

43) CREDIT CARDS - The latest in a series of articles by Iain Gregory of Caithness CAB

Do you ever get the feeling that you are being watched? I was happily sitting at my desk in CAB one day when I sensed a presence nearby and got the uncomfortable feeling that I was under surveillance. I swivelled a cautious eye to the right and found that I was unfortunately correct and there was not just one potentially dangerous presence in the vicinity but two, in the form of Jill (Manager) and Liz (Wife), who both had their arms folded and were studying me carefully. As my time tends to be divided roughly equally between being supervised by one or the other of them this caused me considerable alarm and my attempt to conceal myself under the desk was not successful. It transpired that there was a need for my car keys and my credit card – Jill wished to place various items in the boot of said car and Liz wanted my card for an unspecified, but no doubt expensive purpose. I learned long ago that attempting to resist either of them is pointless and I duly handed over the required items. I subsequently retrieved both car and card with the car being somewhat heavily laden and the card slightly melted.

Which brings me to the topic for today – credit cards. Everyone has their own views on whether or not it is a good idea to have a card but unfortunately it is getting harder and harder to manage without one – in the same way that it is getting virtually impossible to manage one's affairs without some form of online access (and more about that shortly). Try booking a rental car or a hotel room without a credit card number and you will be faced with problems. If you want to budget for an expensive purchase or are landed with an unexpected bill, then a credit card can often be the only option available to us. Many people are nervous about using a card, or even holding one, and this is quite understandable. It is all too easy to find that a balance has built up to the point where it becomes an issue and the interest rates for outstanding balances can be very high indeed. The so-called "sub-prime" cards can have exceptionally high rates (reflecting the risk of default) and it really is worth having a good look at what is available before applying for a particular card. If you have a good credit rating then the market is much wider and the chances of getting an advantageous deal are excellent and you can very much call the shots in such a case – the banks and card providers compete strongly for the "prime" market and it is always wise to use your strong position to negotiate for the best offer. And when you get your card, always remember – if you only make the minimum payment each month it can take literally years to clear a balance. As an example, if you buy an item today for £1000 and the interest rate is set at 20% and you pay the debt back at £20 per month then it will take until around September 2025 to pay off the initial debt and you will also have incurred interest charges of about £900. And if you chose to reduce your payment to the absolute minimum as the debt reduced then things would be even worse. On the other hand if you pay £50 per month then the debt will be cleared in just over two years with interest charges of marginally over £200. You see where the banks make their money?

The best option is always to clear your balance in full each month so you are, in effect, getting free credit, but all of us from time to time have to pay for something we had not expected and that is when the costs can build up, so we should always try to make the maximum payment possible to reduce the amount of interest charged. For a long time, before the “credit crunch”, it was quite easy to keep “switching” cards to take advantage of “0%” APR deals and I recall managing to finance a new MG over two years without paying a penny of interest and, although this is much harder nowadays, if you shop around then there are still occasional good deals to be had. I would advise against using a card to obtain a cash advance if you possibly can. The moment you take the money from the machine the charges start to rack up and there is no “free credit” period – this is a very expensive way to borrow and is best avoided.

So what are the main advantages? Well, a card allows you to budget and can be very convenient. The greatest benefit to my mind is that when you use your card to buy something the card provider has “equal and several liability” which means that if things do not go according to plan and the wheel falls off your new bicycle or your washing machine proceeds to clean the floor instead of your clothes then you can go straight to the card provider, as well as the retailer, and demand rectification. I have mentioned this before but it is worth repeating because we often get cases at CAB where we could sort things out much more simply if the payment had been by credit card. Section 75 of the Consumer Credit Act 1974 is one of the most useful pieces of legislation in existence and makes the position quite clear. The credit provider has no way around their liability and even if the card was only used for part purchase then, so long as at least £100 and not more than £30000 was placed on the card you can pursue them for the lot. We regularly get cases where a trader has gone bust and, sadly, in many cases there was no credit card payment. This makes things much harder. I recently bought some new furniture and put exactly £100 of the cost on my card. There were no problems, but if there had been then I had protection for the full sum. If you use a debit card instead then you may have redress through the “Chargeback” scheme, where you ask your bank to take the funds back from the trader’s account. The difficulty here is that this is not enshrined in law and “chargeback” is simply a scheme to which the banks may subscribe. It can get confusing so please call CCAB if you need help.

So there we have it – it is always a matter of personal choice whether or not you use a card and there are risks and advantages but you can protect yourself and use the system to your benefit.

I mentioned online access earlier and I thought I would remind people that Ormlie Community Association and CCAB work together to provide free supported internet access at both Wick and Thurso CAB so if you do not have a PC – or have never used one – then please come along. The First Minister visited us a while ago (not because she wanted to use a computer but because she was interested in the service we were providing and genuinely

interested in talking to the service users) and I think our scheme is pretty much unique in Scotland.

And as tomorrow is Monday and as I have been granted a few hours off to take Liz shopping I will now empty the car boot and give my credit card advance warning of a heatwave