Credit card debt falls to 11-year low

13 June 2019
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Debt accruing interest on personal credit cards have fallen to its lowest figure since 2007, new RBA data has revealed.

According to the Reserve Bank of Australia's latest credit card statistics, released on Wednesday (12 June), debt accruing interest on personal credit cards has decreased by 4.9 per cent year-on-year to $29.5 billion in April, its lowest figure since December 2007.

There were also less credit card accounts in April, declining by 470,088 accounts, or 3.1 per cent year-on-year, to 14,595,936 accounts. This also represents the lowest figure since December 2014.

Reflecting on the data, RateCity.com.au research director Sally Tindall was encouraged to see a collective reduction in credit card debt in Australia.

"For some people, it's finally starting to twig that in order to make a credit card worthwhile, they need to pay it off regularly," she said.

"With rates as high as 24.99 per cent, credit card debt can burn a hole in your pocket. Australians are wising up to this."

Ms Tindall continued: "With over $29 billion in debt accruing interest, we're not out of the woods yet, but today's results are a promising sign."

The RBA data showed that credit card limits similarly contracted by 3.4 per cent over the year to a total of $136.9 billion in April, the lowest figure since September 2015.

"Banks are also cracking the whip at their end under instructions from ASIC to assess a person's ability to repay their entire credit card limit within three years," Ms Tindall said.

"As a result, credit limits have fallen to the lowest level in more than three and half years as new customers are being forced to cut back.

On the other hand, the value of credit card purchases has risen by 6.45 per cent year-on-year to $235.8 million in April, which Ms Tindall said shows that those with credit cards are using them more frequently.

Last month, peer-to-peer lender RateSetter warned that the new credit assessment criteria from the Australian Securities and Investments Commission (ASIC) could expose consumers to the "harsh downside" of credit card debt.

Under the new rules, consumers with significant credit debts are required to demonstrate their ability to repay their debt over a three-year principal and interest term.

RateSetter went on to suggest that the best option for customers to avert the impacts of ASIC's new rules, when it comes to demonstrating loan serviceability in the future, could be to set an amortising loan over five years or less.

Also commenting on ASIC's credit assessment changes, Jaime Lumsden Kelly, solicitor and director of The Fold Legal, suggested that, while it is not mandatory for brokers, both lenders and brokers should apply the same rules to their loan applications.

In a blog post for The Fold Legal, Ms Lumsden Kelly explained: "In the past, credit card contracts were assessed as unsuitable if the applicant couldn't repay the minimum monthly repayment for that limit. Under the new rules, credit card providers must make their assessment based on whether the applicant can repay the entire credit card limit within three years.

"If a credit card applicant cannot repay the full credit limit in three years, it's assumed that they will be in substantial hardship. This is because a consumer who cannot afford to repay the limit within three years will probably pay a staggering amount of interest that will take an extraordinarily long time to repay.

"If the applicant is in substantial hardship, the credit card provider must decline the application as being unsuitable."