



## Everything Comes With a Cost: The Hidden Dangers of Earning Credit Card Points

### Description

[Rewards cards](#) are deceptively simple. Just swipe, pay, and earn. Pretty simple, right? Whatever you earn you can redeem for cash, statement credits, flights, gift cards, merchandise, the whole nine yards.

But with so much earning potential, rewards cards also come with some risks. Using your credit card in a routinely disadvantageous way will come back to haunt you, often in the form of fees and earned interest. If the bad habit persists, it can even wreak havoc on your [credit score](#).

What exactly are these risks, and how can you avoid them? Let's see how you can get the utmost out of your [rewards credit card](#).

### Carrying a balance

Perhaps the biggest credit card mistake you can make is carrying a balance on the card.

Carrying a balance means you failed to pay off purchases from the previous month. For instance, if your statement says you need to pay \$500 by a certain date, and you only pay \$350, you'll carry \$150 into the next month's billing cycle.

That's when things can get rough. For one, you'll start paying interest on that \$150. Your credit card provider will go back to the dates on which you charged that \$150. Then, they'll charge you interest for every day between then and the day you finally pay it.

Given that rewards cards have interest rates between 19.99% and 29.99%, you could end up paying a lot in interest. And if you continue to use your card, the balance will only grow. At a certain point, you may no longer have enough to pay the minimum payment, which will result in late fees and a damaged credit score.

If you're struggling to pay off your monthly balance, consider getting a [balance transfer card](#) with an introductory low APR. The low interest rate on the new card will help you put more toward your

principal and less toward your debt.

## Using too much available credit

Credit card providers will give you a credit limit on your rewards card. In theory, you can use 100% of your [credit limits](#) without incurring a fee. In practice, however, using 100% of your card's credit limits (or even 30%) is never a smart idea.

For one, you run the risk of charging more than you can eventually pay off, which can result in higher interest and late fees (if it comes to that). Second, you can damage your credit score.

A large part of your credit score is your [credit utilization ratio](#) (30%). This measures how much credit you're using relative to how much total credit you have across all your cards.

For instance, if you charge \$3,000 to one card, and you have a total of \$10,000 across all your credit cards, you'd have a credit utilization of 30%.

For Canadians, 30% is pushing the limits. In general, you want to keep your utilization ratio below 30%—though 10% or lower is even better. The less credit you use, the less cash-strapped you appear to lenders, which could help you if you're applying for a loan, mortgage, or another [rewards credit card](#).

## Missing a payment

Late payments are serious business.

Making a payment after its due date could have a major impact on the payment history component of your credit score, which is a whopping 35%. What's worse—a missed payment stays on your record for six years.

Fortunately, credit card companies will give you time to make a missed payment before reporting it to credit bureaus. Usually, you have 30 days to make a payment once it's deemed late, though some credit card companies could give you more time.

## Buying more than you can afford

A rewards card helps you borrow money. But it doesn't help you if you borrow *too* much. Maxing out your rewards cards — without paying them off before the billing period ends — means you're going outside your budget to make purchases. Do that too often, and you'll have a *very* expensive credit card habit on your hands.

If you're the kind of person who goes on shopping sprees, you might want to make [a detailed budget](#) beforehand. Know exactly which expenses will go on your credit card (groceries, gas, entertainment) and which *won't*, and you'll be in a better position to say no to things you truly can't afford.

## Use your credit card the right way

Rewards cards seem simple. And, for the most part, they are. But, if you want to take advantage of all their rewards and perks, as well as stay away from pitfalls, try to use them strategically. Along with getting the [right credit card](#), avoiding these rewards card traps will make your hard-earned rewards work hard for you.

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