

NZ out of its depth on credit card debt – The Dominion Post, 14 October 2006

Kiwis' collective credit card debt is heading toward a new Christmas record of nearly \$5 billion – and banks are coming under pressure to exercise caution when issuing cards to customers who can't afford them.

If card debt continues to climb at eight per cent a year, the Christmas 2005 record of \$4.53 billion debt incurred on business and personal cards will be eclipsed by debt of \$4.9 billion this holiday season.

Budget services say credit cards have emerged as one of three traps for vulnerable families, alongside loan companies and hire purchase. They offer easy money to those without the willpower to resist or the ability to pay them back.

However, banks insist they use "robust" and "rigorous" procedures when issuing credit cards.

Agape Budgeting Service coordinator Brian McGettigan said 80 per cent of its customers had credit card debt. It was time banks considered their social obligation to save people from themselves, he said.

Reserve Bank figures show Kiwis owed \$4.2 billion this July on personal credit cards – up from \$3.9 billion last year. Almost \$3 billion of that was accruing interest at an average rate of nearly 19 per cent.

Spending has increased \$400 million in two years, to \$2.2 billion in August.

Mr McGettigan said his customers had got into trouble through "easy" cash. The devil was in the interest, which could compound and quickly become unmanageable.

"We end up with people on the DPB (domestic purposes benefit) with credit card debts of five or six thousand on one or two credit cards, sometimes three credit cards.

"If you're on a benefit it's very difficult to buy new things. Then someone comes along and hands you a credit card. What do you do?"

Customers were routinely offered more credit than they had requested, while store purchase cards, such as those offered by Farmers, The Warehouse and Harvey Norman, were easily attainable. Many had interest rates around 23 per cent. Some store cards could even be used to draw a cash advance at an ATM.

Father-of-two Ben Tuia, a Hutt Valley plasterer, said he and his partner sometimes bought their weekly groceries on credit. They asked for a \$2000 limit but were given \$5000. They now owed \$3500, which they were struggling to repay.

Warehouse spokesman Ed Hayes conceded store cards were easier to get than credit cards, but said the company's red card generally had a \$1000 limit, could only be used in-store and did not allow cash advances.

Mr McGettigan said banks and companies with store cards needed to exercise greater social conscience when issuing cards, especially to those they knew could be bankrupted by their inability to pay it back. "They need to do what I would call due diligence on the customer."

Raewyn Fox, chief executive of the Federation of Family Budgeting Services, said credit cards were increasingly used for basic necessities when there was no other money. In the past year her 30,000 customers' average debt had increased by 25 per cent, from \$4700 to \$6000.

A 2003 Massey University study found 65 per cent of card owners did not know the interest rate, while 59 per cent did not know what fees they were paying.

ANZ spokesman Craig Howie said the bank had "robust" policies for assessing potential credit card customers and for setting credit limits. The bank provided financial literacy information for customers, which warned them to limit themselves to two cards at most.

Westpac also offered financial advice for credit card users, spokesman Mark Watts said. "We don't set out to lend to people if we feel they can't service that debt. We don't want them to get into trouble."

BNZ spokeswoman Brenda Newth said customers could apply for credit cards online, but the procedure and information-gathering was rigorous. "It is not in our best interests for our customers to be in financial difficulty."

Ms Newth said the bank's approach to raising credit limits was in line with New Zealand and world-wide banking practice. Customer data was assessed and customers could opt out of the limit increase, and any future increases.

ASB Bank, Farmers and Harvey Norman did not return calls yesterday.