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Avoid These 7 Pitfalls When Choosing a Credit Card

We got out our magnifying glass and read the fine print to help you find a credit card that fits your lifestyle.

Are you in the market for a new credit card? If so, you should carefully weigh several factors before deciding which one to choose. The stakes are high when it comes to the various associated rewards, bonuses, rates and fees out there, especially considering that the average consumer holds two cards, according to Experian, the credit reporting company.

Making the right choice depends on seeing through "big sell" promises of luxurious living and vacations and instead getting down to the nitty-gritty of how the advertised advantages stack up against the anticipated expenses.

When making your decision on which credit card to apply for, don't be swayed by features you likely won't use, and don't overlook the big picture. Here are 7 pitfalls to avoid when selecting a new credit card:

1. Choosing rewards that don't fit your lifestyle.
Rewards offerings are so tempting—free airline miles, merchandise, cash—that it's often difficult to choose. Your best bet: Focus on what kind of rewards best serve your goals, depending on your personal situation.

"For a family with children, you want to maximize the rewards for the money you're spending," says Matthew Coan, founder of Casavvy.com, an online resource that compares options and features for credit cards, checking and savings accounts. "This could include cards that allow you to earn bonus rewards on purchases for gasoline, groceries or any additional items the card features. However, if you're someone who travels all the time, you'll likely get more out of a travel rewards credit card program."

In either case, it's smart to find out exactly what you have to do to earn the bonuses, given that a minimum-spending amount may apply, Coan says.

You also want to be sure that you won't squander those earned rewards—such as failing to redeem them before they expire or losing them due to a late payment. The average household earns $622 in rewards every year (whether cash or otherwise), but $205 of that total goes unredeemed, according to research from Colloquy and Swift Exchange.

2. Not reading the fine print regarding bonuses.
Here's where you really get to pump up the "goodies" part of the equation. The best, upfront sign-up bonuses generally are 50,000 in airline miles, multiple hotel stays or points/cash that will net you $400 or more, says Jonathan Duong, a certified financial planner and president/founder of Denver-based Wealth Engineers, a fee-only investment and financial planning firm.

Typically, you should earn these after your first purchase, although some of the bigger bonuses may involve spending a certain dollar amount within the first few months.

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"You need to review before applying for the card," Duong says. "Look for the footnotes on the offer page, as well as 'price and terms,' which is usually on a separate page. In most cases, the footnotes will provide details about the bonuses offered and what you have to do to earn them. 'Price and terms' will outline the rates, charges and associated fees. Print this so you'll have them for your records."

3. Being surprised by transfer fees.
The balance transfer fee can sneak up on you. After all, you're drawn to a new card because it promises lower interest payments and nice bonuses, and all you have to do is move your balance from your old card to the new one.
But wait: Did you check out the transfer-fee policy? "Some banks now offer up to 18 months of zero percent interest on balance transfers, which is one of the best options available today," Coan says. "But most come with a balance transfer fee between 3 to 5 percent. You have to do the math to see if it's worth it."

4. Getting caught by budget-busting interest rates.
The purchase annual percentage rate (APR) remains the primary fee that most directly affects your budget: It's what you pay if you carry a balance on purchases you make. As of June 2014, the average APR for fixed-rate credit cards was about 13 percent, where it had held steady since early 2013, according to Bankrate.com. At the same time, the average APR for variable-rate cards was higher, at about 15.5 percent. The average credit card debt per U.S. adult exceeds $5,000, according to CreditCards.com, and the figure soars to $8,220 for accounts carrying any balance. Given that such a lingering, unpaid debt could amount to thousands of additional dollars paid over time, you might consider other options entirely if you anticipate challenges in paying off your balance in full every month."Credit cards are not a good tool if you've had trouble maintaining a budget or keeping your spending in line," Duong says. "In this case, I recommend using your debit card only. The bonuses you earn will never compensate for the interests and fees you pay if your financial house isn't in order."

5. Assuming that the introductory rate won't change.
Many cards offer zero interest, but only temporarily. Always inquire as to when that deal ends and what the permanent rate will be. "Companies typically offer three variable rates: one for great credit, another for good credit and a third for poor credit," says attorney Leslie Tayne of New York-based Tayne Law Group, P.C., which specializes in financial and debt issues. "Ask about which one you qualify for so you know exactly what you'll pay after the grace period ends."

6. Underestimating your credit limit needs.
There's only so much you can put on a single card. And if you exceed your limit, you'll take a hit. "Check to make sure you're not likely to surpass the credit limit," Tayne says, "or you'll leave yourself vulnerable for penalties."

7. Being wooed by the "fun" factor of branded cards.
Got a favorite sports team? Want to put your old college's colors on display? You can include the "fun factor" of a "branded" credit card as part of your criteria. But you could pay a premium in the process. "The product with your favorite sports team may not offer the best interest rate or rewards program," credit counselor Thomas Nitzsche, of Atlanta-based ClearPoint Credit Counseling Solutions. As always, read all terms and conditions before taking the plunge.

Reference. http://www.credit.com.