



# Where credit is due



**The strategy** To get rid of that silly-season credit card debt.

**Have you been peeking at my statements?** Research commissioned by Aussie says the average Australian spent more than \$1000 on their plastic during the 2009-2010 holiday season and now owes more than \$3200. Almost one in three people – 29.1 per cent – said they spent up to \$2500 during the silly season and 19.9 per cent spent between \$2500 and \$10,000.

Most respondents to the survey reckoned it would take them three months to pay off that debt, though Aussie founder John Symond is probably right in thinking that will be a big ask for many people, given high credit card interest rates. The survey found more than half the respondents were paying 16 per cent to 20 per cent and with the Reserve Bank looking at further interest rate rises this year, that could go even higher.

Symond said a consumer paying interest at 20 per cent on that average \$3200 balance would need to make a monthly repayment of \$1102, or more than \$246 a week, to clear the debt before Easter.

“And that’s provided you started paying it back at the beginning of January, rather than racking up more debt during the Boxing Day sales,” he says.

**So what can I do about it?** Presuming you’ve done your budgeting and committed a set amount each month to

pay the debt off, the next step is to ensure you have the right credit card. The simple fact is you don’t need to be paying 20 per cent interest. Thanks to competition in the market, there is still a swag of cards offering lower interest rates or deals where you pay zero or low interest if you transfer your outstanding balance across.

However, online comparison company Mozo says the best card will depend on how long it will realistically take to pay off the debt. Cards offering zero interest on balance transfers typically do so for only a limited period, whereas other cards offer a low interest rate for the life of the transfer.

Mozo looked at three scenarios for paying off a \$3000 debt. In the first instance it assumed the borrower only made the minimum monthly repayment. With a standard card with one of the big four banks, it found it would take eight years and cost more than \$4000 in interest and fees to pay off the debt. The best deal was a balance-transfer card with a low rate for the life of the transfer, such as the CUA Rewards, IMB Rewards and Community CPS Rewards cards. Though these have higher interest rates than other balance-transfer offers, Mozo says they don’t have the nasty sting of reverting to a regular credit card rate after the introductory term is up. With an interest rate of 4.9 per cent, it says these cards would save consumers more than \$3000 in interest and allow them to pay off the debt four years earlier than

with the standard bank card.

In the second example, it looked at someone planning to pay off the debt over a couple of years. If you made repayments of \$200 a month, it would take 18 months on the standard card and cost you \$650 to repay the debt. But with a low-rate card such as the BankWest Zero card, you pay just 1.99 per cent for the first 12 months and no annual fee. ANZ and Suncorp both offer 2.9 per cent for 12 months. Mozo found if you switched to one of these offers, you could save almost \$600 in fees and interest.

The managing director at Mozo, Rohan Gamble, says offers of zero or very low interest rates for six months are best suited to borrowers planning to pay off their debt fast. The card will cost them virtually nothing during this period (as many have no annual fee in the first year) so all the repayments can go to debt reduction.

However he warns that balance-transfer cards shouldn’t be used for any new purchases until you have paid off the full amount of the initial transfer (as this can trigger higher interest charges). He says you should also be aware of any fees that apply to the cards and what happens to any unpaid balances once the introductory period ends – in some cases a higher cash advance rate could apply. RateCity says you should also read the terms and conditions, as rates can skyrocket if you miss a payment.



**Sink or swim  
... keep your  
head above  
water when it  
comes to  
debt.** Photo:  
Steve Christo

