Credit Card Buying Guide

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If you're considering getting a new credit card, you probably have a good reason. You may be thinking you'd like to earn miles toward air travel or a hotel stay. Or if you drive a lot, you may want to reduce your gas expenses by using a cash-back card. Card issuers make it tempting to apply by offering sign-on bonuses or waiving certain fees, such as a balance transfer fee.

But if you decide to apply for a new card, think also about how much it may cost you. Consider whether you'll be paying off your credit card balance each month and what the interest rates are on outstanding balances.

Something else that will determine whether you qualify for a particular credit card is your credit score. While cards are available to consumers with poor, good, fair, and excellent credit, the best rewards card deals, it's worth noting, are reserved for those with credit scores of 740 and higher.

Weighing the Perks

When you go shopping for a credit card, there are plenty of offers designed to entice you to apply. Here's what you need to consider.

Up-Front Bonuses
Some cards offer cash bonuses for signing up and spending a certain amount—usually from $500 to $3,000—within the first three months. A bonus may include 40,000 miles just for signing on or an extra $500 in cash back in the first year.

Teaser Rates
Many cards offer you initial low interest rates, which can be attractive to people who carry a balance. Some even offer 0 percent introductory rates. If you are tempted to apply for a card that offers such a teaser rate, read the fine print so that you know how much the rate could rise when the introductory period is over. Otherwise, without realizing it, you could end up paying a high interest rate on an outstanding balance. If you are considering such a card because you are already paying interest on a different card, find out what the balance transfer fees are before transferring the balance to a new card.

Free Airfare
Frequent flyers might be enticed by "free round-trip ticket" promotions by airline and bank cards. Bank cards usually let you redeem points with any airline, so you generally can get an unrestricted flight without being subject to blackout dates and limits on the number of reward

seats. With cards issued by airlines, you might need to use up to 50,000 points to get an unrestricted flight on the dates you want to travel.

Waived Annual Fees
Many credit card issuers waive the annual fee in the first year. But in the following year, the fee could kick in. So consider such offers carefully. An annual fee may be charged when the card offers rewards, such as frequent-flyer miles, hotel points, and even cash back. Is it worth paying? It depends on how much you travel. If you are a frequent flyer and the airline you fly charges you a fee to check luggage, you may be better off paying the annual fee and getting that perk free of charge.

Some airline cards that charge annual fees provide other benefits, such as priority boarding. And several premium travel cards from banks and airlines offer additional benefits, such as travel insurance, trip-delay coverage, rental-car insurance, and occasionally no foreign transaction fees.

If you have poor credit, however, the annual fee won't be waived in the first year. Because you would be considered high-risk, a credit card issuer may charge you an annual fee to provide you with a credit card.

Secured Cards
If you have a low credit score, a secured card may be an appealing way to help you improve your credit. This type of card requires a security deposit, but it might be your only option. Some cards are far better than others, and you need to be on alert for onerous fees.

Credit Cards Become More Secure

Over the past year, many credit card issuers have updated their customers' magnetic-stripe-only card with one that has both the stripe and what's known as an EMV chip. (EMV stands for the three companies that came up with the standard: Europay, Mastercard, and Visa.) The liability for fraudulent credit card transactions has now shifted from the credit card issuer to whichever party—the credit card issuer or the merchant—is using the least secure technology.

For consumers, the new card readers are now common. Instead of swiping your card through a card reader at the cashier (so that it can read the data on the card's magnetic stripe), you now insert it until the transaction is complete.

The card reader then communicates with the chip on your card using cryptographic algorithms to authenticate the card. The benefit is that because the data are housed on the chip, it will be much more difficult for thieves to replicate the information than it was when it was stored on the magnetic stripe.

This is a big leap forward. For years the U.S. had been behind most other nations in card-payment technology. Most other countries have long used chip-and-PIN technology, requiring the user to insert the credit card into a reader and enter a personal identification number.

Meanwhile, American cardholders were still using decades-old magnetic-stripe technology to make credit and debit purchases. The data stored on these magnetic stripes are unencrypted, easily counterfeited by skimming devices, and have cost credit card issuers—who until now usually absorbed the cost of the fraudulent transactions—billions of dollars annually.

The expectation is that the new chip will help reduce fraud. One thing to realize, though, is that just because your card has an embedded EMV chip doesn't mean it's necessarily using true chip-and-PIN technology. Many U.S.-issued credit cards instead use what is known as "chip and signature" technology. So even though you will dip your EMV-chip card into a new card reader, you'll still need to sign for purchases—instead of entering a PIN, a less secure process.
But even true chip-and-PIN transactions can't guard against other types of credit card fraud. According to one industry forecast, online transaction fraud is expected to double over the next three years.

Credit Card Gotchas

Reading the fine print of rewards programs before you sign up can steer you away from cards with these catches.

Seasonal Savings: Some cards offer cash back in rotating categories that can correspond to the season in which people generally shop for those items. But there's a cap on how much you can earn in each category.

Spending Tiers: If you're not a big spender, watch for terms that require you to spend a certain amount to get the advertised perks. Some cards will require you to spend $3,000 before you get a particular benefit. Others' requirements could be as low as $500.

Hidden Caps: While the cash back on many cards sounds great, there is often a cap on how much you can spend and still get the same cash-back award. You may be offered 3 percent cash back on groceries, say, but only for the first $1,500 of expenses. After that, it could drop to 1 percent.

Expiration Dates: Check for expiration dates on rewards, especially with travel cards, because it often takes a long time to accumulate enough points for a ticket.

Missed-Payment Penalties: Some cards deduct the points you earned in a particular month if you miss a payment. They also might charge you a reinstatement fee of $25 to get the points back. Set up account alerts for payment due dates or arrange to have your bill automatically paid out of your checking account to avoid losing your rewards.

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