

Understanding Credit Card



USING your credit card wisely may be one of the most important steps you can take towards keeping your financial health in check. A credit card is like a kitchen knife. It has many benefits, but if used wrongly, you can cut yourself.

How does it work?

The credit card issued to you will come with a line of credit called a credit limit, which is predetermined by the card issuer. When you use the card, the credit card issuer will first pay the merchant on your behalf and bill you later. Generally, you are given between 20 to 50 days interest free period from the date of your purchases to settle the outstanding amount.

Benefits of a credit card

A credit card can be a useful payment instrument if you know how to use it wisely. Some of the benefits of a credit card are as follows:

- It is a convenient and efficient mode of cashless payment.
- Enables purchase of products and services online – including airline tickets
- The statements will assist you to track your spending for budgeting purposes
- Some credit cards provide free personal accident and travel insurance coverages
- Attractive schemes, such as zero-interest installment plan, flexi-payment scheme and balance transfer
- Earn loyalty points to enable you to redeem goods and/or services

WHAT TO LOOK OUT FOR IN A CREDIT CARD?

Before using your credit card, you should first understand some of the terms and conditions outlined below.

Credit limit

This is the maximum amount of credit that you can charge to your credit card. Once you hit the limit, you will not be able to use your credit card unless you pay off some of the outstanding balance.

Generally, the credit card limit given is 2 to 3 times of your monthly income. If you use your credit card up to this limit, you are effectively spending at least 2 to 3 months of your income in advance!

Fees and charges

There are various types of charges that may come with a credit card including joining fee, annual fee and finance charges.

Joining Fee: Some credit card issuers impose a one-time joining fee. This fee varies depending on the card issuer.

Annual Fee: This is a fee which you pay annually once you have accepted the credit card. However, some card issuers may waive this fee if you meet certain usage conditions.

Finance charges: These are charges imposed on the outstanding balances after the payment due dates. Currently, cardholders who promptly settle their dues within a specified time frame will benefit under the following tiered charges scheme:

WHAT TO LOOK OUT FOR IN A CREDIT CARD?	
Cardholders who promptly settle their minimum payment due for 12 consecutive months	Up to 13.5% per annum
Cardholders who promptly settle their minimum payment due for 10 months or more in a 12-month cycle	Up to 16% per annum
Others	Up to 17.5% per annum

Cash advance fee

This is a fee charged for cash advance transaction and it ranges from 3% to 5% of the total cash advanced from your credit card account. This fee is in addition to the finance charges imposed on the amount of advance given to you.

Late payment charges

This charge is imposed when you fail to pay the minimum monthly payment by the due date. If you pay after the due date, you will be charged both the finance charges (the interest on your outstanding balance) and the late payment charges.

Service tax

Starting year 2010, a service tax of RM50 a year is imposed on a principal cardholder and RM25 for a supplementary cardholder. This amount is posted in the monthly statement.

Interest free period

You will enjoy an interest free period on the purchases made through your credit card if you do not have unpaid payments due from the previous billing cycle. This interest free period is usually 20 to 50 days from the posting date of the transaction.



This means that if you do not make the full payment on your credit card bill for a particular month and carry forward the balance to the following month, the interest free period would not be applicable. Interest charges would be imposed on your next transaction and compounded on a daily basis until you settle your outstanding balance in full. – Agensi Kaunseling Dan Pengurusan Kredit