

## Credit Cards: Overview and Usage Tips

Our society depends so much on credit, setting a monthly budget just doesn't seem to matter anymore. Having the luxury of an easy and hassle-free spending alternative makes it too easy to buy the things we want, without saving for them. Credit cards can make shopping easy. But hassle-free? No way.

Ask a child what a credit card is, and he or she may tell you it's a piece of plastic in your wallet that gives you "free money". Of course, there's a lot more to it than that. This little piece of plastic wields a great deal of power over the vast majority of people in our society. It's a compressed form of buying power that allows users to borrow money from a bank or financial institution in order to make on-the-spot purchases. Credit cards make buying easy. The hard part is paying the money back before the interest starts to compound.

To obtain a credit card, you must first submit an application form that serves as an agreement between you, the credit card consumer, and the credit supplier. If your application is approved you will receive a credit card. The card enables you to make purchases or access cash, as if you are borrowing the money from the credit supplier. There is a pre-determined spending limit applied to your account, and the supplier may limit the amount you can spend on a monthly basis.

### How credit cards work

On the back of this small plastic card is a magnetic strip encrypted with electronically encoded security information. When you make a credit card purchase, the retailer will access the information contained within the magnetic strip in order to authorize payment. Most major credit cards can be used virtually anywhere for all kinds of purchases, at retail outlets, over the phone and on the Internet. Where you can use the card depends on each individual merchant's capability to accept this type of payment. Many retailers also offer the option of making payments toward your credit account. Credit cards can also be used to withdraw cash from ATM cash machines.

There are seven main credit card organizations that operate in countries around the world. VISA, American Express, MasterCard, Citi, Diners Club, Discover and JCB. The most widely used and universally accepted cards are MasterCard and VISA. Some credit card suppliers will partner with particular retailers and organizations to issue credit cards on their behalf; for example, the HSBC VISA card.

When you make a credit purchase at a retail store or service outlet, the card is swiped into a special processing machine that retrieves your account data. If you buy online, you will be asked to enter your credit details over the merchant's website. Online shopping can be dangerous, so make sure that the site is secure before sending your credit information over the Internet. Look for the little padlock icon in the bottom left of the browser. When the purchase has been approved, the credit card supplier will send you a bill for the amount spent. You are required to pay the full amount, or send partial payment. If you pay in full, the credit card supplier won't charge interest.

### Interest on credit cards

Here's where credit cards can be difficult. If you opt for making a partial payment of simply meeting your minimum obligation, you will be charged interest. If you have made numerous purchases or used credit to buy expensive items, the interest can add up very quickly. This is how the credit card suppliers make their money. Late fees can also be charged, so be sure to make your payment on time.

Credit cards can be valuable and convenient tools for today's shoppers. Many have learned, however, that the ease of use is in no way worth the hassle of facing insurmountable interest charges. Pay your balance in full whenever possible for every purchase you make. Better still, tuck your card away to use for emergencies only, and use old-fashioned cash instead.