

## D

### CREDIT CARDS

The advantages of using a credit card include:

1. you don't have to carry large amounts of cash
2. you may be able to obtain cash advances
3. the goods are yours from the time of purchase
4. there may be an interest free period
5. you can defer payment of goods.

The disadvantages of using a credit card include:

1. you may spend more money than you actually have and it may be difficult to repay
2. you may tend to buy on impulse
3. interest may be charged on any outstanding balance.

When you apply for a credit card, the application form will list the terms and conditions of the credit. These may include information on fees and charges, how repayments will be calculated and other information about your obligations under the credit contract. Your credit card statements will provide further information on interest rates and your credit limit.

For more information on credit, see *Just the Facts* on the *Money Stuff* website ([www.moneystuff.fairtrading.nsw.gov.au](http://www.moneystuff.fairtrading.nsw.gov.au)).

Interest charges on credit cards are normally calculated on a daily basis. The card issuer divides the annual interest rate by 365 and multiplies this daily rate by the amount you still owe on the card. The interest charges appear on your monthly statement.

The amount of interest you may pay depends on when you purchase goods and when that purchase is registered, as the way card issuers calculate interest depends on when they record a purchase on your account.

The methods of calculating interest are:

- **Purchase date:** where the interest liability is backdated to the day that the purchase was recorded on the statement by the card issuer. This means the interest-free period is lost completely if you do not pay the balance in full by the due date.
- **Issue date:** this method backdates the interest liability to the day the monthly statement was issued. This means the benefit of the interest-free period is substantially reduced if you do not pay the balance in full by the due date.
- **Due date:** this method applies the interest charge for the date on which the account payment is due. This means the benefit of the interest-free period is retained, even if you do not pay the balance in full by the due date.

You can see which method your card issuer uses in the terms and conditions of the contract.

### Key terms

annual interest rate	balance	minimum payment	cash advance	credit limit
interest-free period	liability	principal		

### ACTIVITY OUTLINE

Brainstorm the advantages and the disadvantages of credit cards. Explain that credit cards currently attract higher interest rates than other credit options, such as home loans.

If applying for a credit card, there are some terms and conditions that you should find out about and get a copy of. Key questions are:

1. What is the interest rate?
2. Is there an interest-free period? How long is it?
3. How are the interest charges calculated?
4. Is there an annual fee?
5. Are there any other fees and charges?

Discuss: How can credit card users avoid paying interest? What are some of the guidelines young people can follow to minimise the cost of having a credit card?

Ask the students to complete WORKSHEET D1.