on time every month, your credit card can be a powerful budgeting tool. Each month you get a master receipt — your bill — which is an itemized rundown of where your money went. They've

already done the hard part. Now go ahead and use their record to help track your spending.

If you get your statement online, you can likely import the data into some sort of personal finance tracking software like **Intuit's** ([Nasdaq: INTU](#)) Quicken or **Microsoft's** ([Nasdaq: MSFT](#)) Money. Some cards categorize your purchases and send quarterly or annual summaries on your spending, including percentage breakdowns on what you spent at retail, dining, and dog-grooming merchants.

(3) Reputation boosting. Frankly, there's no better measure of your creditworthiness than how you handle a credit card. It's as simple as that. When lenders want proof of your gold-hearted ways, they consult your [credit history](#) for a black-and-white snapshot of your ability to: 1) be deemed creditworthy by other lenders, and 2) pay your bills on time and avoid spending benders.

There's a direct link between your creditworthiness and the amount of available credit you're given. While that doesn't mean that you should go crazy and open a dozen MasterCard accounts, you should consider using credit to establish a firm borrowing history, especially if you're going to apply for a large line of credit — like a mortgage or car loan.

There are all sorts of ways to play the credit scoring game to your advantage. Here are some:



[Credit Scores Age Like Vintage Bordeaux](#)
[Six Tips for a Clean Credit Record](#)
[The Real Impact of Late Payments](#)
[Beauty Secrets of Credit Score Stars](#)
[What's a "Good" FICO Score?](#)

(4) The float. Most credit cards offer you a grace period (if yours doesn't, dump it now). That means that if you have no balance on your card at the time of a purchase, you have anywhere from 20 to 30 days during which your lender will not charge you interest on your purchase. This is called the float, and it's pretty standard on all cards. It's a great breather for unexpected expenses — like paying for an airline ticket you hadn't planned in your budget so you can attend your best friend's last-minute elopement. It also saves you from paying interest on a purchase that you eventually return.

The float is a nice convenience, but don't use it to get greedy. Some people use the grace period to game an already game-y system. But taking a cash advance from your card — even after you factor in fees and interest — to try to make a few bucks in an interest-bearing account is an accounting hassle that has too many opportunities to go wrong. And curses on those who use a low- or no-interest cash advance to invest in the stock market. Unless you have the superpower to determine the market's every move, there's no shorter path to financial ruin.

(5) Openness to negotiations. Here's a trick that Fools the world over have employed. What do you want your lender to do for you? Waive the annual fee? Lower your interest rate? Forgive a late payment? All you have to do is ask.

The lending industry is so extremely competitive that it's in your lender's best interest to keep you from walking to a competitor. The cost of wooing a new customer ranges from \$50 to \$150 per account.

The ploy with the most impact is to play the "Top This Rate" game with your lender. If

you're trying to pay down a balance on your credit card, a lower interest rate will enable you to do so much faster. Although it's not as easy as it once was, getting your lender to play ball and knock off fees or points from your interest rate can pay serious dividends in your favor.

(6) Corporate might. When you make any purchase with a credit card, you've got someone — a big someone with a lot of corporate pull and possibly a baseball stadium named after him or her — on your side. When buying a high-priced item, putting it on your credit card gives you immediate purchase protection that you just don't get when you pay with cash or some ATM cards.

Most cards boast about their purchase protection program, saying they'll replace an item you bought with your card if it's lost or stolen. (There are a lot of limitations, so make sure to check the fine print.) Some credit cards automatically extend your product warranty when you use them to pay for a purchase. And if merchants don't deliver on their promise to you, your lender can take up the fight on your behalf. After all, it's ultimately their money on the line. Let them be the heavy-hitter for you.

(7) Cops and robbers. If you're the victim of theft, first call your mother to let her know you're OK. Then call your lender. Most credit cards are very responsive working with customers to resolve theft issues. After all, fraud is one of the industry's biggest money busters. Card issuers lose about \$1 billion each year to credit card fraud. Most lenders hold you liable for just the first \$50 of a crook's spending spree. (Many will even waive that amount if you ask kindly, between sobs.) With the growth of online account access, customers are able to spot fraud well before their next card statement arrives via snail mail.

If a thief manages to wrestle away your ATM card, which is directly linked to your checking or saving's account, you may lose

whatever money is in your account as the crooks charge and charge until your balance runs dry. Because of this quirk, a lot of banks have started implementing similar protection measures as offered by their credit card brethren. Just to be sure, check with your customer service reps before you leave home with a check card.

[Dayana Yochim](#) owns shares in none of the companies mentioned in this article. [Intuit](#) and [Microsoft](#) are both [Motley Fool](#) [Inside Value](#) recommendations.

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