

Credit card debt on the rise again – and credit advice services feel the pressure

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The Consumers Federation of Australia (CFA) warns that financial counsellors and credit advice services will be placed under increasing pressure, as figures released today by the Reserve Bank of Australia show that credit card debt is still on the rise.

“The amount of credit card debt has increased almost every month for many years”, said Carolyn Bond, Chairperson of the CFA. “Credit card balances in March 2005 reached a new level of \$30.27 billion, over \$3 billion more than a year earlier.”

Unfortunately the RBA statistics don't separate out figures for the interest-free component. However, while most consumers benefit from interest-free periods, we believe that about 75% of the outstanding debt is interest bearing – and that this is owed by about one-third of credit card users. Casework by CFA members shows that many people in this group just can't pay off their credit card debt.

“Credit cards are one of the more expensive forms of consumer credit, and many households are struggling with the increased burden of their credit card debts,” said Ms Bond.

Research conducted by the University of Newcastle showed that credit card debt was the type of debt most frequently reported by financial counselling clients in NSW in 2003.

“Households struggling with credit card and other debts are turning to financial counselling and credit advice services in increasing numbers”, said Ms Bond. “These high levels of demand put further pressure on under-resourced community agencies. The release of the RBA figures suggests that the demand is not going to ease.”

To reduce the incidence of credit card overcommitment, the CFA is calling on credit providers to take greater care in making offers to extend credit limits to existing customers.

“Time and again” says Ms Bond, “we see customers offered limit increases when they are making barely more than the minimum payment on their existing debt.”

“At the moment, credit providers send unsolicited offers to increase credit card limits, but make no inquiries about the cardholder's current financial position or ability to manage an increased limit,” said Ms Bond. “The ACT is the only jurisdiction in Australia to have taken any action to curb this practice.”

“The existing law purports to prevent the provision of credit in circumstances where it is evident that the debtor will not be able to repay. In practice, the law is failing. It is time the States and Territories took decisive legislative action to stem the flow of unsustainable debt.”

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The Consumers' Federation of Australia is the peak body for consumer groups in Australia. CFA has 98 member groups, including legal centres, health rights groups, local consumer organisations and public interest bodies. It was established in 1974.