

Credit card tips and tricks

Statistics Canada recently announced that the Canadian debt-to-income ratio hit a record 148.1%. This means that for every \$10,000 of earnings, we *average* \$14,810 of debt. Yes, that also means that many actually carry far, far more than that.

With interest rates at record lows and the very easy availability of credit, it can be easy to slip into the bottomless pit of consumer debt. At most professional sports venues, we get offered a "free" item, like a shirt, blanket or toque, simply for applying for another credit card, usually with our favorite team's logo on it. But what can we do? Consider the following credit card tactics:

Avoid the minimum payment - Credit card issuers are now required to disclose more to their cardholders regarding time to pay. For example, Greg received his statement for \$5,075.23 of purchases. The statement clearly indicates that the interest rate charged if he doesn't pay the full amount by the due date will be 19.99%. It also states, "If you make only the Minimum Payment each month, we estimate it will take 42 years and 4 months to fully repay the outstanding balance."

Choose a card with benefits for you - To encourage us to use the credits cards offered to us, lenders offer a number of incentives. If you are going to use a credit card, there might as well be something in it for you. Choose a card that gives you "points" or "cash-back," or one with a fixed, low interest rate. Use the latter if you are carrying a balance from month to month and don't have better borrowing options.

Avoid carrying a balance - It can be so easy to fall into the trap of keeping up with the neighbors - buying things we don't really need with money we don't really have to impress people we don't really like. It is very important to know that if you do not pay the full balance by the due date, any new purchases on the card start getting charged interest (remember the 19.99%?) from the date of purchase.

Avoid cards with annual fees - Some credit cards come with a yearly charge just for the privilege of using it. The issuer charges each merchant a small percentage of every credit card purchase, so there really isn't a need to charge this annual fee. However, some credit cards that offer certain bonus points may still be a good value if the volume of purchases and points earned far outweigh the yearly extra charge. For example, Leanne runs a small business and charges all her business expenses on a credit card that earns her travel points. She pays the balance every month, on time, and earns enough points to cover the cost of her family annual winter getaway.

Time larger purchases - This means being aware of each credit card's closing date. Let's say you are going to buy some new furniture. The statement period for the credit card you will use (and earn points with) ends on the 7th of the month, but payment isn't due until the 29th. Making the purchase on or shortly after the 8th of the month will actually give you free use of the lender's money for up to 51 days, as long as you pay the full balance on the due date. Consider arranging a future payment for the day before the due date as soon as you get your bill.

Want help reaching your financial goals? Call today!



John Peters

J. Peters Financial Consulting
3391 W. 7th Ave., Vancouver, BC V6R 1V9
(604) 736-7810 john@johnpeters.ca

For more financial topics, go to www.johnpeters.ca