



4 Things You Need To Know About Spending

This year has been like no other. Even while we are living through a pandemic, the usual milestones and celebrations are continuing.

As we count down the weeks until Christmas (and Christmas spending), many unemployed Australians and struggling business owners may find it difficult to get through the financial pressures of the festive season.

Last year, 7.2 million Australians spent up to five months paying off their Christmas debt¹. This year, we have the added stress of an economic downturn, job losses and falling business activity. Add to this the shifting trend to buy-now-pay-later, online spending during times of social distancing and a national \$23 billion credit card debt², there is real cause for concern.

While it is expected that consumers will reduce their spending in response to declining wealth³ during the pandemic, the pressure of the upcoming festive season may well see many of us quick to tap the credit card or up the buy-now-pay-later (BNPL) spending. There may be better alternatives.

Easy Online Spending

There is no doubt that COVID-19 has turbo charged the shift to contactless, cashless payments, online shopping, ordering-in and BNPL spending.

Even before the pandemic, a third of Australians living in capital cities ordered food through online delivery services such as Menulog, UberEats, Deliveroo and Foodora⁴.

Convenient, interest-free options continue to expand. A newer entrant to BNPL solutions, Payright, offers payment plans for big ticket items between \$1,000 to \$20,000 setting it apart from Afterpay and Zip who cap their sales at \$1,500 and \$1,000 respectively.

If you order-in... AND you are adding this to your buy-now-pay-later shopping through Afterpay, Zip and the like, you may jeopardise financing your next loan if not used sensibly.

Disadvantages Of BNPL Include:

- **Late fees** - Although the money you borrow on BNPL may not incur interest, if you don't pay on time you will be charged late payment fees.
- **Auto deducted payments** – If you do not have enough money in the designated payment account on the due date, expect to be charged a late fee.
- **Encourages impulse spending** – Impulse shoppers can easily make purchases without putting a dollar towards the cost.

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• **Can affect your ability to secure a loan** – Lenders can take into consideration BNPL purchases just as they do with other expenses and debts. They can assess them as a line of credit because you are borrowing money you do not have.

Negative activity on your BNPL account such as missed payments, late payments or defaults may be reported to a credit reporting agency which could affect your credit rating and your ability to secure a home loan in the future.

Because of the sheer transparency of the way we spend our money, lenders are keeping a close eye on our spending and debts.

As your finance specialist, we find ourselves spending more time and effort helping our clients develop strategies with their finances. Many of us are disengaged with our actual financial status or use debt to get through challenging times.

Avoid The Debt Trap

There is a danger of getting caught in a debt trap when you pay for essential or non-essential items with money you do not have. Money of your own that you may have had for everyday expenses ends up being used on debt repayments. This can begin a vicious cycle.

Avoiding unnecessary 'bad' debt not only encourages good money management, but also increases your ability to secure 'good' debt in the future. Good debt, such as a home loan, helps you to work towards your future wealth and owning your own home.

There are ways you can avoid the festive season debt trap and help set yourself up for a more secure financial future. Read our 5 tips to crush bad debt.

Should you encounter times of financial stress, it is critical to have options available to get you through the tough times. We can provide you with personalised assistance and competitive choices to assist you.

1 finder.com.au/press-release-jan-2020-7-2-million-aussies-will-nurse-a-new-year-financial-hangover

2 finder.com.au/credit-cards/credit-card-statistics#:~:text=There%20are%2014%2C088%2C998%20credit%20cards,in%20a%20downward%20debt%20spiral.

3 mckinsey.com/industries/public-and-social-sector/our-insights/the-next-normal-for-australian-industries-and-workforces

4 finder.com.au/australians-spend-1590-each-year-on-delivered-food#:~:text=The%20research%20shows%20that%20Australians,average%20of%20%241%2C958%20each%20year.



Chase Finance Pty Ltd

Kent Town SA 5067 Toorak VIC 3142

1300 137 045

finance@chasefinance.com.au

www.chasefinance.com.au

Contact us for a copy of
5 Tips To Crush Bad Debt.

