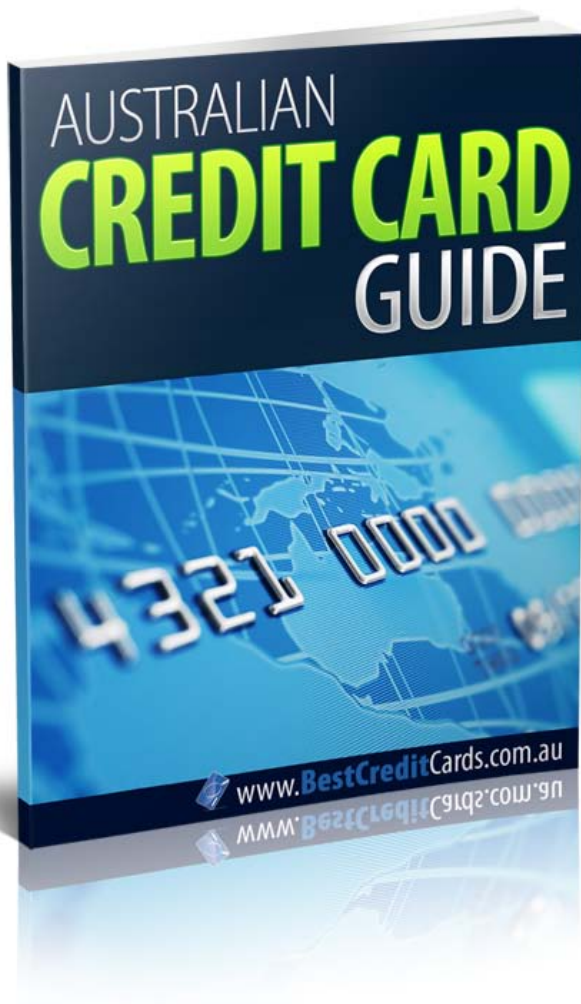


# Australian Credit Card Guide



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## Introduction to Credit



Credit has, essentially, become the cornerstone of our society. In fact, it has become so vital to daily life that the word “saving” has almost been eradicated from our vocabulary. The only reason it’s still around is because banks need to use as many channels as possible to attract money that they can then lend out. But this book isn’t about banking policies, so let’s move on and take a quick look at how credit and “plastic” rules our lives.

### The So-Called Credit Conspiracy

If you actually think about it, it’s quite strange how a little piece of plastic can play such an important role in our lives. Remember when you were a kid and you watched your parents swipe the “magic card” and they got all this cool stuff in return? You probably couldn’t wait to grow up to get a “magic card” of your own. However, once you got there you realised that the “magic card” is actually evil incarnate that tempts you every day to spend more and more, so you end up digging yourself deeper and deeper into debt until you suddenly put the brakes on and figure something has to change.

Yes, it does sound a little dramatic but sadly a lot of people end up in this situation and if you aren't one of them, then congratulations. But you must have picked this book up for a reason, which means that you probably want to learn how to play the credit card game so that you are the one getting the benefits and not the "evil" financial institutions.

However, if you are at the bottom of that hole, then don't worry because there is always a way out. The situation might seem grim as you watch your credit card bills climb and your income doesn't seem to quite stretch as far as it used to. But there is always a way out, it might be difficult at first but once you start using your credit cards wisely, you will find that it's actually fun to "game" the system and get all those benefits that banks promise, for free.

While many people blame banks for their financial situation, the fact of the matter is that a bank is not a charity organisation. They don't give out money for free for people to buy the latest gadgets or cool cars. Even a charity would balk at giving out money for something like that. However, if you find one, please let me know because I have a really long bucket list.

Anyway, getting back to banks. The main problem doesn't actually lie with the bank, even though they could be a little more flexible in their policies. The problem is that people don't really have even a basic understanding of how credit works and how they can use their credit cards properly so that they are the ones getting all the benefits and not the banks.

Banks rely on one very important thing and that is our need for instant gratification. Have you ever really stopped to look at how banks market their products? They certainly don't make any mention of the fact that you will end up paying probably double for whatever you are buying or that they actually want you to be late with your payments so they can charge you penalties. No, they use our desires against us and, like lemmings, we all rush down to the first bank we can find with that "amazing offer" and sign our names on the dotted line before we've even woken up and realised what we are doing.

After all, why bother saving for 5 years for that European tour or waiting a couple of months to get the new iPad when we can charge it to our credit cards? And it is exactly that psychology that banks use to get us to sign up for their "great" offers that are "completely" in our favour.

Yes, this approach might make banks look like the "evil" ones in this equation but the truth is that if you were heading the board of a bank or were the CEO, you would do the exact same thing. No, the problem lies in the lack of financial education people have because if everyone understood how credit works and how to manage their finances properly, they wouldn't be taken in. Then again banks wouldn't be making any money from retail lending and might give it up altogether.

And it also doesn't hurt to have a good handle on your spending impulses. Remember, just because it seems to be winking at you, it doesn't mean you have to buy it. Breathe and move on. I guarantee you that Apple hasn't yet invented a gadget that calls out to you and neither has Samsung made a television that is screaming out "buy me, buy me, I'm an orphan!" It's just your imagination and there is no conspiracy going on. I know, I've been there and was given extremely odd looks by the people in the shop when I swore the "beautiful telly" was begging me to take it home.

Now that we have established that, in fact, it's our lack of financial education and our need for instant gratification that lands us in the dog house, it's time to deal with it.

## What Is Credit?

So, the first thing you need to understand is that a loan is the equivalent of a product. It can be difficult to see it this way since you are, essentially, getting money to buy something else but it is a product. We "buy" money from a bank to be able to purchase something we want now rather than later and we pay interest costs, fees and in some cases penalties for the privilege.

Therefore, the easiest definition of credit would be getting money from a financial institution to buy something today rather than in a few months or years time, which is how long it would take to actually save up the money to make your purchase. So, for example, if you want to buy a house or a flat, you have two choices, you either save up for 25 years and hope that prices won't go up so you can afford to buy a roof over your head or you can get a mortgage so you can buy it now.

Using the previous logic of buying a home it would be easy to say that you should use credit for everything, including buying a toaster. However, there are a few differences. First of all, you probably wouldn't go out and get a secured loan to buy a toaster. A secured loan is one where you have to offer an asset up as a guarantee for the bank so that if you default on your loan, the bank can recover their losses by taking over the asset and subsequently selling it off. In other words, you need to sign over something to the bank that is worth at least as much as the amount of money you are borrowing so that if you aren't able to make your payments the bank is covered. So, if you buy a toaster on credit, you will probably use a credit card, which means your interest rate will be significantly higher than with a secured loan.

Secondly, when it comes to a mortgage, you have other costs to consider. Therefore, if you decide that the best way to buy your home is to save up because your grandmother has brainwashed you that banks are evil, you might think you are being financially savvy. But are you? Think about it. Where are you going to live while you are saving up to buy a place of your own? It's unlikely that you are going to choose to live in a cardboard box in the park. No, you are probably going to rent. So, the rent you pay each and every month is money you are throwing out the window and, in most cases, works out to a lot more than the interest rate on a mortgage.

On the other hand, with a toaster you don't have other expenses. It's not like you are going to die without toast or will have to pay someone to make toast for you every morning. So, in this case, it's probably worth waiting for a little bit to save up the money to make your purchase.

The whole point of this comparison was to get you to understand that credit can be excellent for certain things and pointless for others.

## How Do Credit Cards Work



One of the most popular forms of credit is, of course, the credit card. It can be quite difficult to get through life without a credit card nowadays, whether you are paying for petrol or want to book a hotel or hire a car. In fact, if you are trying to hire a car or make a hotel reservation you will have a hard time doing it without a credit card.

However, despite their popularity, a lot of people aren't exactly sure how credit cards work and this is especially true of people looking for their first card. Sadly, it seems that financial education is not considered important in schools and as a result the majority of people graduate without even the most basic financial management skills let alone a decent understanding of how credit cards and other financial products work. The problem is that without this skill set, they end up in deep financial trouble before they realise what is happening.

## What Is a Credit Card?

A credit card is a type of revolving loan that is an alternative to using cash or taking out a standard unsecured loan. In other words, a credit card allows you to pay retailers, both online and offline, with money you borrow from the bank using a plastic card. Note that nowadays there are also special virtual cards available that are meant to be used solely online.

## The Mechanics of the Credit Card

So, a credit card is basically a revolving loan, which means that once you pay off the balance you have used from your approved credit limit, it goes back into the “pot” and you can use that money again. Thus, you use your credit card to make payments or for purchases and the amount you use is deducted from your credit limit. At the end of the month you receive a statement which shows you the following information:

- The amount of money you have spent during the statement period, which is usually one month. Your statement will include each individual transaction so you will have a clear report of your expenditure.
- The minimum payment you have to make;
- The date when the payment is due by;
- How you can make the payment;
- Relevant information regarding any interest costs you have been charged on your outstanding balance as well as any fees;
- The total amount you owe, if you haven't paid off your bills in full;
- The available credit limit, which is basically how much money you have available on the card to use.

If you manage to pay off your bill in full at the end of the month, you won't be charged interest. However, if you don't then the amount you spent will start to accrue interest. So, for example, if you have a credit card with a \$2,000 limit at 12% interest per year, and you spent \$200 last month, your available balance will be \$1,800. If you don't pay your bill in full at the end of the month, then you will be charge interest on the \$200 you spent.

Card issuers do not require you to pay off your bill in full every month. In fact, they prefer that you don't because otherwise they won't earn any interest, which is where their main profit comes from. However, they do demand that you make a minimum payment every month. The minimum payment varies from card to card and can be just the interest you owe on your outstanding balance or a percentage of the amount you have spent during that statement period plus the interest you owe on any debt you have outstanding.

Ideally, you should pay off your credit card bill in full every month to avoid accruing interest costs. However, even if you can't pay the bill in full, you have the option of paying more than the minimum, which you should seriously consider doing, if you are able, because the more you pay, the less you will be charged in interest costs.

Most credit cards allow a grace period from the moment you make your purchases using the card until your statement is issued. During this timeframe you will not be charged any interest. However, if you don't pay off your balance in full at the end of the month, then you will be charge the purchase rate.

You can also use your credit card for cash advances in an emergency, but this is usually not a wise choice unless the situation is really desperate because you will be charged interest as soon as you make the withdrawal. Additionally, the cash advance rate is usually quite a bit higher than the standard purchase rate, which is another good reason to avoid withdrawing cash from your credit card.

## How Is Your Credit Limit Determined?

Banks determine credit limits on a case-by-case basis and use a whole range of factors to determine how much they are willing to lend you. While each bank has its own policies in terms of how they calculate the amount they will lend you and no one knows the exact formula, the basic concept is that the less risk you represent for the bank, the more they will be willing to lend you.

The starting point is generally your total disposable income. However, this doesn't mean that two people who have the exact same income will be offered the same credit limit. This is because of the risk factor. The riskier the bank perceives you to be in terms of the chance of you defaulting on your loan, the lower your credit limit will be. There are a number of factors that banks use to determine your risk potential including your place of employment, your financial and credit history, your assets, the size of your family and much more.

## How to Choose the Right Credit Card



Choosing the right credit card will vary from person to person as it is quite a subjective matter. However, the general guidelines for choosing the right credit card are basically the same. Thus, first and foremost, you need to choose a credit card based on your particular requirements and the reason you are getting a credit card. You may want a credit card to use for your regular shopping, to have a backup in case of emergencies or simply to avoid carrying too much cash on you. These factors will help you determine the best type of credit card for your particular situation.

### How Will You Pay Off Your Credit Card Balance?

If you are looking for a credit card to use for emergency purposes and know that you are likely not to be able to pay off your bill at the end of the month, then one of the most important aspects you will look at is the interest rate since you don't want your interest costs to add up too much.

On the other hand, if you are looking for a credit card to use for regular purchases, whether online or offline, you might want to look for a card that offers a longer interest-free period, to allow yourself a little leeway on making the payment. While credit cards that have longer interest-free periods tend to incur a higher interest rate, this shouldn't matter too much to you if you will be paying off your bill on time since you won't be charged any interest. However, interest-free cards tend to also incur an annual fee, which can vary quite a bit from card to card.

## Rewards Programmes

Another important aspect when choosing a credit card is whether or not it offers a rewards programme. More often than not, credit cards that offer rewards schemes tend to come with a higher interest rate or higher fees, so you need to determine whether or not it is worth it in the long run.

Basically, a rewards scheme “repays” you for using your credit card and in most cases you accrue points based on the amount you spend. These points can then be redeemed for a variety of benefits, from various gifts and freebies to discounts on various services and products. For example, a popular rewards scheme is one that is connected to a frequent flyer programme and you can redeem your points for a variety of travel related benefits, including free plane tickets, discounts on car hire and hotel stays and even full holidays and cruises.

Some cards make it even easier to accrue additional points by offering a higher number of points per dollar you spend with certain “partners” included in their programme. However, don't make the mistake of shopping with partner companies just to gain bonus points because the difference in price to where you make your regular purchases might cancel out any benefits you gain from the additional points.

Additionally, don't think that it will be easy to earn your rewards because in most cases you will have to spend thousands to accrue enough points to exchange them for a gift that is worth \$100. In fact, if you tend to carry debt over from month to month, then a credit card with a rewards scheme might not be the best option for you because you will end up paying through the nose for the privilege of getting something you think is free.

What you need to understand about rewards programmes is that banks are fully aware of the fact that most people don't pay off their balances in full every month and that they will earn their money back tenfold from their rewards programme on the interest they charge you every month.

You need to remember that banks don't really give anything away for free; they just want people to believe they do. In fact, in many cases, for most people it would have been cheaper to buy the reward outright because of all the debt they racked up and the associated interest costs and fees.

Of course, if you are a savvy cardholder and pay off your balance every month and don't go over budget or make impulse purchases simply to earn points, then you will be one of the few to actually take advantage of the rewards scheme properly.

## Are You Looking to Get Out of Debt?

It might seem surprising but an increasing number of people are turning to credit cards to get their existing unsecured debt under control. This might sound like a contradiction in terms. After all, how can you get out of debt by signing up for more debt? Well, thankfully, due to the high level of competition on the financial market, lenders are offering better and better deals on their credit cards and one of these features is the balance transfer deal.

A balance transfer deal basically allows customers to shift their debt from one credit card to another, at a much lower interest rate. So, for example, if you have an ANZ credit card at 17% interest rate, a balance transfer credit card from NAB will allow you to roll over your debt from the ANZ card to the new NAB card, generally at a much lower rate, which can vary from 0% to 7%. However, this attractive balance transfer rate doesn't last forever and you will find that the lower the rate, the shorter the timeframe it is valid for. The introductory period tends to range from 6 to 18 months, depending on the card issuer.

Therefore, if you have a significant amount of existing, high interest credit card debt that you want to reduce or eliminate, then a balance transfer credit card is probably your best choice.

## How to Compare Credit Cards



Even though there are probably hundreds of credit card offers available from different lenders, it is quite surprising that most people don't bother to make a comparison and just jump on the first offer they see. Choosing a credit card is just like making any other major purchase and most people take the time to compare two or three offers when buying a refrigerator or other major appliance but don't bother to do so with credit cards.

The sad thing is that a lot of people pay more in interest costs and fees than they have to because there are so many great offers available and they are basically wasting a lot of money that could be used for other things. A 2 per cent difference in interest rates between two cards can translate into hundreds or even thousands of dollars saved over the lifetime of the credit card, depending on the outstanding balance.

The key is to remember that the credit market is extremely competitive and lenders want new business. This means that they are coming up with new and tempting offers on a regular basis. So, even if you have a credit card and aren't really looking for another, this doesn't mean you shouldn't be comparing cards once in a while.

This way you will stay abreast of the current interest rates and will be able to switch to a new card with a better rate or even negotiate with your existing card issuer to get a lower rate.

Essentially, without conducting a credit card comparison, you won't be able to find the best deal. Of course, the best deal depends on your individual circumstances but you still need to analyse the same factors as anyone else. So, let's look at what you should be comparing when analysing credit card offers.

## Interest Rates

Obviously, the first thing you want to look at, when comparing credit cards, is the interest rate you will be charged. Even if you intend to pay your bills off in full every month, you never know how life can change and you are better off finding a credit card with a low interest rate from the start, just in case.

Credit cards usually come with two different interest rates, one on purchases and one on cash advances. Therefore, you need to analyse both and not limit yourself simply to the lower rate, which is usually the purchase rate. This is especially important if you need to take cash advances on a regular basis.

A lot of cards come with a great introductory rate, but this interest rate is available for a limited time only so make sure you check the fine print when reading the offer. Many people quickly glance over the offer and jump at the chance to get a card offering a 7% interest rate on purchases but then have a nasty surprise when, after a few months, they get their credit card bill and see that they have been charged 18%. And this is just because they didn't read the fine print.

Remember that the standard rate is much more important than the introductory rate. So, in general, you should choose the card that offers the lower standard rate, even if it doesn't come with an introductory rate.

You also need to look at one more factor when it comes to the interest rate and that is the interest-free period. As we've already mentioned, most cards offer an interest-free period, which can vary significantly from lender to lender. Note that this interest-free period applies only to purchases and not cash advances. The interest-free period is especially important if you regularly pay off your bill in full because this is the best way to avoid interest charges.

## Fees and Penalties

When comparing credit cards, you need to ensure that you are fully aware of all the fees and penalties you might incur. As you can imagine, fees and penalties can differ significantly from lender to lender, so you need to be aware of them to ensure that your credit card comparison is objective and accurate.

Most lenders charge an annual fee on credit cards and it can vary quite a lot from card to card. You will generally find that the more features and benefits the card comes with, the higher the annual fee will be. So, for example, a Platinum or Gold card will come with a higher annual fee than a basic card. It's true that you get more benefits, including things like travel insurance, better customer service and much more, but you need to work out whether these benefits are worth the higher fee.

There are quite a number of other fees or penalties that you can be charged and you need to make sure you know exactly what they are. For example, if you are late paying your bill you will be charged penalties. You will also incur some fees if you overdraw your credit card, which basically means spending more than your credit limit. Technically, you can't really go over your credit limit but it does happen if your account is charged fees or interest which you haven't paid on time.

The differences in fees can be significant from lender to lender and you really need to pay attention to them because, according to statistics, fees are becoming a much bigger portion of banks' profits. In fact, at present, fees and penalties account for over 35% of their profits, which is an increase of over 10 per cent from a few years ago. So, make sure you analyse the fees properly when comparing credit cards.

## Security and Fraud Protection

While it might not be the first thing you think of, you need to also compare the security and fraud protection offered by the different cards you are comparing. Identity theft is on the rise and is becoming a huge problem, with new methods and techniques to swipe your information coming out all the time. The last thing you need is someone making fraudulent charges to your credit card that you have to cover because your card doesn't have adequate fraud protection.

## Balance Transfer Deals

Balance transfer credit cards are a different kettle of fish. While you need to analyse the same factors as with any other card, there are a few additional issues you need to consider.

First and foremost, you need to look at the balance transfer rate as well as the period it is valid for. This is because a balance transfer a 0% per annum may look better than one at 3% per annum but if the former is only valid for 6 months and the latter is valid for 18 months, you might be better off taking the second deal. It really depends on whether or not you can pay off your balance transfer within the allotted timeframe because after the introductory period is over, the rate reverts either to the purchase rate, or in the worst case scenario to the cash advance rate.

Therefore, choosing the best balance transfer deal is not dependant solely on the rate itself, but also the timeframe and how much you think you can pay during that period. To get an accurate picture of which offer is best you will need a clear image of the figures. Luckily, there are plenty of calculators online that can help you work out exactly which balance transfer deal is best for your particular situation.

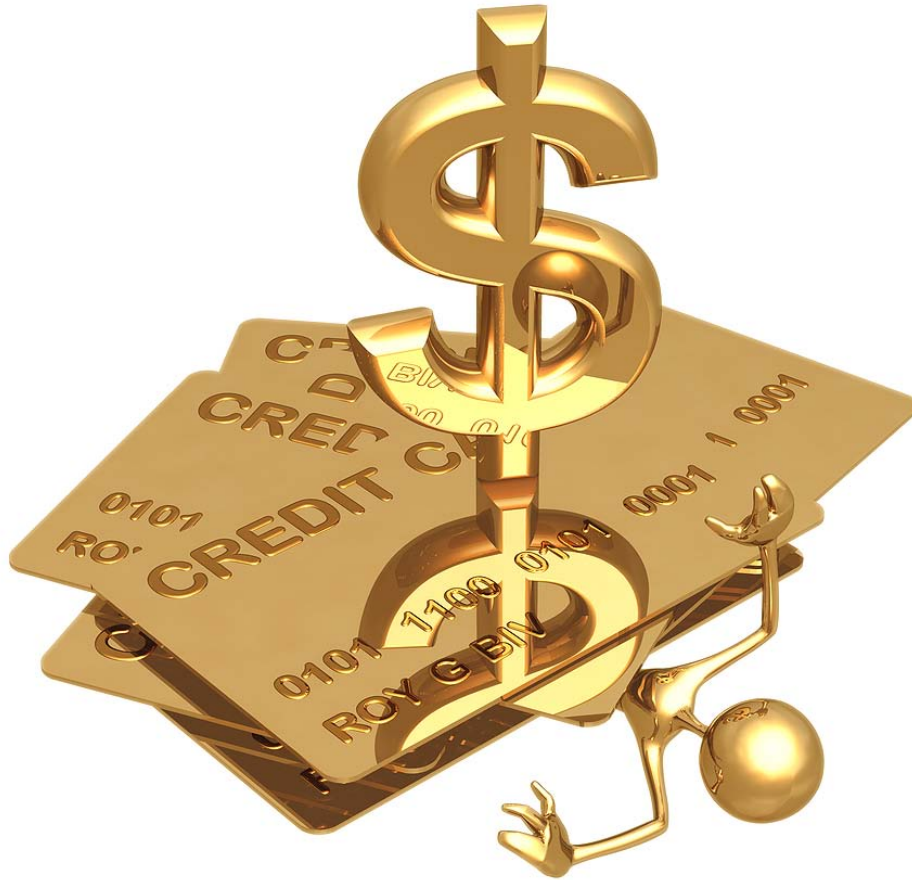
## Rewards Credit Cards

If you're looking at rewards credit cards, you need to take a close look at the rewards programme to make sure it is actually worth any additional fees you might incur.

So, what should you look at when comparing rewards programmes? First, you need to determine whether or not the rewards being offered are something that you are interested in. For example, if you only travel once a decade, then a credit card linked to a frequent flyer programme wouldn't be a good choice.

Additionally, you need to look at how many points you can earn per dollar spent and the value of those points. Just because one programme offers you 2 points per dollar, that doesn't mean it is better than one that offers 1 point for every \$2 spent. You need to look at the value of each point because if in the first case one point is worth \$0.10 and in the second case a point is worth \$0.50 or more then the second rewards scheme is a better option.

## How to Use a Credit Card Responsibly



Many people make the serious mistake of considering their credit limit as free money and start spending without thinking about what they are doing. Then the statement comes at the end of the month and they realise they can't pay off their purchases. The debt rolls over to the next month and starts accruing interest and, over time, the costs add up so much that their initial purchases end up costing them double if not more.

The key to responsible credit card usage is to never make any purchases you can't afford to pay off at the end of the month unless it is absolutely necessary. You need to separate your needs from your wants, and no, the latest home theatre system is not a need. Limit yourself to the expenditure in your budget and if something does come up that is an emergency, you need to try and pay it off as quickly as possible.

If you've found yourself in the situation where you simply couldn't avoid rolling over the debt, then you need to make sure you pay off more than the minimum. The more you pay each month, even if it is not the whole amount, the more money you will save in interest costs.

The ideal scenario is to take advantage of the bank's money while it is interest-free and then pay it off right before the interest kicks in. This allows you to keep a positive cash flow while also avoiding added expenses. If you can pull this off, then you should definitely look for a card with a good rewards programme.

## Using Your Rewards Card Responsibly

To really take advantage of a rewards programme, you need to make sure that you don't overspend on your credit card simply to accrue more points. In other words, don't buy things that aren't in your budget simply for points. Also, the ideal situation would be for you to pay your credit card bill in full every month because otherwise the interest charges can add up and negate any benefits you might have garnered from the rewards programme.

## Using Your Balance Transfer Credit Card Wisely

The key to using a balance transfer credit card wisely to reduce as much of your existing debt as possible is to make sure that you don't use the card for anything else except your balance transfer. This is because banks have a payment allocation policy according to which any repayments you make will be used to cover the debt with a lower interest rate. In other words, any purchases you make that will be subject to the higher purchase rate, will start accruing interest, even if you had meant to pay them off.

Therefore, the best approach to a balance transfer credit card is to keep it locked away until you have finished paying off your balance transfer. Otherwise, you might end up in a worse situation than before.

## Final Words



Even though the recent global financial turmoil has many people believing that credit cards are evil and should be burned at the stake, they can be extremely useful financial tools that make our lives easier. Unfortunately, though, many people end up suffering trying to pay off their bills because they have never been taught how to use their credit cards properly. After all, a bank isn't going to teach their customers good financial management practices because then they won't have a revenue source.

The key to credit cards is for you to use them wisely so that you don't end up being used and paying through the nose. As long as you make sure to compare credit card offers to ensure you are getting the best deal and you stick to a budget and don't overspend, you have little to worry about.

The most important piece of advice to remember when using a credit card is to avoid making purchases that you know you can't afford to pay off at the end of the month.

Remember that it's never too late to take control over your finances, even if you are in debt already. The more you ignore the situation, the worse it will get. So, sit down and examine your expenses and then draw up a budget. A budget will allow you to take control of your money and you will find it easier to use your credit cards responsibly knowing exactly what your limitations are.

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