

Managing Money Getting Credit



Getting into debt is easy, getting out of it is much harder. Before you apply for credit, you should work out a budget and then shop around to compare different options.

Which credit option is best for you?

You have a number of options. Check out the one that suits you best. But remember, think carefully before signing up for anything, and make sure you read all the fine print in any documentation you are given so you fully understand all of the fees and charges. If you are not sure, ask for help.

Credit cards / store cards

Credit cards/store cards allow you the convenience of buying something and then paying for it later.

If you pay all the money back on time, you may not have to pay any interest. But if you don't, the interest will be charged until the debt is fully paid. Most cards have a credit limit, (eg \$50, \$500, \$5 000) and you can't spend over this limit otherwise penalties apply. It's wise to set yourself a credit limit on your card so that spending too much doesn't catch you out.

Use your credit card for buying goods and services and don't use it for cash advances (you will pay interest charges from the date of withdrawal). Credit cards often come with rewards or loyalty programs that are generally included in the cost of credit. In other words, you rarely get something for free!

Remember, while a credit card lets you buy lots of things, it just might come back to bite you!

Debit cards

Debit cards are similar to credit cards, but instead of getting into debt, you are actually spending your money. There is a direct link from your bank account, so you can't spend anymore than you actually have. Make sure you:

- shop around to find a bank, credit union or financial institution that offers the best deal for you;
- keep track of your purchases and don't spend all your money too quickly;
- keep all receipts and check them against your monthly financial statements.

Personal loans

Personal loans are usually taken out when buying a large item (eg. a car or a holiday). You will usually need to pay a deposit, and then pay back the rest of the loan with interest.

You should:

- choose a loan that suits you and your budget – don't over commit yourself;
- shop around for the best interest rate and consider the total cost of the loan (including interest, fees and charges);
- check that no penalty rates apply for paying off the loan sooner.

The more you pay as a deposit, the less you'll have to borrow, and the less interest you'll have to pay. The lender may want some form of security and/or guarantor. A guarantor is usually a friend or family member who has agreed to cover your debt in case you fail to meet your commitments. Security means that the credit provider can repossess the goods if you fail to make payments.

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Lay-bys

Lay-bys can be a good way to purchase something if you don't quite have enough money at the time. You aren't charged interest – you normally have to make regular payments and wait a bit longer to get what you want.

Rent to buy / own

Renting is generally the most expensive way to buy things. Sometimes you have to pay a lump sum of money at the end of the agreement terms to own the goods (which can sometimes be more than 50% of the value of the purchase).

Interest free terms

Interest free terms can be a worthwhile option in the long run; as you are not paying any more than if you had paid the full price to begin with (provided you meet the original terms and conditions of the agreement). You'll generally need a minimum deposit of 1/3 of the purchase price, and the remaining balance will be paid in 6 or 12 equal instalments. Make sure the interest free price is no more than the cash price – or else it's not really interest free.

Other tips for keeping out of trouble

- Avoid taking out too many credit options at once because it can be hard to keep track of what you are spending, and you may be paying more in credit charges. The amounts for each purchase can soon add up, and before you know it, you could be in serious debt.
- The quicker you pay off your debts, the less interest you'll pay! Try and pay the full amount at the end of each credit period.
- Protect your card and your accounts (including your Personal Identification Number (PIN)) to prevent unauthorised use.
- Don't borrow to the limit of what you can afford. If interest rates go up, the re-payments will be higher. Also, you may have other unforeseen expenses that crop up (eg car repairs, doctor's bills) so make sure you put aside some extra money just in case.