



Credit Card Guide

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Introduction

WILL that be paper, or plastic? These days, our answer to that question is most likely to be plastic, as an increasing number of us rely on credit cards for our spending needs.

Whether it's to spread the cost of an expensive purchase over several months, or to gain points towards a reward item, UK consumers are using credit cards more than ever – and owing close to £180 billion as a result. With the relatively easy availability of credit today, more can get in on the act – from greater numbers of companies offering Visa, MasterCard or store cards, to more people being approved for cards, including students and even those with shaky credit ratings.

A credit card is a simple way of obtaining a credit rating and, used wisely, can help provide flexibility in spending and even bonuses like cash back offers or travel credits. However, they can also be an easy way to get into serious debt, when used improperly.

Many people are lured into applying for certain credit cards with the promise of low – sometimes ridiculously low – interest rates, but depending on your personal circumstances and financial situation, there may be more important factors to consider.

It's also crucial to check the fine print, as a 0% interest rate may only last for the first six months, and then jump to 19% afterwards. A store card offering 15% off with the first purchase may be carrying a prohibitive 29% plus interest rate. As a financial data comparison site, Money.net.co.uk can direct you to the best deals to meet your needs. The Internet makes it easy to shop around to find the best deals, but you need to ensure that a deal really suits you.

Balance Payment

The first step is to determine what kind of credit spender you are:

Always pay off balance in full every month

You use your credit card for everyday purchases, from groceries to petrol to household goods, and you never carry a balance over to the next month. In your case, the interest rate is irrelevant, as you'll never suffer the consequences of it. To avoid paying any charges at all, choose a card with no annual fee; however, you may prefer a card with a small annual fee that offers bonuses on the amount spent, such as travel rewards or cash back on purchases. As a regular spender, you'll be able to realise these bonuses more quickly.

You need to ensure first that the card you choose has an interest-free period, and that you always pay before that period is up. Some cards offer up to 59 days interest-free, and you can ensure you are always on time with your payment by setting up a direct debit with your bank for the full amount each month.

If you ever plan to use a credit card for big-ticket items as well, such as holidays or large purchases, and not paying off the full balance immediately, it may be worth getting another credit card with lower interest charges and using it only for that purpose.

Usually pay off balance in full each month

You use your credit card regularly, for everyday purchases as well as the odd luxury item, and though you try to pay it off in full each month you don't necessarily mind carrying the odd balance over.

In your case, the interest rate isn't irrelevant – you need to ensure that you don't pay heavily for not paying off in full each month. To keep charges down, choose a card with no annual fee, and a low standard rate of interest.

You may also be interested in cards with cash back or travel rewards schemes, but these cards will not necessarily have the lowest interest rates. Check the rate of rewards on each scheme to determine whether they are worth it for you; for example, if your average monthly spending rewards you with a basic domestic air ticket three years from now, you would probably save that much money by simply choosing a no-bonus low-interest credit card instead.

Rarely or never clear balance each month

You're the credit card companies' dream client, the one they make their money from, so you need to ensure they make as little as possible.

Shop around for the lowest interest rate you can find. In your case, a low introductory rate may not be a wise choice, unless you are prepared to switch cards again after the introductory period is over and the rate usually switches to a much higher one. Look for a low standard rate and no annual fee.

If you choose a low introductory rate – sometimes as low as 0% -that rate will revert to a standard level when the introductory period is over, so you'll need to look for a new card after six months or so depending on the offer.

If you are already carrying a large balance, many cards now offer a low (sometimes 0%) rate on balance transfers as well as a low introductory rate, reverting to a standard rate after a certain time period and/or on any new purchases made on the card. If you have a balance you want to pay off, you may consider shifting it to a separate card with a low balance transfer rate, and making new purchases on a separate card.

If you are trying to clear a balance, it's important to note that unless you are paying no interest at all, that balance will continue to rise even if you don't make new purchases. It will also take much longer to clear if you are paying only the minimum amount each month, as most or all of that payment will go towards interest charges. Paying a larger amount than the minimum each month will ensure that your debt is paid off more quickly.

What type of card should I go for, Standard, Gold...or Platinum

While carrying a Gold or Platinum card once conferred a certain prestige, these days there is very little difference between them although some credit card companies will insist on charging a fee for a Gold card, for example.

Sometimes this kind of plastic does come with more bells and whistles – you might get better benefits like travel cover, for example, but the reality is that most adults with sound credit histories on modest incomes can apply for Gold or Platinum cards and they will not be aware of any difference to plainer plastic in their purses and wallets.

Don't forget that the credit card companies don't just make their money on unpaid balances. Depending on how or where you use your card, you may be hit with unexpected charges, so it's important to read all the terms and conditions of the card before you agree to use it.

The good news is that, as of March 2004, credit card issuers have had to summarise their interest charges and features in what's known as an "honesty" box, making their terms easier for the average consumer to understand. Check the conditions carefully, making reference to how you will be using the card.

How are the monthly payments allocated to the total owing?

You might hope that a monthly payment towards an outstanding balance would go towards the oldest charge first, or the highest-interest-rate balance first, but that is likely not the case.

For example, if you have a credit card with a balance transfer at 0% and new purchases at 16.9%, the monthly payment will likely go towards the balance transfer first, ensuring that your interest rises more quickly. Be sure you understand the small print regarding your payment allocation – known as the "payment hierarchy" – before you agree to the terms and conditions.

Should I use my credit card on holidays abroad?

Many people have switched from using cumbersome travellers' cheques to simply charging all their holiday expenses and purchases, at least in destinations that widely accept credit cards.

Credit cards can be a more convenient and safer option than openly carrying cash, but they may also turn out more expensive. First, don't expect to get bank rates of exchange – the credit card will add a percentage to whatever its own rate is, so you're paying more than you would at the bank.

Another reason people often use credit cards abroad is that they can withdraw cash at ATMs from their card; however, cash advances from a credit card are never recommended, either at home or away. Almost all cards charge interest on cash advances immediately, so you pay as soon as you withdraw the money. If you take

cash out abroad, you'll pay a worse exchange rate, interest and possibly a handling fee for the transaction as well.

However, many cards offer benefits for travellers. These can range from discounted travel insurance to protection on purchases, fast replacement of lost or stolen cards and general assistance for travel delays.

Are individual store cards a better option?

Almost certainly, individual store cards – for furniture, clothing or electrical goods retailers – are an expensive alternative to regular credit cards. Though they often offer bonuses, such as discounts on initial purchases or 'favoured shopper' discount days, they will likely have much higher interest rates than a Visa or Mastercard. An outstanding balance on an individual store card could quickly grow into a much larger bill than the original purchase.

Applying for a credit card

Applying for a credit card is similar to applying for any sort of loan. The lender will take your personal information, income, outgoings and any existing debt into account, including outstanding loans and balances on other credit cards. They will also run a check on your credit history to see if you have had credit problems in the past.

You can check your own credit history through credit references companies such as Experian (www.uk.experian.com) or Equifax (www.equifax.co.uk), for a fee. Depending on the service, you may also be able to query or correct errors on your file that may be preventing you from obtaining credit.

If you have no credit history

If you have never had a credit card or personal loan, you may have no credit history, so you may have limited options as to which credit cards you qualify for. In this instance, the bank where you hold your current account may be the best starting point.

Banks often offer introductory 'student' credit cards with low spending limits and slightly lower interest. However, banks do not often offer the best interest rates. In order to establish a credit history, you may want to acquire one of these cards but use it sparingly or not at all. After a few months, your credit history may be sufficient for you to apply for a card offering lower interest rates.

If you have poor credit

Bad credit will unquestionably limit your options for choosing a credit card. However, many issuers will consider giving credit cards to people with poor credit under certain conditions. They may offer a higher interest rate and lower spending limit, for example, depending on your specific credit history, or they may offer a card with fewer features, such as a basic card (as opposed to a gold card).

Credit card agreements are governed by the **Consumer Credit Act 1974**. The Act licences lenders and compels them to show buyers the true cost of credit; it also protects consumers against "extortionate" rates of credit.

However, even credit at regular rates can add up quickly. If you are having trouble making repayments on an outstanding balance, contact your credit card issuer immediately.

The earlier you contact the lender, the more likely they are to try to help you meet your repayments. They may suggest a different payment schedule, or an alternate card with a lower interest rate.

But don't leave it too late. Once you have a bad credit record, it is a long and difficult process to improve your standing, and any future credit agreements you wish to enter may be refused.

Credit checking and scoring

What does it mean for me?

Lenders want to make sure that you are a good risk and do not have a history of bad debts and unpaid loans behind you. To do this they will check your entry on credit registers. Credit reference agencies such as Experian, Equifax and CallCredit PLC hold factual information about you and this allows a lender to check your name & address and your past credit history, including any County Court Judgements or defaults recorded against you.

A poor credit record won't necessarily prevent you from getting a credit card, but you will probably have to pay a higher interest rate. The self employed, or those – increasingly common these days – on short-term contracts may not be such an attractive risk to lenders.

People are refused credit for a number of different reasons and there is no automatic 'right' to credit, although it is illegal to refuse credit for reasons such as race, gender, religion, sexual orientation or address.

A common reason however for being turned down for credit may be because information held about you by a credit reference agency, or information provided in your application form, suggests that you will have problems repaying.

Credit referencing and credit scoring: how it works

Most lenders go through three main credit reference agencies for information on your financial past – Equifax (www.equifax.co.uk), Experian (www.experian.co.uk) and CallCredit PLC (www.callcredit.plc.uk). These three agencies, although business rivals, work pretty much along the same principles.

Each compiles credit histories from a number of different sources, including the electoral roll, county court judgements and how effectively past debts have been paid. Every time you open a new form of credit it will leave an electronic foot print on your record, which the agencies use to compile a credit 'scoring' system. When you apply for a personal loan, the lender – be it a bank, building society or whatever – will firstly run a credit check on you to see what kind of 'score' you have.

If you are turned down for credit, this is not a decision made by Experian, Equifax or CallCredit PLC, but by the lenders, based on their own criteria.

If you want a copy of your own credit report, both firms will oblige. Experian for example has a low cost credit report order-line: (0870 241 6212). You will need to have handy your name, date of birth, current address, any previous addresses over the last six years handy, plus a credit card or debit card in your own name. The fee for ordering a credit report by phone is £2.50. Reports should be sent out within 7 days.

For a more instant look at your credit history, Equifax offers an online service, for which it charges £11.50, or its postal service if preferred costs £8.25 for a report.

If a lender refuses you credit, it must say why. Under the Data Protection Act, if you are refused credit, and scoring was used to help the lender decide, you can ask for a review of your application.

What if the records held by the reference agencies are incorrect?

It is possible for incorrect or outdated information to appear on your credit report. If it does, it can affect your chances of getting a credit card, and other credit products. If you find an error, take the following steps to correct the information as soon as possible.

It's important to keep a record of everything you do. If sending via post, send all correspondences return receipt requested, and make copies of any letters or documents you send. Never send original documents.

In the first instance, you should contact the appropriate creditor or lender before contacting a credit reference agency. Most large creditors have standard procedures for customers to dispute items on their account. If you have proof that the item in question is incorrect, it should be resolved quickly.

If the creditor finds that the disputed information is indeed incorrect, the creditor is required to update its records both internally and with the credit reference agencies it deals with, usually within 28 days.

Always follow up your phone calls with a letter. List each disputed item, and state how it is inaccurate, attaching copies of all relevant documents. Include your full name, account number, the amount in question, and the reason you believe the item is wrong.

If you cannot resolve the problem with the lender, contact the credit reference agency that is reporting the item in question. You will need a printed copy of your credit report from them.

After you send written documentation of the inaccuracy, the credit reference agency will review it. If further investigation is required, they will provide notification of your dispute, including the relevant information you submitted, to the source that supplied the disputed information to them.

The source will then review the information, conduct their own investigation, and report back. The credit reference agency will then make all appropriate changes to your credit file based on the investigation, and notify you of the update.

How can I improve my credit rating?

Make sure all your payments to creditors are made on time. If you are forced to miss a payment, make sure you tell the creditor and the payment is made the following month.

Also, simple measures such as making sure you are on the electoral role or filling out credit application forms correctly will help boost your rating.

You should also buy your credit history from the ratings agencies and make everything is correct and up to date. For example, if you have paid a county court judgement, make sure it is shown on the file.

If a bankruptcy order is annulled ensure a copy of the order of discharge or annulment is distributed to credit agencies.

Lenders can also search your credit report more than once during a single application and if this occurs you should again alert credit reference agencies. Reference agencies also allow people to explain why they may have had a period of poor credit performance. You can also attach a 'notice of correction' on their report explaining why they missed payments.

Your credit history is a valuable asset because it allows you to take advantage of the competition between lenders -meaning you can shop around for the best rates or terms on the market. Each different lender takes a number of different factors into consideration when deciding to offer a customer a credit facility such as a loan, a credit card or a hire purchase agreement.

You should also try and avoid multiple applications for credit within a short period of time. Comparing the best products on the market will not result in credit searches being registered against your name, however as soon as you submit an application to a lender a search will be registered as part of the application process.

If there is financial information on your credit report linked to other people's names and you have no financial connection with those people you can ask the credit reference agency to remove the information from your report. This is useful where the information held could affect your own credit worthiness.

Useful information

Equifax Credit File Advice Centre, P.O. Box 1140, Bradford, BD1 5US 0870 010 2091, www.equifax.co.uk

Experian Consumer Help Service, PO Box 8000, Nottingham, NG80 7WF
0870 241 6212, www.experian.co.uk

Callcredit PLC Consumer Services Team, PO Box 491, Leeds, LS3 1WZ Tel: 0870 060 1414, www.callcredit.plc.uk

Money.net links to the very best credit card deals in the UK

AS the UK's premiere financial data comparison site, Money.net.co.uk can point you in the right direction when it comes to finding the very best credit card for your circumstances.

Having read our guide to credit cards, you will now be in a far better position to determine what type of credit card is best for your needs.

Remember, while most people automatically opt for the lowest interest rate they can find, this may not be the best choice for all circumstances.

If you plan to pay the balance in full each month, a card with more privileges or a spending bonus may suit you better.

You should always budget accordingly for how much you plan to spend on the card, and balance it against how much you can afford to repay every month.

But for the very best – and lowest cost – deals around, click the following link for the [Money.net.co.uk pick of the credit card selection](#).