



A Season of Happiness



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We've all seen those movies where we know what's coming, but the characters in the plot just haven't a clue. Annoying, isn't it? How can they be so blind, so stupid? The answer is simple – the writer and director manipulated the story to be that way, then told the actors to go along with it. In real life, the scenario isn't much different. There are manipulators and players. The fat cats control the storyline and we act it out, exactly the way it was written. But what if we could re-write the script – maybe not all of it, but bits of those scenes we are actually in? Then our character might not end up hurting so much.

Saving On Credit

Let's start with credit and try to understand how it works. The idea is to buy now and pay later. Maybe it's necessary in some cases. Not too many have the cash on hand to purchase a home, or even a car, so securing a loan is likely to be the only way to acquire them. A loan, however, will cost extra not only in interest, but is almost certain to attract establishment fees, account-keeping fees and probably State and/or Federal taxes. By the time the loan is paid out, costs will have ballooned. Obviously, these costs need to be kept down from the outset and for the duration of the loan.

How can this be achieved? Shop around. There are banks, credit unions, loan societies and agencies, all eagerly awaiting the unsuspecting borrower. Check them out carefully. Compare their current interest rates, then make another comparison of past track records. Has one tended to fluctuate less than others? If you're okay with your maths, put some figures in the calculator to see how much you might have paid back over a period. Use the base price of the item you are currently thinking of purchasing and work out the interest that would have been payable over a couple of previous years. This will only be a rough guide because there are other factors to be considered, but a comparison of the results could show up the less attractive options which are to be treated with caution.

For lower cost items there is the amazingly-convenient credit card. When first introduced into Australia back in the 70's, it was only issued to those bank customers who were considered a relatively secure risk. Now almost anyone can have one and there are disturbing reports of cards being made available to babies and, believe it or not, dead people! I even recall someone's pet dog being offered one!!! This may lead to the misconception that financial institutions have gone crazy. Forget about it – they know exactly what they're doing.

Another misunderstanding is the cost and who pays it. The banks imply they do, which is why they keep hiking the interest rates. In truth, we all bear the brunt, whether we use credit cards or not. Each time we buy anything, the price is loaded to cover all costs necessary to make the item available in the first place – manufacture, freight, taxes, advertising, and the percentage charged for the credit-card system. That includes the short-fall when the banks themselves get ripped off. And don't think that strictly cash deals are a saving. Somewhere in what's left after that generous 15% reduction is a small charge to offset the sales to others who buy on credit.

The bottom line is – everyone pays for the availability of credit, so why not use it? Many of us do, of course, but not always to our advantage. It's too easy to accept the offer of a new card, or an increase on an existing one, whether we can afford it or not. However, before going into the pros and cons of usage, let's look at the initial acquisition of a card.

Taking up the offer received in the mail is one way. It may appear generous, perhaps a godsend to someone with a lousy credit-rating, but they will still have to disclose their current financial

status – salary, existing outstanding loans, etc. Anyone reluctant to divulge this information, or groaning in disappointment at having to, should screw up the offer before it screws them.

Unfair or discriminatory as it might seem, requiring details of a person's viability is recognised practice and necessary for the safety of all concerned. Most institutions who run these card schemes judge suitability based on similar guidelines. An applicant has to earn so much a year and be able to support a manageable debt level. Qualifying for one will probably mean that others are worth a try. Here's where the prospective customer wins back some advantage. There will be different costs, annual fees and interest rates in particular. The payment-due dates may vary, as could the period of grace before interest is added. Some will offer bonus-points schemes – rewards, frequent-flier and so on. These are very important details which can make one card better than another.

In order to simplify what appears to be a very complex issue, I'll explain how we decided which credit cards to use. We have three, all with major Australian banks. The bulk of our monthly purchases are divided between two cards. Both have a rewards scheme, the points from which have been directed to our frequent-flier accounts. This is a handy extra because we fly to Melbourne annually. The Gold card has the most bells and whistles so, understandably, the yearly fee is relatively high, but it has a longer interest-free period than the other. Bear in mind, however, that this applies from the date of purchase, NOT the statement date. Even so, provided we pay the statement before the due date, it will not cost us a cent in interest. The third card is used solely for Internet and overseas purchases. It is no-frills, no rewards, low fee and has a long interest-free period. We also requested a reduced limit, to minimise the risk of loss by fraud.

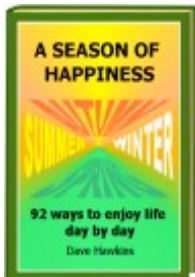
Here is a handy adaptation which can be employed by those people who find it hard to control their spending and stay within their budget. Lowering the available credit to a more affordable level might put high-price goods out of reach, but overall debt will be easier to control. A word of caution, though: some banks may let the total go past the limit and they *will* charge, just as they do for overdrafts. Keeping an eye on spending will prevent this. Another warning (a minefield, isn't it?) – cash withdrawals by credit card generally incur interest from the time of the transaction, not the statement date.

Practices and legalities may differ from country to country, but the basics rarely change. And the glow of satisfaction on coming out a winner is the same in any language. In a bid to help you live now and not pay through the nose later, following is a short list of considerations when applying for and using credit:

- Decide first if you can truly afford to keep up the repayments.
- What kind of credit best suits your purpose – personal loan, hire purchase, credit card?
- Is the credit for one specific purchase, or any number of future possibles?
- Can you resist the temptation to spend what's available just because it is?
- Don't take the first deal on offer – shop around for the best.
- If possible, negotiate in person. Prepare your list of questions beforehand and ask them. If you don't understand the answers, insist on clarification in simpler terms.
- Read all the terms and conditions, and don't let yourself be bullied into rushing.
- Sign nothing until you are satisfied you have the deal you want and can meet the obligations.
- Be suspicious of come-ons such as low low interest, special bonus schemes, and especially any offers of no initial repayments for a given starter period. Look carefully at what happens later down the track – it's almost guaranteed to be heavy going.
- Ask if there is a cooling-off period. This could give you the chance to pull out of a deal if you discover, within an allowed time, that you have made a wrong decision.
- Resist using one form of credit to pay what is owed on another.
- If you have more than one loan, plus a credit card or two, and it is becoming a struggle to make repayments, check around the banks for a deal to re-finance. Consolidating all of your credit into one package will mean only one simple payment and can often reduce the monthly interest payable.
- Whatever you buy on credit, try to make it last longer than the time it takes to pay it off.

Next issue: Mortgages – re-finance and make them work for you

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