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Deal a blow to debts

There's no magic to repaying what you owe, writes **Anthony Keane**

FEWER Australians say they are debt-free, despite a drop in mortgages and other loans in the past three months.

Forty per cent of households say they have no debt, down from 42.7 per cent in last year's December quarter, according to research to be released this week by St George Bank and the Melbourne Institute.

Wiping out consumer debts is vital, but other debt can help people build wealth.

"Debt doesn't always have to have negative connotations," St George chief economist Hans Kunnen says.

He says the latest rise in debt could be a sign of increased confidence among households to spend and invest, a trend noted in the St George-Melbourne Institute Household Financial Conditions report.

It also found that almost 39 per cent of households say they have a mortgage, down from 42.4 per cent three months ago. Car loans, store credit and personal loans dropped, but credit card debt climbed.

"Improved household financial conditions may have allowed some Australians to make greater contributions to their mortgages, and others to actually pay off their homes entirely," Kunnen says.

Financial strategist Theo Marinis says good debt – such as that used for property and share investment – delivers income and tax deductions.

"It works if you can be reasonably sure that the asset will go up in value. Debt ratchets up the potential returns, but it also magnifies the losses and multiplies the downside," he says.

Marinis says people can get on top of their consumer debts by paying down the highest-interest loans first (usually credit cards and store cards), using offset accounts with their mortgage, and simply avoiding borrowing too much.

"We all ask the bank 'how much can you lend me' but you should first work out how much you can afford."

Wealth For Life Financial Planning principal Rex Whitford is also a fan of offset accounts, and says budgeting is critical for anyone wanting to be debt-free.

"There is no magic. It's a lower interest rate, more frequent repayments, higher repayments and low fees. For all the smoke and mirrors people will come at you with, they are the fundamentals," he says.

"But many people think there is magic, which is why they get convinced to change their loans."

MAIN FORMS OF HOUSEHOLD DEBT
(% of all households)

Mortgage	38.8%
Credit card	37.4%
Other loans	21.4%
HECS/HELP debt	16.2%
Car finance	13.6%
Owed to family and friends	6.4%
Hire purchase/store credit	3.4%

Source: St George-Melbourne Institute