



CREDIT CARDS

ARE KILLING YOU

A STRATEGY PAPER BY
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HOW DID IT COME TO THIS?

THE TRICKS AND TRAPS OF THE
CREDIT SYSTEM.

It looked great didn't it? The bank was offering you a credit card that you could use to improve your life. It may have gone a little something like this. You arrive home after a busy day and check the mail, you see a very official looking letter and think to yourself 'oh no, another bill' but as you open it up, you get a huge feeling of relief. You realise that it is not a bill, it is an offer. The bank, that big important organisation, is making you an offer. It's a credit card and guess what? You have already been approved! All you have to do is sign the letter and send it back in the reply paid envelope that they have provided you. You may be running a little low on cash, maybe you haven't been able to buy everything you wanted at the shop. You're stressed and you think, 'I could use that extra cash for a holiday.'



So you sign the form and post it back to the bank with a sense of excited anticipation. It is very possible that you then forget what you have done, until, the day arrives.

You get another letter that looks very important. This time, it doesn't bend and is a little heavier. You remember! How exciting, a new credit card. How much do you have? \$5000, \$10,000, more? The possibilities are endless, aren't they? Let's have a look at what has just happened to you.

HOW DID THEY GET TO YOU?

THE DATA IS OUT THERE.

Firstly, banks know more about you than you would like. It is amazing what they can find out by crunching the data in your bank account. They can tell how likely you are to take, use and repay (or not repay) a credit card. Banks know that you need more money. You may not be 'low income' but banks understand that most of the time as incomes rise so do lifestyles and by appealing to your needs they are likely to strike a nerve. Banks know that by posting the letter to you, you will think it is a bill, and then you will be relieved that it is not. Banks know that by making the process as easy as possible (already approved, just sign and return) you are likely to act on emotion rather than rational thought.

Banks know that by adding terms like, 'low interest' 'gold card' and 'rewards program', they can convince you that you are getting a great deal, and banks know that once the card is in your hands you are very likely to use it and less likely to pay it off.



THE BANK IS NOT YOUR FRIEND

WE NEED THEM, BUT LET'S NOT
FORGET THAT THEY EXIST TO
MAKE HUGE PROFITS.

It is scandalous to see the interest rates charged by banks for credit cards. As official interest rates fell to record lows after the global financial crisis home mortgage rates fell as well.

What about credit cards? Just one quick look will show that while you can borrow for a home at less than 4% you will pay 12%, 16% 20% or more for a credit card. A credit card is also a lot easier to get than a home loan. It doesn't make sense does it?

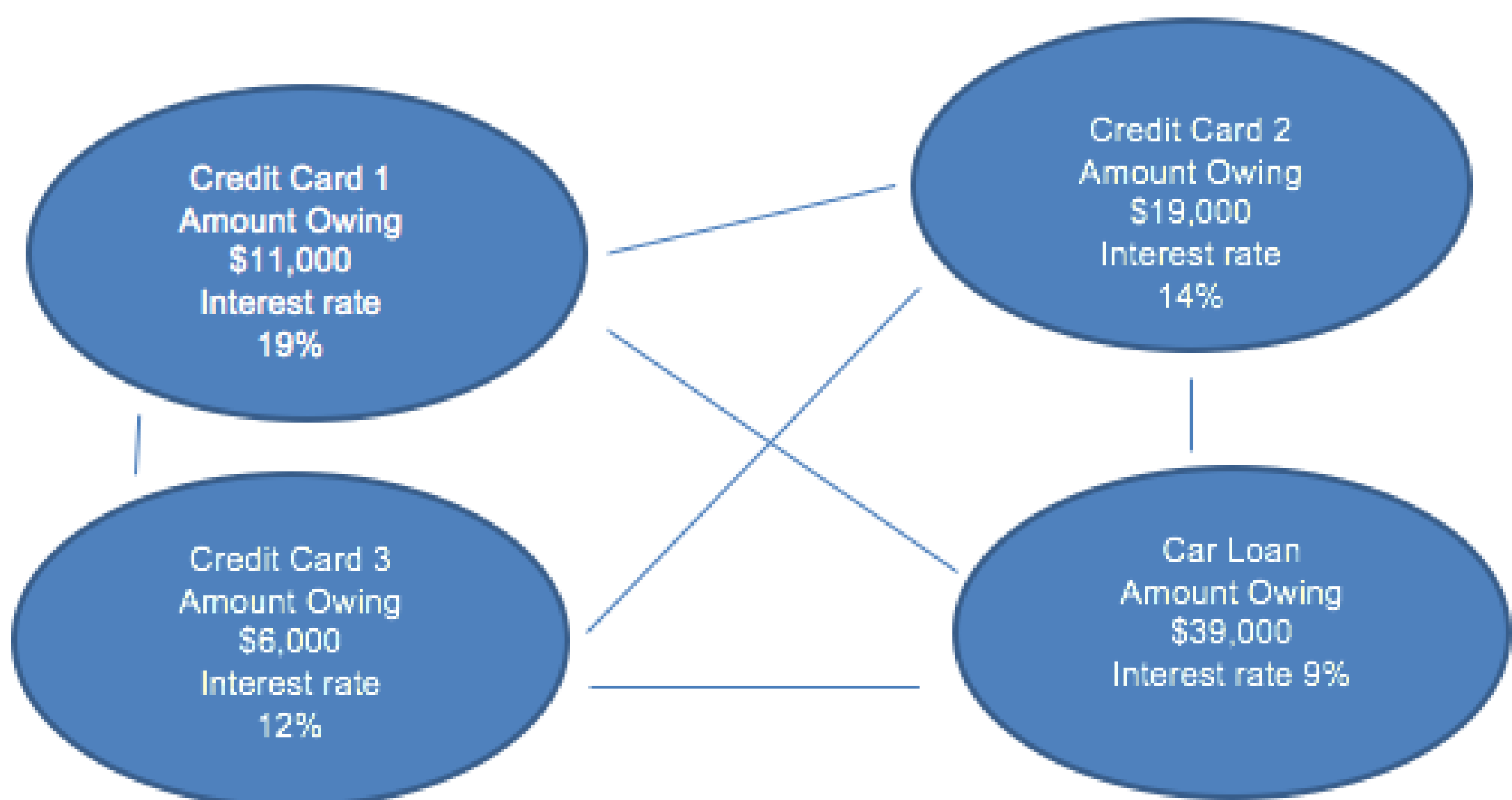
Surely there are people out there who can use credit cards without getting into trouble? Sure, there are, but not many. Some people are disciplined enough to pay their cards to \$0 before the interest kicks in, but they are few and far between. Most people end up in a situation that requires them to read this strategy paper.

**REMEMBER
THE BANK DOES NOT WANT YOU
TO PAY OFF YOUR CREDIT CARD**

It doesn't make sense does it? They send letters, reminders and phone you. They must want you to pay it off? No. They want you to make minimum payments. The minimum payment on a credit card is set as a percentage of what is owed, that means that as you pay it, you don't actually get very far. Let's say that your minimum payment is \$200 for one month, you make that payment. The next month, assuming you don't add any debt to the card, will your minimum payment be \$200 again? No, it will be slightly less because it is set as a percentage of the amount you owe. In fact a \$5000 credit card debt can take over 33 years to pay off if all you pay is the minimum.

LET'S GET IT PAID OFF. HOW DO WE DO IT?

Well, first of all we need to asses your situation. How many cards do you have? Are all your debts credit cards or do you also have personal loans? (They can be paid off using this strategy too). You are going to need to know your debts and the interest rates for each card or loan. Let's look at an example situation. Jeremy and Frank. Jeremy and Frank have gathered together 3 credit cards and 1 car loan. Here is what it looks like.



STACK THEM

Stacking your debt involves your figuring out which has the highest interest rate and then paying that down first, while still making minimum payments on the others. The debt that has the highest rate of interest is costing you the most, even if it has the smallest balance.



Make minimum payment plus
redirect all possible extra payments



Make minimum payment



Make minimum payment



Make minimum payment

HOW DOES IT HELP?

By directing all extra payments to the one card, you will pay it off more quickly and lower the overall amount of fees & interest that you are paying.

Once you have paid off the first card, redirect the amount of the minimum payment, plus the extra payments you were making to the next card with the next highest interest rate and so on and so forth, until no cards/debts remain. You will notice that you are finally getting somewhere and you will feel the great sense of satisfaction that paying out, cancelling and cutting up a credit card can bring.

WHERE DO I FIND THE EXTRA MONEY?

This can be the hardest part. You may be able to find some wasted dollars in your weekly spend. Writing down everything, and I mean *everything* will give you an insight into your spending habits and may help to find waste. If you do not have 'extra' funds but still need to pay a debt down, then pay the minimum amount, however, set it as a regular payment so it doesn't decrease as your balance does. This will take longer, but will still get you there.

ONE MORE THING BEFORE I GO!

Your credit card is not your lifeline and should not be a part of your everyday life. DO NOT USE IT. You may even be able to cancel it and enter a payment plan with the provider. The aim here is to pay down your debt, not increase it. Then the next time you get a nice letter in the mail saying that you have been pre approved, put it in the bin, where it belongs.

WHAT'S NEXT

Debt reduction is just one step towards securing your finances and increasing your wealth. Other areas include cash flow management, consolidating your superannuation and ensuring that it is invested the right way and creating a savings plan.

BGN Financial Management can help you in all these areas and more. You can book an obligation and cost free face to face or online financial planning session with BGN Financial Management at www.bgnfinancial.com.au



ABOUT BGN FINANCIAL MANAGEMENT

BGN Financial Management have been helping people improve their financial situation for 11 years. Many people ask, 'Do I have to be rich to need financial advice' The answer is 'absolutely not'. Every Australian needs, and deserves quality financial advice, including you. Do you have superannuation? Do you know how it is invested? What about insurances to protect you and your family?

BGN Financial Management is here for you.

Check out our website: www.bgnfinancial.com.au

Contact us: 1300 592 539 or ben@bgnfinancial.com.au

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