



MoneyExpert

CREDIT CARDS



THE DEFAQTO GUIDE TO CREDIT CARDS
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INTRODUCTION



We all know we should scrimp and save for that new sofa, that much-needed family holiday or that special birthday present for a loved one - but nowadays, few of us really want to wait. Let's face it - we live in a buy-now-pay-later society.

Credit Cards offer an easy way of borrowing for our everyday needs. What's more, your newfound flexible friends will even shoulder existing debt for you!

You do, however, need to keep a watchful eye on your cards. Low introductory rates are just that - a low rate for the first few months, after which annual percentage rates (APRs) often shoot up. There are plenty of cards on the market, so play the field.

But you should also be careful - too much plastic can lead to credit card chaos or a blot on your credit score, while missed payments can result in heavy fines which drive you deeper into debt.

Remember, if you treat Credit Cards right, they will be good to you. Bear in mind though - it is important to manage credit effectively and don't borrow what you can't afford to pay back.

MAKING THE RIGHT CHOICE



Pick a card, but not any card!

Everyone likes to have a choice, but there is so much bright and glossy plastic out there it can sometimes make your head spin. Firstly, you should know the difference between the various types of **cards**.

- **Credit Card** - Lets you borrow money and pay it back in monthly payments. It is largely down to you and how much you pay back each time, but there is usually a minimum payment of £5 or minimum percentage of your balance, say 2 or 3%.
- **Debit Card** - Is usually linked to your current account. Rather than taking cash out, a debit card means you can make quick and easy transactions, which show up on your account almost straight away.
- **Charge Card** - Means you charge purchases to an account. Offers a monthly statement that needs to be paid off in full. Most issuers charge a membership fee.
- **Store Card** - You will probably have been offered one of these while out shopping. They are a credit card offered by a retailer, so they restrict where you can spend. Relatively easy to get, but they charge high rates of interest on balances.
- **Affinity/Charity Card** - Money goes to charity when you open an account, as does a small percentage each time you spend.
- **Cashback Card** - Will pay YOU for spending on them. But if you do not pay off full balance every month, the interest goes sky high.

Spend or mend?

There are two common reasons for getting credit cards.

- One of these is to make purchases. With busy and fast-paced lives, most of us are rushed off our feet and need all the help we can get. And just as supermarkets can make weekly shops quicker and more convenient, pulling out the plastic and tapping in your pin number helps you to get the job done in half the time. No visit to the cashpoint, no counting out notes, no delving deep in your pocket to find the odd pennies and no worrying about the correct change.
- The other reason is to mend your balance, by transferring your existing debt into one place and making it a lot easier to manage. In doing this you can also take advantage of lower interest rates.

You can also take out cash advances, although few people would advise this as the rates are very high and there is rarely an introductory period. Many companies also offer credit card cheques, which can be used to pay bills, or make postal purchases.

Whatever you use the card for, you will have to pay back a minimum amount per month, either a lump sum or a percentage of your balance. A credit limit will also be agreed between you and your provider and will largely depend on your personal circumstances, such as salary and outstanding debt.

Knowing your purpose

Certain credit cards serve a better purpose than others depending on the situation. For example, while some cards may be ideal to use abroad, others could prove very costly.

TIP 1

Missing payments. Missing a payment can cost you £20 or more and going over your credit limit can also result in fines.

TIP 2

Cash Advance. Bear in mind that this is a very costly way of withdrawing cash. The interest is high and you are also charged a fee for taking the cash out in the first place.

TIP 3

Credit Card Cheques. These are often charged at your usual rate, but in some cases interest starts building straight away and there will also be a handling fee.

TIP 4

Think about where and when you will be using it most and check out the features of the card.

Paying it back

Paying by plastic offers a way of cutting costs and ultimately, cutting concerns. Some shoppers would even describe their experience as quite therapeutic! The same cannot really be said when you are paying it back. Parting with money, even if it is not strictly yours in the first place, always hurts. However, being honest about how you handle your debt will enable you to save money in the long-run.

- **Balance paid in full every month – best rewards**

Many people have different ways of dealing with debt. Some of you may be opposed to having any debt hanging over you, so you ensure that your credit card bill is paid in full every month. For this type of person it is not so much about the best rate - you are better off looking for plastic perks and benefits, such as gifts, holidays or cold hard cash.

- **Spend but do not clear every month – best cards for purchases/balance transfers**

Most people will spend a lump sum on an item and look at paying it back over time. In fact, the average balance of a cardholder is £1,500. People falling into this group, are best off playing the field and looking for the best introductory purchase rates. But if you have built up debt, you will also need to look at cards that have a low balance transfer rate as well. Also bear in mind that most standard cards generally offer 0% for up to 59 days.

TIP 5

Try to pay off as much as possible each month!

CREDIT CARD REWARDS SCHEMES

Travel & Air Mile schemes

The value of air miles differs from scheme to scheme and by destination and time of travel. Confusingly, one air mile does not necessarily equate to one mile of travel. It's worth checking how much you have to spend to achieve any return. For example, a return economy flight from London to Paris could require a card spend from £5,700 up to £12,000 dependant on the scheme.

Shopping rewards / points schemes

Typical schemes are; Nectar points, Tesco clubcard points, GM points. The value of accumulated points varies between schemes and according to the item or discount sought.

Cash back

Most cash backs are calculated in the region of 0.50% to 1.00% of card spend. Many cash back schemes are graduated and often have a maximum spend ceiling.

Refused Credit

If you have had problems paying your credit card bills in the past, this could make life difficult when you are trying to trade your old plastic in for a new model. In addition, any County Court Judgements (CCJs) or arrears may also be standing in your way.

MAKING YOUR CARD WORK

Playing the field

If you're clever with the way you play the field you can avoid paying hundreds of pounds in interest. Credit Card companies compete hard with one another to get new customers – which is good news for the consumer. Low rate introductory deals are all the rage nowadays after Egg broke the mould and kicked off the 0% craze in 2000. While most cards offer a six-month introduction deal, some providers offer introductory deals on purchases and balance transfers for nine months. If you are willing to keep tabs on your card there is no reason why you should not keep on taking advantage of the introductory deals.

TIP 1

You need to make sure you apply for your next card around six weeks before your previous deal runs out.

TIP 2

You also need to be aware that companies do keep a check on how often you switch, so a lack of loyalty could leave you with fewer options in the long-term.

TIP 3

Some of the bigger banks may have more than one brand of card. Make sure you know who is really in charge - it may stop you switching between some of the most competitive cards on offer.

TIP 4

0% will be harder to find – don't pin your hopes on this continuing.

Making a commitment

Some people do not feel ready for commitment – but others may find they have either run out of steam or run out of options. For people who do not want to keep chasing the best deals and would rather stick with the one provider, there are long-term introductory offers, which are useful if you want to carry a balance over from somewhere else. In some cases, you can get lifetime rates of 4 – 5% on these deals.

TIP 5

You still need to make sure you know the details of the deal you are going for. The low rate often only applies to transfers you make in the first few weeks. Keep a look out because these kinds of deals are great for shifting your balance from other cards.

TIP 6

It is not particularly advisable to have a whole pack of cards in your wallet as it can become difficult to keep track. Some may be better on long-term balance transfers than purchases -but this does not mean you should miss out. You may want to use a low interest rate balance transfer card to shift your debt. You can then put it away in a drawer and have a separate card for your everyday spending needs.

Extra Baggage

It may have slowly built up over time, or maybe you have simply never been able to shake it off from your younger, more frivolous days. Whatever the reason, some of us come with extra baggage. One such example is a hefty overdraft. However, some cards now let you make current account balance transfers. For people who cannot seem to dig their way out of overdrafts with high interest rates, a credit card could be the answer.

Avoid the bare minimum

When making repayments, simply pay as much back as you can afford. Trying to stick to your original lump sum repayment, if not more. As you will generally be paying a percentage of your balance, your minimum payment reduces in line with the total you owe. It may be tempting to keep on reducing your repayments and use the extra money for something else. But in the long-term, this is not helping you to pay back your balance.

Credit Scoring

Credit card issuers like to have a little background information on their customers. Credit scoring records are kept of how many credit cards you apply for, whether you get them or not and how good you are at paying back the money you borrow.

TIP 7

The less you pay, the more interest you are charged.

TIP 8

This could damage future applications if you apply for lots of cards in a short period of time.

CARD FEATURES



Gold and platinum cards

These kinds of cards used to be hard to get hold of. But nowadays, gold and platinum cards are less of a status symbol. However, you will need to earn above a certain wage threshold to get one and they often mean that the issuer does not think you are a credit risk. These cards usually come with extra benefits. You may be offered extra credit and perks, such as free travel insurance.

Holidays and Travel

Credit Cards can be very handy when you are visiting another country, but it could cost you. The exchange rate used by Credit Card companies for transactions overseas will probably range from 0% to 2.75% above the standard exchange rate. The policy on conversion fees should be in the small print of whichever card you select. But watch out for cards which charge extra fees when used abroad. You can get insurance for lost cards, which can alleviate most of the hassle.

Insurance

While some card issuers pile it on as an extra cost, others offer free insurance, such as price protection insurance, which will let you return goods if you can get them cheaper somewhere else. Purchase protection will cover against loss, while online guarantees provides protection when you are using your card over the internet. Travel accident insurance will also cover certain instances of personal injury. Remember, there is legislation to protect consumers under the Consumer Credit Act.

Security

Unfortunately, security is something that needs to be high up on everyone's priorities these days. Some people are more than happy to go through our bins looking for old statements which they can use to steal identities and money. Once you have checked your statement and made sure there have been no mistakes, file it safely. If you are disposing of old statements, the safest thing to do is rip them up or shred it. Keep your card safe at all times and report lost or stolen cards straight away.

APPENDIX



Points of reference:

The Financial Services Authority (FSA) (Regulation)
www.fsa.gov.uk

The Financial Services Ombudsman (Complaints)
www.financial-ombudsman.org.uk

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