

LECTURE 4 – CONVENIENCE AND LIMIT INCREASES

Now I think it's worth recognising that there are some benefits to credit cards.

One - We don't need to walk around with huge amounts of cash. Obviously, that's not very convenient. You've got to go into the bank, which is not something that's on my agenda of fun things to do during the day. I prefer to use my phone to do my banking and spending time waiting in a queue is not on the top of my priority list.

Credit cards provide a huge amount of convenience and I think security as well. If we're travelling overseas, having a credit card that can convert our Australian dollars into the local currency and spits out local currency cash at an ATM in whatever country we're in is phenomenal. And I think the convenience of that and the complexity behind all that can't be understated.

One thing that we often get (and it's often as we approach Christmas), we receive a letter in the mail saying, "Hey, would you like to increase your credit limit?". Now that's very generous of them, but of course, it's conflicted.

They're not doing this because they love us and they think we're great with debt, it's about keeping you in higher debt at very high rates (15-20%) for longer. So, it's not about you being fantastic – it's about them trying to keep you in debt for longer.

The banks will have a minimum repayment, and these minimums as a general rule, can be 2 or 2.5% of the balance or \$20 or \$25 minimum.

The minimums are set to make sure that you don't pay this thing off. It is just to keep a regular amount going in and you've got to meet some obligations. These minimums are not about you paying it off, they are about keeping you in debt. Be careful with the minimums!

(We will show you in the next video how to pay off the debt and how to calculate that.)

But, it's in the bank's best interest to keep you in debt for longer.

UNDERSTANDING CREDIT CARDS

There is another issue that makes credit cards more attractive. They combine the credit cards with points - frequent flyers and other rewards points.

This is all about getting you in the habit of using your credit card. And just like casino's, the chips are just plastic. Your cash is gone. So, there is not the linkage between you and your hard-earned money. I often think that when we've got cash in our wallet, we treat that substantially different to plastic and credit cards. And it's the same with casinos. It's the same psychological ploy. But with award points, again, there's another reason for us to use that credit card.

Now, I think awards points and frequent flyers are fantastic, but if you are not using the credit card correctly, then it can be a world of hurt.

So, in the next lecture, we'll look at how a small credit card debt turns into a 9-year loan. We'll catch you in the next part of the course.