

LECTURE 3 – SO MUCH DEBT

G'day and welcome back. Here we're going to look at some of the total debt on credit cards around Australia and this is where the figures get just a little bit scary.

The figures are huge, but looking back to May 1994, we were close to \$5.2 billion dollars. Obviously, a substantial amount of money.

If we wind the clock forward to August 2017, the credit card balances in total are just under \$53 billion dollars.

So, this is exponential growth of what I would consider to be one of the worst type of debts that you have.

If you want to rank debt, I would definitely consider credit card debt as one of the worst that you can have because it comes with a very high interest rate. It's probably used to consume rather than to buy assets that can potentially grow in value.

So, in terms of if we wanted to start raking debt, credit cards would be the worst and an investment loan to buy assets that grow would be considered one of the best.

So, you can see, it's been exponential growth in terms of personal credit card debt.

Now, what the banks are making of these credit cards at the moment is not far off \$5.5 billion dollars, so the banks have a significant conflict of interest to keep us in debt, to keep offering us higher amounts of credit, so we can go further into debt and the cycle continues.

On top of the interest costs, the credit card fees for the year 2016, that alone was \$1.56 billion dollars. So you can see that this is such a huge money making venture for Australian banks. I've got no doubt this would be the same around the world.

If you keen to check out some of these figures from the RBA, you can click below and go and have a look for yourself.

http://www.rba.gov.au/statistics/tables/#payments_system

So, a huge conflict of interest to keep people in debt and keep using the credit card system.

One thing that has impressed me in recent times, (and I don't use a credit card anymore, I just use a debit card) is when there was fraud or some sort of dodgy activity, someone in Canada, is using my card, as a general rule, the bank rings me before I notice something has gone wrong.

They've got their system set up beautifully to make sure that they can find and stop any issues on people's cards. And if there's any money taken it's refunded quite promptly. And the reason why they do this is to make sure that confidence is not lost in this very high money making venture of credit cards. They want to make sure that confidence for the consumer is not lost over time due to fraudulent activity.

If you just go to the next slide, we are looking at the credit card debt clock and this is for Australia. (This can be found on the Moneysmart website – <https://www.moneysmart.gov.au/borrowing-and-credit/credit-cards/credit-card-debt-clock>)

This is the total credit card debt that's accruing interest. (Previously I gave you a figure of \$53 billion dollars). This is now \$33 billion dollars that actually has interest applied and that interest rate, although we are in record interest rate lows in Australia, the average is probably going to be around 16%.

The figures are still going up.

I don't believe it is growing at quite the amount that it was, but, in truth, the figures are still growing and paying high interest rates.

On top of that we can go and have a look at what's happening in the U.S. and I'll just bring across their debt clock. (<http://www.usdebtclock.org/#>)

You can see here that here's the U.S. national debt, which is over \$20.6 trillion. So, not talking billions anymore, but as you can see here, if you just follow my mouse, that the amount of credit card debt that Americans have is \$1.05 trillion dollars. (<http://www.usdebtclock.org/world-debt-clock.html>)

UNDERSTANDING CREDIT CARDS

So, obviously, shooting the lights out in terms of debt, we can then have a look at total National debts around the world. There's Americans are at \$20 trillion dollars and going up very quickly. The Aussies are down here, and a lot of countries in between, this is looking at national debt.

And what I've read about Australia over many years is that we are #2 in the world of household debt. We are a highly indebted nation and that's obviously having or will have an effect in the future on our ability to consume and spend on things that are meaningful for us.

Debt is creeping up both on credit cards, home loans, personal loans. There's so many different ways for us to consume and buy products. It's being driven by, obviously, the banks, with their conflicts of interest with debt and with interest and fees, and also the retailers, obviously love the fact that people don't now need to save up and build up money before they buy something.

And it's not always practical that we do that, there are some things that we just need to live their central parts of life. But these days there's credit cards, there's 'buy now, pay later', there's after-pay. There's lots of ways that we can go into debt and I think we've got to be really cynical.

Next, we'll discuss why people use credit cards and I will see you in a second. Thank you.