

Cash or charge it ?

ALISA has been getting offers of credit cards in the mail as well as in the malls. It seems that it is quite easy to qualify for the cards nowadays. So she decided to seek the advice of her personal financial consultant — her dad, of course.

She wanted to know the difference between all the various types of plastic cards that were available in the market. Most of her friends and colleagues already had one (actually more than one). Her dad eagerly seized the opportunity to offer his two cents worth.

What is out there?

Her dad explained that generally, there are three broad types of cards. Firstly, there are credit cards which allow you to buy items and pay for services electronically without using cash. When you use a credit card, the credit card acquirer will pay the merchant on your behalf and bill you later through your issuing bank. It can be a very useful payment instrument if you know how to use it properly and wisely.

A charge card is similar to a credit card. While a credit card allows you to make a minimum payment when you receive your

monthly statement, a charge card does not. With a charge card, you must pay the total amount due in full each month, failing which, high late payment charges will be imposed.

On the other hand, a debit card is similar to an ATM card, except that you do not have to withdraw cash from your ATM. You can use the debit card at places where you pay for products and services. The amount spent will be immediately deducted from your bank account. Like a credit card, it is convenient to use a debit card because you do not have to carry cash with you.

What is best for me?

Having been briefed on the various types of cards, Alisa wanted to know which suited her best.

From what she gathered, a credit card sounded more interesting as it would allow her to buy things first and pay later. Furthermore, she

Dad's advice on credit card

- Pay in full each month to avoid paying the high finance charges. If you really can't, pay more than the five per cent minimum due and minimise charging more to it.
- Do not swipe your card if you don't have the actual cash available at the point of purchase.
- Do not use your credit card to get cash advances from an ATM as it would attract finance charges immediately. It's not an ATM card.
- Pay on time to avoid late payment charges and penalty rates (but you don't have to pay too early either).
- Always check your monthly statements to ensure proper transactions and charges are recorded and keep an eye for any unusual transactions.

need not pay the full amount. Her father stopped her right there. He warned her that if she was not willing or able to pay in full each month, she was better off with the debit card.

No doubt a credit card allows you to go on "credit", but it is not advisable to just pay the minimum and roll your balance month after month. This will attract a

finance charge of almost 20 per cent per annum.

Nevertheless, a credit card when used responsibly and wisely, may be a better option for people who pay promptly and in full.

Alisa's dad shared that he personally preferred a credit card over the other two as it allowed him to stretch his ringgit more while at the same time collecting all

those reward points. He even tracked the cut-off dates for his credit cards and would time his usage in such a way that he got the maximum interest-free period, especially for his bigger purchases. He would then only make the payment in full just before the due date... what do you expect from an accountant.

He advised Alisa to start on a debit card first to monitor her spending pattern and behaviour. After becoming accustomed towards paying all her purchases in full each month, she could then "upgrade" to a credit card. He felt that this was a better option than to carry too much cash.

Food for thought

Do you know how long it takes to finish paying a RM10,000 credit card balance by just paying the minimum every month? Seven years and three months and that is if you do

AKPK is an agency set up by Bank Negara Malaysia to provide free services to individuals on financial education, counselling and debt management programmes. Call us at 1800-88-2575, or visit www.akpk.org.my. Look up AKPK on www.youtube.com or www.facebook.com. We now have the second edition of the book *Money Sense* and its Bahasa version called *Celik Wang* available at all our 11 offices nationwide.

not add-on more to your card. If you currently have an outstanding rolling balance on your card, the first thing that you may want to do right after reading this is to take out your wallet and cut-up all your credit cards.

It just doesn't make sense to moan over the low interest rates that you are getting from your savings and investments but at the same time pay a hefty finance charge on your credit card debts.