

Storecards

How often have you been at the till about to pay for goods when you've been offered a store card that will give you a 20 per cent discount?

It may be tempting to say yes to a store card but consumer protection organisations, like the Consumer Council and debt counselling services would strongly urge consumers to stop and think before signing up.

What is a store card?

Store cards work much like a credit card, but can only be used in a specific store or group of stores. They should not be confused with loyalty cards such as Boots or Nectar cards where you collect points, or with branded credit cards such as Tesco, Sainsbury, Asda or Marks & Spencer.

What's wrong with store cards?

- ***An expensive way to pay and borrow***

In general, store cards charge a high interest rate, sometimes as high as 30 per cent. This is combined with the facility to make a monthly repayment of only 4 per cent or less of the balance outstanding.

What this means for consumers who choose only to make the minimum repayments is that they will build up a large amount of debt that can take years to pay off. See table on page 2.

- ***Inadequate and misleading information***

Real concern also exists about the way in which store cards are sold. In many cases it is often inexperienced sales staff put in charge of offering this type of credit agreement.

A snapshot survey carried out by the Consumer Council in November 2003 showed that in the majority of cases, store representatives hadn't any financial services experience or particular knowledge of the monthly APR or actual cost of the credit.

In addition, consumers are generally encouraged to sign up at the till, rather than taking the information away to consider it carefully and compare the product to other types of credit options available¹.

- ***Often targeted at young people***

Many of the store cards on offer are targeted at young people who are less likely to know what questions to ask beforehand and are less equipped to manage storecards

¹ In 2001, Citizen's Advice found that the majority of consumers who accepted a store card would have been able to access an overdraft, loan or credit card at a much lower rate of interest.

Storecards Factsheet

GCSE Home Economics – Money Matters

sensibly. This can easily lead to debt problems which might affect the person's credit rating, making it difficult to access other forms of credit e.g. a mobile phone contract, car loan or a mortgage later down the line.

Is there a safe way to use store cards?

With the amount of seasonal sales promotions and discounts available on the high street, the perks offered by store cards are questionable.

However, if you were particularly keen to grab an extra discount, or snap up an introductory offer, if you were very disciplined and organised about it, you could make the card work for you.

To do this, you would need to pay off the card balance as soon as you get the statement and before interest can be charged. It is then important that you cut the card up or put it well out of the way of temptation.

Table: The dangers of minimum payments

Source: Moneyfacts.co.uk

Card	APR	Minimum repayment	Interest on £1,000 debt	Time taken to repay debt
Oasis VIP	28.9%	3.65%, min £3.65	£1,213.10	15 years 4 months
Principles	28.9%	3.65%, min £3.65	£1,213.10	15 years 4 months
New Look	28.9%	3.65%, min £3.65	£1,213.10	15 years 4 months
Wallis	29.9%	4%, min £4	£1052.69	13 years 1 month
Warehouse	29.9%*	4%, min £4	£1052.69	13 years 1 month
Outfit	29.9%*	4%, min £4	£1052.69	13 years 1 month
Miss Selfridge	29.9%*	4%, min £4	£1052.69	13 years 1 month
Dorothy Perkins	29.9%	4%, min £4	£1052.69	13 years 1 month
Edge card	29.9%	4%, min £4	£1052.69	13 years 1 month
Creation	30.9%*	4%, min £5	£1,101.81	12 years 6 months

* APR slightly lower if repayments made by Direct Debit