

Credit cards – how many would you like?

Have you watched someone stand in line at the store and shuffle through a stack of what must be at least four to five credit cards? Most people have at least one credit card, others usually two or three. When used wisely, a credit card can provide convenience and allow you to make purchases with nearly a month to pay for them.

That sounds good, in theory. In reality, many people owe their credit card from month to month and pay some finance charges for keeping a balance that they still owe. Many find it hard to resist using these plastic cards for impulse purchases or buying things they really can't afford.

Let's examine how a credit card really works. A credit card is a thin plastic card, usually 8 cm by 5.5 centimetres in size, that contains identification information such as a signature or picture, and authorizes the person named on it to charge purchases or services to his account. The card owner then gets charged for all the purchases at the end of the month.

Today, for security purposes, most credit cards have a smart chip on them containing the card user's information and other details that a bank keeps track of. When you make



a purchase with your credit card, the information captured and tracked include the person's identification, the credit card number, the expiry date of the card (Yes, there is an expiry date for all credit cards), the purchase amount and other important details.

Many do not realize that a credit card is NOT a means of buying things without having to EVER pay for it. You NEED to pay for all your purchases. Credit cards only offer you the convenience of not having to carry around so much of money and paying your bills at a later date.

Credit limit

This is the maximum limit you can 'spend' using your credit card. Once you have hit the limit, the card cannot be used for further purchases until you make some form of payment to the bank.

Paying the minimum

With a credit card, you would not need to make full payment for all your purchases at end of the month. You are only required to make the minimum payment, which is the LEAST amount you can pay to keep

the card active (normally, this would be between 5% to 10% of the amount owed). This is NOT necessarily a good thing.

Late fees

If you don't pay your bill by the due date (the date the bank states at the final date for payment), you will be charged a late fee. If you are not organized to pay on time, this can add up to something really costly.

Interest rates

Remember: when you use your credit card, you're borrowing money. So you will be charged interest whenever you don't pay your bill in full. So owing a credit card over a long period of time is going to be a costly affair.

Now that you understand the basics of what a credit card is, you're ready for next week's article on why using the credit card wrongly could ruin you financially.

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