

Use credit cards wisely

DO I know how to use a credit card? What a silly question! Of course, I do. You just hand it to the cashier whenever you want to buy something and sign the receipt. Sometimes you don't even need to sign, just wave and go!

Make the minimum payment and you can get lots of free credit. And don't worry if you max out your limit. The company will probably raise your limit and you're likely to get more offers for more cards than you can possibly use.

Does this sound familiar? It should. It's the approach millions have taken when using those little plastic cards that make shopping so simple and easy.

But this common financial practice can cost dearly. With prices of goods and services going up while income remains relatively flat, more and more Malaysians are spending beyond their means. And credit card debt is perhaps the most visible symptom of a bigger problem.

Credit card basics

This plastic card provides you with a line of credit, which is the maximum you can charge to the card. As you make purchases, the available credit line decreases.

When you receive your monthly statement, you can either pay in full or the minimum amount due (strongly not encouraged). When monthly payments are made, the available credit line is restored.

But many people typically pay only the interest and the minimum amount of principal.

The spending trap

How do people find themselves caught in such circumstances?

For many young people, running up debt begins innocently enough. Upon entering college, many are given that little plastic card, "subbed" from their parents' credit cards. Oh, there are just so many things that they "need" to buy (a pair of branded shoes, trendy clothes, iPods, a cool bag and matching accessories) and so many parties they "need" to attend!

Calling their folks for extra money every now and then is just too much hassle (and "waste" of money for the cost of phone calls). It's much easier to just charge it!

With the implied promise of high-paying jobs in the near future, many students enter the credit world thinking their debt will disappear as quickly as it was acquired — in just a few years after graduation. Regrettably, reality is otherwise.

Continuing to charge more than

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they can comfortably repay, many find themselves in a spending trap, in which rising debt matches or exceeds rising income.

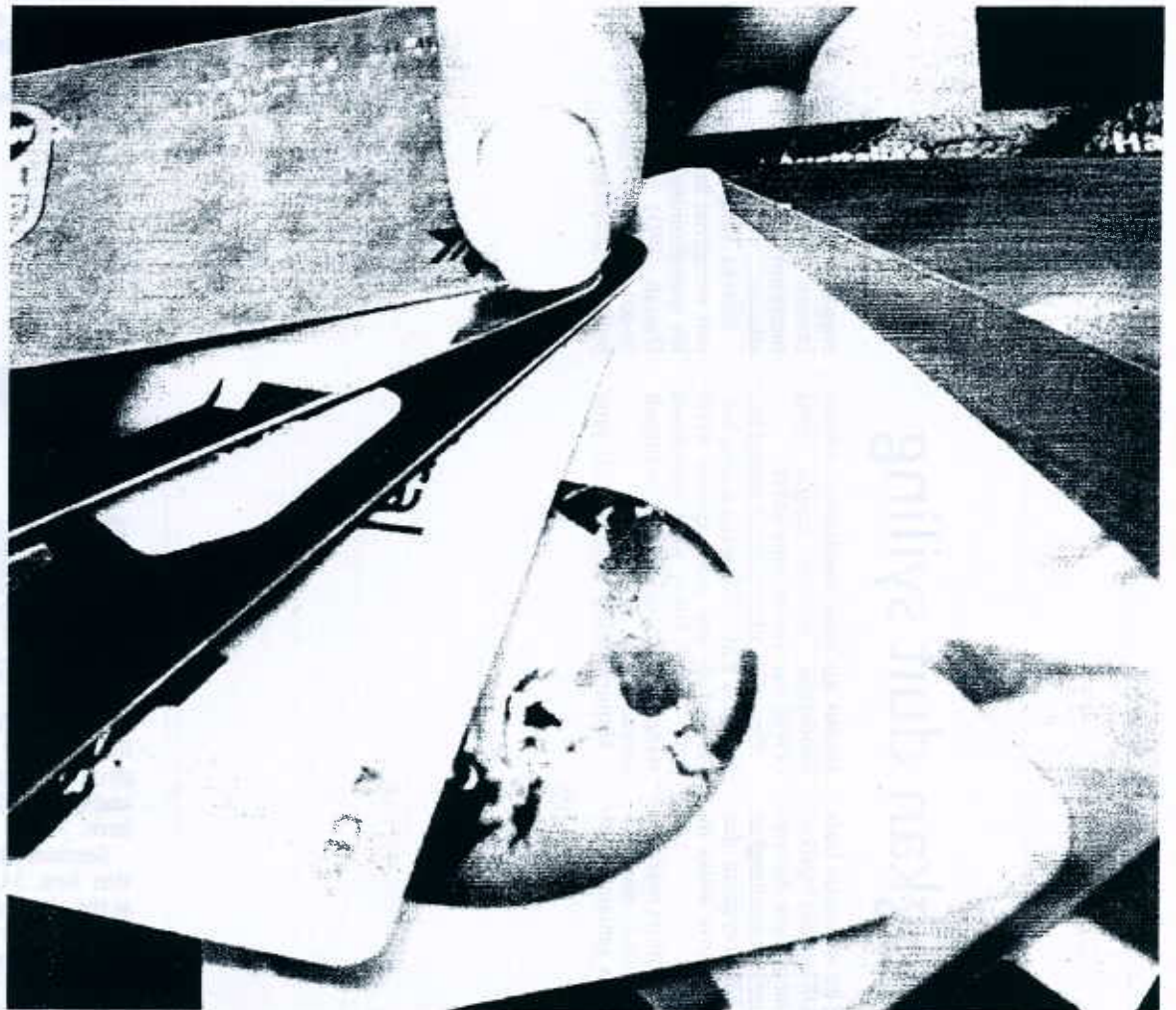
Young people, of course, are not the only ones caught in such financial circumstances. Many adults too have given in to the allure of easy credit. Advertisers tell us we "deserve" their new and improved products — and most of us willingly believe them.

One can also be sucked into the vortex of credit card debt through unemployment. If one has no savings, adding debt to one's credit cards is often the quickest way to cover basic living expenses. But when employment is secured, many find their credit cards at maximum limit and repayment schedules become a huge burden.

Although most of us don't like to consider negative possibilities, we can't avoid financial disasters by simply ignoring reality. Only those who have taken precautions or avoided precarious situations survive.

How to pay off credit card debt

If you find yourself making interest payments every month on your credit cards and want to cut that kind of debt, the first step is to assess your income and expenses.



Total your monthly expenses and subtract them from your income. This is your disposable income after expenses. It's also the amount you have each month to use as you see fit.

The next step is to stop charging items to your credit cards. Freeze the usage of your cards (place all of them in an old ice-cream box, fill it with water and put it into the freezer!). Pay cash for items you must buy.

Now analyse your credit card debt. Determine which credit card issuer is charging the highest interest rate. You may be able to transfer balances from cards with higher rates to those offering lower rates.

But read the fine print to see if there are any hidden costs or terms.

Next, rank the cards in order of the interest rate charged and use your disposable income to pay off the card with the highest rate. Once that card is paid off, close the account and destroy the card. Then focus your attention on the next card and continue doing the same until all your cards have been paid off.

Once your credit card debt is gone, you're much better off with only a few cards — not the dozen or more carried by so many people.

How to use a credit card

After you have paid off all your credit card debt, consider how such cards can be properly used. These are extremely convenient tools when used wisely.

How do credit card-savvy consumers use their cards? The most important step is to completely pay off the bill every month. Think of the credit card as using cash that is reserved each month for the items charged. This way, no interest is accrued and credit cards become helpful financial tools.

While credit cards provide us with the added security and ease when shopping and travelling, we often misuse them.

Take for example the habit of making only minimum payment of 5 per cent or RM50, whichever is higher, each month. On a RM10,000 balance with a credit card charging 18 per cent per annum, it would take seven years and three months to pay off the amount owed. This is assuming that you don't add any more charges to your card. Then imagine how fast you would run up your debt if you did this with a few cards at the same time.

More tips on handling credit cards wisely

- Always remember that a credit

card is not the same as free money

- Keep only one or two cards, not eight or nine
- Charge only what you can afford to pay back. Avoid living beyond your means
- Shop around for the best interest rates, annual fees and service fees (preferably none)
- Pay off the debt each month, or at least pay more than the minimum
- Still have problems? Leave the cards at home or simply put them in the freezer!

Always remember that you should be using a credit card as a payment tool and not for credit. If you don't know how to use it or can't use it responsibly, then it's probably best that you stop using it altogether.

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