



Debt Free

Credit card repayments are forcing some of us into bankruptcy. Here's how to beat the dreaded debts.

"PAY NOTHING UNTIL NEXT YEAR..."

'You've been such an excellent customer, here's another \$2000 on your credit limit.' Have you heard any of these tempting statements lately? Yes, the dreaded credit card come-on.

As a society we are addicted to them. They give you the illusion of having access to more money than you actually have. Herein lies the downfall of many people.

The interest-free deals in question are marketed by stores as 'Pay no interest for a year' packages. However, if the interest-free loan is not repaid within the allotted time, they will incur a penalty. Often the interest is backdated, so you could be hit with an interest bill that you can't pay on the day the debt becomes due.

SCHEMES TO WATCH OUT FOR

- Low introductory rates are tempting, but after a year the rates skyrocket and you may get hit with an annual fee.
- Being sent a pre-approved credit card that you never asked for can be too tempting not to use, but these cards can be hard to cancel once used.
- Unsolicited increases on your card because you are a 'good' customer, or an application for another card, is a disaster waiting to happen. You are exposing yourself to further debt and draining your future wealth.
- Cash advances are very tempting and are often part of a credit increase. But the minute you accept this wonderful lump sum you're paying interest.
- Late payments or defaulting on your credit card may be recorded on your credit files and may inhibit your capacity to borrow in the future. Even mobile phone applications are checked before approval, and records may be kept for up to seven years.

DON'T GET RIPPED OFF

1. Collect new cards from the bank and sign them before you leave.
2. Collect your card after each and every purchase.
3. Never allow personal details to be recorded on sales receipts.
4. When signing sale vouchers, check the amount is correct.
5. Do not give credit card details over the phone unless you know the caller is legitimate.
6. Keep records of transactions receipts and check statement;
7. Report stolen or missing card immediately.
8. For 'Pay nothing until 201X' use this checklist:
 - Can you afford the purchase?
 - Can you make regular monthly payments to clear the debt?
 - Don't be pressured into signing contracts.

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- Ask if you can have someone else look at the contract first.
- Can you pay a deposit? If so, pay as much as possible.
- Shop around.
- Never leave signed documents someone else to complete. Keep a copy of the contract.
- Ask if interest is backdated to the purchase date if the loan is still outstanding.
- Don't buy on impulse.

GET OUT OF DEBT

1. Stop using your credit card

I know it's hard, but just use it for emergencies. The less you rely on the thing that got you in to trouble in the first place the better off you'll be. Carry cash, visit the bank or take out the money you need each week and save your credit card for those things that you have to pay over the phone, such as electricity and gas bills. It will be tough, but stick with it.

2. Set up a budget to make additional payments.

This is pretty old-fashioned, but it works. Set a budget to accommodate all your expenses. Any extra money can be paid directly off your credit card. On top of your regular repayments, this will reduce the debt and save money in interest.

3. Use direct debit.

See your pay office and ask for a direct debit amount each pay day to be directed to another account – your credit card. This way you don't see the money and you can reduce your debt.

4. Don't pay an annual fee.

There are many cards that don't charge an annual fee. Before you apply, make sure you read the fine print. Some card applications only say that you don't pay an annual fee the first year. Make sure that it says there will *never* be an annual fee.

5. Pay your bills on time.

If you don't do so the company will charge a late fee. Many cards charge between \$20 and \$30 if you don't pay at least the minimum by the due date.

6. Spend only what you can pay off.

This is how the truly frugal manage "their credit cards. If you don't have the money to pay for something then you shouldn't charge it. If you need something you should save up enough money to pay for it before you buy it. If you save your money and put it in an interest bearing account you win both ways. You are getting interest on the money for a month before you have to pay your bill, and you pay off your debt. Also check the cheapest and easiest way to pay off your card. Phone and internet are almost always cheaper than paying over the counter.

7. Manage reward points wisely.

Just because points are offered, don't be tempted to use the card just to rack up points. There are cheaper ways to get the things you 'want' as treats, and they don't include spending big and paying up to 27 per cent interest to get them. Besides, the rewards points often have a lifespan, and if you don't use your precious points they expire.

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8. Consolidate your debts.

Debt consolidation is big business, and for many people it's the single thing that can save them from financial ruin. But it's not that easy to get your bank to agree to consolidation. The average person has three or four credit cards to maintain, most of them maxed out. Other than refinancing all your credit card debts into a personal loan, you could redraw funds from your mortgage or get a larger mortgage to repay the credit cards. This effectively means you are paying about 6.5 per cent rather than 20 per cent or so on the credit cards. When it comes to refinancing, the very people that help you get in to trouble may turn their backs on you because you're a bad credit risk. You may be paying them hundreds of dollars in card repayments and a mortgage, but you will not be considered for a loan.

Adapted from article by Margaret Bertling