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Credit cards 3 times more expensive than home loans

Reported by Owen Raskiewicz Wednesday, September 18, 2013

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Interest rates on home loans are lower than they were this time six years ago, but credit card rates have only been going up.

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Cashed up

BRW has released its list of the top 100 Aussie millionaires under 40. And they're not all married... Although Australian homeowners and investors may have realised a number of cuts to their interest rate and repayments, credit cards holders are being hammered by huge account-keeping fees, fees for reward programs, late payments and limit charges.

The average credit card interest rate has jumped from 14.6% in 2008 to 17.2% now. Canstar financial analyst Adam Beu says that, "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".

Mr Beu went on to say that raising the interest rate is the "only way institutions can really cover themselves with this type of debt". Credit card debt is 'unsecured' meaning it has no (or limited) underlying asset for the banks to claim in the event of default, in comparison a house could be claimed by the bank to recover what's owed on a home loan.

According to Reserve Bank of Australia figures, in May 1994 the total number of credit card accounts, whether with an interest-free period or not, was 6.5 million whereas in July 2013, that figure has blown out to over 14 million.

According to news.com.au, in August 2007 the average credit card interest rate was 14.6% while the cash rate was 6.35% (gap of 8.35%), whilst in August 2013 the credit card rate sat at 17.2% whilst the cash rate was 2.75% (gap of 14.45%)

Creditworld CEO Roland Bleyer said as a result of the "upward trend" of interest rates, many cards are coming onto the market with honeymoon periods.

To lure in more customers, ANZ (ASX: ANZ) offers different types of credit card packages to suit different customers. For example ANZ's First Visa Credit Card offers students a low limit and charges 0% balance transfer rate for the first nine months but students could be expected to pay 19.39% in interest per year. Commonwealth Bank (ASX: CBA) offers students no annual fee and no interest for the first five months but reverts to 19.74% thereafter.

Both banks offer home loans with comparison rates below 5.25%.

Foolish takeaway

As any good financial planner will tell you credit cards and special accounts (E.g. overdraft facility) can help you better manage your budget provided they are used wisely. Make sure you carefully consider the account fees, late repayment charges, interest fee days, interest rates and limit charges before signing on the dotted line.

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