

THE PLEASURE AND THE PAIN

- Allistar Walker

18/02/11

Why do the good things in life bring about so much pain as well? Take for instance that little bit of 8.5 cm x 5.4 cm piece of electronic striped plastic that we all use with the ease of downing a glass of cool water on a hot day. Often there is no sense of actually paying for anything with the magic plastic, until the pain of realisation comes when we receive the bill and need to leave a balance on the card.

How many of us have ever wondered how much this delay in payment might cost? We all know that if we pay the thing off each month it only costs the annual fee (for some) to get all that convenience and perhaps some free travel insurance and air points thrown in as well. But if we all did that, the poor old banks wouldn't make much out of us. That is why we oblige by retaining balances on the cards, to help keep bank profits healthy – yeah right!

Say you don't put any more on your card and only pay minimum payments required on an original debt of \$4,800. At an interest rate of 20% you would pay \$2,264.66 in interest and the debt would take 4 years and 2 months to clear. It sucks more when you realise that the items purchased on your credit card were most likely consumable items that you no longer have or are very worn by the time you have finished paying for them at nearly 50% more than the original cost.

Rule of 72 (Magic Number)

Most of us understand that compound interest works really well for investors but can be the devil in the woodwork for borrowers. Few people, however, understand or know about the rule of 72. This simply put, is the number 72 divided by the interest rate per annum to give you the number of years a debt or investment will take to double eg Interest rate 10% pa ÷ into 72 is 7.2 years.

Leonardo da Vinci is quoted as saying 'It is easier to resist at the beginning than at the end'. He didn't even have a credit card but maybe this was another invention of his that never quite flew at the time.

The ease of access to money is the real 'evil' of Credit and ATM cards, although there are many positives as well for the disciplined purse. Carefully budgeted expenditure is the only way to avoid unnecessary impulse spending which certainly benefits the retailer (and the banks) but can cause havoc with your future plans and financial well-being.

New Zealanders and consumers world-wide are spending less on non-essential items since the General Financial Crisis. This has helped the RBNZ keep mortgage interest rates down, resulting in many of us taking the opportunity to reduce debt.

The good news is that 'you are in control', but then that could also be the bad news. We do have available an XL based spending plan worksheet to install on home computers at no cost to readers. This comes with NZ averages for expenditure on everyday services.

Care has been taken to ensure that any information is accurate. No liability is accepted for its use. Enquiries are welcome. Allistar Walker is a Senior Fellow of Financial Services Institute of Australasia and an accredited mortgage/insurance advisor. His full disclosure is available free at www.mortgagehelp.co.nz or he can be contacted at 410 6023 and enquiry@mortgagehelp.co.nz.