

Do's and Don'ts of credit cards

Credit card debt continues to grow in New Zealand, increasing by 4% in the year to December 2008, even though credit card spending is beginning to fall. In December interest bearing advances on New Zealanders credit card were \$5.5 billion, with an average interest rate of 19.7%. Purchases of \$2.9 billion were made in the month of December 2009, a 4% decline from the same month last year. Total credit limits increased by 4% to \$17.7 billion

Some recent research suggested that most people are unconcerned about the high interest rates they pay on credit cards because they intended to pay them off that month. The average interest rate on credit cards of 19.7% was well above the average 8.05% for first mortgage interest rates. Surveys show that additional, unplanned purchases leave many consumers permanently in debt on their card and repayment of outstanding balances is not achieved as planned

Using credit cards

The following suggestions will help you control the use of credit cards.

- Ask your bank for an extra cheque book register to keep track of credit card purchases and payments. Do this the same way that you record cheque account transactions.
- Never use credit cards for anything except budgeted purchases.
- Always keep in mind that although you might be able to afford something does not mean you have to buy it.
- Carry a credit card with you *only* if you carry a \$0 or near \$0 balance on the card. If you owe money on your credit card, keep your credit cards in a safe inconvenient place that is out of sight and do not carry them with you.
- Retain only one all-purpose, no-fee credit card. Cancel all others. Accept a credit limit that you can easily pay in full on your present income, and reject all credit limit increases.

Paying the bill

Credit card interest is a waste of money. Pay your bill off every month during the grace period and you will never have to pay interest charges. On the same day that you made a charge on your credit card deduct the amount from your cheque account balance. You spent the money, so it is no longer money that is available to spend. As soon as the statement comes in, post the full payment immediately.

Credit cards are a useful financial tool, but one that carries significant financial risk if spending on the card is not controlled. Interest accumulates quickly once a balance at the end of the month is not paid in full so limit purchases to what you know you can fully pay off each month.

