

Huge NZ debt on the cards - Otago Daily Times, 21 July 2009

Business reporter Simon Hartley looks at the options consumers have for managing credit card payments as the recession grinds on and interest rates remain in the 19%-20% band.

The recession is driving home the need for consumers to get on top of debt, but the availability of credit cards and their high interest rates are causing alarm for budgeting services.

While an increasing number of banks, finance companies and retailers are offering cheaper credit cards, loans for debt consolidation and "own money" debit cards, consumer debt levels are hitting "alarming" proportions, Maureen Pitman, president of the New Zealand Federation of Family Budgeting, said.

The Reserve Bank of New Zealand reported total credit card debt of \$5.175 billion in May this year.

"You don't see many people with maxed-out \$5000 cards these days.

"It's more likely to be \$10,000 on [each of] several cards.

"It is very sad," Mrs Pitman said.

"Thirty-thousand dollars is becoming common, because people have been living on them," she said.

Veda Advantage, the country's largest credit reporting company, has seen several trends emerge as it tracks credit card inquiries for the past two years, including the past 18 months of the recession.

Veda managing director John Roberts said "key" considerations to minimise the impact of credit card debt was to pay on time, increase the capital payments as much as possible and reduce the overall card limit available.

However, he highlighted that if consumers were not using loyalty programmes, they should consider shifting to low-rate, low or no-fee cards without loyalty programmes to further reduce their exposure.

He compared mortgage inquiries to credit card inquiries, noting that in May 2007, mortgage inquiries were down 21%, but in May this year, card inquiries were up 1.75% "This is indicative that people are entering the [debt] market again," he said.

He expected credit card inquiries, which were either flat or declining, would begin to pick up over the next two years as consumers returned to credit card use.

Statistics from the federation show debt owed by almost 9500 clients for the year to June 2008 within bank loans, credit cards and finance companies totalled \$29.6 million.

Banks and credit cards accounted for \$12.3 million of the federation members' debt, and finance companies \$17.3 million.

The federation, incorporated 36 years ago and with more than 100 members in budgeting agencies and services, has, during the past three years, seen total annual inquiries up almost 20%, to more than 293,000 for 2007-08.

However, the actual number of client cases was relatively static, between 28,000 and more than 30,000 annually, during the past three financial years.

The tightening times meant clients were accessing services earlier for help and client debt arrears during the past three years to 2007-08 had steadily fallen away from \$64.6 million, to \$52.3 million and \$48.4 million.

Mrs Pitman said since the recession began in early 2008, there had been an overall "sharp rise" in advice sought on redundancies, mortgage sales, bankruptcies and debt management, some of which she had rarely dealt with during the past 18 years.

On a per-client basis, average bank or credit card debt was \$2650 and \$3718 for finance companies.

While lower-income people had been dealing with debt servicing for a long time, with the exception of those losing jobs at present, the "alarming" increase in credit card debt inquiries was from middle-income couples.

"In the past, they have lived on their credit cards, paying as they went," Mrs Pitman said.

Where once credit cards were used for "big ticket" items, they were now being used for food and petrol.

Subsequently, "minimum" monthly payments were now often less than the interest accruing.

While there was a place for using credit cards "wisely" and paying debts monthly, Mrs Pitman said advice to indebted consumers was stop spending, negotiate with the creditor, get the credit line cancelled and negotiate payments, preferably without more interest accruing.

She said putting all loans under one large consolidated loan was an option, but she cautioned people to be wary that the original interest payments on some of the smaller loans could be less than that of one large consolidated loan.

Under the Credit Contracts and Consumer Finance Act 2003, a person unable to keep up payments because of unforeseen circumstances, such as a job loss, can apply to have payment reductions or postponement.

However, payments must be up-to-date at the time.

Mr Roberts, of Veda, said it appeared companies, not the credit card-using public, were defaulting more - on inter-company debts (which is not solely credit cards) - up 53% in May compared with May 2008.

"By comparison, the consumer [defaults] are relatively flat," Mr Roberts said.

The recession had prompted people to look harder at their spending habits and also to make a more concerted effort to make payments on credit cards.

About 70% of card users were termed "revolvers", using cards to their maximum and paying only the monthly minimum, while the remainder were "transactors", paying off the cards on time each month and quite often described as "points junkies" - making use of loyalty programme purchases.

However, the overseas recessionary-led trend was for many people to consider shifting debt to lower-rate cards, around 12%-14%, having decided they were losing value from the original loyalty programmes after banks changed the points system.

"The largest programmes began to lose value.

"The points changed and people became jaundiced to the devalued programmes," he said.

Mr Jones did not agree that the "real" rate banks should have been charging was 12%-14%, saying the loyalty schemes came with a cost of purchasing, marketing and administration.

One of the most telling trends to emerge this year was in the release of "generation" credit card inquiries, showing huge swings in the three age groups.

Baby boomers (44-62) had a flat, or 0% interest, in credit card inquiries in May last year, compared to a 18% downturn in May this year, Generation X (28-43) were also at 0% a year ago but hit -16% interest last May, while Generation Y (18-28) had a massive swing from +10% inquiries interest a year ago to a 26% downturn last May.

Mr Roberts said the Generation X, used to taking on student loan debt, were likely "maxed out" on cards a year ago.

With the recession and rising emphasis on unemployment, they had since moved to consolidate and pay off debt, with many moving to the new low-rate cards charging 6% over the first six months, rising to 12%-14% thereafter.

He did not advocate "paying off and chopping up cards", noting credit cards were a good emergency tool and had benefits, if paid off monthly and on time.

Still to fully emerge in the New Zealand market were "scheme debit cards", pre-loaded with customer savings but offering the convenience of credit cards, such as Internet use, and "affinity cards", where major credit cards linked with a major retailer, offering customers priority treatment, such as with sales and specials.

And as banks are already being criticised for not passing on savings to mortgage lenders as the Reserve Bank's official cash rate was repeatedly cut, they are similarly coming under scrutiny for maintaining high credit card rates.

In May last year, the average standard rate was 20.2%, which was maintained for seven months until a decline began which now spread over a range of 19.2%-20.2%, according to Reserve Bank statistics.

Green Party co-leader Russel Norman is scathing of high interest rates charged by banks and is calling for a select committee inquiry, including the interest rates charged by the banks on credit cards and mortgages.

While the Reserve Bank's official cash rate had fallen 5.75% during the past 18 months, credit card rates had fallen only 1.5% on average, "suggesting" the banks were not passing on savings to their customers, Dr Norman said.

"It bothers me Australian-owned banks are still exporting huge dividends to their Australian lords and owners.

"I think it's time the banks' actions came under the scrutiny of a parliamentary committee," Dr Norman said in a statement.

Controversially, earlier this month, MPs for National, the Maori Party, and Act New Zealand, sitting on Parliament's finance and expenditure committee, voted against any inquiry into bank margins charged on mortgages and some business loans, following a Reserve Bank briefing.