

## CONSUMER AFFAIRS

### How to Avoid the Credit Card Trap

***Credit is the guarantee to repay money borrowed from another, with interest. A common form of credit is purchasing goods or services on store cards or by borrowing money against credit cards such as Visa and Mastercard.***

#### **CREDIT CARDS AND STORE CARDS**

Credit cards were introduced to the Australian public in 1974 and were automatically sent to people in the mail. This practice is now illegal, as financial institutions cannot send credit cards to you unless you specifically ask for one.

If you do apply for a credit card and it is approved you will usually be given a credit limit, (*that is* the amount of money you are able to spend).

Credit cards and store cards make it easier to buy on impulse, this can often be more expensive than paying with cash since cards attract interest, and traders are now within their rights to charge an additional fee when you pay for goods with a credit card.

When paying for goods or services by credit, make sure you can afford the monthly payments, otherwise late fees may be incurred, items might be repossessed or credit rating tarnished.

#### **INTEREST FREE PERIODS**

There are a lot of retail stores who now offer interest free periods on loans for goods. This credit is usually provided by a finance company but is organised by the retail store.

These kinds of loans are interest free, only if you pay the full amount within the interest free period, which can be anywhere from 3 months to 24 months.

If you do not pay the entire amount within that interest free period then it is possible you will have to pay interest from the day your loan commenced; depending on your contract.

#### **DEBIT CARDS**

A debit card is the same as a credit card except that it usually allows you to withdraw an amount equal to your savings; or the balance of your account.

Some financial institutions will allow you to have an over draft on your account which is linked to your debit card. This means you can borrow an additional amount against your card up to an agreed limit. Beware, these kinds of cards and overdrafts do attract fees and charges.

## **TOP 5 TIPS FOR CONSUMERS**

- 1) Understand the basics. Don't be afraid or embarrassed to ask questions and make sure you understand what it is you are getting yourself into.
- 2) Hold on to your paperwork. Get into the habit of keeping any paperwork. It may be an important piece of information should you ever have a dispute.
- 3) Reduce your costs. You can do this by making sure that if you do use your credit card, try and pay it off as quickly as you can. This will help to reduce the interest.
- 4) Don't give out your card number. This will prevent unauthorised transactions.
- 5) Direct Debits. Direct debits can be a great way to ensure the necessities of life are paid for but always be sure that you know how to cancel them if need be.

## **EXPERIENCING PROBLEMS**

If are having a problem with a credit, store or debit card then you should contact your financial institution first. If they are unable to help you it is worth remembering that there are a variety of complaint handling organisation which you can contact for additional advice such as the Banking and Financial Services Ombudsman.

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### **For further information contact Consumer Affairs**

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