

Credit Cards And Store Cards

As a student, particularly if you are a new student, you are likely to find that you are a prime target by banks, credit card companies and shops to be offered what might appear to be tempting deals on credit and store cards.

Credit cards and store cards are a major contributing factor in student debt, and the advice always is to try and avoid them at all costs. It is just far too easy to run up debts on cards when you have no way of being able to pay them off. This leaves you in the position of having the worry of not only the original debt, but also the added interest. Interest rates on credit and store cards can be outrageous, and will increase a debt at an alarming rate.

However if you do have a credit or store card, or are considering applying for one, then please consider the following:

- In attempt to get your custom you may find yourself being tempted by things like free gifts, cash back, or points which can later be redeemed. Fine if this is the right card for you, but remember to look at the terms and conditions of the card, not the free offer. If you are not able to pay your credit card bill in full every month, the high amount of interest added will outweigh the value of any free gift or any points you might be earning.
- Some companies offer a 0% interest rate for a period of time, often 6 months. However beware! Once the 0% period is up, if you cannot pay off your balance in full you will be hit with a hefty rate of interest, and you could end up paying more than you would have done had you used a credit card with a lower rate of interest. Only use these cards if you know you will be able to pay your balance in full before interest starts to be added.
- Always make your monthly payments on time and do not exceed your credit limit. If you do, you will find yourself facing extra penalty charges. However, be aware that charges over £12 are now considered unfair by the Office of Fair Trading and should therefore be challenged.
- Missed payments will stay on your credit report for years and could harm your chances of getting finance that's really important to you, like a mortgage, so it really is important to be in control of your spending.
- Remember, a credit card or store card is not a way out of financial difficulties; they are far more likely to lead you into financial difficulties than out of them. Only use a credit or store card when you are sure you will be able to pay your balance monthly in full. If you cannot do this, expect a high rate of interest. The latest Bank of England figures show that consumers owe a total of nearly £57 billion on their cards - the equivalent of about £1,000 for every man, woman and child in the country.
- Some credit card companies are now charging an annual fee just for the privilege of having the card.

- Don't be tempted into using a card by only having to pay a small amount off your balance every month; minimum monthly payments can be as low as 2% of your balance. However, the less you pay each month, the longer it takes to pay off your loan, and the more interest the card company gets to charge.

THE BASIC RULE IS SIMPLE: IF YOU THINK YOU WON'T BE ABLE TO PAY OFF YOUR CREDIT OR STORE CARD EVERY MONTH, DON'T GET IT!

What Is APR?

The APR refers to the annual percentage rate, i.e. the interest charged. Usually, the lower the APR is, the less you pay. However the amount you pay does also depend on how the interest free period is calculated, so there can be cases where a lower APR does not necessarily mean a better deal. It is also important therefore to find out when the credit card company starts and stops charging interest.

The amount of APR charged varies between credit card companies, but generally falls between 10% and 24%. Be aware that store cards generally have a higher APR than credit cards, the average being a massive 30%.

Examples:

1. You have a balance of £1000 at the beginning of the month, and make no purchases etc. At an APR of between 10% and 24%, charges for that month will range between £8 and £20. If you leave your credit card for a whole year without any changes to the balance you will have ended up paying between £96 and £240 in interest alone.
2. You have a balance of £500 at the beginning of the month, and make no purchases etc. At an APR of 18%, charges for the month will be £7.50. If you leave your credit card for a whole year without any changes to the balance you will have ended up paying £90 in interest.
3. You have a balance of £300 on your store card at the beginning of the month. At an APR of 30%, charges for that month will be £7.50. If the balance increased to £500 the following month, the charge for this month would be £12.50. If then left unchanged for a year, you would be paying £150 in interest.