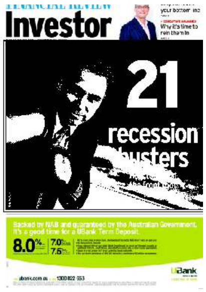

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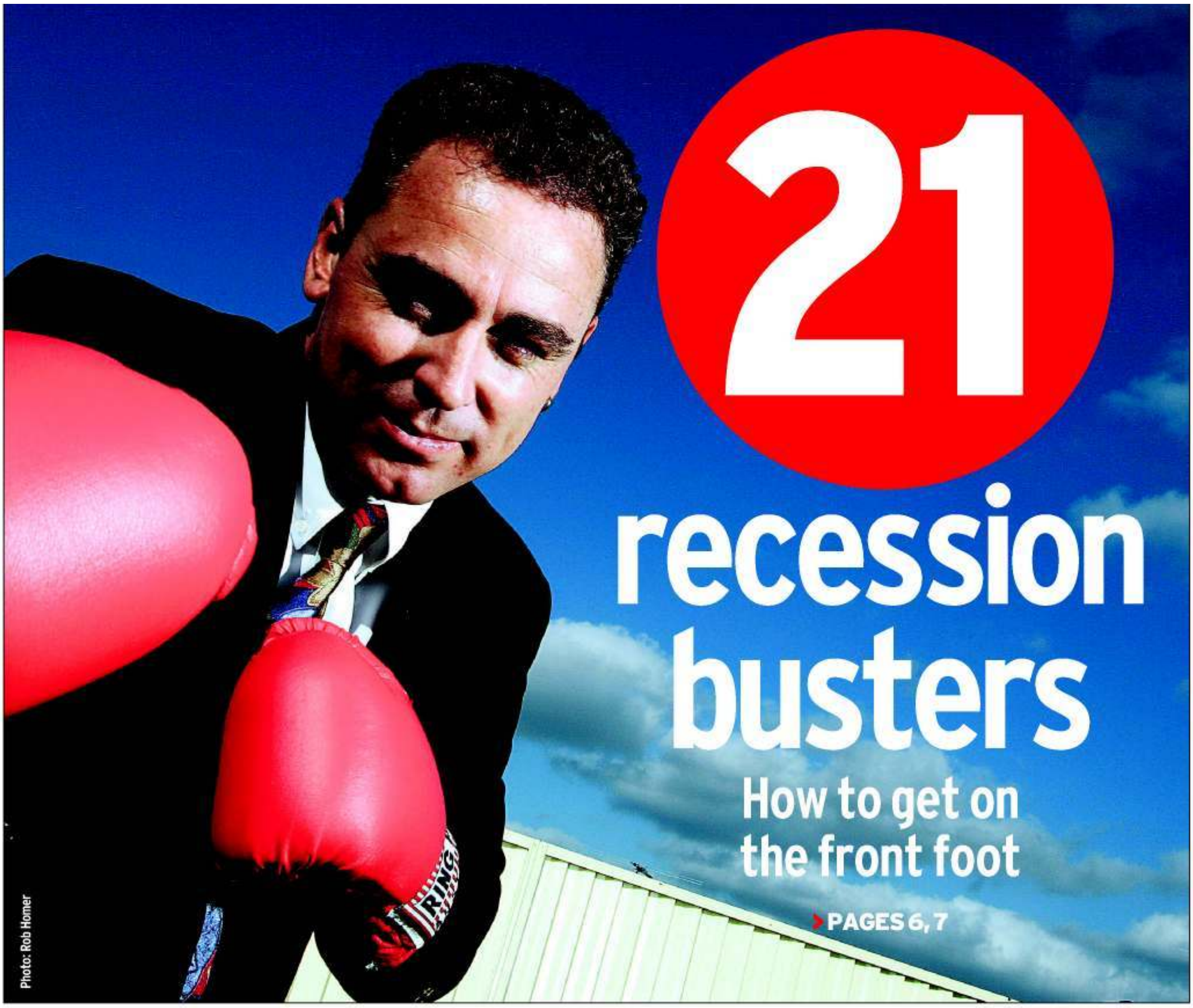

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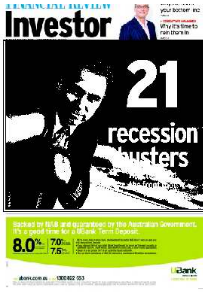

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Now it's personal: welcome to the bad times

The Government might be avoiding the 'R' word but you can fight and win your own financial battles, writes **David Potts**.

Stepping up to the plate has become the done thing for prime ministers. But for the rest of us, spending more to solve a problem caused by too much debt is not the way to fight a recession.

Oops, did I say recession? Funny how that just slipped out.

On a technicality we might not have one but don't let that fool you.

Since the non-mining, non-farming sector of the economy will almost certainly be shrinking by the new year, if not already, you could face your own personal recession.

THE PRICE IS WRONG

For starters, the squeeze on state finances from falling payroll taxes and stamp duties from sharemarket capital gains will produce a nasty round of tax rises and fee increases next year.

Expect electricity, gas and council rates to soar – yes, again – perhaps by as much as 8 per cent to 10 per cent.

Apart from using less where it's possible – a good way to save on electricity is to stop the dishwasher when it gets to the drying cycle – the only thing you can do is save more.

You can, however, do something about rising food prices, apart from eating less (by the way, lower oil prices will take some pressure off transport costs, which might even produce slightly cheaper fresh fruit and vegetables). The weaker dollar will push up the price of imported foodstuffs, which says to me bulk-buy fresh food and meat and freeze.

While you're at it, play the supermarkets off against each other.

Nobody can be bothered cherry-picking specials between supermarkets but if you split your shopping with your partner at the checkout, at least you can grab two fuel discounts.

You can double your discount by shopping at either Coles and Woolworths one day and then an IGA store on another.

After you fill up the car using your Coles or Woolies four-cent discount, preferably on cheap Tuesdays, keep your receipt.

Then spend another $30 at an IGA supermarket, where the petrol discount will be taken off your bill.

I know it's back to front but it will save you money.

Mind you, we've probably seen the worst of high petrol prices. Oil is well down from its peak and although the benefits have been almost lost by the collapse of the dollar – don't knock it, that's why the economy is still afloat – the trend is in the right direction.

Get ready for rising insurance premiums because, in the case of car and home-and-contents policies, investment returns are down. And in the case of health insurance, well, when didn't it rise?

Choice suggests getting three insurance-policy quotes.

"For comprehensive car insurance, we found average annual savings between $250 for claim-free drivers to $1650 for a young driver, just by shopping around," it says.

For health insurance, you can opt out of private cover, especially if you're young and healthy, without having to pay the extra Medicare surcharge up to a salary of $70,000.

Or you can shop around on moneytime.com.au or iselect.com.au. Choosing a higher excess or co-payment if you go to hospital will also cut premiums significantly. Just don't get sick or have an accident.

BANK ON IT

Sorry, but everything seems to come back to stepping up your savings.

So fix a dollar amount, or better still, a percentage of your salary for direct-crediting into a special savings account that you vow not to touch.

It's a bit like salary-sacrificing because the money doesn't pass through your hands, where it could get distracted or re-directed.

It must be a separate account, though. One of the online accounts, in some cases still paying more than 7 per cent, would be perfect.

But don't build up your savings if you're also running a credit card debt.

Running that debt down must be your first priority.

And second.

And third.

CARD TRICKS

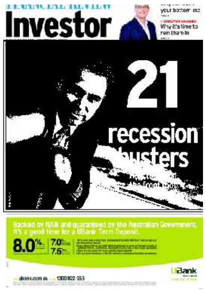
When it comes to credit cards, you could always fight fire with fire but, to stretch the metaphor, this is also potentially hazardous in the burning-fingers department.

Buy yourself some time – even its price seems to be rising, have you noticed? – by transferring your outstanding credit card balance to a card with a zero rate for six months.The best cards for this are being offered by the supermarkets, although expect the banks to offer some good deals next month to compete in the run-up to Christmas.

The Woolies honeymoon rate is 5.99 per cent but the beauty of its Everyday Money card is new purchases attract a zero rate until February 1.

As they say in the financial markets, there's got to be an opportunity for arbitrage here.

Ah, I have it. Transfer your balance to rival Coles' Source MasterCard, where there's zero interest or fees, and put any new spending on the Woolies card which, by the way, is a MasterCard so can be used just about



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anywhere. It's only a short-term solution, admittedly but every bit helps. The Woolies card has a $49 annual fee but is free in the first year, so you could always ditch it before year two rolls around.

The only catch is not paying off the transferred balance, because once the zero period is up, you pay the higher cash advance rate of 21.99 per cent instead of 18.99 per cent.

Also bear in mind you still have to make the monthly minimum repayments – and if you put new purchases on the honeymoon card then the zero part gets paid off first, which means the new purchase will be accruing interest until the whole balance is paid off.

That's why you need to transfer your balance to one card and put any extra spending on the other.

But you need to be disciplined.

"It can become a double debt," warns Cannex senior financial analyst Harry Senlitonga.

"It's a tool you can use but it can be a trap for many people."

If you can't trust yourself or others close to you, here's another card trick.

The BP-Citibank MasterCard gives you a 5 per cent rebate on the first $300 you spend a month at BP, which is almost eight cents a litre off the petrol price.

Since there's a $79 annual fee, you'd need to spend $133 a month at BP to be ahead.

But use the BP-Citibank card anywhere else except BP, such as supermarkets, and there's a 1 per cent cash-back discount.

Spending is capped at $60,000, which, considering the average annual workout on a credit card is $20,000, is another $200 saved a year.

GO FOR BROKER

Once the credit cards are under control, the next challenge is the mortgage. I'm guessing you're already paying off a bit more than you have to. Good on you. Don't spoil it now that rates are dropping.

This is your chance to lop years off the mortgage. By doing absolutely nothing, what's more.

But if you insist on doing something, find a cheaper home loan – see the accompanying case study.

The banks are getting stricter – this is a credit crisis after all – but so long as you pass the solvency test you can still negotiate your rate down.

"For the first time we're following policy," one major bank recently told managing director of mortgage brokers Smartline Home Loans Chris Acret.

There's nothing to lose in getting a broker to shop around for you. It's free and even if you are signed up by one for a cheaper loan it's the lender who pays the fee. A broker can also tell you what exit fees you might be up for if you quit your current mortgage.

These can run into the thousands if you've held your mortgage for less than three years.

Make sure you're paying at least 0.5 per cent below the banks' so-called standard variable rate.

It's standard in name only since most borrowers are charged below it, not a point the banks like to make.

Although the banks offer even cheaper mortgages again, these can be a trap. No-frills loans start from just over 7 per cent, which will save you on repayments although you can't pay them off quickly.

Frankly, they're strictly for first-home buyers on a budget, or anybody in financial difficulty with little prospect of being able to pay off their home loan faster.

SUPER SAVER

One thing to be said for the share crash is more retirees are eligible for the pension.

Better still, the Government has halved the asset test's clawback rate. The pension is now cut by $1.50 instead of $3 per $1000 of extra income earned above the threshold. So, in effect, the threshold has been lifted to $856,500 for a home-owning couple, possibly making you eligible for the pension without realising it.

If you need to work longer but would have been eligible for the pension, you can still put your hand up for it.

The Government will backdate the pension as a lump sum, needless to say based on a complicated formula, when you do retire. But you have to register for the bonus scheme within 13 weeks of reaching pension age.

> 21 RECESSION BUSTERS

1 As interest rates drop, keep loan repayments the same.

2 Go easy on the credit card. Use one of the zero-rate honeymoon offers to get your debt down. And check whether the rewards program is worth the annual fee.

3 Consolidate your high-cost debts into the housing loan while maintaining the same level of repayments.

4 Check out mobile phone cap deals (see phonechoice .com.au). Runaway mobile phone bills are the biggest cause of personal bankruptcies.

5 Get together with friends and take it in turns to buy in bulk at the markets. At supermarkets, late afternoons are cheapest for perishables.

6 Buy in bulk and freeze fresh fruit and meat.

7 Never shop without a list – and stick to it. Don't shop on an empty tummy either. Use one visit and buy home brands.

8 Save by direct-crediting a fixed dollar amount or a percentage of your salary into a separate account.

9 Cut entertainment outlays and takeaways.

10 If you have a cash-flow crisis, switch to an interest-only mortgage and-or extend the term.

11 Sell the second car and save a fortune in running costs.

12 When budgeting, use your net, not gross, income and write down your expenses over a week or, better still, a month. And don't forget to take credit card interest into account.

13 Change your bank account. If you're paying more than $5 a month in fees, something is wrong.

14 Quit smoking – you'll save on cigarettes and future health costs.

15 Cut out the morning coffee on the way to work and save about $600 a year. Take your lunch to work and save even more.

16 Check out the op shops for any bargains.

17 Cut out the lotto ticket. In a downturn, the odds are higher of losing a job than winning that jackpot.

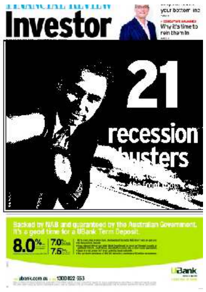
18 Drink water instead of soft drinks or similar products.

19 Swap books, CDs and DVDs with friends rather than buying new ones.

20 Bring forward purchases of cars, whitegoods and plasma TVs if you need to buy, before their prices rise from the weak dollar.

21 Save on petrol by filling up on Tuesdays. Take public transport, ride a bike or walk.

Photo: Rob Homer



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> CASE STUDY

WHEN Sean Sweeney decided to buy a house he put the mortgage up for auction and he got four lenders keen for his business, one of them for even less than appeared on the Choice and Cannex websites.

Sweeney got his 30-year-loan for 0.2 per cent lower than the advertised rate, which on a $600,000 mortgage will save him $36,000 all up.

A friend put Sweeney, who runs his horticulturalist business Professional Garden Management in Sydney's North Shore, on to bidmyloan.com.au where lenders bid to give you a loan.

The online form took 10 minutes to fill out and within 24 hours Sweeney had attracted four lenders, whose bids varied by 0.7 percentage points between the cheapest and dearest.

Because he'd done his home-work he had a good idea of what to expect.

So he was pleasantly surprised by the low-ball offer.

A week later he became the owner of a new home complete with a renovated mortgage.

"I did my research so I knew where I was at. The banks can do better than their published rates.

"There's a bit of flexibility," Sweeney said.

> GET ADVICE BEFORE IT'S TOO LATE

EXPERTS are warning up to 200,000 jobs could be lost in this economic downturn.

What if you lose your job, or if you're struggling to meet loan repayments as it is?

Usually it's better to contact your lender and hope for a negotiated settlement but that isn't always the case.

Co-ordinator of the Consumer Credit Legal Centre in NSW Karen Cox says: "Think through which lender you advise. In the case of a credit card, you're access could be cut off."

But she says to get advice as soon as you know you're going to be in trouble.

All states offer free, independent financial counselling. You can find contact details at afccra.org.

If your debts are below $312,950 you can apply for a variation of your repayments under hardship provisions.

Incredibly, that threshold is a moveable feast. At one point earlier this year it was as low as $303,270. This dollar amount is updated monthly (see creditcode.gov.au).

For mortgages, Cox says it's best to contact your lender in writing and if you're knocked back contact the Financial Ombudsman (phone 1300 780 808 – you can even lodge a claim online at fos.org.au).

This, at least, buys you time because once you've gone to the Ombudsman the banks can't sue you.

But remember they must work with you, around your repayments and under their code of banking practice.