Office of Fair Trading

What type of plastic?

Keep debt under control

What type of plastic?

If you decide to use a card to buy goods or services use this list to decide which one is best for you.

There are hundreds of cards available but most fall into one of these categories. To add further confusion you'll find that card issuers offer gold, platinum and ordinary cards – these are the same types of cards with different conditions and benefits.

Debit cards

These take money directly from your bank account, they’re not credit cards but an alternative to cash or writing a cheque.

Linked to your bank account, debit cards often also work in cash machines and as a cheque guarantee card.

Maestro and Visa operate these schemes for the banks.

Charge cards

If you use a charge card you’ll be sent a bill each month which you usually have to pay in full – so again, this isn’t a credit card. You’ll generally be charged an annual fee.

Budget, option or store cards

Issued by stores or retail groups, these offer a form of credit. You can use the card to buy goods at the store and will be sent a monthly bill.

Paying back the money you've borrowed varies. Some cards will demand a minimum monthly payment others a fixed payment by standing order or direct debit. You will normally pay interest if you don't pay back all you owe each month. Remember to compare APRs*. Usually the lower the APR the less you pay in interest.

Credit cards

You can use a credit card to borrow money to buy things straight away and then decide over what period to repay the money you owe, plus interest. You get a monthly statement showing what you have bought and how much you owe.

Each month you can pay back the full amount (usually interest waiver) or only some of the amount. You will be charged interest on the outstanding debt. The greater the outstanding balance you leave on your credit card account, the more you will be charged in interest the following month.

It is a good idea to compare APRs because generally speaking, the lower the APR the less you pay in interest. But although comparing APRs is useful, it is not the sole consideration. Advertised APRs show the typical APR offered, card issuers may offer you a card at a higher APR depending on their estimation of your credit worthiness and risk. Beside this, card issuers calculate interest in different ways that affect the amount of interest charged. However, not all credit cards are risk priced. For instance, if a credit advert has only one APR and does not state that it may vary according to the risk and it is not a typical APR, then the APR stated is the one that should apply.

As well as considering APR, your intended use of the credit card is also a key factor:

- Using a credit card to purchase expensive goods can be a costly way of financing a purchase if you intend to only pay the minimum monthly payments due under your agreement.

- If you intend to make larger payments, for example, paying the outstanding balance in two installments over two months including the associated credit card charges for each month, you should consider getting financial advice. This is because there may be a more cost effective option for borrowing the money you require.

- If you always intend to pay off all that you owe each month, you may be better off with a card issuer that does not charge an annual fee.

- Many lenders offer low or even 0% interest on transferred credit card balances. On some cards the lower rate will last for a fixed period of time, while on others it will last until you have paid off the transferred balance. You should always make sure that you understand

the terms of the offer.

Some agreements include terms that require you to use your card to make purchases so that you can benefit from their low interest rate offer. You should also be aware that there could be a term in the agreement which allows the card issuer to use your repayments to repay the balance you transferred. This means that although your transferred balance reduces, the amount owed through any subsequent purchases, including the added interest, increases.

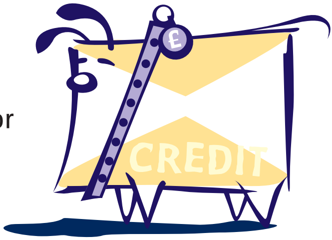
Other credit card issuers allow their customers to transfer the balance without an obligation to use their card for purchases. However, their agreement may include a term that allows them to use all payments to the account with the lowest interest rate. This means that while you believe your payments are being used to cover purchases, in fact they are being used to reduce the transferred balance.

Also there are some card issuers who do not make a distinction between balance transfers and subsequent purchases. They offer to charge 0% interest on all transactions for a fixed period, for example 6 or 12 months.

Always read the small print and check the terms of the agreement thoroughly before signing. If you don’t understand any part of the agreement or any of the terms, you should get financial advice.

- Using a credit card to withdraw cash can be expensive as there is a handling charge for each withdrawal.

- Section 75 of the Consumer Credit Act 1974 provides that in certain circumstances a credit supplier, such as a card issuer, will be jointly responsible along with the supplier of goods or services, for breach of contract or misrepresentation. You would have a claim against a credit supplier for any breach of contract or misrepresentation by the supplier. This is a useful protection if, for example, the supplier goes out of business after you have made payments to it. See the OFT leaflet Equal Liability for more details.



- Some card issuers offer their customers cheques to be drawn against their credit card account. You should be aware that purchases made using these cheques do not afford the you the protection of section 75 of the Consumer Credit Act 1974.

Electronic purse cards

An Electronic purse card works by the user putting money on the card before purchases are made. This means the user can only spend money that has built up.

It is also useful for budgeting and helps to avoid misuse of funds.

Generally when you use a debit card you are not being offered credit. Again, the user can only spend money they have in their account, including any overdraft. This can prevent mounting debts.

A charge card is not a credit card because you have to settle the whole amount each month. This can help to prevent escalating credit problems assuming the user can settle each month's expenditure.

Credit cards and budget option or store cards allow the possibility of spreading the cost. If the account is settled in full each month, users would normally enjoy free credit. You must check the terms and conditions carefully.

A few points to remember

- **Using cards to borrow money** can be expensive and is a commitment. Think carefully before you use one and make sure that you can afford the repayments.
- **Compare the APR*.** The figures vary enormously and usually the lower the APR the less interest you'll pay.
- **Stay within your credit limit.**
- **There are advantages to using credit cards** when buying by mail order or on the internet. If your goods or services are misrepresented or don't arrive you may get a refund from the card issuer. Also, if your credit card is used fraudulently, the Consumer Credit Act 1974, as amended by the Distance Selling Regulations, gives the consumer the right to cancel the payment and to be reimbursed in full by the card issuer.

For further information

Tel 08457 224499 www.oft.gov.uk
or www.tradingstandards.gov.uk

* The Annual Percentage Rate of Charge (APR) is an expression of the total charge for credit for each year of a credit agreement

- Consumer tips
- Consumer know how
- Consumer credit

This information is available in other formats and other languages on request. Please ring 0870 60 60 321 for details.

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