

Over 79% of credit cards allocate repayments to cheapest debt first

The government and the credit card industry have agreed measures ¹ that will improve the rights of credit card customers by setting out guidelines on their rights in a number of areas that have been contentious in recent years.

David Black, Banking Specialist at Defaqto, said: “All of these changes are good news for hard pressed consumers as they will alleviate some of the lesser known tricks of the trade that have proven extremely costly to those that don’t repay their entire balance every month.

“The dangers of making low minimum repayments cannot be emphasised enough. Someone making a minimum 2% monthly repayment on a £1,000 balance on a credit card charging 20.9% APR would take 37 years one month to clear the balance. If they repaid £50 every month the balance would be cleared in two years one month.”

Time taken to repay a £1,000 balance:-

Typical APR	If repay 2% (min £5) every month	If £50 repaid every month
20.9%	37 years 1 month	2 years 1 month
15.9%	21 years 10 months	2 years 1 month
9.9%	14 years 11 months	1 year 10 months

Consumers should check if their repayments are allocated against the cheapest debt first as 178 out of 225 credit cards do this as opposed to allocating against the most expensive debt first which is preferable from a consumer perspective.

Credit card summary boxes are the first place to start until the new measures come into effect:-

	Order of repayments
Positive order of repayments	<ol style="list-style-type: none"> 1. Fees 2. Charges 3. Interest 4. Debt bearing highest interest rate

Negative order of repayments

1. Default Charges
2. Promotional balance transfers
3. Promotional purchases
4. Purchases, balance transfers and other charges
5. Cash withdrawals

Mr Black continued, “Allocating repayments against the most expensive borrowing first will be extremely costly to the industry and there is little doubt that credit card providers will seek to regain the lost income through other means such as less attractive introductory 0% deals and possibly other charges. Before taking out a credit card, consumers should first check the repayment terms if this is a key driver for their application. Our Star Ratings give a good overall view of the full package offered by each credit card”

The credit cards with the most positive order of repayment hierarchy are as follows:-

Credit Card Provider	Credit Card	Defaqto Star Rating
Nationwide BS	Gold Visa / Classic Visa	4
Saga	Platinum	4
Smile	Classic Visa	2
The Co-operative Bank	Clear Visa Card	3

¹ The measures agreed are that by the end of the year:-

- Repayments will be allocated to the highest rate debt first;
- The minimum repayment for new credit cards will at least cover interest, fees, charges and 1% the outstanding balance;
- Consumers will have the right to reject credit limit increases and to reduce their limit;
- Credit card customers will have at least 60 days to reject a rate increase, close the account and pay down the balance at the existing rate;
- Cardholders at risk of financial difficulty will be protected by a ban on increases in credit limit and a ban on increases in interest rate.
- An annual statement will be provided that enables easy comparison with other providers.

-Ends-

Notes to Editors:

David Black is a Banking Specialist at Defaqto
David joined Defaqto in May 2004 when Defaqto acquired the financial research company of Blay's Guides where he had 16 years of banking research experience for the majority of which he was a director. Previously he was a political risk underwriter in the City. David is Defaqto's Banking Specialist and specialises in credit cards, current accounts, equity release, mortgages, savings and unsecured loans. He was the Banking Analyst in Defaqto's Insight team until July 2010 when he switched to dealing with the press on all aspects of banking. He is a frequent commentator in both the printed and the broadcast media in his areas of expertise. He is ACII, CeMAP and CeRER qualified, as well as holding an Honours degree from Exeter University.

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Since 1994, Defaqto has built the largest, whole of market, financial product database and become one of the leading providers of financial product data in the UK. We now cover over 30,000 products across banking, life, pensions, investments and general insurance.

Our experts validate and analyse the data to provide insight and consultancy to all layers of the financial services sector including IFAs, mortgage and general insurance brokers, providers, web aggregators and the public sector.

Our products and services include the following:

Aequos Online

An extensive, independent, financial product analysis and comparison database available in the UK. The database contains feature, rate and fees information on more than 30,000 products from nearly 2,000 providers. Our customers include leading insurance and assurance companies, banks and building societies and investment organisations.

Defaqto Engage

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Defaqto Compare

An interactive, comparison tool enabling consumers to easily compare product features against each other on a host of key features, using a simple 'traffic light' system.



Defaqto Star Ratings

Our Star Ratings reflect the quality of a financial product and help to identify the range of features and benefits in each one. We review and assess every financial product across various categories and award a Star Rating from 1 to 5. The ratings are aimed at helping consumers and advisers decide which product suits their specific needs. Providers also use the ratings to ensure they offer products to meet differing consumer demands.

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