



# Credit Cards

(October 2007)

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Credit cards are convenient – but they are not the solution to cash flow problems. The only thing a credit card buys is time to pay a bill. However, many people only pay the minimum amount each statement allowing their debts to drag over months resulting in enormous interest charges. The interest rate you pay on credit cards is higher than the rate you pay on most other loans, and your credit rating can be affected for years to come through the misuse of a credit card.

When considering credit cards, shop around. Don't just look at the interest rate. Consider all card conditions which influence the effective rate. Students paying off their credit card debts within the interest free period will benefit from a higher interest rate card with an interest free period. Those paying off debt over longer periods will often benefit from a card with a lower rate.

## **What it all costs**

### **Interest rates**

Interest is charged for amounts that are not repaid on time. Banks offer credit cards with a wide variety of interest rates. There are also a variety of ways that interest is calculated, and when it is calculated. However, it is worth keeping in mind that credit card providers make a lot of their profit by people not paying on time.

**Initial Fees** Most credit card providers charge an annual fee about \$25, but this can be much higher. There are some "Fee Free" accounts; however these usually don't have an interest free period that allows you time to pay off the card before interest starts to accumulate.

**Minimum monthly payments** on outstanding amounts vary for each card. They are usually a percentage of the balance or a set amount, whichever is larger (e.g., 4% or \$25). Paying the minimum payment only deals with the accumulating interest and a fraction of the principal borrowed.

**Interest free periods** On a card with an "interest free period", interest does not generally accrue until 25 days after the purchase is shown on a monthly statement (note exception below) - this is what is meant by "up to 55 days interest-free". You can only get 55 days interest free if you make a purchase immediately after a statement is issued. A card with no interest free period, usually a "fee free" card, interest accumulates from the day an item is purchased.

**Cash advances** A cash advance from a credit card seems an easy solution if your rent is due. However, there is no interest free period for cash advances (even if your card has interest-free days for normal purchases). Interest on any overdue amounts is charged immediately when you take a cash advance, until the whole bill is paid. For example, if you make a purchase of \$500, and take out a \$20 cash advance, you will lose your interest free days and immediately be paying interest for \$520. Interest free periods are of dubious benefit to people who regularly rely on their credit card for cash.

**Shared Accounts** These should be avoided, since you are legally bound to repay the credit card account regardless of the condition of your relationship. It is not uncommon for a relationship to end abruptly resulting in one (very bitter) half repaying the whole credit card debt.

**Charge Cards** (e.g.: Myercard) should be avoided. Not only are you charged an even higher interest rate than the banks charge on their cards, you are also encouraged to do your shopping at one particular store rather than shopping around for the best prices. Some retailers offer price discounts or Fly-Buys attached to their store cards, which are of little consequence compared to interest charges.

The best advice to be given regarding these cards is simply not to use them, but if you do, pay off debts as soon as possible.

**Reward schemes** These schemes are when the card provider 'rewards' you for your loyalty via a points system which can be redeemed for discounts or free goods. Like charge cards, the rewards are of little benefit to people who clock up interest while they collect points, and they work against the common sense rule of shopping around.

### ***What happens if you get into trouble with your credit card?***

If you are in dispute with credit providers and/or want to know your legal rights, you can contact Consumer Affairs Victoria on 1300 558 181. If you cannot meet credit repayments you may want to explore your options with a community financial counselor in your local area, or discuss the matter with Student Financial Aid.

If you are behind in payments don't expect the banks to be sympathetic. Depending on your circumstances and on the particular bank you are dealing with, you might be able to negotiate arrangements such as converting to a personal loan at a lower interest rate.

Credit card debts can affect a person's credit rating for years, even if the debts have been repaid. Credit databases (or blacklists) are run by private companies and are available to subscribing credit providers to share information about people who may have had problems in the past. Credit Advantage is Australia's major database operator, and it is worthwhile contacting them for your personal record (or 'credit rating') if you have had problems with credit and debt.

### ***Alternatives to credit***

- ❖ **Saving** Learn to distinguish between the items you want versus the ones you actually need. Remember that some things can wait another day.
- ❖ **Debit cards** Credit cards offer convenience such as paying bills over the telephone or internet. A debit card offers the same features, but is used with your existing savings account.
- ❖ **Lay-By** Don't forget good old lay-by. Although this is not really a form of credit, it is an interest free way to secure a purchase. Lay-by is especially useful where necessary goods are on sale but you don't have the ready cash at the time.
- ❖ **Negotiate payment of bills** If you have trouble with meeting energy bills, contact your suppliers direct. Utilities and phone companies may be willing to give you more time, or to allow you to pay off your debt in instalments.
- ❖ **Get rid of your credit card** If you destroy the card and close the account, that is the end of credit card debt, high interest payments and, hopefully, impulsive spending habits.
- ❖ **University of Melbourne Student Loans** Short-term loans of up to \$600 can cover emergency expenses and cash flow problems, and you can negotiate a regular repayment schedule to fit in with your budget. Long-term loans can be a sensible way to consolidate large credit card debts which have got out of hand. You are not charged interest or required to make any repayments until you complete or discontinue from your current course at the University.

**Remember – credit and loans will never solve a cash flow problem, only postpone it. Good budgeting and money management is the best way to stop problems arising.**

**Further information:** The Australian Securities and Investments Commission has an excellent web site for getting further information on credit cards: [www.fido.gov.au](http://www.fido.gov.au)

**Financial Aid - Student Programs**  
**Ground Floor, Baldwin Spencer Building**  
**University of Melbourne**  
Web: [www.services.unimelb.edu.au/finaid/](http://www.services.unimelb.edu.au/finaid/)

*The information provided on this information sheet was correct at time of printing (January 2007). Please note that some credit cards offer conditions that may vary from the above advice. The University reserves the right to make changes as appropriate.*