

Beginner's guide for credit cards

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Contents

- It is simple to become an expert for credit cards
- 1. know the rules
- 2. earn points/miles
- 3. redeem

US credit system

Why cashback?

- It is a trap for consumer
 - Overall, Americans owe **\$807 billion** across almost 506 million card accounts.[1]
 - Annual percentage rate can be ~20%
- Fee from merchants
 - Transaction fee can be 1.5%~2.5% for Visa/Master, 1.6%~3.5% for Amex [2]
- Co-brand
 - Brands sell points at low price to banks -> banks pay consumers with points instead of cash -> consumers redeem points for unoccupied hotel rooms/flight seats
 - Inflation at will

[1] <https://www.valuepenguin.com/average-credit-card-debt>

[2] <https://www.uscreditcardguide.com/meiguoxinyongkashuakashouxfexiaokepu/>

Why we still take the bait?

- Miles/Points: An alternative payment system
- Loyal program: extra perks (upgrades, free breakfast, lounge access, etc.)
- Award chart: fixed redemption rate for hotels/flights
- Hidden rules for flights: stop over, open jaw, etc.
- Hidden rules for hotels: 5th night free, etc.

My trip in 2019

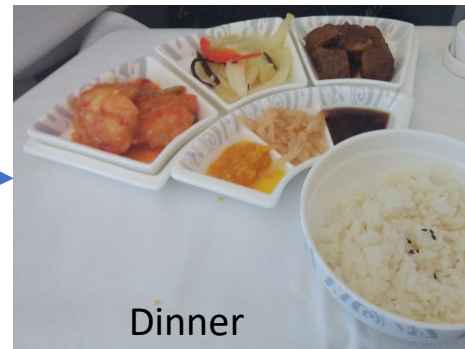
- 90k ANA miles for a trip to Shanghai (home), Shenzhen (MICCAI conference), Hongkong (short trip) in business classes (EVA and Shenzhen airlines)
- Flat bed, nice meal, amenity kit



My trip in 2018 SEA-PEK by Hainan Airline



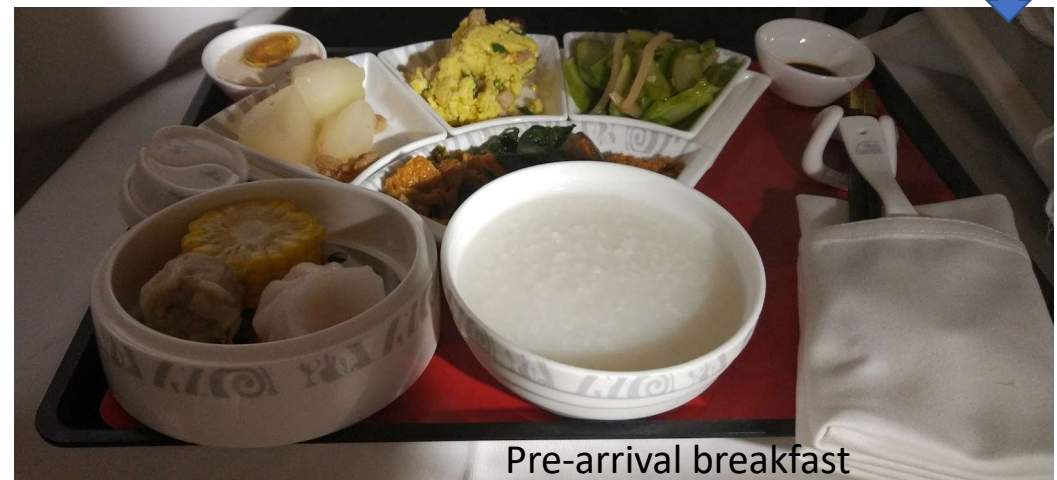
Pre-meal snacks



Dinner



Mid-flight meal



Pre-arrival breakfast

So.. Are you interested?

- If you never travel, my suggestion is applying a 2% cashback card (Citi Double Cash) and you can skip this guide.
- How to earn points/miles?
 - Welcome bonus from new credit cards
 - Daily cashback
- No matter which way, you need to get approved for a credit card
 - Knowing the credit score is useful

Credit score

What is credit score?

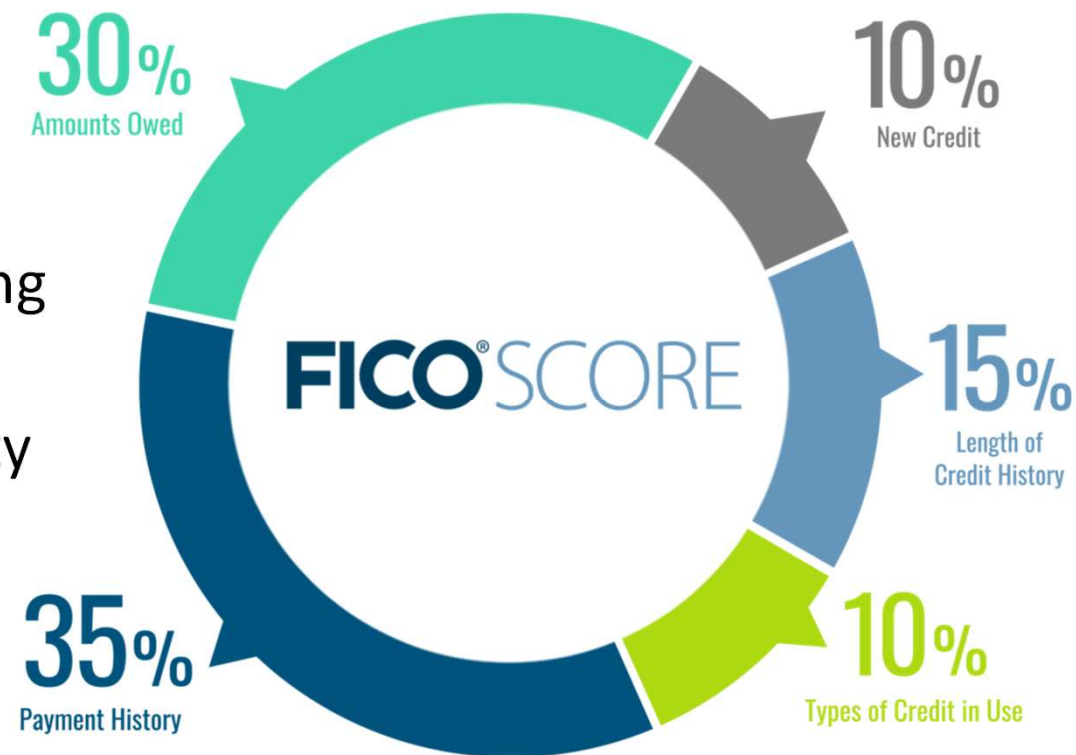
- A credit score is a numerical assessment based on a level analysis of a person's credit files, to represent the credit worthiness of an individual.
- From one of the three major credit bureaus: Experian, TransUnion, and Equifax
- FICO 8 score

Why we need to care credit scores?

- Important for credit card application
- Reduced interest rate for loan
- Not limited to banks

Portions of scores

- Auto payment
- Lower the amounts owed
 - Pay the debt before statement
- Plan credit card applications in a long term
- Diversify credit types: Loan, diversity of banks



How to check score

- Check through banks
 - Websites
- Check credit report
 - Experian: <http://www.experian.com/>
 - TransUnion and Equifax: <https://www.creditkarma.com/>

FAQ

- How good is good?
 - 670–739 is good, 740-799 is very good, and 800-850 is exceptional
 - No definite answer, higher better
 - But score does not mean everything
- Why my credit card application is rejected even if my score is XXX?
 - Many factors will contribute to the decision
 - Good relations with banks are more important than the FICO score
- Will credit card application reduce score?
 - Yes for short term
 - No for long term
- Higher credit limit helps?
 - Yes, if you don't pay debt before statement
 - More importantly, your available limit will help other lenders' make decisions

Cashback

How to maximize your daily spending

Which card to use for each category?

- For all the categories: consider gift card with >8% cashback
- Restaurant: Freedom*>Prestige>Amex Gold>Discover*>Freedom Flex/CSR/CSP>Hyatt
- Grocery: Freedom*>EDP>Amex Gold>Discover*
- Gas: Freedom*>Discover*>EDP(3)>Premier(3)
- Airline tickets: Amex Plat(5)>Prestige(5)>CSR(3)>Amex Gold(3)>Premier(3)
- Hotel: co-brand cards>CSR(3)>Prestige/Premier(3)
- Other travel: CSR(3)>Premier(3)

- Last choices: Citi Double Cash(2)>Freedom unlimited (1.5)>2% cashback cards
- Do no use: 1x mile or 1% cashback cards
- Baseline for non-category: Visa Gift Card (4MR-1.1%=5.3%)
- * only when that is the rotation category

Order for applying new cards with max bonus

- 0. If no credit history: Discover it (students)
- 1. Chase (until 524): first open a checking account, CSP/CSR (48m CD), Marriott/IHG/Hyatt, United/Southwest
 - Freedom? Why not downgrade to Freedom?
 - Freedom unlimited? For just \$100 welcome bonus?
 - Starbuck/Disney? Apply for collecting card designs?
- 2. Citi: first open a checking account, Premier/prestige (24m CD)->downgrade to double cash/custom cash
- 3. BOA: Alaska (24m CD)
- 3. Citi AA (24m CD)
- 2-4(based on offer). Amex: Platinum (wait until highest offer, one flavor each year), Gold
- 4. Hilton (up and down), Delta, Marriott (if no Chase)
- 5. Other banks wait until 2 years

So many cards? I need only 1/2/3?

- One-card option: Double cash on everything
- Two-card option 1: Chase CSR for point transfer/primary rental car insurance/pps + Freedom Flex for travel/dining/drug store(VGC)/rotation category(VGC)
- Two-card option 2: AMEX Platinum (one flavor per year) for travel/pps + AMEX GOLD for grocery(VGC,GC)/dining
- Three-card option 1: 1 card option + 2 cards option
- Three-card option 2: 2 cards option + new card for bonus

Caveat: annual fee for credit cards

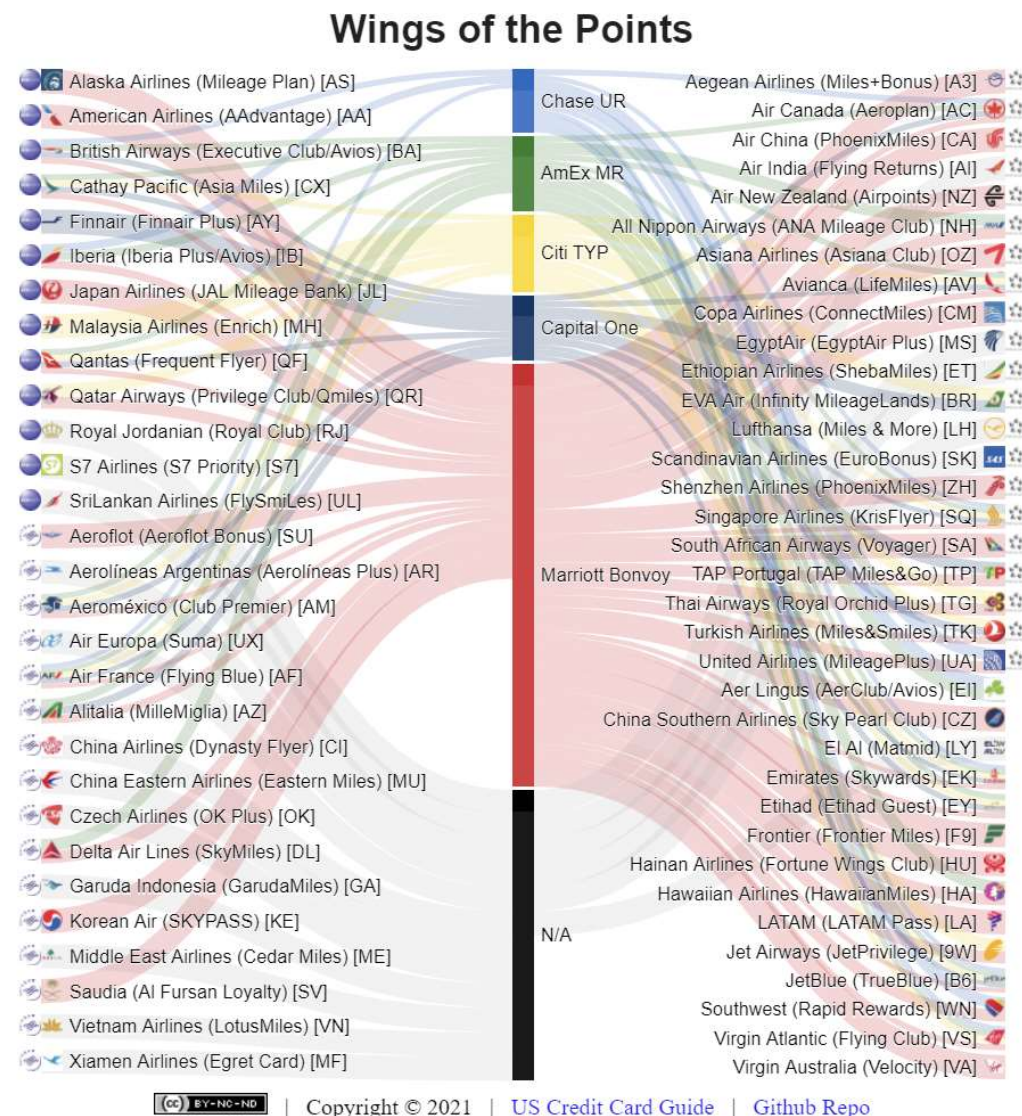
- Not all the credit cards are free
- But cards with annual fees are usually coming with extra benefits
 - Priority pass
 - Rental car damage insurance
 - Credits for certain categories
 - Free night certificates
 - Free baggage
 - Elite status
- Close after 1 year for cards cannot offset its annual fees
 - Airline co-brand cards
- Real annual fee can be low considering all the benefits

Cards suitable for sitting in your drawer

- Some cards are having terrible cashbacks but the annual benefits are good
- Hotel co-brand cards like IHG (\$49 for an annual free night)
- You can never take it with you and put it in your drawer
- But don't forget to use it at least once per year to avoid auto-cancellation

Form of cashbacks

- Cash
 - The most straightforward/easy, but the value is hard to maximize
- Airline or hotel points
 - Usually only redeemed within the brands
- Transferable bank/Marriott points
 - Can be transferable



<https://www.uscreditcardguide.com/wings-of-the-points-points-transfer-chart-amex-chase-citi-spg-marriott/>

Value of points for redemption

- We should always have a self-estimation for all points/miles
 - Decision for using cash or miles
 - Based on points redemption availability, how easy to get miles, reputations
- My estimations on hotel points
 - IHG: 0.45 cpp (cent per point)
 - Hilton: 0.5 cpp
 - Marriott: 0.8 cpp
 - Hyatt: 1.6 cpp
- My estimations on flight miles
 - Delta: 1.4 cpm
 - Alaska: 1.8 cpm
 - Others: 1.5 cpm
- My estimations on bank points
 - UR/MR: 1.6 cpp
 - TYP: 1.5 cpp

Value of points for purchase

- Daily cashback with miles is equivalent to buy miles with cash
- Grocery with Amex gold (4MR) vs 2% cashback
 - Buy MR with 0.5 cpp + equivalent annual fee
 - MR at least worth 1.25 cpp if cash out, usually 1.6 cpp for flights (>>0.5 cpp)
 - Still a good choice using Amex gold
- Gas with Hilton (5 Hilton points) vs 2% cashback
 - Buy Hilton points with 0.4 cpp close to the estimated 0.5cpp value
 - Risky using Hilton card for gas
- Non-category using cobrand airline card vs 2% cashback
 - Buy airline miles with 2 cpp > estimated 1.6 cpp
 - Even higher than buying miles directly from airlines when the points are for sale
 - Not recommended
- The value of points is reflected only if you have a good redemption (real cpp>your estimated cpp)
- The lower your purchase value is, the safer you are
 - inflation can happen without early warnings

Redemption

Steps for preparing a trip

- Find your friends
- Find your destination(s)
- **Flight:** route->operating airlines (service)->ticketing airlines (rules)->getting miles (flexibility)
 - Least miles for best service
 - But there are so many restrictions and choices -- That is why it is hard to find sweet spots
- **Hotels:** know the regions->deals
- Rental cars
- Attractions

Flights redemption

- Partners and alliance
- Awardhacker.com
- For example: SEA-PVG business class (cash price ~\$3000)
 - Operating airlines: BR (SEA-TPE-PVG)
 - Ticketing airlines: NH
 - Getting miles: Amex MR



95k NH miles (Show ¢/mile)
Round Trip | Business | [High Season](#)

1 stop
SEA - PVG

Operated by
NH

Transferable from
MR UR TYP **MB** C1



100k AS miles (Show ¢/mile)
Round Trip | Business | [Regular](#)

Nonstop / 1 stop
BFI/SEA - PVG

Operated by
HU, AS

Transferable from
MR UR TYP **MB** C1



160k UA miles (Show ¢/mile)
Round Trip | Business | [Partner](#)

1 stop
BFI/SEA - PVG

Operated by
Star Alliance and more

Transferable from
MR **UR** TYP **MB** C1

FAQ

- Is the award ticket worthy? When is best to book award tickets?
- Which airline to choose?
 - Which airline provides the best service?
 - Which airline charges the least miles+ tax
 - Is the award ticket available?
 - Award ticket == free flight?
- How to book award tickets?
- How to make the best value of award tickets?

Is the award ticket worthy?

- Cash or miles?
 - Based on your miles/points value estimation
 - Based on your stock of miles/points
 - Based on how complicated of your trip? Multi-city trips are usually better for award tickets
- Cash price can be very low if there are multiple competing airlines operating the same route and if you book in the right time
 - Usually <21 days before departure will lead to rising prices

Which airline provides the best service?

- Blogs
- Skytrax rating (<https://skytraxratings.com/the-worlds-5-star-airlines>)
- Five-star airlines in 2020
 - ANA All Nippon Airways
 - Asiana Airlines
 - Cathay Pacific Airways
 - EVA Air
 - Garuda Indonesia
 - Hainan Airlines
 - Japan Airlines
 - Korean Air
 - Lufthansa
 - Qatar Airways
 - Singapore Airlines

Is the award ticket available?

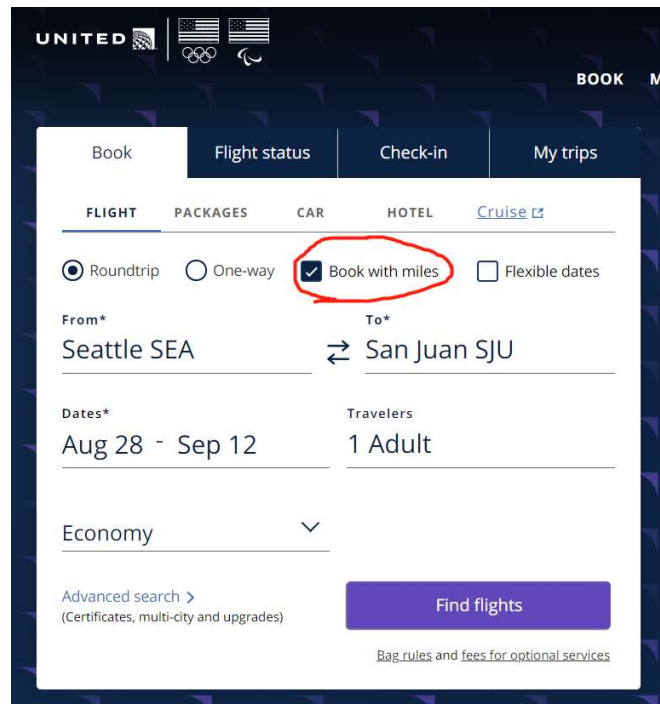
- That is the most annoying part.
- Some award tickets might not be bookable (due to system errors)
- Some award tickets must be booked by phone instead of internet
- Some award tickets must be booked as soon as they are released
 - US - Australia
- Some award tickets have restrictions
 - Must be booked with a round trip for ANA

Fees to avoid when booking award tickets






- Award tickets are not totally free. You still need to pay taxes (and fuel surcharges)
- Some airlines charge you a lot for the award ticket
 - ANA for Lufthansa's flight
- Solution 1: find another ticketing partner/alliance for the same ticket
- Solution 2: use another route/flight

How to book award tickets?

- Usually just use the search engine from the airline's website
- Partners and alliance tickets are also bookable in the same system



The screenshot shows the United Airlines booking interface. The 'Book with miles' option is selected and circled in red. The search parameters are: Roundtrip, Seattle SEA to San Juan SJU, Aug 28 - Sep 12, 1 Adult, Economy class. The 'Find flights' button is visible at the bottom.

UNITED      BOOK M

Book | Flight status | Check-in | My trips

FLIGHT | PACKAGES | CAR | HOTEL | [Cruise](#)

Roundtrip One-way Book with miles Flexible dates

From* Seattle SEA To* San Juan SJU

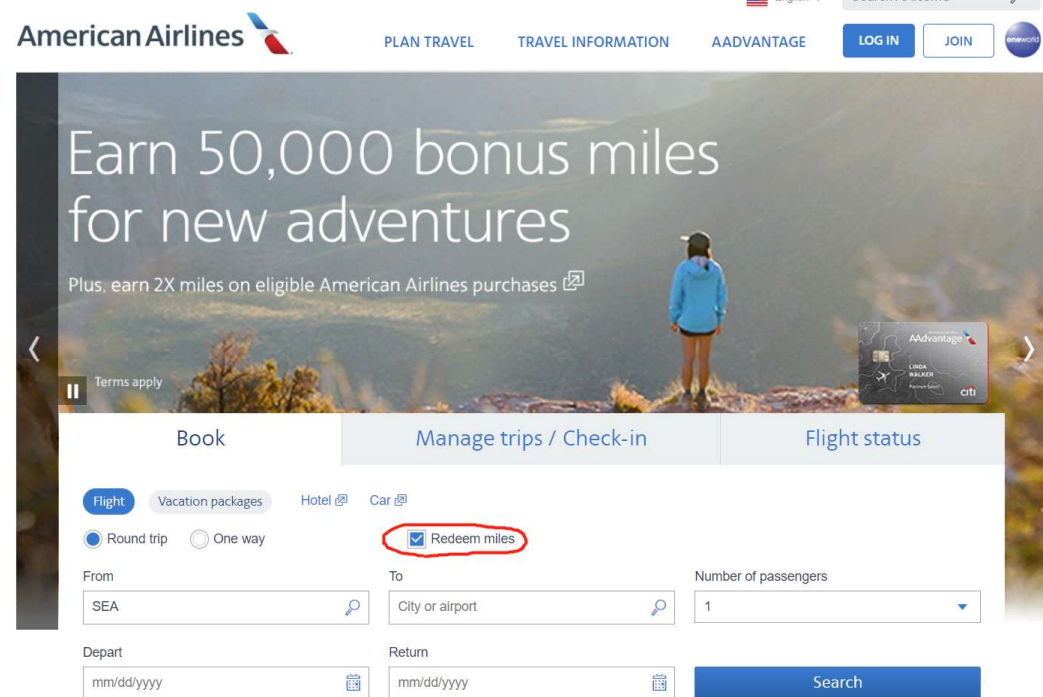
Dates* Aug 28 - Sep 12 Travelers 1 Adult

Economy



Advanced search > (Certificates, multi-city and upgrades)

Find flights

[Bag rules and fees for optional services](#)



The screenshot shows the American Airlines booking interface. The 'Redeem miles' option is selected and circled in red. The search parameters are: Round trip, SEA to City or airport, 1 passenger. The 'Search' button is visible at the bottom.

American Airlines  [PLAN TRAVEL](#) [TRAVEL INFORMATION](#) [AADVANTAGE](#) [LOG IN](#) [JOIN](#) 

Earn 50,000 bonus miles for new adventures

Plus, earn 2X miles on eligible American Airlines purchases

Terms apply

Book | Manage trips / Check-in | Flight status

Flight | Vacation packages | Hotel | Car

Round trip One way Redeem miles

From SEA To City or airport Number of passengers 1

Depart mm/dd/yyyy Return mm/dd/yyyy

Search

Know the rules for award tickets

- Some award tickets allow free stop-over or open jaw
 - Additional place for travel
 - Alaska->Hainan SEA-PEK, PEK-PVG, similar price to SEA-PVG
- One ticket can span over 1 year
 - Stop over can be your home city
 - Future one-way ticket after your current round trip
- Special rules
 - Famous Cathay 85k business class one-way 'round' trip: SEA-HKG-YVR (now dead)
 - Abandon the second flight: Delta->China Southern 7k first class CAN-PVG-FOC (now dead)

Hotel redemption

- Main issue is cash vs points vs free night certificates
- Cheap cash price can be found in Priceline or Hotwire (no points, status for the stay)
- Watch out for black out days, restrictions and the expiration date for points/free night
- If all options available
 - If require much points and cash price is much expensive than your annual fee: consider free night
 - If the real cpp is over estimated cpp: consider points
 - Otherwise consider cash