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# Credit card rates get charged up

**SOPHIE ELSWORTH**  
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**AUSTRALIA'S official interest rate has tumbled in recent years but credit card users have experienced the opposite as rates on plastic continue to rise.**

Interest rates on cards are in most cases three times that of the interest rates that apply to home loans, with the average rate jumping from 14.6 per cent in 2008 to 17.2 per cent now.

Canstar financial analyst Adam Beu says the increase to interest rates on credit cards has been the result of the change way that financial institutions treat unsecured debts, which are debts not backed by an asset.

"Since the global financial crisis there's been a change in how (banks) treat credit card debt because it's unsecured and it's less affected by the cash rate," he says. "This debt can be a big problem and it comes with an inherent risk which is built into the interest rate because that's the only way institutions can really cover themselves with this type of debt."

Canstar data shows the gap between the cash rate and the average interest rate on plastic has widened. In August 2007 the average credit card rate was 14.6 per cent while the cash rate was 6.25 (a gap of 8.35 per cent.)

In August this year the average credit card rate sat at 17.2 per cent while the cash rate was 2.75 per cent.

Beu says if you are paying interest on your credit card, you should look to switch to a low-rate or no-fee card to limit the amount of interest you are forking out each month.

Creditworld chief executive officer Roland Bleyer says there has been an "upward trend" of interest rates on credit cards, despite a diminishing cash rate and many cards are now flocking to the market with attached honeymoon periods on interest rates.

"We have seen a few banks reduce their credit card rates slightly but obviously it's nothing in comparison to the cut to the cash rate," he says.

"The banks in Australia are extremely cautious about giving out credit, and will give customers a small balance to start with, then they will slowly ramp them up depending on their credit history.

"There's so many offers in market, we've got 20 zero per cent interest rate introductory offers on the market and it's more competitive than we've ever seen. This is unheard of."

However, Canstar data shows the number of cards on the market has reduced, falling by 27 per cent from 268 in 2011 compared with 211 now.

Australian Bankers' Association chief executive Steven Munchenberg says the pricing of products, including interest rates on credit cards, is up to individual banks.

"There isn't a one-to-one relationship between the Reserve Bank's cash rate and credit cards," he says. "And it works both ways - customers get the benefit when the cash rate is going up, they don't see that in their interest, and when the cash rate is coming down they don't see that either."

When choosing a credit card, make sure you understand the:

- \* Interest rates that apply.
- \* Number of interest-free days if applicable.
- \* Account-keeping fees.
- \* Fees for reward programs.
- \* Late payment charges.
- \* Fees when you exceed your credit card limit.



Interest rates on credit cards have continued to rise despite rates being at record lows. Picture: Jamie Hanson