ICICI BANK CUSTOMER FIRST SERIES

A consumer education initative

TIMES BUSINESS ASSOCIATE COMMUNICATION

Credit Cards

Responsible Spending

Raveendra does not want to open his credit card billing statement. He knows that the amount due is something he cannot pay. He kept revolving the credit by paying the minimum amount due. Since he was revolving a very large amount, the interest kept getting accumulated. Whenever there was an impulsive purchase to be made, he would happily whip out his card. The focus was on the immediate – the bills would come much later, reminding Raveendra that he had spent beyond his means.

Psychological Roots

Psychologists point out that spending brings with it a certain emotional high. The instant gratification of want, the power of possessing something, the smug feeling of buying something at a bargain and the envy of peers in a shopping situation, are all emotions that fuel impulsive spending. When Raveendra uses his credit card to buy, the pain of payments to be made the following month is not evident. It surfaces only when the billing statement arrives.

Overuse or Misuse of Credit

Raveendra tends to confuse the convenience of credit card usage with the availability of unlimited funds to spend. The dues on his credit cards have accumulated and with interest have grown into a large sum. Raveendra is unable to service the loan when it far exceeds his ability to repay. He is then left with little choice but to take more loans to pay off his existing loans.

Behavioural Issues

Raveendra may live in denial, hoping that his loan will go away. Or he may continue to spend, having got used to a lifestyle and now unable to cut back. He may get into further, high-cost borrowing from other sources, in desperation. He may borrow from friends and may feel excluded from his social circles due to his borrowings.

The Long And The Short

Raveendra holds some bank deposits, equity shares and mutual fund units as investments. He also owns a house. He looks at all these as long-term assets and wonders what is the right approach for him at this stage. At the same time, keeping a bank deposit at 9% while having a loan at 38% from the same bank does not make logical sense. If Raveendra postpones his credit card payments too long, he is creating a long-term, high-cost liability.

Alternatives

Raveendra should use the short-term balances in his savings accounts first, and then consider leveraging the value of his long-term assets. The first choice is to look at other low-cost loan options. He can borrow against his deposits, or take a loan against his gold, shares or home. He can even take a personal loan which is unsecured. The cost of all these loans is much lower than that of the credit card loan. He can seek conversion of his credit card dues into personal loans, payable in instalments, which some banks offer to cards customers. Reducing high-cost loans is the first objective to meet. Or in some cases, knowing fully well that he cannot pay this amount the following month, Raveendra can request the merchant at the time of swiping his card to convert the payment into instalments, without paying excess interest charges.

Balance Transfer

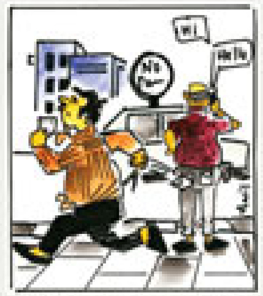
Raveendra can buy some time by transferring his credit card dues to another bank. He can get a 2-3 month interest-free period with the bank to which he has transferred his credit card balance. The transfer-in bank will charge him a processing fee and pay the dues directly to the transfer-out bank. This is a temporary reprieve for Raveendra, who can save the interest levies on his dues for that 2-3-month period only, while he finds the means to repay them.

Credit History

Raveendra should continue to pay his minimum amount due, so that he is not classified as a defaulter. The credit-information bureau holds data on repayment of loans. A poor payment record will affect his future ability to borrow from the banking system, including personal loans and home loans.

It takes a lot of determination – and pain – to get out of a situation of excess debt. It calls for a combination of financial tools and behavioural change. Taking a loan always amounts to spending tomorrow's income today, and therefore always must be done within the bounds of affordability.

Center for Investment Education and Learning



Hi, I think someone is stealing my credit card. But, not to worry, now he will be in debt trap instead of me!!

GET SET KNOW CONTEST

Question

The facility of transferring your credit card dues to another card issuing bank is called ___________.

Answer

A. Funds Transfer
B. Auto-debit
C. Balance Transfer

To answer SMS DISHA A, B, or C to 53030 and win a 2N 3D Holiday*.

* Terms and conditions apply. Visit www.dishafc.org for details and winners.

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DID YOU KNOW ?

If you took a loan to repay another loan, it makes sense only if you can get the new loan at a lower rate of interest than the rate on your current loan. Else, your liabilities will only increase.

FAQs

My wife uses the add-on card issued on my credit card. Can I place a limit on the extent to which she can use the card?

The credit limit on your card will apply to your wife's add-on card as well. The add-on card is a facility to your wife, to use the credit limits sanctioned to you. If you like an independent limit for her, perhaps you should get her an independent credit card, with a reduced limit. Or have a reduced limit applied to both the cards, and request an increase when you really need it.

Can a bank refuse to issue me a credit card?

The issuance of a credit card is a credit decision of the bank. The bank has to be sure that you represent the kind of credit quality they can have on their books. Your income, net worth and your payment history can influence the bank's decision to give you a credit card.

Can I use the loans from private money lenders to repay my credit card dues?

That may not be a wise thing to do, since the interest rates can be higher than credit card interest rates. You will be replacing a low-cost debt with a high-cost debt. Consider other options of availing of loans before taking such a drastic step.