

Credit cards: the good, the bad and the ugly

IN BRIEF

In this report we help you to:

- choose the right credit card to suit your spending habits
- avoid tricks and pitfalls
- earn money from your card as well as spending on it.

A flexible friend or a stone around your neck? We look at how to use your card in 2009

Love them or hate them, credit cards are a part of life. There are 30.8 million credit and charge card holders in the UK, according to industry body Apacs.

This represents 62% of adults. 19.7 million cardholders regularly make credit or charge card purchases.

Although overall borrowing on credit cards is less than it was in 2006,

collectively we still owe credit card providers a vast amount of money – £67.1bn at the end of 2007.

So, despite the credit crunch, we still seem to be using our cards – but are we making the most of them?

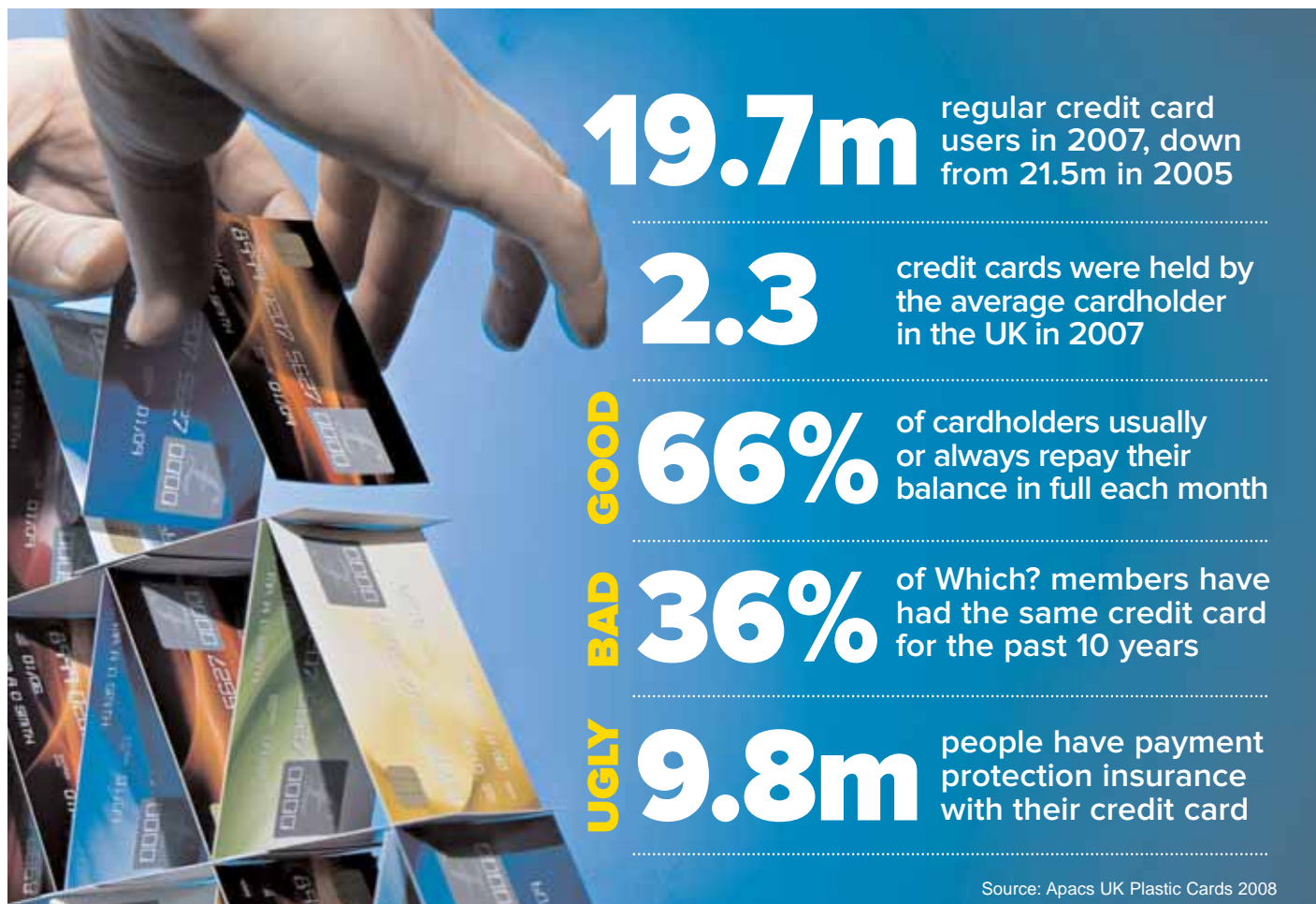
Over the next four pages we explain what's good, bad and very ugly about credit cards so you can avoid the pitfalls and choose the right one for you.



Which? online
Credit cards

Visit www.which.co.uk/reviews/credit-cards to find out more about our Best Buys, how to switch cards, users' views and answers to some of the questions that we're most frequently asked.

On our website we also look in detail at your rights when paying by credit card and explain the different features that are available.



Source: Apacs UK Plastic Cards 2008

The good: cashback and 0% interest deals

Here's how to make your credit card work for you

CASHBACK

If you are one of the 82% of Which? members who pay off your credit card bills every month, then the interest rate quoted is irrelevant to you.

What you should look for is the card with the best perks, such as cashback. Cashback deals give you back a percentage of the money you spend each month.

Best Buy Egg Money Mastercard pays 1% cashback, up to a maximum of £200. Other Best Buys pay 0.5%-1.5% (see the table, below).

Cashback is usually credited against your balance and is a good perk, but there are catches:

- You might lose some or all of the cashback you've earned if you miss a payment one month or if you exceed your credit limit.
- There's usually a maximum you can earn.
- Card providers sometimes cut their cashback rates, so keep an

eye on the rate you're getting and be prepared to switch.

■ Some cards only pay cashback when you reach a minimum amount. For example, you have to earn at least £12 on the American Express Platinum Cashback Card to get anything.

■ On many cards, cashback is only credited annually.

If you spend £3,000 during a year and pay off your bill in full, you can earn £30 with the Egg Money MasterCard.



0% DEALS

These let you borrow interest free on a card for a time period.

0% deals on purchases

Some cards give 0% interest on purchases for a set period, which can spread the cost of more expensive items. For example, Barclaycard, HBOS and Marks &

YOU'RE COVERED

When you use your credit card to buy something costing over £100 and up to £30,000, you get extra protection under section 75 of the Consumer Credit Act 1974.

Under this legislation, the card issuer is jointly liable with the retailer if you experience problems with the transaction, for example, if an item you order is damaged or doesn't arrive or even if the retailer goes bust before delivering your goods.

You also get the same protection when you use your



credit card overseas. People who were stranded abroad when defunct airline XL went bust are a good example of how valuable this protection is.

XL passengers who paid by credit card could claim any extra expenses they incurred in getting home from their card issuer.

Spencer offer 10-month interest-free deals. See p31.

You can save £70 if you spend £1,000 using the Marks & Spencer Money MasterCard compared with using a card with an average APR of 16.8% paying back the balance within a 10-month interest-free period.



0% balance transfer deals

These let you transfer the balance from an existing credit card to a new card and hold it there for a specified time interest-free. See p30 for Best Buys.

With most cards, you pay a transfer fee – commonly 3%. We found only two cards, both from Virgin Atlantic, that cap the fee charged. This is 2% or £50, whichever is lower. The rest have uncapped fees.

We would urge you not to use the same card for a balance transfer and spending, as you'll get caught by the way most

providers allocate your payments, see 'Order of Payments', p28.

Three of our Best Buys on p30 are fee-free, but the longest period is only six months. We also have Best Buys for cards with longer 0% periods that charge a fee, such as the Virgin Money Credit Card, which has a 0% period of 16 months and an uncapped fee of 2.98%.

Low rate for life of balance

An alternative to 0% deals are deals where you can get a low rate for the life of the balance. A no-fee Best Buy here is the Barclaycard Platinum with Purchase Long Term Balance Transfer MasterCard which charges 6.5% for the life of the balance.

The Citi Platinum MasterCard Life of Balance Transfer, which charges 5.8% and has an uncapped fee of 2.5%, is also worth considering.

LOWER PENALTY CHARGES

Since April 2006, penalty fees for missed payments or exceeding your credit limit have come down. Most card providers now charge £12 or less following a statement by the Office of Fair Trading that they will consider taking action against providers that charge more than this. That said, Egg Money and Egg Visa still charge £16.



| CASHBACK CREDIT CARDS | % CASHBACK ON ANNUAL SPENDING | | | | APR | | SATISFACTION |
|----------------------------------------------------------|-------------------------------|------------------|-------------------|----------|-------------------------|-------------------|-----------------------|
| | £0 TO £1,999 | £2,000 TO £3,500 | £3,501 TO £10,000 | £10,001+ | MAX ANNUAL CASHBACK (£) | (%) | |
| AMEX Platinum Cash Back Card ^{a,b,c,d} | 0.5 | 0.5 | 1 | 1.5 | no max | 18.9 | 70 |
| EGG MONEY MasterCard ^{a,e,f} | 1 | 1 | 1 | 1 | 200 | 12.9 | 75 |
| BARCLAYCARD OnePulse with Cashback Visa ^{a,b,g} | 0.5 | 0.5 | 0.5 | 0.5 | 180 | 14.9 | 61 |
| BANK OF IRELAND (UK) Moneyback MasterCard ^{a,h} | 0.5 | 0.5 | 0.5 | 0.5 | 75 | 17.9 | sample size too small |
| SMILE Classic Visa ^j | 0.5 | 0.5 | 0.5 | 0.5 | no max | 20.9 ^k | 86 |

^a Exact rate depends on your credit scoring ^b Cashback available only on spending up to credit limit each month ^c Up to 5% cashback for the first three months (up to a maximum of £200) ^d No cashback earned if the amount is less than £12 in the 12 months up to anniversary ^e Available only if you apply online ^f Cashback is lost if less than £5 at year end ^g 5% cashback on Transport for London spending and 0.5% on all other spend until 31 December 2009, up to £15 a month ^h Available also as a Gold card with the same rates and features ^j Cashback paid monthly ^k Lower rate of 16.9% available to current account holders

The bad – things to avoid

Watch out for these when it comes to choosing a card

The borrowers

If you use your credit card for borrowing and pay back only a part of your outstanding balance each month, then you'll pay interest. This is shown by the interest rate, known as the annual percentage rate (APR).

However, it's difficult to judge between two card providers offering similar rates, because credit card providers calculate interest in different ways. This means that picking a card with the lowest APR doesn't necessarily mean you're getting the best deal.

Essentially, the difference hinges on when cards start and stop charging interest. The bottom line is that two cards with the same or similar interest rates could charge you different amounts of interest.

Only Which? chooses Best Buy cards by taking account of the different interest rate calculation methods that are used. Other financial comparison sites don't do this. **Best Buys are on p30-31.** Go to www.which.co.uk/advice/how-credit-card-interest-



is-calculated to find out more about the different ways card providers calculate interest.

Credit card cheques

Despite the carnage brought about by irresponsible lending from banks and credit suppliers, providers are still sending out unsolicited credit-card cheques.

Credit card cheques are bad news for lots of reasons.

280 million blank credit card cheques were sent out in 2007 and 3.2 million were used. The total amount borrowed using credit card cheques was £3.6bn – an average value per cheque of £1,141. This is 19 times higher than the average value of a credit card purchase, so that's a lot of extra interest card issuers are getting from cheques.

They cost more

It usually costs much more to buy goods with a credit card cheque as you're charged interest at the cash advance rate from the day you use it and the cash advance rate is usually more than the rate on normal purchases. You'll also pay a handling charge of about 2%.



There's a risk of fraud

If the cheques are unsolicited (most are) you don't know they're coming, so you won't know if they get stolen until they're used.

You won't be protected

Another reason not to use credit card cheques is that you won't be protected if the supplier goes bust, disappears, or goods are faulty. See 'You're covered', p27.

Order of payments

With very few exceptions, the payments you make on your credit card go towards paying off the money you've borrowed at the lowest interest rate first. This means that if you owe money on the card at two different rates, you'll pay off the cheapest debt first and be left with the more expensive one.

For example, you take out a card that offers 0% interest on balance transfers for 10 months, but charges 15.9% on things you buy. You transfer a £2,000 balance you owe from another card to the new one. You spend £500 on the card which you decide to pay in full at the end of the month. The £500 will go to pay off the interest-free balance of £2,000 first. So the debt you're paying no interest on is reduced, but the amount you're paying 15.9% interest on, stays the same.

WHICH? BOOK OFFER

Money Saving Handbook

'Purchases with credit-card cheques aren't covered by the Consumer Credit Act so you lose valuable protection by using them...' Want to find out more?

Money Saving Handbook shows you how to separate scams from bargains. To buy a copy at £9.99 (normal price £10.99) including free p&p, call 01903 828557 and quote MSW1208. This offer closes 9 January 2009.



It's for this reason that Which? recommends you don't use your 0% balance transfer card for spending – use a different card.

Junk mail

Another irresponsible practice by card providers is sending out pre-accepted and pre-printed card applications. If the forms go astray, it's easy for a thief to take out a card in your name without you knowing, until you get a big bill. In these days of massive card fraud, ending this practice is a simple way for providers to protect themselves and their customers.

IS IT TIME FOR YOU TO SWITCH CARDS?

Despite our best efforts, thousands of Which? members are still holding on to poorly performing cards. In a recent Which? survey, we found that more than a third of members have had their credit card more than 10 years and 42% of members aged over 65 have had theirs for more than 20 years. 18% of those under 45 have also held the same card for 20 years. For Which? Best Buy cards, see p30-31.



EVERY LITTLE HELPED?

Nigel Bradley 45, *Airline cabin crew*

Which? reader Nigel Bradley contacted us after finding out about how his Tesco credit card payments were allocated.

When he took out the card, it offered 0% interest on balance transfers for 13 months; 0% on purchases for three months and 0% on Tesco purchases for 13 months.

What Tesco didn't make clear was that when Nigel made a payment it would be allocated first against Tesco purchases. This

meant he had to clear the balance on these before repaying any non-Tesco purchases which were at 0% for only three months.

Credit card providers are supposed to make the order of payments clear in the summary box you get with your statement. Nigel complained to Tesco that he didn't think its explanation was clear. Tesco rejected his complaint. He contacted the Financial Ombudsman Service and, eventually, Tesco refunded

the extra interest he had paid.

Tesco said that the summary box had a short description of how payments were allocated and signposted a fuller description in the credit card agreement called 'How we use your repayments'. It said this section states that repayments will be used to repay 'special offers' before purchases.

However, the spokesperson said that Tesco planned to improve the information in the summary box on how payments

are allocated. It has since changed how payments are allocated. Its current credit card Clubcard offers 0% on balance transfers for 14 months, 0% on purchases for six months and 0% for 12 months on some Tesco purchases as a 'buy now pay later' offer. Repayments are allocated first against balance transfers, then any purchases that fall into the six month 0% purchase offer and lastly against Tesco 'buy now pay later' purchases.

The ugly: insurance you don't need

Card providers often look for ways to make extra money out of you, but don't be tempted to take out one of these insurance plans

Payment protection insurance (PPI)

Credit card providers made more than £930 million in 2007 from selling PPI with their products.

Credit card PPI is supposed to cover your repayments if you are off work because of sickness or disability, or if you're made redundant.

In reality, most policies (if they pay out at all) only pay out about 10% of the card's balance each month. Which? has said for more than 10 years that they aren't worth the paper they're written on.

Our research shows that more than 9.8 million people in the UK have credit cards with PPI attached. Of these, 13% wrongly believed they had to take out PPI to get a credit card, or would be more likely to get a credit card if they did.

If your provider tries to sell you PPI, save your money and put it towards a more comprehensive policy, such as income protection. If you think you've been mis-sold PPI go to www.which.co.uk/ppi to find out how to put in a complaint.

Identity theft insurance

This is another type of insurance that we believe is fairly useless. For more on this, see 'Emotional blackmail', right.

EMOTIONAL BLACKMAIL

Tony Norgrove 59, *Freelance gardening writer*

When Tony rang to activate a new NatWest card, the operator tried to sell him payment protection insurance and, when he refused, moved on to identity theft insurance costing £79.99 a year.

Tony said: 'They said that if I didn't take it and I was a victim of ID theft, it would be my responsibility to sort it out not the bank's'. Tony asked Which? if this was just scaremongering.

We told him NatWest is part of the Banking Code which states that, unless you have been negligent or fraudulent, the bank must refund any sum over £50 stolen from you because of fraud.

The main benefits of NatWest's ID theft insurance seem to be £60,000 insurance to cover things like legal fees and loss of earnings; unlimited access to your credit file with credit reference agency



Experian, and a personal identity theft expert to help you clear your name if you are a victim of ID theft.

We think it's unlikely anyone would need the full £60,000 cover. Legal fees can be costly, but many people have legal expenses insurance with house insurance, which is much cheaper and can cover all types of legal claims. Also, there are three credit reference agencies, so if there was activity on your files held with one of the other two, the insurance wouldn't pick it up.

We asked what the personal identity theft expert did. A NatWest spokesperson said: 'Our

experts will go to great lengths to support victims, working to bespoke resolutions to make the process of rebuilding someone's identity as quick and easy as possible. Where necessary, if the case is particularly complicated, the identity theft expert will go to a victim's home to work through the case step by step.'

Sorting out something like this can be a pain, but we don't think spending £80 a year to have someone hold your hand whilst you do it is going to ease the pain much. We advise Tony to spend his £80 on a good shredder.