

PLASTIC FANTASTIC OR A DEEPER CREDIT HOLE

Now let's get one thing straight. The Banks don't offer/give you a higher limit because they like you. They are into rampant, profit grabbing marketing. They want you to use their cards, so they get their hooks on your hard earned money, rather than the likes of the Hire Purchase companies. Like lemmings following each other over the cliff, consumers get sucked in by the 'feel good now' that slick marketers promote.

More and more young people are living in some sort of debt. **Consumer debt limits freedom.** It causes people to work to pay off loans instead of being able to use their money to progress in life. Interest rates on credit cards are higher now than they have ever been at over 20% pa. That is what you'll pay if you don't get smart. Why is the rate so high you may ask? Firstly it is not out of line with many Hire Purchase rates, but these usually have some form of security.

Credit cards

- Are unsecured
- A smart 40% of cardholders pay off their total balance each month, thus the operations on their cards are subsidised by the rest who only pay the minimum they need to.

These cards are great if used responsibly and offer benefits as well.

Seven Critical Rules for Credit Card Users

1. Keep your limit to only what you might spend each month or what you can pay off each month. A high limit may lead you into temptation.
2. Use the card for as many of your daily everyday purchases as you can eg groceries, a night out, clothing purchases. This will give you interest free credit. Also if you get air points or other loyalty type points, these will accumulate faster. The trick is to pay off the balance when you get the bill.
3. Don't take cash advances. Interest is immediately payable on these and at 20.95%, it would take only three years and five months to double the debt.
4. If going overseas take two cards. Sometimes, for whatever reason, one card may not work. Keep them in separate places in case you get pick pocketed. Deposit money on one of the cards as your spending money. No need for traveller's cheques or a lot of cash. If you lose a card inform the provider immediately. They will put a stop on it.
5. Credit cards are great for mail order purchases, through the print media or internet. Did you know that if you don't receive the ordered goods, or they don't match their advertised description, you can claim a refund (chargeback) from the credit card issuer. They won't like it and you may need to persist providing appropriate evidence. Also reputable firms will respond quickly to any complaint.
6. Your card provider should also refund you if your account is used fraudulently or mistakenly debited. Of course it is up to you to ensure that your PIN number is not disclosed to other people and to protect your card as if it was cash. Negligent use doesn't deserve to be protected.

7. Never, ever let your credit card balance get out to a position where you cannot pay off at least 5% of the balance each month. If you have a 'hardcore' debt, and you have your own house you may be better to consolidate that debt against your mortgage. A tip here though – don't make short term debt become long term debt. Arrange to pay it off over a 3 to 5 year period at the much lower mortgage rate.

Use of Credit Card and Revolving credit to repay home loan debt earlier.

Taking advantage of the 55 days free credit, this is definitely an option. Talk to your NZMBA mortgage broker or bank about this. If they don't ask you 'Are you disciplined with money?' I would walk away from their 'advice'. This is only but one method of faster debt reduction but requires firm discipline.

Some client comments

"It is so true about young adults going into debt 'cause they want to make themselves look good by buying items they can't afford, like expensive labels, cars, jewellery, booze. Sometimes we just don't know when to say no and then it's too late. It's really hard for us to save". *Solution – a budget programme.*

"I wouldn't trust myself with a credit card. I agree banks are to blame. Save your money, rejoice every time the interest rates rise, because that means you'll earn more on your money" – *A focussed and budget conscious woman.*

Think about this

"The future lies in your hands". That can be good or bad depending on how you deal with it. Make the right choices. All that glitters is not gold. There are more temptations today than there ever were 30 years ago. You have to be just that more robust to ensure you as captain of your ship steer a straight course.

Budget Planning programmes and Finance options are available through www.mortgagehelp.co.nz.

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