



## Paul Clitheroe

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# personal loans – can be better than credit cards

Credit cards are found in almost every wallet these days, and it's easy to put big ticket purchases, like a new appliance or a holiday, on the plastic. But personal loans can often be a far cheaper option.

Convenience could be a key factor behind the use of credit cards to fund large purchases. Personal loans take time to organise, and because this can be inconvenient, it does provide valuable breathing space to think about whether you really want or can afford an item – and you may decide you can't afford or don't want it, and thereby save your money.

Chances are, a personal loan could also offer decent savings – on interest rates.

Credit card interest rates have been creeping up over recent months and many now charge close to 20%. By comparison, you can expect to pay anywhere between 11% and about 13% with a personal loan.

It's possible to trim the loan interest by offering security over the debt. If it's a car loan, the vehicle will usually be accepted as collateral. With some lenders, like MemberFirst Credit Union, you may be able to use a term deposit as security.

Credit unions and building societies are very competitive in the personal loan market and even if you're not a member, it's worth looking outside the big banks for a low rate.

Most financial institutions let you make applications online and it's usually not necessary to live in the geographic region served by a building society or credit union to secure a loan. Many credit unions are also widely available to the general public.

Personal loans are normally repayable over three to seven years. Borrowers can see upfront how much the loan will cost in overall interest, and unlike a credit card, the fixed term provides a clear finish line for when the debt will be repaid.

By contrast, credit card issuer's only ask for a small fraction of the debt to be paid off each month – usually between 1% and 2.5% of the balance. This may seem easier on your wallet but it works in the card issuer's favour. Sticking to the specified minimum will significantly draw out the time taken to pay off the debt as well as inflating the final interest bill.

As a guide, let's say you purchase furniture costing \$3,000 using a credit card charging 15% interest. Assuming no other purchases are made on the card, if you stick to the minimum repayment, after three years the balance owing will still be \$2,288 even though you've paid around \$1,190 in interest charges.

On the flipside, taking out a 3-year personal loan charging 12% interest would see you pay \$587 in total interest. And of course, after three years the debt is cleared.

If you already carry an ongoing card debt or if it's unlikely you'll pay off a large purchase in the interest free period, give the credit card a miss and think about a personal loan. If you want to save even more money, use lay by or try saving for the purchase.

*Paul Clitheroe's 'Making Money' for the week beginning 19 July 2010*



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