

<http://www.stuff.co.nz/business/money/5903376/Deals-attracting-plenty-of-interest/>

DEALS ATTRACTING PLENTY OF INTEREST

ELOISE GIBSON Last updated 05:00 05/11/2011

HITTING THE SHOPS: New Zealanders are flirting once more with hire purchase and credit cards. Money Review: Housing under National Hubbard 'release' two-edged ANZ \$1b profit 'strip-mining' CEO downplays Greens' barb Builder jailed for tax evasion Deals attracting plenty of interest New cards mean no-swipe spending NZ super fund hit hard by world markets Westpac lifts profit by 41pc Banks pressured to cut fixed-mortgage rates Energy Mad sparks financial adviser guidelines It sounds promising: take home a brand new appliance or piece of furniture and pay it off over a year or four, completely interest-free. You can use it right away, and if you meet your repayments it won't cost you an extra cent, or so you think.

But consumer advocates say the new breed of store credit is catching people out, as shoppers rack up high interest debts for everything from petrol to fish and chips. Others are badly miscalculating and being stung at the end of the interest-free term, says David Kneebone, executive director of the Commission for Financial Literacy and Retirement Income (formerly the Retirement Commission).

Statistics from credit bureau Veda show New Zealanders are flirting once more with hire purchase and credit cards, with enquiries up 3.19 per cent and 12.94 per cent respectively in the first nine months of this year compared with the same months last year. Those leading the charge are not flighty young things, but baby boomers aged 44 to 62.

But buying 'on tick' is no longer the same as it was when hire purchase debt peaked, in 2007. Most big retailers have replaced traditional hire purchase with store credit cards issued by finance companies such as GE Capital (Gem Visa) and Consumer Finance (Q Card).

Household debt figures from the Reserve Bank show hire purchase debt more than halved from 2005 to 2010, while store cards and non-hire purchase store credit rose by more than a quarter (although overall debt was down).

What used to be a reasonably straightforward arrangement to chip away at the cost of a big item has become a credit card you can use elsewhere to make small everyday purchases. That's causing problems for unwary shoppers, says Margaret Elsworth, president of the Federation of Family Budgeting Services.

"Unfortunately, you can get petrol and food on them, and unfortunately in New Zealand you don't have to prove how much you're earning or what your outgoings are (to get one)," she says.

Often the initial purchase is a "want rather than a need", she says, such as an Xbox. When people add everyday goods, debts can slip out of control.

It's a temptation Kneebone can identify with.

"I was quite surprised when I bought my dishwasher for around \$1200 and was sent what is effectively a credit card with a \$7000 credit limit," he says. "I didn't ask for it."

Small purchases don't qualify for the same long interest-free period that might have lured a buyer to take the card in the first place - about 55 days is standard.

"Last week I was standing in my local fish and chip shop and I watched the person before me pay for their meal with their store credit card," says Kneebone. "Possibly they were forced to, and of course they may have paid it off the next week."

"But what they possibly weren't thinking about was the fact that those fish and chips just cost them 27 per cent more if they didn't pay it off within a certain period."

Interest-free deals can surprise you even when you stick to buying one big ticket item.

The most common trap is paying only what your statement asks for - usually a minimum payment too small to clear your balance before the interest kicks in, says Kneebone.

To pay off his \$1200 dishwasher within the one year interest-free term, for example, he must pay \$100 a month.

"That might sound really simple but when you get a statement and it says the minimum payment is \$36 a month, and you only pay that \$36, you're going to have quite a balance at the end." The interest on that balance is likely to be around 25-27 per cent - about five per cent higher than a standard credit card.

Most of us are well aware of this - in fact some 78 per cent of people pay their balances off before paying a cent of interest, according to GE Capital, the company behind Gem Visa.

GE says it's noticed its customers are getting smarter about managing debts. Defaults on household debt overall are down, 23 per cent in the first nine months of this year, according to Veda.

We might be warming again to hire purchase and store credit, but we are not racing in blindly - at least not according to Noel Leeming CFO Mark Conelly. Conelly, whose group also includes Bond & Bond, says the appliance chains' offers of 30 and 48 months' interest-free tend to generate a spike in sales and foot traffic.

But once inside the door, most people decline to buy on credit. "As much as anything else it is a message to consumers that stimulates interest," he says. "We're certainly not selling as much on consumer credit as we used to."

During Noel Leeming's recent four-day school holiday offer, only a small proportion of shoppers took the maximum 48 months interest free, he says.

"They (shoppers) go in thinking they'll take credit and end up putting it on a credit card," he says. Or they opt for a shorter term, especially on cheaper and fast-dating items.

Kneebone's advice is to look carefully at the contract. You have three working days to think about terms and conditions - although you can't necessarily get out of the purchase itself.

"The key thing is to look at the interest rate that you're going to be charged if you miss a payment or if you don't pay it off within that interest-free term," says Kneebone.

If you're asked to pay insurance, check whether your household contents policy already covers it, he says.

Even if you don't pay a cent of interest, you will pay fees.

Gem Visa, used at Harvey Norman, Noel Leeming and Bond & Bond, charges a \$48 establishment fee, plus an account fee of \$48 a year for interest free purchases - adding \$240 to a four-year interest free loan. Q Card, used at Dick Smith, JB HiFi and Mitre 10, charges \$63 to set up a new account and \$30 a year after that, adding \$183 on top.

You will pay more if you miss a payment or lose your card. And for big items, look out for delivery and installation fees, says Kneebone.

So has the credit crunch taught us much about managing debt? Almost certainly yes, according to Veda.

People are being more picky about the debt they take on, with personal loan inquiries down and general consumer credit inquiries only slightly up (3.49 per cent) this January to September compared with the same period last year.

Young Gen Xers and Gen Yers - often seen as the generation most addicted to easy credit - are taking things slowly, with Gen Ys (aged up to 28) several times more likely to enquire about mortgages than hire purchases or credit cards.

Reserve Bank figures show that overall household hire purchase, credit card and store card debt fell steadily from 2007-2010, although figures are not yet out for this year. Conelly's view is that the public's appetite for debt is returning much more slowly than lender's ability to lend it.

"We are not being swamped with customers rushing to buy on credit," he says. If the aim of interest-free deals is to get people in the store, they are doing their job - but people are not necessarily rushing to take them. "

- BusinessDay.co.nz