

March 2006 Newsletter

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Who offers the best credit card?

The credit card market is one of the hottest markets in the financial service industry (next to home loans of course). Many banks have been introducing low rate cards, with the most recent being CBA last week. Card issuers have also been playing around with reward programs. Virgin has recently introduced it's frequently flyer program with NAB. So who offers the best credit card?

The answer to this question depends on how you use your credit card. There are three types of credit card users.

1. **Something for nothing** – these people use credit cards simply to accumulate reward points. They always repay the balance on time and never end up paying interest on the card. Finance analysts have suggested that you need to be spending \$15,000 to \$20,000 per year on a credit card to earn any decent redraws.
2. **The spenders** – these people rarely repay the outstanding card balance within the interest free period. The average Australian owes \$2,600 on their credit card, according to the Reserve Bank of Australia.
3. **For convenience** – these people only use the credit card for convenience. They repay the card in full within the interest free period, but spend less than \$15,000 per year on their card.

Each of these users requires a different type of credit card.

User Type: Something for nothing

It's my guess that most of our newsletter readers fall into this category of credit card users. Many of these users accumulate credit card points with the sole aim of converting them into Qantas Frequent Flyer (QFF) points. Keeping this in mind, we compared the cards offered by the major lenders to find out which one is going to give you the most QFF points. When undertaking this comparison we assumed that the average amount that a person spent on their credit card was \$2,600 per month.

I set out below all the credit card issuers that have a direct relationship with the Qantas Frequent Flyer program and the Frequent Flyer points that the average spender would earn (refer back page).

Visa & MasterCard from the banks

CBA – 31,200 QFF pts
Citibank – 31,200 QFF pts
ANZ – 30,600 QFF pts
NAB – 20,800 QFF pts
Westpac – 15,600 QFF pts
Suncorp – 15,600 QFF pts

Charge Card Providers

Amex – 46,800 QFF pts
Diners Club – 31,200 QFF pts

Citibank and CBA are the stand out cards. They offer 1 QFF point for every dollar spent. It will cost you approximately 8,000 QFF points to fly one way between Sydney and Melbourne. Therefore, you can earn approximately 2 return flights between Melbourne and Sydney per year using a Citibank card. A return flight (Mel - Syd) costs approximately \$400. Therefore, you are essentially receiving \$800 of value per year for free.

The traditional charge card issuers (Diners and Amex) offer 1 or more QFF point for each dollar spent which is also great value. However, not all vendors accept Diners and Amex, so the Citibank or CBA cards are better choices.

The new NAB Velocity card (which is linked to the Virgin Blue rewards program) offers one Velocity point for every \$2 spent. The average spender will therefore earn 15,600 virgin velocity points. Virgin advertises that it will cost 14,000 to 47,800 points for a return flight between Melbourne and Sydney. Therefore, you won't earn anymore than one free return flight per year.

Some other things to consider when choosing a card include:

- ◆ Points capping – many cards now cap the amount of points that you can earn. Some cards have an annual cap and others have a monthly cap which is more restrictive. The annual caps are normally quite high (say over 100,000) and are unlikely to affect most users.
- ◆ Points expiry – some card issuers apply expiry dates to points. For example, points may expire within 3 years if they are not redeemed.

- ◆ Minimum points to redeem – Many cards require you to have a minimum amount of points before you can redeem any points (3,000 to 5,000).
- ◆ Don't save too many points – A lot of people lost frequent flyer points when Ansett went bust. Therefore, make sure you regularly redeem your credit card rewards and QFF points to guard against any loss or changes to reward programs.



User Type: The spenders

Interest rate and fees are the most important items to consider for the people that do not repay their credit card in full each month. There is intense competition in the low rate card market. According to Cannex, an independent financial service researcher,

it rates the top four cards as (based on an average balance of \$2,600):

1. Police Credit Union – 9.99% no annual fee.
2. Heritage Building Soc. – 10.25% no annual fee.
3. Encompass Credit Union – 9.85% plus \$24 p.a.
4. BankWest – 8.99% plus \$49 p.a.

Interest rates have certainly reduced over the last few years. It's amazing to think that you can obtain unsecured credit for less than 10% p.a. This is less than most personal loans.

Another way to save money is by taking advantage if a zero interest rate balance transfer. This incentive is offered by many card issuers, including BankWest, Wizard, Virgin and GE. The issuers offer a zero interest rate on any balance that you transfer from an existing card. This period is normally 4 to 6 months. If you are committed to repaying your card balance, then a zero balance transfer might be the answer, because you can try and repay as much as possible during the interest free period.

User Type: For convenience

If you repay your card in full each month, but spend less than \$15,000 on the card, then the most important features are annual fees and interest free days. You should choose a card with at least 55 days interest free. GE, BankWest and Virgin offer good cards for this purpose. The GE Coles Myer Source MasterCard is the best, with nil annual fees and 62 days interest free.

In summary

User type	Best card
Spend more than \$15,000 p.a. and repay balance every month.	Citibank Gold or CBA Platinum
Do not repay balance each month, so card normally has an outstanding balance of \$2,600 (average).	Police Credit Union extralite Credit Card
Spend less than \$15,000 p.a. and repay balance every month.	GE Coles Myer Source MasterCard

Best Fixed Rates

A few lenders have been offering some pretty special fixed interest rate mortgages lately. These fixed rate look very attractive when compared to the standard variable rate of 7.32% and the average professional package variable rate of 6.62%.

3 Year Fixed

- ◆ CBA - 6.50% (for loans over \$250k)
- ◆ Adelaide Bank - 6.55% (full 100% offset)
- ◆ Suncorp Metway - 6.55% (inc. low doc)

5 Year Fixed

- ◆ CBA - 6.64% (for loans over \$250k)
- ◆ AMP - 6.69%
- ◆ St George - 6.69%

Given that some economists predict that the RBA may lift rates by 0.25% within the next year, these fixed rates might be a good solution.

Interesting Newsletters?

I hope that you find these newsletters interesting. Over 3,600 people read our newsletters each month. However, we are very keen to increase the number of subscribers. Therefore, I would appreciate it if you could forward this newsletter to your professional colleagues and friends. It will provide them with some useful information and will help us build a relationship with potential clients.

85% Without LMI

There is a rumour that Westpac is considering increasing the percentage of a property's value that they will lend without Lenders Mortgage Insurance (LMI) from 80% to 85%. Stay tuned...

Lender	ANZ	CBA	NAB	NAB
Type of Card	Frequent Flyer Visa Gold	Platinum Gold Card	Visa Gold Rewards	Velocity Visa
Interest Rate	18.50%	18.40%	16.65%	18.00%
Annual Fee	\$95 (\$10 sup card)	\$200 (sup card \$15 p.a.)	\$88.30 (1 free sub card)	First yr free, then \$65
Interest Free Days	55 days	55 days	44 days	44 days
Rewards	Yes	Yes	Yes	Yes
Additional rewards fee	\$55 per card	No	\$57.20	No
Total Fee	\$150 p.a.	\$200 p.a.	\$145.50	\$65
Reward points per dollar spend	\$1 = 1 pt = 1FF up to \$2,500 p/mth then 1 pt = \$2 up to max \$10,000 p/mth	\$1 = 1 pt = 1FF	\$1 = 1 pt up to \$3,000 p/mth then 1 pt = \$2 up to max \$10,000 p/mth 1.5 pt = 1FF	\$2 = 1 pt = 1VB
Points Cap	N/a	Points capped at 150,000 p.a.	Nil but points expire within 3 years	No but points for Virgin Blue only.
Average Spend FF points	30,600 points p.a.	31,200 points p.a.	20,800 points p.a.	15,600 points p.a.

Lender	Westpac	Suncorp	Citibank	AMEX
Type of Card	Altitude Gold	Clear Options Plus	Citibank Gold	Gold Rewards Maximiser
Interest Rate	17.90%	16.45%	18.50%	17.74%
Annual Fee	\$150 (1 free sup cards)	\$29	\$119	First yr free, then \$144 (\$36 sup card)
Interest Free Days	45 days	55 days	55 days	55 days
Rewards	Yes	Yes	Yes	Yes
Additional rewards fee	No	\$69	No	No
Total Fee	\$150	\$98	\$119	\$144
Reward points per dollar spend	\$1 = 1pt = 0.5FF	\$1 = 1 pt = 0.5FF	\$1 = 1pt = 1FF	\$1 = 1.5 pts = 1.5FF
Points Cap	No	Points capped at 150,000 p.a.	Nil but points must be redeemed in blocks of 5,000 only.	No
Average Spend FF points	15,600 points p.a.**	15,600 points p.a.	31,200 points p.a.	46,800 points p.a.

** Linked Amex card provides higher reward points.

Source: Card issuer websites

Disclaimer: Due care has been taken when compiling the information contained in the table above. However, readers must independently check the card issuers' terms and conditions before acting on this information. ProSolution accepts no responsibility for any loss or damage whatsoever caused by reliance on the information above.