

GETTING STUFF:

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lay-by vs credit cards

Credit cards and store cards

Credit cards can be a handy way of getting stuff, especially if your card gives you an interest-free period and you pay the amount you owe before any interest kicks in. Credit cards can also be useful for snapping up goods on sale. However, if you can't afford to pay your credit card account in full before the interest starts, the bargain price you paid for your stuff can be pretty steep once the interest starts piling up.

Interest on credit cards varies widely. At the lower end of the scale, you might be able to get a credit card with one month interest-free for around 15%, though there are some cards with rates over 29%. Some credit cards also charge an annual account fee and this can vary from around \$20 to \$80. Many credit cards also charge extra fees if you are late with your repayments.

Interest costs on a credit card mount up pretty quickly. You might find a fantastic deal on a stereo for \$999 that you put on your credit card. But if you only made the minimum payment on a typical credit card account each month, you will still be paying for your stereo 3 to 4 years later. This is because the minimum monthly payment is often only 3% of the outstanding account balance, so the second month's payment would be around \$30 (and include over \$13 interest). At this rate of payment, the stereo would end up costing around \$1400. Some bargain!

Store cards work much the same way as credit cards, though the interest rate for store cards is usually higher. The main problem with store cards is that they lock you into one or a few stores, so you may not get as a good a price on stuff as you would if you had shopped around.

Alternatives to getting stuff on credit card

You could save up the money you need to buy the stuff you want, but you could miss out on a fantastic deal by the time you get the money together. However, there is a simple way of hanging onto the bargain you've found and avoiding the risk of ending up with a spiraling interest bill or a credit card debt you can't pay

Lay-by

Many stores will put goods aside for you while you pay them off. This is known as lay-by and it can be a great way of picking up stuff on sale. You will usually need to pay a deposit and then make minimum payments at regular intervals to pay off the goods by a certain date. lay-by is totally interest-free. It is against the law for a seller to charge extra money for agreeing to lay-by goods.

If a lay-by agreement is cancelled because you breached the agreement, you will lose the amount of money which the agreement explains you will lose and the seller must refund any extra amount you have paid.

Getting Help

Don't rely on the general information in this article. It is best to get advice specific to your situation.

For referral to a financial counsellor:
Financial and Consumer Rights Council
(03) 9614 5433

Credit Helpline (03) 9602 3800

For assistance with a complaint about a seller or a credit card company:

Consumer and Business
Affairs (03) 9627 6000

TIPS: when using lay-by to buy stuff

- Work out your budget carefully to ensure you can make all the lay-by payments by the due dates.
- Check out the store's lay-by terms so you are fully aware of what will happen if you cancel the deal or miss any payments.
- Make sure the lay-by agreement is clear about what you have bought, how much the total cost will be and the payment arrangements and don't leave the store without a copy of the agreement, signed by you and the seller.
- If you break the agreement by missing a payment, talk to the store as quickly as possible to see whether they might be willing to let you continue with the lay-by.
- Watch out for dodgy retailers. If the seller goes out of business, you may have trouble getting your money back - so stick to sellers that you are confident will still be around when you finalise your lay-by.

TIPS: for using a credit card to buy stuff:

- Interest and fees vary widely on credit cards, and only some cards offer interest-free periods, so shop around carefully.
- Make sure you understand the terms of the credit card contract, especially any fees that may be charged if you are late with payments. If you don't understand the contract get independent advice before you sign.
- Before using a credit card, work out your budget carefully to ensure you can afford to repay your purchases and check whether the purchase will be a good deal after the cost of any interest is added into the price.
- Keep a close watch of any credit card spending as it happens. Waiting for a statement to come could be too late to avoid a deep financial hole.
- Check each statement carefully for errors and try to pay the whole balance of the account each month, to avoid interest mounting up.
- Sellers are often charged a fee by your credit card company (between 2% and 4%). To save this money, some sellers will give a discount for cash. If you have the cash, it won't hurt to ask for a discount.
- If your credit card debt is out of control, put the card in the freezer so you don't use it until you get some advice from a financial counsellor about what to do.
- If you lose your job or there is some reason why you are having trouble making payments on your card, get advice from a financial counsellor quickly.

WOULD YOU LIKE A HEFTY INTEREST BILL WITH THAT?

Given she was on a low-income, Shari was surprised to get a credit card offer from her bank- but they gave her a credit card anyway with a \$1000 limit. Shari promised herself she wouldn't use all this credit, seeing as her Youth Allowance plus part time job only paid her \$1100 per month.

At first, Shari was careful about when she used the card and always paid off the account in full with each statement, but in March it seemed to be raining bills. There was the mobile phone account, plus the car insurance, and then her re-enrolment and book costs for Uni. In that one month, Shari managed to clock up over \$900 on her card. By June, Shari found herself facing a rising interest bill, with little hope of bringing her debt down.

Each time Shari tried to pay something towards the card, she left herself short of money for expenses and needed to use the card again. Eventually Shari begged her Mum to hang onto the card until the debt was under control. It took Shari over a year- but she finally paid it off. Unfortunately, it took yet another year for Shari to catch up the Uni subjects she been forced to drop so she could earn more by working extra hours in her fast food outlet job.