

Cough up top rate, or pay the penalty

By ROB STOCK - Sunday Star Times

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CHOOSING TO pay off your credit card at the minimum repayment rate can mean taking on a debt ball and chain for life.

Falling for the minimum repayment trap can mean it takes over 50 years to pay off \$5000 of debt, incurring over \$25,000 in interest and card fees, calculations by bank research house Canstar show.

But, doubling the repayment rate more than halves the time it takes to pay, says Canstar's Peter Arnold, and can cut the interest bill by tens of thousands of dollars.

"Beware of paying the bare minimum," Arnold said: "It may seem like the easy way out, but you'll pay far more in the long run. Minimum repayments may seem OK in the short term, but be assured you will end up paying the maximum overall in the long run."

A 25-year-old paying \$5000 off a BNZ Classic Everyday Mastercard at the minimum rate of 2% of the outstanding balance, for example, would still be paying the balance off at 75, and would have paid nearly \$26,000 in fees and interest.

By electing to make repayments at double the minimum repayment, they'd have the debt cleared in just over eight years at a cost of just under \$3500. Trebling it would see them clear it before they were 30.

Repayment rates vary. The ANZ, BNZ and Westpac set their minimum at 2% of the outstanding balance, National Bank and ASB have opted for 3%, while Kiwibank is a throwback to earlier days when 5% was typical. But there's more devil in that detail. Kiwibank sets a minimum dollar repayment of \$10, but Westpac just \$5.

Federation of Family Budgeting chief executive Raewyn Fox said too many people did not understand the costs of their debts. "By paying the minimum off each month, you are incurring a lot of interest, and you are going to be paying for a long, long time."

She said: "The banks are keen to see you are able to make the minimum repayments and once you show you can do that everyone is happy, but that doesn't really tell the whole story, does it?"

Too many who come to the federation for help carry large debts on standard-rate credit cards, she added, when low-rate cards would be more sensible. The harsh realities of some people's lives also meant they were buying essentials like food on credit cards, Fox said.

Financial planner Liz Koh said this was one more risk that could drag people down should illness or a loss of income strike them.

"Credit-card debt has got to be the number one priority as it is among the most expensive debt you can get. As soon as people have surplus cashflow, they should use it to pay it off. The only sensible way to use a credit card is to pay it off at the end of every month." Failing that, a quick repayment plan is the next best thing.