

## **More families face debt blowout** - The Dominion Post, 04 January 2010

The number of Kiwis vulnerable to high debt doubled in four years, the Treasury says, with one in five families spending almost a third of their income on debt repayments.

And 8000 families are on the verge of failing to meet their financial commitments altogether.

A Treasury report says more households will not be able to cope with the unexpected, such as illness, redundancy or higher interest rates.

It says the financial reality is of a perfect storm ahead: a significant rise in household debt, falling house prices, rising unemployment and a worsening savings rate.

"We've got an economy here which is of the Freddie Mercury variety: we want it all and we want it now," ANZ National Bank chief economist Cameron Bagrie said. "We're living beyond our means."

Nearly one in five Kiwi couples have "problem debt", spending nearly a third or more of their gross income repaying debt – mostly mortgages, but also credit card bills and student loans.

One in eight (12.7 per cent) are spending 40 per cent or more. This group, classed as "vulnerable", doubled in four years because of rising house prices and higher mortgage rates.

Eight thousand families have a double whammy of problem debt and assets worth less than their liabilities, leaving them at risk of being unable to meet their financial commitments, the report warns.

Total national household liabilities rose from about \$40 billion in 1990 to about \$180 billion in 2006. Mortgages make up 85 per cent of total debt.

Budgeting Services president Maureen Pitman said: "People are finding it difficult to keep up their mortgage repayments. A lot of them are in homes that aren't worth what they paid for them.

"For Budgeting Services it's sad because there's not a lot we can do."

Many people's diets suffered as they found food bills were the one thing they could control. "People are not eating as well as they should. They're not as healthy as they should be. And then they can't go to the doctor."

Mr Bagrie said much of the debt had been poured into buying houses, which meant the next generation was forced to borrow even more to buy a home, and this in turn pushed prices up further.

"The next five to 10 years is going to be fundamentally different. New Zealanders are going to be forced to live within their means," he said.

"There's a limit here, and I think we're nearly close to the limit."

However, the Treasury said the increase in household debt – as a result of high incomes, lower taxes and unemployment, and cheaper credit – was not necessarily alarming. Debt allowed people to smooth out consumption over their working lives, with big-ticket borrowings for education and housing repaid when incomes rose.

**Dire Debt:** The number of households on the verge of failing to meet their financial commitments grew from 6000 in 2004 to 8000 in 2008.

The figures relate to those paying 30 per cent or more of their gross incomes in debt repayments and having assets worth less than their liabilities.

The proportion of couples spending 30 per cent or more of their pre-tax incomes on repaying debt more than doubled from 7.9 per cent in 2004 to 18.4 per cent in 2008.

The proportion of couples paying 40 per cent or more soared from 4.5 per cent in 2004 to 12.7 per cent in 2008.