

Choosing a credit card

So you are thinking about taking out a credit card? The very first thing to ask yourself is whether it's really the right sort of borrowing tool for you.



A credit card is a convenient short-term way to borrow money, often offering a period of interest free credit. But if you're thinking about borrowing money for more than a few months then you might want to consider a personal loan. Remember that you have to pay back what you borrow. Think about what you need credit for: is it a luxury or a necessity?

Credit is not free money: the golden rule is that if you can't afford to make repayments on your debt then you should not be borrowing at all. Used sensibly, credit cards offer many benefits, but used irresponsibly could pose some risk.

If you apply for a credit card, the card company will make a number of checks

both to confirm that you are who you say you are and that you are a good credit risk for the card you are applying for. It is therefore important that all the information provided on the credit application form is true.

Benefits and risks of using a credit card

Benefits

- Free, short-term credit as long as you always pay your balance in full by the due date shown on your statement.
- A safe and convenient way to pay for goods and services, particularly over the Internet, by phone or by mail order, from businesses both in the UK and abroad.
- Protection against fraud — if you are the innocent victim of fraud you will not be expected to pay if a criminal uses your card.
- Incentives for using a card such as loyalty points and cash back, or payments to support a charity.
- A truly global currency, as credit cards are accepted in virtually every country around the world.
- Perhaps the most flexible and convenient way of borrowing money in the short term.

Risks

- Lead to unplanned levels of debt.
- Incur charges if you make late payments, miss them altogether or go over your credit limit.
- Damage your credit rating if you continually make late payments or miss them altogether.
- Cost you more and take you longer to pay off than the alternatives, particularly if you only ever make the minimum repayment.
- If you have more cards than you need it could make it difficult to manage your finances.

With so many cards to choose from it is crucial that you think about what you want from a credit card and how you intend to use it before making a choice.

Different cards will suit different people's needs. The following will help guide you through the credit card application process and the things you should think about at each stage.

Jargon buster

Here are some key terms you will find in the Summary Box that appears in all cards' marketing material or on your statement, with a simplified explanation of what they mean:

APR (Annual Percentage Rate)

This is an overall measure of the total cost of borrowing on a credit card and won't just include the interest rate but any compulsory fees as well. You can compare this between credit cards.

Monthly interest rates

This is the cost each month for borrowing on the card and may vary for different kinds of transaction such as purchases, cash advances, balance transfers and so forth.

Ask yourself:

1. Do I need a credit card? Can I afford it?

2. What do I want the credit card for?

- Purchases which will be paid for in full monthly
- To spread the cost of spending over a number of months
- To take advantage of special offers (e.g. lower rates for balance transfers)
- For emergencies – as a standby to give me easy access to credit if and when I need it
- To use for a specific purpose such as shopping on the Internet or overseas
- To support a charity or other organisation

3. What card features are important to me? What information do I need to compare?

- Incentives and benefits such as cashback, rewards or loyalty points
- Being able to manage my account online
- Using my credit card when I am abroad
- The interest rates – for purchases, balance transfers, cash advances and credit card cheques
- The length of the interest free period for purchases

Once you know what kind of credit card you want and how you intend to use it:

4. Make a shortlist

Talk to card companies, look online, look at the Summary Box for each credit card and make a 'top five' list of credit cards that are right for you.

Charges

This section lists charges you might incur in using your card such as cash advances or for using your card abroad.

Allocation of payments

When you make a payment to your credit card account to clear your outstanding debts your card issuer may pay off different kinds of borrowing in a particular order (eg. purchases before cash advances).

5. Compare cards

Get a copy of the Summary Box for the cards in your shortlist. Have a look at all the different features and decide what card is most suited to what you want it for.

6. Review the Terms and Conditions

Make sure you have read, in full, the terms and conditions of the credit card that you decide to apply for. This is important to ensure that you fully understand your responsibilities and obligations.

7. Apply for a card

You can apply for your card in person, on the phone, by post or online. Remember, you need to be completely truthful in your application. As part of the application you will sign to indicate your acceptance of the terms and conditions.

8. The card company's decision

Your card company will always run some credit checks on you and look at your application form and any past payment behaviour before deciding if you are eligible for a credit card.

If more than one interest rate is available for a credit card, the card company will decide on what rate and credit limit are appropriate, depending on what they think you can afford to pay back.

9. Receiving your card

Some card companies may require you to activate your card before you can begin using it. If on receipt of your card you decide that it is not for you then you should immediately contact the card company and ask to cancel the agreement.

10. Tidy up loose ends

If you're transferring a balance from another credit card or closing an old account remember to check that any regular or recurring payments have been cancelled or moved from your old credit card. Choose a PIN you can remember. If you don't think you'll be able to remember the PIN that is issued for your new card you can always change it at any cash machine to something more memorable.

Default charges

If you breach the terms of your agreement, such as by failing to pay the minimum repayment or going over your credit limit – your card company may charge you.

Minimum repayment

Every month that you have an outstanding balance you have to make a payment on your account – this tells you the minimum you must repay.

Fees

Any monthly or annual fees on your card are listed here. If your card does not have a fee, this box will say "none" or "not applicable". Any conditions will also be shown here.

Interest free period

Many credit cards have an initial interest free period – which means there is no charge for borrowing over a set time. Usually this only applies to purchases and balance transfers. This part of the Summary Box will tell you exactly what terms and conditions apply.