

Borrowers Should Be 'Wary' Of Using Store Cards

Opting to use store finance cards is an uncompetitive form of borrowing, an industry expert has warned.

August 6, 2007 (FPRC) -- According to Martyn Saville, senior researcher for Which?, those who are only able to make the minimum monthly repayments on the type of credit could be set to find strains on their day-to-day finances increasing as providers charge high levels of interest for outstanding balances. He commented: "You should only take out a store card to get a discount if you can repay all the money when you get your first statement, as this means you avoid paying any interest. If you don't plan to do this, avoid taking out store cards altogether."

"Consumers should be assessed for credit risk in a realistic way that truly reflects their existing borrowing patterns and overall financial status. Consumers should also not be unduly pressurised or incentivised to take on additional debt, be it through marketing [or] unsolicited credit limit increases," Mr Saville added. The consumer watchdog representative added that it is the onus of financial suppliers to "always lend responsibly".

He also claimed that those who fail to pay off their store card bill in full by the time they get their first statement could end up being required to pay more than they had saved on the initial offer which had at first prompted them into taking out the card. The company indicated the annual percentage rate (APR) of 29.9 per cent on a store card issued by GE Capital Bank - used by the likes of Burton and Dorothy Perkins - compared with an APR of 6.8 per cent on more competitively-priced credit cards.

However, the outcome of a competition commission inquiry was reported to have increased the public's awareness about the pitfalls of using store cards. Mr Saville pointed out that credit providers charging a high rate of interest are now required to make their customers aware that more competitive borrowing options are available to them, with cheap personal loans being one such possible choice. However, he added that Which? is now looking to get credit suppliers to use "illustrative scenarios" indicating the impact that only consistently making minimum repayments would have on consumers' finances.

In related news, Britons have recently been advised that only paying off the minimum amount on credit cards could lead to them facing an increased "debt sentence". The warning comes after findings by uSwitch indicated that some 3.5 million consumers could take up to 30 years to finish making repayments on their credit cards by only reimbursing the lowest amount required.

However, these people put in a little more money each month they could see their "debt sentence" reduced by 15 years and save a total of £5.5 billion in interest. Mike Naylor, personal finance expert for the price comparison website, reported that with credit cards accounting for £54 billion of the country's personal debt of £1,325 billion, borrowers could be set to complete paying off their mortgage before they do so on their plastic cards, "despite the huge disparity in sums borrowed". His comments follow reports that Barclaycard and M&S Money have lowered the minimum amount payable to less than 2.5 per cent, a move Mr Naylor suggested has "little justification".

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For more information contact Abbi Rouse of All About Loans (<http://www.allaboutloans.co.uk>)
01481 701350

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