

## CHOOSE WISELY

## Using credit card offers? Know the details

**Paying the minimum amount due doesn't free you from paying interest; it only protects your credit score**

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Credit card usage in India is on the rise. According to data from the Reserve Bank of India (RBI), the number of outstanding credit cards in August 2015 was about 9% more than that at the end of December 2014. The number of transactions were higher by about 16.7% and the amount was up by about 16% for the same period. Apart from offline sales, e-commerce has been a big contributor to this, often due to the various offers that are attached to specific cards.

"A large part of our credit card growth has been coming from e-commerce transactions. These have, in fact, almost doubled from 25% last year to 47% this year. There are two reasons: offers attached to cards and from increased transactions at e-commerce companies such as Amazon, Flipkart and Snapdeal," said Vijay Jasuja, chief executive officer, SBI Cards & Payment Services Pvt. Ltd.

While the discounts and other offers are attractive, first-time credit card users and frequent users alike are often caught unawares and end up paying hefty penalties. Here are a few things that you should always keep in mind when using a credit card.

#### Initial costs

When credit cards were first launched, some were offered free of cost. But now most cards come with a joining fee and an annual fee depending on the type of card you take and the credit card issuing company. Joining fee usually starts from ₹200. Then there is an annual fee, which is what you pay for the service the bank provides.

This fee can range between ₹299 and ₹8,000. Some card issuing companies waive off these charges if you are a preferred customer or make transactions of a certain amount within a given period. For instance, if you have an HDFC Bank AllMiles credit card, if you spend ₹15,000 within the first 90 days from card set up date, first year's membership fee is waived. "By planning your expenditure, you can take advantage of this option. For this you need to have a sense of your overall expenses and plan accordingly," said Naveen Kukreja, managing director, paisabazaar.com. But don't spend just to save the fee.

#### Revolving credit

All credit cards come with an interest-free period—you don't have to pay an interest on the outstanding amount during this time. Usually, the interest free period is 20-50 days. After this you will have to pay an interest on the outstanding balance on the card. Generally, interest rates on credit cards are in the range of 22-48% per annum. A credit card carries higher interest rate because this is an unsecured loan. So, if your outstanding is ₹10,000 on a credit card and the monthly interest rate is 3.25% (39% annually), if you miss the payment deadline, the interest rate is calculated as follows: (outstanding amount x 3.25% x 12 months x number of days)/365 days. In this example, the interest charged will be ₹534.25 for the month of default. You will also be charged a late payment fee and service tax on interest and other charges (after addition of the Swachh Bharat cess, service tax is now 14.5%). Late payment charges can go up to ₹750. If you assume that paying the minimum amount due means you don't have to pay interest, then you are wrong. The minimum repayment amount is usually 5% of the outstanding amount. You still have to pay interest on the remaining 95% of the amount. "The benefit of pay-



**Big numbers:** Discounts and other offers by retailers—offline and online—woo people to use their credit cards. While the offers are attractive, payments should be made on time to avoid heavy penalties.

ing minimum due amount is to protect your credit score. If you don't pay that, the card issuing company will inform the credit bureau of you being a defaulter, and if you don't pay for two months, your card will be blocked," said Rishi Mehra, founder, Deal4loans.com, a loan comparison online portal.

#### Credit limits

Credit cards come with a spending limit, which depends on the card type, card issuing company and your eligibility. The amount basically means the amount that you are eligible to spend; it changes based on periodic reviews. You can see the limit on the monthly statement as well. Though you can spend beyond the credit card limit, you will be charged for the excess amount. For instance, ICICI Bank Ltd charges 2.5% of the overlimit amount but a minimum of ₹500.

"If you end up spending above 60% of your credit limit, it will have an impact on your credit score because banks see it as overleveraging. If you go over-

limit, try to make the entire payment immediately. Going over-limit has a bad effect on your credit score, reducing your chances of borrowing at attractive interest rate," said Kukreja.

#### Using credit card for cash

You can get cash using a credit card but the cash withdrawal limit is usually lower than the credit card spending limit. Say, if you have an HDFC Bank card, the cash advance limit will be 40% of the credit limit. Also, remember that when you withdraw cash on credit card, there is no interest-free period. Hence, interest will be charged immediately and not later. You also have to pay a cash advance fee, which is usually 2.5% of the amount that you withdraw.

#### Payment options

You can pay by cash, cheque, draft, phone banking, standing instruction, fund transfer and Net banking. But if you pay by cash at a bank branch or ATM, you will have to pay a cash processing fee of around ₹100. If you use an outstation cheque,

you have to pay a processing charge of ₹25-100 depending on the cheque value and the card issuing company. If a cheque is returned, there is a return charge of about 1-3% of the payment amount. If you pay through Net banking, there is no cost.

#### Loss of card

If you lose your card, first inform the bank and block the card as once you do this, you will not be liable for any transaction. File a report with the police and lodge a first information report (FIR) and get an acknowledgement for the complaint.

The bank will reissue a card if the earlier one was lost, stolen or damaged, usually for around ₹100. "Loss of card should be immediately reported at the bank's helpline number and blocked. This needs to be followed with a written complaint, by referring the ticket number of the tele-reporting and with all documentary evidences available," said Adhil Shetty, chief executive officer and co-founder, BankBazaar.com, a loan distribution and comparison website.

He added that if there is an unauthorised transaction online, the cardholder needs to check with the bank if it needs a copy of the FIR. "If money is taken from an ATM, then a copy of the FIR is mandatory while filing a written complaint. All banks have some sort of zero liability policy to protect cardholders, especially if card loss is reported within the stipulated time. This may vary depending upon the type of transaction and reporting deadlines," said Shetty.

#### EMI option

Banks allow you to convert your credit card spends into equated monthly instalments (EMIs). This is a cheaper option than revolving credit. The interest rate on credit card outstanding is 36-42% per annum, and if you transfer the outstanding amount to an EMI option, the interest will come to 16-22% a year depending on the tenure you would be carrying these.

"When you convert a credit card expense into EMI, be wary of the processing fees and foreclosure charges—some lenders charge a penalty of 3-5% of the outstanding amount. Also, be careful about not defaulting on the payments as this will impact the credit score," said Rajiv Raj, co-founder and director, CreditVidya, a credit guidance firm.

#### Reward points

Spends using a credit card earn you reward points that get accumulated. The value of these points varies across banks, and also depends on the type of card. Banks generally give reward points in the range of 1-5 points on every ₹100-150 spent, depending on the type of card. There are no reward points on transactions such as cash withdrawals, interest charges, card fees, balance transfers, demand drafts, service charge transactions and disputed transactions.

A credit card provides convenience, but at a cost. Understand the product well before starting to use it.