Fantastic plastic?

Richard Lishman discusses some of the options available to manage your credit cards

Oscar Wilde once famously remarked, when a colossal fee for an operation was mentioned, that he would have to die beyond his means.

Even before the recession, the statistical evidence that many of us were sustaining our lifestyles on the back of our credit cards was overwhelming. As hard times continue, and with inflation returning, if you find you cannot clear the balance on your plastic card at the end of every month, it’s time to take a long, hard look at the deals on offer across the credit card market.

In spite of a Bank Base Rate of only 0.5 per cent, credit card interest rates are averaging an astonishing 18 per cent, the highest level since 1998. Dr. Allman, a former Downing Street pension’s adviser, is calling for an investigation into the industry and has suggested appointing a regulator to protect the public from exploitation. Recent Government proposals do suggest it is considering taking action, but the companies themselves justify the figures by referring to the increasing number of customers defaulting on their liabilities, itself a reflection of the recession-induced rise in unemployment.

Although as individuals we cannot control macro economics, we are able to take responsibility for our own circumstances.

For the cost of a phone call, you may be able to switch to this lower rate - typically about half of what you may be paying now. It’s well worth the effort; the difference between 18 per cent and nine per cent on an outstanding balance of £5,000 is £450, or roughly £9 a week!

If this direct approach is unsuccessful (the company may feel you are a high risk customer, depending on your payment record or pattern of card usage, or it may simply not be company policy), then you need to vote with your feet.

A by no means exhaustive check of the market quickly revealed no fewer than 85 zero per cent balance transfer offers with a wide disparity in terms and conditions. You need to decide which offer dovetails best with your own finances.

Whatever the banks may say about supporting society, their first obligation is to make a profit and 0 per cent loans are clearly untenable in the longer term. But this does not mean you cannot exploit the situation to your own maximum benefit.

Of the 85 offers I found, only two did not charge a transfer fee, while the 0 per cent interest ‘honeymoon’ period varied between one and 15 months, with some stating a definite end date. In most cases the fee was between two and four per cent of the balance transferred, with the longer interest free periods attracting the higher fees. Of course, if the transfer fee is taken into account and spread over the relevant period, 0 per cent effectively ceases to be 0 per cent, whatever the advertisements may say! You should also take note of the rate which kicks in after the 0 per cent period, which will be higher the longer the interest free period lasts.

However, if you are confident you can clear the outstanding balance within the 0 per cent period, and especially if there is no transfer fee, this is the ideal deal for you.

Naturally not everyone is in this happy position, but there are alternatives on offer.

Some companies are offering specific transfer rates for the life of the balance, and these are worth considering if you know it is likely to be years before you will be back in credit. Comparable with an orthodox personal loan, balances can be repaid at any time without penalty if your circumstances change. Again, terms and conditions vary widely, (with rates from 0 to a massive 55 per cent!), and in some cases fees are applied. Flexibility is a key advantage of these arrangements, and over the longer term they may well prove competitive for some types of borrowers.

Zero per cent on purchases for the first few months is always tempting, and makes sense if you can clear the balance at the end of that time, but the eventual rate on such a deal is likely to be significantly higher than average.

The credit card ‘tart’ who changes provider every nine months in pursuit of 0 per cent deals often finds it’s more expensive when fees are taken into account, and whenever you switch check on the ultimate rate before you decide. Sticking with one company with a lower rate for the life of the balance is often the best policy.

Most vital of all, (apart from reading the small print!), is to make at least the minimum monthly payment, and do talk to the card provider if you’re struggling. Defaults are not in anybody’s best ‘interests’.

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