



## Credit cards

**Credit is the guarantee to repay money borrowed from another, with interest.**

A credit card enables you to make purchases at most stores. Credit cards can now be used at almost any retail outlet such as services stations, department stores or restaurants and may be used to purchase goods or services such as medical bills, weekly groceries, electricity bills, clothing and holidays. People use credit to buy products such as cheap airfares on the Internet. A credit card also allows you to withdraw cash (cash advance) from an automatic teller machine (ATM).

## Card limit

A credit card is approved with a given credit limit e.g. \$4,000. When you spend money the amount of credit available decreases.

## Annual fees

Some credit cards charge an annual fee. This may vary from as low as \$25 and may be as high as \$90. This fee is payable whether or not you use the card.

## Over limit and late payment fees

Most credit card providers charge a fee if you make the monthly payment after the due date or if you exceed the limit on the card. The minimum monthly payment is usually due within 20 days of receiving the statement. The fee will vary but is normally around \$25.

## Interest

Interest is payable on the amount of debt outstanding at the end of each day. In other words, interest is charged at a daily rate. The rate of interest on a credit card varies and is subject to change. The interest rate is often higher where the card has more facilities or 'benefits'. A 'basic' card will often have a lower rate than a card which offers extras such as free travel insurance or loyalty rewards, like points towards free air travel or interest free periods. If your card has interest free periods and reward points, the interest rate may be higher. You should shop around for the card that best suits your requirements.

Cannex has information that helps you to compare the costs of credit cards. You should visit their site at [www.cannex.com/](http://www.cannex.com/)

## Interest free periods

A number of cards offer interest free periods. Interest free periods apply only to the purchase of goods and services and not cash advances, which attract interest on the date of withdrawal. A typical interest free period is for 55 days. In most cases, if you do not pay your account off in full within the interest free period you will pay interest.

## Reward points

This system allows you to earn points as a reward for spending money on the card. You may, for example, earn 1 point for spending \$1.00. You can exchange points for air travel, accommodation or goods. You should remember that you need to spend a lot of money to earn

enough points to make the reward worthwhile. For example, you might get a trip to Melbourne for 20,000 points but will have had to spend \$20,000 to earn enough points. You may also be paying higher interest for the reward facility and an annual fee for the scheme.

## Minimum monthly payment

Your credit card contract requires you to pay a minimum monthly amount. This varies between credit cards and is determined by the credit card contract. Usually, the minimum payment is 1 percent of the balance at the end of the month. If you owe \$4,000 then your minimum payment will be \$40. If the minimum payment is 2 percent, then your minimum payment will be \$80. Remember also that you will pay interest on the balance, so the more you pay the better.

## Charge cards

Some cards such as American Express and Diners Club charge cards do not charge interest but charge only an annual fee (other fees and charges may apply). These cards allow the consumer to purchase goods and services during a statement period (usually a month) but require the full amount to be paid off at the end of the period. These types of cards may be an alternate means of purchasing goods as they require that you keep your spending within the limit of what you can afford to spend each month.

## Facts & Information

# Credit Cards, Store Cards and Debit Cards

## Debit cards

A debit card is similar to a credit card as it allows you to make purchases from stores through EFTPOS. A debit card which is linked to your savings or cheque account will enable you to make cash withdrawals from that account through an ATM. However, this is different to a credit card cash advance as you are accessing your own money and not obtaining credit. If you access cash from the ATM of another financial institution other than that at which your account is held, you might be charged a cash withdrawal fee. If you have an overdraft on your savings or cheque account you will be able to withdraw cash or make purchases up to the limit of your overdraft. Using this overdraft attracts interest and fees and charges. You should find out what the cost of these charges will be before you use the facility.

## Store cards

Store cards are generally credit cards that can be used only within the designated store. They operate in a similar manner to credit cards and attract interest, fees and charges.

## Tips for consumers

Since credit cards and store cards make it easier to buy on impulse, think before making the purchase as it will become an expensive decision if you cannot pay off the full amount when the credit card account arrives. If you use cash, you can also try to negotiate a discount. This is because the store keeper has to pay a commission to the credit company when you use your credit card. The following are useful tips for using your credit card:

- Understand how the card works and how fees and charges are applied. Don't be afraid to ask questions and make sure you understand what you are getting your self into.
- Get into the habit of keeping your paperwork. It may be important if you get into a dispute later on, either with a store or the card provider.
- Reduce your costs. Try to use your credit card to your advantage. Pay it off as quickly as possible and try to take advantage of your interest free periods. Avoid incurring over limit and late payment fees.
- Never let anyone know your pin number. If you have any questions about a payment contact your card provider. There a clear processes relating to unauthorised transactions, which your card provider would know.

Visit the Consumer Credit Code website at [www.creditcode.gov.au](http://www.creditcode.gov.au)

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