KARL DEETER Ireland's money expert

karl.deeter@notw.ie or follow me on Twitter @karldeeter

CREDIT cards can be a godsend and a curse.

I have a friend who doesn't have one, so I used to wonder how he booked flights or bought anything online.

Recently I discovered his secret — he just lets his wife put it all on *her* credit card, clever man.

For those of us who don't have such an arrangement, it means we most likely have a plastic friend, which costs €30 a year. That €30 isn't a credit card company charge, it's tax, and the first of many costs.

Credit cards can get you out of a bind or land you in one, depending on how you use them.

Rates vary in Ireland, from as low as about 13 per cent to as high as 23pc.

And it's that level of interest that's the problem. If you took out a loan at say, 25pc a year, and you paid nothing for three years, the amount owed would effectively double.

This is why credit cards can cause such big problems.

Although the size of the personal credit card mountain out there has dropped by just over seven per cent in the past year, it still stands at a towering €2.64billion.

With my accountancy and financial advice hat on I'll tell you this much — about 90pc of the clients we meet about money problems admits that credit cards are a major factor in the mix.

PROBLEM

Sometimes it's the cause of the problem — it's been used as a lifeline, or something that's called on to mask an underlying issue by providing a line of finance when other regular incomes have run out.

In any case, credit cards can be massively troublesome if they're not respected and managed well.

If you have mortgage problems, the number of times outside of scheduled requirements that your lender can call you per month under the CCMA (Code of Conduct on Mortgage Arrears 2010) is three, but with credit cards those restrictions don't apply.

Credit card collection teams are among the most aggressive in the industry, but it's a mistake to think they can just stamp all over you — there's a Consumer Protection Code that has certain protections built into it for your benefit.

One simple example is that card issuers can no longer send you those once-commonplace letters saying "your credit is increased by €2,000 up to €10,000" or whatever amount they felt like on the day.

Under the Consumer Credit Act they can't call you between 9pm and 9am from Monday to Saturday and they can't call you at all on a Sunday.

If you have credit card problems and are unable to pay, there's a fixed line of defence you should set up.

We spoke to Frank Conway of *moneycoach.ie*, who always comes up with some great tips for worried punters.

He said: "It's vital to prioritise debts, and mortgages should always come first. Credit card companies are often willing to restructure with genuine clients who approach them in an honest manner."

So here's what you do. First, write to the card issuer and let them know about your problem.

Ask them to freeze interest on your account until you've met and discussed this issue with them.

Have them send out a "standard financial statement" so you can fill it in and give them a clear idea of what your finances are looking like.

Every card issuer deals with every case differently on a case-by-case basis, but what's vital is to engage with the credit card company, and don't be afraid to ask for concessions.

Mr Conway said two key elements are "honesty and consistency", so be honest with the company you're dealing with, and be consistent.

If you come to an agreement with them, stick to your end of things. They'll typically review your situation every six months.

Mr Conway also warned that using a debt management company, which charges fees, may make things easier for you, but because there are charges it diminishes your ability to repay your debts and extends the period of time it will take to pay them all off.

CHOOSE YOUR CARDS

The best

INTEREST RATE	Bank of Ireland 'Clear Credit' 13.3%
CASH WITHDRAWAL RATE	NIB 'Gold' 10.25%
LATE PAYMENT FEE	Tesco €6.35
INTRODUCTORY APR (PURCHASES)	Tesco 0% for 10 months

The worst

INTEREST RATE	Ulster Bank 'Classic' 22.6%
CASH WITHDRAWAL RATE	Bank of Ireland 'Classic' 21.36%
LATE PAYMENT FEE	EBS & MBNA €15.24
INTRODUCTORY APR (PURCHASES)	Everybody else

Be careful . . . cards can swallow up your cash

CREDIT CRUNCH

Beware of getting bitten

Make sure you clear that debt

CREDIT cards are proving such an issue in Ireland that it's believed about 100,000 of them have been cut up and discarded by users in the past year.

Having said that, there are still about two million credit cards in circulation.

Making only the minimum payments on a card can mean debts stretch into mortgage-like terms of up to 20 years, so it's vital to clear as much debt as you can outside of your home loan.

Cuts . . . many want out

The manner in which interest is charged on credit cards is quite tough — in most cases if you don't make a payment or don't clear the balance in full, interest is charged on the entire balance.

For instance, if you always pay off your entire bill and then one month only pay €1,800 of €2,000 charged, you'll still pay interest on the entire €2,000. This calculation doesn't use the precise method card companies use, but it'll get you to within a few euro.

If your rate is 20pc you'll pay €2,000 x (20pc/365) then multiplied by the number of days the debt is outstanding.

So say you're overdue 30 days — then it's €2,000 x 0.0548 = €1.09 per day by 30 days is €32.70.

If you let a balance run, you can see how this would quickly build up.

If you use a card for cash withdrawals or "credit card cheques", interest normally applies from the date you draw the money as opposed to the above example which only happens if you go over the due date.

So be careful — while credit cards can bail you out of trouble, they can also get you into it.

Q&A

Can I dip into pension pot?

Q I'VE run up a number of fairly large credit card bills and can't pay them off. All I have left is my pension, which is worth €50,000.

Can I tap into the pension for the money to help pay my bills off?

A NO. If pension laws allowed that, there'd be lots of people tapping into theirs and arriving at retirement with no provision in place.

The whole idea of pension savings is that you don't touch them until retirement.

In some cases you could retire early — sports people, for example, or those suffering from ill health. But the issue you've described doesn't apply at all.

Sometimes people ask if they can use a pension as security for a loan, but the benefit of a pension pot is also its weakness. So while it can't serve as collateral, if you ever go broke you can't be chased down for your pension.

ADVISORS.IE **Karl Deeter is operations manager at Advisors.ie, a firm of accountants and financial advisors.**