media release

credit card CANNEX star ratings

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FOR IMMEDIATE RELEASE

Credit card debt: pay the minimum, pay the price

CANNEX releases *credit card star ratings* report today.

Creating a credit card debt that never dies is the very real risk taken by consumers who pay only the minimum required on their credit card each month.

Financial services research firm CANNEX has revealed that the vast majority of credit cards in the market have not increased their minimum monthly repayments in line with interest rate rises. Some have even decreased their minimum monthly repayment.

“Chances are, your minimum repayment is not even covering the cost of the interest rate plus annual fee, let alone making any inroads into the debt,” CANNEX Financial Analyst Frank Lopez said.

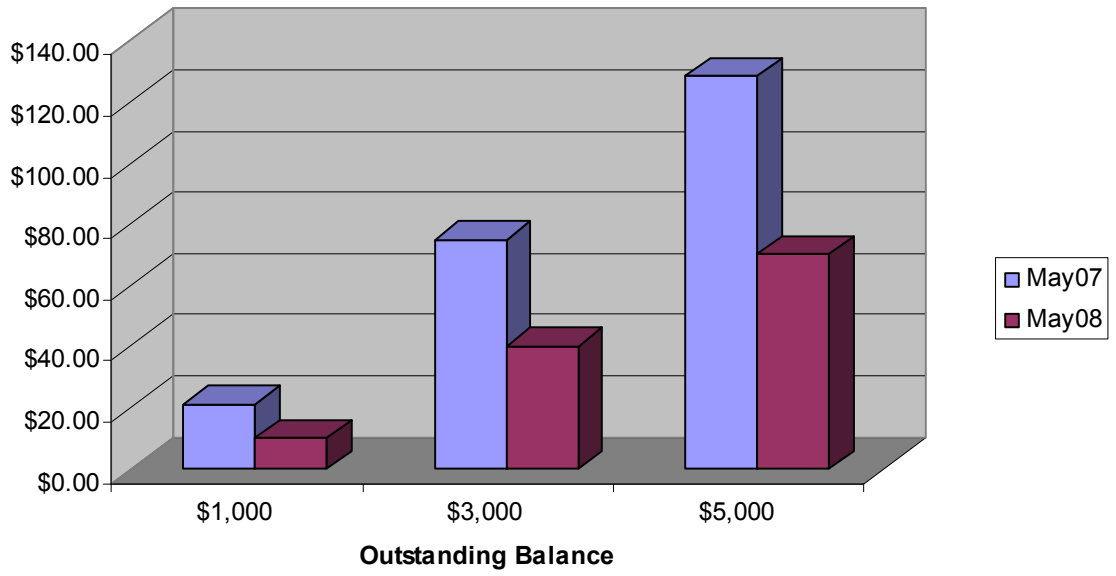
Of the 69 credit cards CANNEX looked at that were available a year ago, none have increased their minimum repayment requirements – indeed some have actually decreased the minimum portion of the debt you are required to repay, despite credit cards rates creeping up by an average 0.15%.

“This situation has a two-fold effect. On one hand it’s great. As consumers, we effectively get extra credit, as we are borrowing more through higher interest rates but only have to pay back the same as before,” Mr Lopez said.

“However, if we revolve a balance and only pay the minimum, it’s more likely, compared with a year ago, that on a typical card, instead of slowly paying down the outstanding balance, we will simply be treading water.”

Paying only the minimum required each month on a fairly low revolving debt of $1,000, CANNEX research shows you will reduce your balance by only $10, compared with $21 a year ago. For a $3,000 balance, you can expect to reduce your debt by $40, compared with $74 a year ago. A $5,000 debt will see a reduction of $70. A year ago, this would have been $128.

By how much does the average minimum repayment reduce your balance?



According to Mr Lopez, consumers should be aware of the repercussions of paying only the minimum amount on their credit card.

“It has always been a shaky strategy in minimising personal debt levels but it’s even worse now that minimum repayments are lagging behind the recent rate rises.”

“It is well worth noting that the number of cards on which your balance will actually increase if you do nothing more than follow the minimum repayment requirements, has gone up slightly compared with a year ago, and will continue to do so if interest rates rise further while minimum repayment requirements remain unchanged.”

If we take as an example an outstanding balance of $3,000 on a typical card which a year ago was charging a rate of 19.95%, annual fee of $50 with a minimum monthly repayment of 4%, and now has a rate of 21.95% and minimum repayment of 3%, the balance will take around 16 years to pay off compared with 9 years previously.

CANNEX also notes the proliferation of balance transfer offers on the market, as more and more lenders tailor products to help card holders pay off outstanding balances.

“We are familiar with the interest-free balance transfer for a period of time, say six months, but we are now seeing a new breed of card taking this concept further,” Mr Lopez said.

Instead of a short-term 0% balance transfer, you can now obtain a low balance transfer for the life of the balance.

“This is worth considering if you accept that you can’t realistically pay off your credit card debt in the short term.”

The potential trap you need to avoid, according to CANNEX, is actually using the new credit card before you have paid off the outstanding balance.

“The bottom line is, don’t do it. Any transactions carried out on the card will incur the full interest rate,” Mr Lopez said.

“The trouble is your monthly repayments will automatically go towards the lower rate balance transfer, leaving your purchase accruing the higher rate until you pay off your old balance in full. This could be disastrous over a long period of time.”

If you can’t trust yourself not to use the credit card, Mr Lopez suggests using another card for purchases, keeping the balance transfer card strictly to pay off debt.

CANNEX has today released its credit card *star ratings* which highlight five star credit cards for the four spender types – Everyday Spender, Big Spender, Habitual Spender and Impulse Spender. Consumers can download this report on www.cannex.co.nz

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About CANNEX:

CANNEX provides Australia and New Zealand’s only fully interactive online research service in retail and business finance.

Founded in 1992, CANNEX (Aust) Pty Limited is Australia and New Zealand’s premier researcher of retail finance information for over 350 institutions such as Banks, Building Societies, Credit Unions, Finance Companies, Brokers, Mortgage Originators, Life Companies and finance related Internet Portals.

CANNEX customers use the extensive database for competitor analysis as well as a means of disseminating their product range. CANNEX also

distributes this information to print and electronic media for publication and to Agents, Accountants, Brokers and Internet Portals for use in advising their clients.

Does CANNEX rate other product areas?

YES, CANNEX also rates deposit accounts and home loans. These star ratings use similar methodologies to the credit card star ratings methodology. This guarantees the quality and transparency of these other star ratings. The use of similar star ratings logos also builds consumer recognition of quality products across all categories. Please access the CANNEX website at www.cannex.co.nz if you would like to view the latest CANNEX star ratings reports of interest.