

Why should I read my Credit Card Statement?

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Executive Summary - Credit cards are very convenient for making payments. It is very important to read the card statement properly so that you are aware of the Credit Limit, Cash Limit and Due Date. You need to ensure that transactions (purchases, payments, reward points credited) are correct in the statement and also pay the correct amount before the due date to avoid high charges.

Rahul Jain used to diligently pay off his credit card balance before the last due date. But he did not realise that he was paying only the minimum amount due and therefore never managed to make the credit balance to nil. The interest payment kept increasing. Many of us do not understand the credit card statement properly and end up making costly mistakes. Here are a few things that you need to know in a credit card statement -

Amount Due - The statement has two amounts as due - Minimum Amount Due and Total Amount Due. The total amount due is the total payment that you have to make before the due date. The minimum amount due is a percentage of the total amount that you need to pay to keep your card activated. If you pay only the minimum amount due, you will be charged a very high interest rate (about 36%-42%) on the remaining amount which will appear as the total amount due in next month's statement. Your credit limit will also be reduced to the extent of the remaining balance unpaid. If you make the minimum amount due payment late, late charges are levied. It is obviously better to pay off the total amount due. It will save you money and your CIBIL score remains unaffected.

Credit Limit - Credit Limit is the extent to which the bank has given you the facility to use the card. The available credit limit is the difference between the maximum credit limit and the amount used till now. So if you have outstanding balance, you will have less credit limit. You should keep that in mind when you are using your card.

Cash Advance Limit - You can withdraw cash with your credit card. This amount is different from the credit limit amounts. It is normally less than the credit limit. You will incur charges of up to 2.5%-3% of the total amount. This facility should be used only in extreme emergencies.

Due Date - Due Date is the date by which the amount is to be credited to the bank. So you should make your payment such that the amount is realised by the bank before or on the due date. Cheques take 2-3 days to get encashed. You should keep that in mind if you are making a cheque payment. You should know the billing cycle as transactions made towards the end of the cycle will not get the same credit period as the transactions made at the beginning of the credit cycle period.

Interest Charges - You will be charged interest on the amount unpaid. The interest is calculated at 36%-42% on the amount unpaid and on purchases made in the next cycle if you have payment due.

Reward Points - Many credit cards offer reward points. Earned reward points are mentioned in the statement. Read the terms and conditions of the same Ensure that you are getting the reward points promised to you. Check the expiry conditions of the reward points and remember to redeem as we all feel good when we gifts and would get upset if we find out that we lost out on the chance to get some goodies!

You should also remember to

- Check the card statement for your details like name, address, email, phone number etc. If there are discrepancies, inform the bank immediately to reduce chances of missing bills and fraudulent activities on your card.
- Check the Credit card statement regularly for the transactions, classification of transactions, total amount due, amount paid and due date. You should not just wait for the text message from the bank and pay the amount blindly.
- You should be aware of the terms and conditions of usage of the card.
- Some card issuers allow users to exceed their credit limit by charging an overdraft fee. Find out if your card allows that and ensure that you do not go above the credit limit unless it is an emergency.

Credit Cards are convenient to use but it is important to use them judiciously and check the statement thoroughly for all information.