



Tips on Managing Credit Cards

FACTS ON CREDIT CARD

First of all, let's try to understand how this wonderful plastic card works. It 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 have the flexibility to either pay off the whole amount, or pay only the minimum amount due (which is strongly not encouraged). When monthly payments are made to the card issuing bank, the amount of credit line available is then restored. However, many consumers typically pay only the interest and a bare-minimum amount of principal and thus never fully repay the entire sum.

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 of these college students are given that little plastic card, "subbed" from their parents' credit cards. Oh, there are just so many things that they "need" to buy (e.g. a new pair of branded shoes and clothes, i-Pods, a cool bag and matching accessories etc.) and just too many parties and clubbing sessions they "need" to attend! Calling their folks for extra money every now and then is just too much hassle. It is so 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, most graduating students find reality to be much different from their naive expectations. Continuing to charge more than they can comfortably repay, many find themselves in a spending trap, where rising debt matches or exceeds rising incomes.

Young people, of course, are not the only ones caught in such financial circumstances. Many adults likewise 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. The desire to enjoy life to the fullest with the latest entertainment, clothes and gadgets can be irresistible. People can also be sucked into the vortex of credit card debt via unemployment. If one has no savings, adding debt to one's credit cards is often the quickest way to cover basic living expenses. But then, when they do secure a new job, many find their credit cards at maximum limit and repayment schedules become a severe burden.

Although most of us don't like to consider negative possibilities, we cannot avoid financial disasters by simply ignoring reality. Economic

downturns inevitably push more people to the edge of financial disaster. Only those who have taken precautions or avoided precarious situations survive. What can you do to avoid becoming a sad statistic?

HOW TO PAY OFF CREDIT CARD DEBT



If you find yourself making interest payments every month on your credit cards and want to eliminate that 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, and also the amount you have each month to use as you determine.

The next step is to stop charging items on your credit cards. Freeze the usage of your card. Pay cash for items you must buy. Then analyze your credit card debt. Determine which credit card issuers are charging you the highest rate of interest. You may be able to transfer balances from cards with higher rates to those offering lower rates (do read the fine prints 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 completely 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 of the debt on your cards has been completely paid off. Once your credit card debt is gone, you are 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, it's time to 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 in responsible credit card use 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. With this method, no interest accrues and credit cards become legitimate plus helpful financial tools. They become our servants instead of the other way around.

While credit cards provide us with the added security and ease of shopping and travelling, we often misuse them. Take, for example, the habit of making only the 5% or RM50, whichever is higher, minimum payment each month. On a RM10,000 balance with a credit card charging 18%p.a., it would take 7 years and 3 months to pay off the amount owed. This is assuming that you do not add any more charges to your card. Then imagine how fast you would run up your debts if you did this with several credit cards at the same time.

Here are some additional tips for handling credit cards wisely:

- Remember that a credit card is NOT the same as free money
- Keep only one or two cards, not the usual 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 better that you stop using it altogether.

