RANDS & SENSE

Bank cards have almost replaced hard cash and offer great convenience – but a credit card can come back to bite you with debt and big interest fees. Here's how to use both debit and credit cards wisely and even save on finance charges!

Keeping that plastic fantastic

These days, it is difficult to imagine a time when you paid cash for all your day-to-day living expenses. It seems as if everybody is now paying with plastic, whether it is a debit or a credit card.

Although there is no doubt that using plastic is far more convenient than using 'old fashioned' cash, there are a number of factors you should consider before taking your card out of your wallet or purse.

Debit or credit?

The obvious first consideration is whether to use your debit or credit card. A debit card is quite simply a substitute for cash and as soon as you swipe your debit card, cash is taken out of your account. If you do not have enough cash in your account, then the transaction will be rejected and the teller will politely inform you that you have insufficient funds. This might be rather embarrassing for you and most likely you will still be charged a transaction fee! It is therefore always a good idea to make sure you know how much cash is in your account before you swipe that debit card!

Personal Identification Number (PIN)

All debit cards and some credit cards make use of a PIN. This is your Personal Identification Number. PINs are four digits and this is quite simply a key to your bank account.

A PIN is used to make sure that the person using the card is the owner of the card. Anybody with your card and your PIN can use your card so it is very important that nobody else but you knows your PIN.

Depending on the bank, you will either be given a PIN or you can choose your own PIN. Make sure your PIN is not an obvious number like your birthday or car registration.

Remember that a card combined with a PIN is just like a wad of cash! So if you can't memorise your PIN and have to write it down, never keep the PIN in the same place as your card!

Credit cards

Some credit cards look just like a debit card but there is a fundamental difference between the two.

- The debit card accesses cash in your account and it is debited from your account as soon as you buy an item.
- The credit card accesses money that you borrow from the credit grantor! You can deposit money in your credit card account and draw down from these funds but the vast majority of people do not do this and rather use the credit limit given to them by the credit grantor.

Using credit cards and avoiding finance charges

Using a credit card does not always result in interest payments. For example, if you pay your credit card balance in full each month by the due date, you incur no finance charges apart from the annual card fee. Many store cards will give you six months to pay your account and will not charge interest. However, you have to pay the required monthly instalment on time.

> "If your credit card balance is R2 000, your minimum instalment is 5% of your balance and you are being charged 26% interest on your account, it will take you six years to pay off your account! In this time you will pay about R1 300 in interest. That's a good reason to pay more than the minimum instalment."

Credit cards and interest charges

If you only pay the minimum instalment on your credit card each month, then you will be charged interest on the balance left on your account. If possible, try and pay more than minimum required instalment so you reduce the interest charge on your account.

Make it your business to know what interest rate you are being charged on your credit card. The rate will be given on your monthly statement, or you can visit your bank and ask.

If your credit card balance is R2 000, your minimum instalment is 5% of your balance and you are being charged 26% interest on your account, it will take you six years to pay off your account! In this time you will pay about R1 300 in interest! That's a good reason to pay more than the minimum instalment.

If you are using a credit card to fund your day-to-day living expenses and you can only afford to pay the minimum instalment you should try to reduce your expenses as soon as possible. Ideally, you should only use short-term credit for emergencies and not to fund your lifestyle.

Avoiding unnecessary charges

Banks charge fees for almost every transaction and enquiry. One way to save money is to look carefully at your bank's charges and fees on your monthly statement, and see where you can save.

Look at the past three months' worth of statements to get an average.

Obviously, if you are in overdraft or behing in your credit card payments you will pay interest, and getting out of debt will save you a great deal. But there are other things you can do.

- Making fewer cash withdrawals at an ATM will reduce your monthly withdrawal fees and ATM charges
- Only using your own bank's ATMs will save you on the inter-bank 'Saswitch' fees charged by a bank for making ATMs available to customers of other banks.

Think before you key in your PIN!

Shop around for the best deal

Interest rates on credit cards vary from as low as 19,5% to the maximum permitted rate of 35,3%! There are some great websites you can use to compare credit card costs between various financial institutions. Take a look at

- www.thinkmoney.co.za or
- www.justmoney.co.za.

They both allow you to easily find the best solution for your requirements.

Credit Cards and the NCA

The explosion of plastic in people's wallets happened prior to June 2007. This was the time when banks and other credit grantors were falling over themselves to get as many customers as possible onto their books before the National Credit Act came into force.

On 1 June 2007, the NCA tightened up credit granting criteria. Subsequent to that date, it is more difficult for people to get credit if they can't prove they can afford the repayments.

Adding another credit card to your collection might have seemed like a good idea when the prime interest rate was 10,5% and inflation was below 6%.

We all know that today, food and oil prices have soared to levels that nobody anticipated and interest rates have followed suit. Meeting your monthly debt obligations is becoming a serious challenge to many people.

If your monthly debt repayments (excluding home-loan) are more than 20% of your after-tax income, then you should look at ways of managing and reducing your debt (see *Contact* 29 Feb/Mar 2008).

A friend of mine recently told me that his wife had undergone plastic surgery in order to save. She cut up all her credit cards!

Using plastic cards instead of cash is a convenient payment mechanism but remember:

- Protect your PIN
- Check available balance before using your debit card
- Pay credit card balance in full or at least pay more than minimum required instalment.
- Shop around for the best card deal.

• Rands & Sense is written by Paul Barnard of North Star Solutions, specialists in financial education who run workshops to help people acquire money management skills.

Save (and win!) with ABSA

Are rising interest rates, climbing food prices and never-ending fuel hikes making you panic? Is there any good news around the corner for the consumer?

There is no simple answer but experts agree that things are unlikely to improve soon. The best option is to look at what we can do to ease the pressure.

South Africans are poor savers with the average person saving less than 1% of their monthly income. We all need to spend less and save more for our goals.

But with all these rising costs is saving possible? The answer is a definite 'yes'!

Keeping saving simple …

Balance is the magic word. Whether it's the food you eat or making lifestyle choices, balance is key. Managing your finances is no different. Most people should be able to save – you just have to plan.

Start with the simple stuff; you'll be amazed at how much you can actually save. Cut out those luxuries, don't over commit yourself. Factor in possible interest rate hikes and always ask yourself "Do I really need this – or do I just want this?". You'll find that many purchases aren't necessary and amount to wasted money.

It may seem obvious but money wasted on unnecessary bank charges, the wrong pricing option or even the wrong account types are common. Do your research.

About ABSA's MoneyBuilder

Once you've freed up more disposable income, look at a good savings account that's convenient and offers you good interest rates. Absa's MoneyBuilder offers savers high returns and immediate access to their funds with no penalties.

This account offers flexibility while paying excellent interest rates on balances above the minimum starting deposit of R20. It is designed to make regular savings deposits and withdrawals easy. Interest is also tiered so the more you save the better your interest rate will be.

Customers pay no monthly administration fees so the capital value is preserved and the following transactions are *free:*

- 2 Absa ATM cash deposits per month
- 2 Absa ATM inter-account transfers per month
- 2 Absa ATM balance enquires per month
- 2 Absa ATM mini-statements per month
- 2 Absa ATM cash withdrawals per year.

Remember saving is habit and once you catch it it's hard to lose. Start saving today for a better tomorrow.

Win a surround sound system!

To encourage savings, ABSA will be giving one lucky *Contact* reader a state-of-the-art Futronic DVA 800 surround sound system. See the back page!

Puzzle solutions (for page 24)

The Sudoku solution and the 25 words in the WordSearch puzzle

1	6	9	8	5	7	4	2	3
5	8	4	2	3	9	1	6	7
7	3	2	4	1	6	5	9	8
6	2	5	3	9	1	8	7	4
4	1	7	6	2	8	9	3	5
3	9	8	7	4	5	6	1	2
2	5	6	9	7	4	3	8	1
9	7	1	5	8	3	2	4	6
8	4	3	1	6	2	7	5	9

DAM, VAN, ARTS, BANK, DOTY, FIRE, GREG, HOME, RISK, ABUSE, AWARD, CYCLE, RIFLE, ROADS, WATER, ALETTA, EDITOR, KRAMAT, POLICE, POSTER, PUBLIC, SIGNAL, HARBOUR, UPGRADE, SEWERAGE