our money
Play your cards right
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Being disciplined can help you manage credit card debt, writes James Bryce.

The fun of Christmas and the summer holidays is over and the children are back at school. Now we have to pay for it all.

More people than ever are having difficulty paying their holiday debts. Right now, thousands of families are opening up credit card statements and scratching their heads about how to afford it.

Not only is the average household getting into deeper debt but individual debt levels are also rising.

A growing number of people are also "card hopping" by transferring their credit card balances to new cards with low rates or interest-free periods. But unless they put the brakes on their spending the debt problems can escalate.

"Financial counsellors are telling us they are considerably busier this year than last year," said Ian McIntosh, chief executive of the Financial and Consumer Rights Council of Victoria.

"Overall, it's a pretty grim picture for a lot of people. Some economists are saying the current economic boom is being driven by consumer debt, which I find a bit scary."

McIntosh says financial counsellors across Victoria are bracing themselves for an "onslaught" of debt problems in February and March.

Jan Pentland is one such counsellor. She has helped people deal with their debt problems for 20 years but demand for her help has never been greater than now.

"January used to be a fairly quiet month for us, I used to clean up the office, but now we are seeing lots of people being referred through. There are waiting lists for our services," she said.

The booming debt agreements and consolidation industry is also expecting a record year in 2007 as families reach their financial breaking point, helped along by easy credit and unsolicited offers of credit cards and increased credit limits.

Debt industry leader Fox Symes is experiencing more calls than ever before.

"We are always busy post-Christmas. The peak period for bankruptcies is January to March," said Fox Symes director Deborah Southon.

"This year we are seeing an uplift in the number of people in trouble and the amount of consumer debt people are carrying."

Southon says the previous average household debt load her clients would present with was about $12,000 to $15,000. This year the average is more than $20,000.

A good current example is a St Albans household with a couple and two children and a home they bought in 2004 for $400,000.

The couple brings home a combined $1325 a week. Their mortgage costs them about $500 per week.

Since buying their home, they have racked up credit card debts of $65,000 on 10 cards issued by most of the major institutions. The minimum repayments on their credit cards total $300 per week.

The bulk of the household income is going to debt repayments, leaving them very little for bills, groceries and school expenses. They have reached, and passed, their financial breaking point.

Unfortunately, refinancing the mortgage is not an option because they have very little equity in their home.

Deborah Southon says the family might have to sell their house and go back to renting.

What can not be budgeted for is the stress and strain on people and relationships produced by crippling debts.

"Debt affects people's self esteem, their job, especially if they are getting calls from creditors, their relationships and their children," Southon said.

However, there is plenty of marketing around suggesting there are easy answers to consumer debt problems.

Refinancing or adding consumer debt to the mortgage is one such strategy. But the costs can be high, especially if you move to a new lender, and there are traps for the unwary.

"Refinancing the mortgage to pay off the credit cards is common these days," said Pentland.

"It can be a useful thing to do if you are disciplined but you are likely to end up worse off in the long term. Interest will be calculated on that debt for 25 years."

Consolidating credit card debts into a single personal loan is another solution being marketed heavily.

Jan Pentland says this can help as long as the cycle of spending doesn't begin again.

"A risk with consolidating is that the credit cards you have just paid off remain active and often the lender can offer the cardholder an increased credit limit because the card has been repaid."

Pentland recommends people first have a hard look at their budget and all their debts.

"Secondly, work out what you can afford to repay, then look at the offers that are around," she says.

Cheaper cards

Debt consolidation via a personal loan no longer has a distinct cost advantage when compared to some of the cheaper cards on the market, claims Garfield Wright from banking industry research firm Cannex.

Instead of consolidating card debt into a personal loan, many debtors are turning to credit cards offering zero (or very low) interest rates on balance transfers.

This means the balance on one card can be transferred to the new card and will not accumulate interest until the honeymoon period expires.

This option is not available to people in really deep debt trouble because they are unlikely to be approved for another credit card, but for those with a maxed-out card or two it can be a useful strategy.

Unfortunately, some card users see this as a free parking space for their debt, Wright said.

"If you're overloaded with debt, you might not be able to clear it all in the introductory period," he said.

"There are quite a few cards which now have their balance transfer offers reverting to a higher rate than the rate charged for new purchases."

Whatever the strategy people employ to overcome a debt crisis, the experts stress one fundamental point.

"There are no easy answers, people need to be disciplined," Jan Pentland said.

Deborah Southon is even more blunt: "Some people just need to cut up the credit cards and start saving. They have to impose financial discipline on themselves."

Credit care applications 2006

State Applications % rise

Victoria 907,338 +3.9

NSW 1,341,970 +7.9

Queensland 757,741 +3.5

ACT 61,580 +9.3

NT 33,738 -5.5

SA 227,890 +8.3

Tasmania 68,900 +2.1

WA 333,342 +2.2

* Source: Baycorp Advantage

On simmer

THERE'S no doubt about it, Australians love their credit cards - but the hot affair could be slowing to a gentle simmer.

We applied for a record 3.7 million new credit cards in 2006, almost 190,000 more card applications than the previous year, according to debt collector Baycorp Advantage.

However, concerns about high interest rates appear to have slowed the rate of uptake. Credit card applications were still up 5.3 per cent during 2006, however this compared with a wopping 16.9 per cent growth a year ago.

"While credit cards remain a popular form of payment, with applications being at an all-time high, the three interest rate rises last year appeared to have caused credit providers to be more selective in their approach to marketing," Baycorp spokeswoman Erica Hughes said.

"Consumers are also concerned about another possible rate rise this year and are factoring that into their credit decisions," Ms Hughes said.

"Credit providers are also becoming more selective in their approach to marketing credit cards because of an emerging shift in the credit cycle as a result of the upward outlook on interest rates.

"This is in comparison to the intensive activity we saw last year with many new cards with interest-free periods being introduced."