Media release:

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Home loan pressure, rising bills see households binge on card debt

The latest quarterly Household Financial Wellbeing Index compiled by ING DIRECT, Australia's 5th largest retail bank, reveals that in a bid to stay on top of the mortgage, households are turning to credit cards to make ends meet. Nationally, median card debt rose by 24% over the last quarter, giving many Australian families good reason to fear future rate hikes.

<u>Key findings for the third quarter of 2010 (Q3)</u>

- Nationally household incomes rose from a median of $63,571 in Q2 to $71,140 in Q3, probably reflecting annual bonus payments, mid-year salary increases and a firmer labour market.
- Despite personal tax cuts from 1 July 2010, households are struggling to meet everyday living expenses – comfort levels for meeting regular bills has fallen from 4.0 (out of a possible 7) in Q2 to 3.9 in Q3.
- Comfort levels with home loans have fallen, however 49% of households with a mortgage are making additional repayments on their loan.
- Personal savings have increased, rising from $6,848 in Q2 to $8,912 at present. Nonetheless, savings remain an area of concern, scoring a comfort level of just 3.5 – the lowest across our six key indicators.

The ING DIRECT Financial Wellbeing Index rates household comfort levels across six key aspects of personal financial wellbeing including credit card and mortgage debt, savings, investments, household income and ability to pay bills. Respondents rated their personal comfort level across each area on a scale from 1 ('very uncomfortable') to 7('very comfortable').

In the third quarter of 2010, household financial wellbeing has declined. The Index has dropped from 113 in Q2 to 108 in Q3. The deterioration in financial wellbeing is across the board, household comfort levels have declined across each of our six focus areas.

Credit card debt up by 24% as families battle to stay ahead

A sense of urgency to pay down home loans ahead of rate hikes combined with low personal savings is seeing many Australians embrace credit cards as a means of meeting everyday expenses.

Australian home owners are showing grim determination to get ahead with their mortgage – 49% of mortgage holders are making additional payments on their loan, up from 48% in Q2. Correspondingly, the median outstanding mortgage balance has dropped from $175,509 in Q2 to $174,959 in Q3.

However additional loan payments are consuming valuable disposable income, and faced with increases in basic living costs, credit cards are being used to full the cash gap.

Outstanding card debt has grown alarmingly, the median balance rising from $1,673 in Q2 to $2,072 in Q3 – a leap of 24%. Not surprisingly, comfort levels with short term debt have slipped from 5.8 (out of a possible 7) in Q2 to 5.71 in Q3.

More Australians are embracing credit cards. In Q2, 12% of Australian households lived without a credit card, a figure that dropped to 10% in Q3.

Cardholders who were struggling with card debt in Q2 found things even tougher in Q3. Around 14% of households say they are 'very uncomfortable' with card debt. Among these respondents the median credit card balance has skyrocketed from $6,592 in Q2 to $8,494 in Q3, an increase of almost 30%.

The right idea. The wrong approach.

Don Koch, CEO of ING DIRECT believes the situation is potentially dangerous. He says, "Households are taking the right approach by aiming to pay off their loans early and avoid dipping into savings. But the over reliance on credit cards is a worrying trend."

Mr Koch says, "Home loans are underpinned by an asset that will rise in value over time. The same cannot be said of card debt. The higher interest rate applicable to credit cards will see many families burdened by growing interest charges. This is detrimental to short term financial wellbeing, but in the long run it can create a devastating debt spiral."

"I would urge home owners to focus on reducing card debt ahead of their mortgage as cards come with a far higher interest rate. Now is the time to sit down and take a close look at the household budget to get your personal cash flow back in the black."

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For a copy of the report visit www.ingdirect.com.au or call 02 9018 5154

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Research methodology
The ING DIRECT Financial Wellbeing Index was complied by Galaxy Research from the online responses of 1,015 households recorded in September and October 2010 (Q3) and July 2010 (Q2). The data was weighted by region and household size to reflect the Australian household population based on the 2006 census. The level of savings reported in the study is also calibrated to APRA national bank total deposits (households) to ensure accuracy of household savings levels.

About ING DIRECT
ING DIRECT began operating in Australia in 1999. By doing business online, over the phone and through intermediaries, ING DIRECT keeps it overheads low and passes the savings onto customers in the form of competitive rates. Today, it has grown to become Australia's fifth largest retail bank, with $22 billion in deposits, more than $37 billion in loans and around 1.4 million customers.
Please note ING DIRECT is never abbreviated to ING