



Credit cards provide convenience when we are strapped for cash but can also prove to be a headache if utilised inappropriately. – AP

## Keypoint

**A debit card purchase directly deducts monies from your bank's savings or current account. Alternatively, making a purchase using a credit card, which requires discipline, immediately make payment to the credit card account.**

# Credit card mistakes to avoid

Using them wrongly can lead to unwanted problems

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**C**REDIT cards are one of the most commonly used – and misused debt instruments out there.

Granted, they provide convenience when we're strapped for cash. On the other hand, they can prove to be a headache if utilised inappropriately.

The following are some examples of how not to use your credit card.

## Not settling your debts immediately

This is one of the most common issues that face credit card holders, says licensed financial adviser and syariah financial advisory for Excellentte Consultancy Jeremy Tan.

"They only pay the minimum amount of 5% instead of settling it immediately," he says.

MyFP Services Sdn Bhd managing director Robert Foo concurs with this point.

"If possible, you should settle your bill within the first month itself. If you can't, that already is a mistake."

According to Tan, paying the minimum payment result in high credit card finance charges of 1.5% per month.

"In addition to finance charges for the outstanding, all purchases billed will also incur finance charges from the date of transaction. Additionally, all new purchases subsequent to the statement date will also incur finance charges until the outstanding amount, including new purchases, are paid for.

Tan advises individuals to always ensure that they should have money at hand when making pur-



Tan advises paying credit card bill on time.

chases, so that when the credit card bill arrives, one would be able to make the payment on time.

Alternatively, he says individuals could consider using debit cards instead.

"A debit card purchase directly deducts monies from your bank's savings or current account. Alternatively, making a purchase using a credit card, which requires discipline, immediately make payment to the credit card account."

He adds that one could pay for purchases by instalment by leveraging off financial institutions that offer credit cards with zero interest or interest-free terms.

Tan, however, notes that easy payments of zero interest or interest-free instalment plans, as advertised by financial institutions, may be a debt trap for credit cardholders.

"Cardholders may be unconsciously caught with mounting debts and may even face bankruptcy due to inability to pay. In addition, when regular payments are not made, it is no longer zero interest or interest free.

"Finance charges of 1.5% per month will be levied for the out-



Foo says some people treat credit cards like a loan.

standing amount. The compounding effect of interest on interest will be the debt trap. The effective interest rate will then be more than 18% per annum."

## Treating it as a loan

Unfortunately, some people treat their credit cards like a loan, says Foo.

"A credit card is a facilitating tool for payment but many people think of it as a loan to pay for something. Credit cards should be used for small ticket items, not large ones."

## Not using it for what it's meant to be

According to US-based rothiraaccountrules.com, a website dedicated to individual retirement arrangements, the best way to use your credit card is as a convenience to buy things for which you could afford to pay cash.

"For example, it's much easier and safer to carry around a credit

card or two rather than large sums of cash. Credit cards are also good to have for emergency expenses and also to use for purposes where a card is required, such as booking a rental car, airfare or hotel."

The website also points out that one hurt their credit score simply by carrying large balances, even if they always make your payments on time.

"A lower credit score makes it harder to get loans and can often mean that you pay a higher interest rate on the loans you do get."

## Having too many cards

According to Mandi Woodruff in her article "Seven ways you're using your credit card wrong," opening too many credit cards at one time can be detrimental.

"Every time you apply for a new credit card, a "hard inquiry" note goes on your credit report. Having too many cards can also make it more difficult to keep track of your balances, leading to overspending and forgotten payments."

## Additional cards only in emergencies

Sonya Stinson, in her article "Five credit card mistakes to avoid making" on US-based bankrate.com,

"While it may feel good to close your account and put the card in the shredder, doing so could actually have a negative impact on your credit score. By closing the account, you reduce your available credit line, which increases your ratio of debt-to-available-credit.

"Instead, keep the account open but keep the card out of sight."