

Credit cards explained



Sainsbury's Bank

What is a credit card?

As its name suggests, a credit card lets you buy things on credit – meaning that you don't need to have the money upfront to pay for your purchases. If large, unexpected or emergency purchases arise, a credit card may help to manage the cost.

A credit card is a form of unsecured, short-term borrowing. Unlike many loans, your assets won't be used as security against your credit card debt. But you will generally need to have a good credit score to be successful in your application for a credit card – and certainly when applying for those cards that offer the best terms.



Paying by credit card can offer convenience and flexibility. Credit cards typically offer interest-free borrowing on all transactions for up to 56 days. So if you clear your balance in full within the interest free period you'll have no interest to pay.

By shopping around, it's possible to find interest-free credit cards that offer 0% interest on purchases for a longer period, sometimes a year or more. Balance transfer credit cards may also offer 0% deals to move your borrowing from one card to another.

Some credit cards give you the chance to earn cashback and rewards whenever you use them. Certain others can be used to help build a better credit score.

Although credit cards carry a signature strip, transactions made in person are usually authorised using a personal identification number or PIN.

Key card features

Typical features of the different card types:

| | Credit card | Debit card | Store card |
|-------------------------|--|--|--|
| Transaction type | Short-term credit – buy now, pay later | Immediate debit – buy now, pay now | Short-term credit – buy now, pay later |
| Interest charged | Interest is charged if statement balance is not paid in full by due date | No interest charged, unless overdraft facility is used | High interest – usually 25% or more – charged if balance not paid in full by due date |
| Offers | Access to 0% interest deals for purchases and balance transfers | Option to arrange an overdraft facility for flexibility | Access to in-store and/or online offers and discounts |
| Fraud protection | As long as you use your card responsibly, you will be protected if it is used fraudulently without your knowledge (see our Fraud and misuse section below) | As long as you use your card responsibly, you will be protected if it is used fraudulently without your knowledge (see our Fraud and misuse section below) | As long as you use your card responsibly, you will be protected if it is used fraudulently without your knowledge (see our Fraud and misuse section below) |
| Extra protection | Chargeback possible; s75 protection (see Protection offered by a credit card section below) | Chargeback possible (see Protection offered by a credit card section below) | N/A |

A store card is a form of borrowing for use only with a particular retailer or retail group. In contrast, a store-branded credit card may be linked to the rewards programme of the named retailer but can be used in the same way as any other credit card of its type.

Find out more about fraud protection in our section on Fraud and misuse.

Using a credit card

You can use a credit card to pay for all sorts of purchases – whether goods or services – made in person, by phone or online. All but the smallest businesses tend to be set up to take payment by credit card, although not all credit card types are equally widely accepted. Look for the logos when you shop to see where you can pay using your credit card type.

When paying in store, you will be asked to insert your credit card into a card reader to make your purchase. Or the sales assistant may do this for you, in front of you. To protect your card from being used fraudulently, it's important not to let it out of your sight. Restaurants should bring the card reader to your table.

The card reader will prompt you to check the total amount of the transaction. Once you have accepted this, you will be asked to enter your PIN. (In a restaurant, there may be another step in between, to allow you to add a gratuity.) Keeping the screen covered while you do so can help to ensure the security of your credit card.

When making purchases online or over the phone, you will usually be asked for the:

- long number on the front of the credit card
- name of the cardholder, exactly as printed on the card
- card expiry date
- card security code (CSC) – also known as the card verification code (CVC) or card verification value (CVV) – the last three digits on the signature strip on the back of the card.



Making use of free additional online security measures like [Verified by VISA](#), [MasterCard SecureCode](#) and [American Express SafeKey](#) can give you extra peace of mind when paying by credit card online. Each of these systems adds an extra authentication step when checking out, making your online transactions more secure.

Many online retailers will prompt you to use the relevant system when checking out with your credit card. To do so, all you need to do is register an authentication code of your choosing with the security system. You can then use this code to verify all future online transactions made using the same card and online security system.

Using your card provider's particular online security system will also protect you from liability if your card is used fraudulently.

When making a reservation – for example, for a hotel or a place on a course – your card may be 'pre-authorized' for the full amount of the booking. Pre-authorization is a check to make sure that the credit card you are using is valid and has not

been reported as lost or stolen. While the pre-authorization amount won't be debited from your account until you make the actual payment, it will be reflected in your available balance.

Pre-authorization is useful because it means that both parties know in advance that you have the available funds to pay. You can still withhold final payment, however, if you find on arrival that your room isn't up to scratch, for example.



Protection offered by a credit card

When you use a credit card, you are protected under [Section 75 of the Consumer Credit Act](#) for purchases where a single item or service costs between £100 and £30,000. You don't have to have paid for the purchase in full using your credit card – you will be protected even if you pay just a small sum towards the total with your credit card e.g. a deposit.

This means that where you've paid for goods or services and the provider breaches the contract – for example, the ordered item doesn't arrive or a travel operator goes into insolvency – your credit card provider is jointly liable with the retailer or trader for refunding the sum paid. Find out more from [Which?](#)

You may have extra protection if your card issuer operates a 'chargeback' scheme. This lets you have a transaction reversed – and your card refunded – under certain circumstances. It may be that the retailer or trader you've bought from is no longer in business, or the goods or services that you've bought are faulty, not as described or fail to turn up.

Banks and credit card providers don't need to offer a chargeback scheme by law, but most do. It can be especially useful where a retailer or trader disputes that there is a problem. You can request a chargeback for credit card or debit card transactions and, unlike the Section 75 rules, a chargeback may be applied to transactions of less than £100.

Finding the right card for you

Annual percentage rate (APR)

Credit card providers' terms can vary widely and it can be difficult to compare cards on a like-for-like basis. This is where the annual percentage rate (APR) comes in.

The APR takes into account both the annual interest that will accrue when borrowing a set sum and also any charges such as upfront fees involved. If you're especially interested in a balance transfer or using a credit card for cash advances, look for the relevant APR for these kinds of spending.

Comparing the various APRs can help you to decide which of the many credit card deals out there might be best for you – although other factors like available rewards will also affect how much interest is paid. Credit card comparison sites can narrow down the choices for you.

Always check the APR you are offered when accepted for a credit card, as it could be different to the advertised deal. This is because your credit history will affect the particular terms that a credit card provider is prepared to offer you. (See more on this in the: Check the terms before you sign section below.)

If you intend to keep your card after an initial 0% interest deal expires, be aware of the long-term APR that will apply.

The APR for a 'credit builder' card will typically be much higher than for a standard credit card. Credit builder cards are aimed at individuals who have been turned down for a standard credit card because of a poor credit history. It may be possible to build a better credit score if the credit builder card is used responsibly.

Purchases

You may spread the cost of a large purchase with a card that offers 0% interest on purchases.

The interest-free period begins from the date you open the credit card, not the date you first use it.

Balance transfers

You can shift an existing credit card balance onto another credit card using a balance transfer deal. This could be useful if the deal offers a better long-term APR or interest-free period, as it could help to manage the cost of borrowing.

It's a good idea to find out if any balance transfer fees apply, as some providers charge a percentage of the balance to be transferred. For more information, check out our ['What is a balance transfer?'](#) guide.

Cash advances

You may be able to withdraw cash at an ATM using your credit card. This is called a cash advance.

It is also considered a cash advance when a credit card is used to:

- pay a mortgage or other loan repayment
- place a bet or gamble



- buy foreign currency or Travellers Cheques
- transfer money to a bank account electronically.

Find out what rates and fees may be applied to cash advances before using your card in this way.

Credit limit

Your credit limit is the total amount you can spend on credit using your card. This is based on your credit score and will normally include a separate cash advance limit. You will incur penalties if you exceed your credit limit or if payments to retailers or traders are returned because you don't have enough available credit.

Cashback and rewards

By using your credit card and paying off the balance in full every month, you may be able to earn rewards without accruing any interest. You could earn regular cashback, retail vouchers or loyalty programme points depending on which credit card you choose.



Fees and charges

Check your credit agreement to understand what fees and penalties apply, for example, if you use your credit card abroad or are late with a repayment. Your credit card supplier should be as transparent as possible with fees and terms and conditions.

If you use your credit card outside the UK, you may incur overseas spending charges for each transaction – whether it's a cash advance or a regular purchase so make sure you check before you go.

How to apply for a credit card

You may apply to any credit card provider for a credit card – you don't have to go to your existing bank.

Carry out thorough research to find the credit card that is right for you and make sure you know what's involved before proceeding with any quote or application. Even getting a quote can sometimes involve a credit check, and being turned down for credit or making multiple applications may impact your credit score. (See below for more details.)

You can apply for a credit card for yourself only or for yourself plus an additional cardholder. If you make a joint application, the credit check will apply to both applicants.

Application details

As well as your name, current address, phone number and other standard personal details, you will most likely be asked for your address history (usually for the last three years), employment status and length of time with current bank, plus details of any balance transfer to be applied to the new credit card.



Where to apply

You can generally apply online and get a decision in a matter of minutes. It's also possible to apply for a credit card over the phone, by post or in person.

How will your credit score affect you?

Your [credit score](#) is a rating that corresponds to how 'creditworthy' banks and other financial organisations believe you to be. A credit card provider will refer to your credit score to decide whether to offer you credit and, if so, on what terms.

Your credit score is generated using the information in your credit report, which the credit reference agencies compile and update. A credit score can range from 0 (poor) to 999 (excellent).

A good credit score is likely to result in you being accepted for credit, with favourable terms.

A poor credit score is likely to result in you being refused credit or offered less attractive terms.

It's possible to apply for a 'credit builder' credit card to help improve a poor credit score. You may have a poor credit score simply because you don't have a credit history.

Check the terms before you sign

Always check the terms before you sign. The APR you are offered may be different to the deal advertised because of your credit history, including:

- payment history
- amounts you already owe
- length of credit history
- number of new accounts
- types of credit in use, e.g., mortgages, loans, store cards, other credit cards.

Managing the credit card responsibly

Check your statement every month. Contact your credit card provider immediately if there has been any activity that you do not recognise.

Making repayments

You can choose to repay your statement balance in full or in part each month, but the minimum payment amount must be met monthly.

If you're not currently on a 0% interest deal, interest will accrue if you do not pay off your statement balance in full by the due date.

It's important to prioritise the repayment of debts if you have more than one credit card or loan. Over the long run, it will be less expensive to repay the debt that attracts the highest interest first.

Since 2011, credit card providers have had to apply repayments to any outstanding balance starting with the highest interest element of the debt. For example, if cash advances made using your card attract a higher interest rate than purchases or balance transfers, your repayment amount will be applied first to any sum relating to cash advances. Any remaining repayment amount will then be applied to the particular element of debt – e.g., purchases or balance transfers – that attracts the next highest rate of interest.



How to pay

Your credit card statement will give you options of how to pay.

One option is to set up a direct debit. This might be particularly helpful if you have more than one credit card to keep track of. You may arrange to pay a variable amount each month – either the minimum amount or the balance in full on your latest statement – or specify a fixed amount that you'd like to pay every time.

You can also make repayments using your online banking service or by setting up a standing order. Generally it's also possible to make repayments direct to your credit card provider over the phone and/or online using a debit card.

It may also be possible to pay by cheque, at a branch or even by mobile phone.

Debt

If you're struggling to make monthly repayments, contact your credit card provider in the first instance. You may be able to arrange different terms until you get back on track.

Impartial debt advice is available from the Money Advice Service and Citizens Advice.

Fraud and misuse

To protect yourself from liability if your card is used fraudulently, you (and any additional cardholder) must act with reasonable care whenever you use it.

Keep your card safe and never write down or tell anyone your PIN. If your credit card is lost or stolen, you must tell your provider immediately. If you do not, you may be liable for at least the first £50 of any fraudulent transactions.

Using your credit card provider's 3D Secure system (or equivalent online security system) when shopping online will also protect you from liability if your card is used fraudulently.

Carefully dispose of receipts, old statements you no longer need and any other documents containing credit card details. This can help to protect you against identity theft and fraud.

Unusual activity on your card may be refused and this can trigger a call from your provider's fraud team. To prevent genuine transactions from being stopped, you can advise your provider in advance if you plan to make an unusually large purchase or use your credit card abroad.

A well-managed credit card may help you to manage your spending, especially large, unexpected or emergency purchases. A credit card can offer short-term, interest-free borrowing on an ongoing basis and sometimes for an extended period. You may be able to earn cashback or rewards at the same time.

- 1) <http://www.visa.co.uk/products/protection-benefits/verified-by-visa/how-to-use-verified-by-visa>
- 2) <http://www.mastercard.co.uk/securecode.html>
- 3) <http://www.americanexpress.com/uk/content/membership-benefits-cardmember/american-express-safekey.html>
- 4) <http://www.legislation.gov.uk/ukpga/1974/39/section/75>
- 5) <http://www.which.co.uk/consumer-rights/regulation/section-75-of-the-consumer-credit-act>
- 6) http://www.sainsburysbank.co.uk/credit_cards/cca_creditcard_zone.shtml
- 7) http://www.sainsburysbank.com/credit_cards/what-is-a-balance-transfer.shtml
- 8) <http://www.sainsburysbank.co.uk/library/default/resources/guide-to-managing-and-improving-your-credit-score.pdf>

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