



COMMONWEALTH OF AUSTRALIA

PARLIAMENTARY DEBATES



HOUSE OF REPRESENTATIVES

PROOF

BILLS

**National Consumer Credit
Protection Amendment (Home
Loans and Credit Cards) Bill 2011**

Second Reading

SPEECH

Wednesday, 22 June 2011

BY AUTHORITY OF THE HOUSE OF REPRESENTATIVES

SPEECH

Date Wednesday, 22 June 2011
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Questioner
Speaker Ms RISHWORTH

Source House
Proof Yes
Responder
Question No.

(Kingston) (NaN.NaN pm)

Ms RISHWORTH (Kingston) (11:55): I am very pleased today to rise to support the National Consumer Credit Protection Amendment (Home Loans and Credit Cards) Bill 2011 because I believe this is a crucial and important piece of legislation to protect consumers. The introduction of this bill clearly demonstrates the Labor government's ability to deliver on its election commitments. More importantly, this legislation represents a crackdown on the unfair treatment of ordinary working Australians who may use a credit card but may not be fully aware of some of the issues surrounding that. This government has listened to the concerns of consumers, and this bill finally recognises that Australians should have more say over how they use their credit cards and that they should also be provided with detailed information clearly explaining exactly what they are signing themselves up for.

There are approximately 15 million credit card accounts in Australia. The reality is that most Australian families use credit cards as a way to perhaps meet their financial obligations, purchase things they might not be able to afford and do a range of other things. While these credit cards are very important, Australians deserve a system that has their interests in mind, not just the interests of the banks.

Credit card providers currently allow accounts to exceed their credit limits and then charge the account an over-limit fee. This process is a vicious trap that places heavy financial burdens upon Australians using this credit card facility. It is a trap that sees credit card providers gain approximately \$225 million per year in over-limit fees. The reforms included in this bill will set the amount by which credit accounts can go over their limits to a maximum of 10 per cent, at the discretion of the lender, and abolish the fee that this usually attracts. This will prevent many Australians from unintentionally slipping into unsustainable levels of debt and often trying to keep up with it—if they have to pay these over-limit fees.

Another unnecessary tactic used by credit card lenders is to allocate initial repayments to the part of the debt that attracts the lowest rate of interest. This makes it extremely difficult for individuals who have exceeded their credit limits to even restore their debt

to manageable levels. This bill will simply reverse this order, allowing consumers to pay off their higher interest bearing debt first. This is a much more reasonable approach from credit card lenders and could result in consumers saving a potential \$360 per year. This measure is a simple intervention that will assist many Australians with their credit card debts and ensure that others are prevented from spiralling into unnecessary and never-ending debt.

It is unreasonable for the banks to be capitalising on Australians' use of credit cards by employing financial tactics that are not made clear to consumers. This government recognises that many Australians already struggle with the cost of living. Therefore, this bill seeks to provide a little relief for these Australians by ensuring that they are protected from unfair bank fees and contract fine print.

The bill also includes measures to ban unsolicited credit limit extension offers. Such letters are often sent to consumers to provide them with the option of increasing their credit limit and in many cases result in Australian families taking on unsustainable levels of credit card debt. Consumers are bombarded with these tick-and-flick preapproval offers to increase their credit that do not provide adequate information concerning a consumer's financial health and are therefore very misleading. Unsuspecting consumers simply see an opportunity to increase their credit limit as suggested by their financial institution and approve it without properly considering the implications. I spoke already in this place about unsolicited credit increases in private members' business back in 2008. At that time it was brought to my attention by a number of constituents in my electorate that these unsolicited letters offering credit limit increases seem to be sent only when customers are paying interest on their credit card debt. For example, one constituent indicated to me that they had not had to pay interest for some time. They had regularly paid off their credit card to the full amount each month. It was only when they got caught one month and could not pay the full amount that they attracted interest on their credit card. It was then that the automatic pre-approval was sent, pretty much identifying that when they paid interest and could not pay back the full amount—a change in their trend of normally paying off the full amount—they were automatically encouraged to increase their limit. There was no asking, 'What's happening here? How

can you best manage this?' They were automatically told, 'The answer is to increase your credit limit.' This is definitely an issue that I think is very poor, because it does not properly look at an individual credit card user's history. It does not look at what they might be able to afford but instead just directly targets them to encourage them to increase their limit when they have not been able to make their regular repayments. This is a really big problem. It is something that often gets people into difficult situations.

The objective of this bill is to encourage Australians to use their credit cards in an informed and responsible manner and it seeks to empower consumers to make wise financial decisions. One of the ways it achieves this is by requiring credit card application forms to include a facts sheet to inform consumers. The sheet will provide consumers with a credit card's interest rates on purchases and cash advances, the annual fee and other relevant fees.

The bill before the House today also protects Australians from credit card debt by preventing lenders from charging fees to customers who go over their credit limit. As I have said, this is incredibly important. The bill will also introduce regulations that require lenders to warn consumers about the consequences of making only minimum repayments. This is really important because often people see the minimum repayment and think, 'If I keep just paying this it will be okay.' Increased levels of information will greatly assist householders in managing their budgets and in making informed decisions about how much they should pay off to ensure they keep their heads above water.

Many Australians often have the routine of paying back only the minimum amount. This of course leaves interest to accumulate significantly over time and forces many Australians into a lifetime of debt repayment that they will never get ahead of. It is important that consumers are informed about what the consequences are of just making these minimum repayments.

Finally, this bill also introduces a standardised one-page facts sheet that will allow customers to compare home loans. This is really important for many people who perhaps are looking at buying their first home or investing. It is a very big decision and it is very hard to compare these products. Often people feel that they have to go to mortgage brokers to help them compare these home loans. Otherwise they perhaps just go to the institution they know without properly shopping around because it is quite complicated to understand the exit fees, the entry fees, the minimum repayments and whether to take out a variable loan or a fixed loan. All of these are difficult to compare

between institutions, so these one-page facts sheets will enable families to directly compare the relative costs of mortgages from different financial institutions so that they can choose a loan that suits their budget and their needs.

This reform will improve competition in the mortgage market and force banks and other home loan providers to really be clear with Australian families about the products that they are offering. This is an important reform before the House today. This bill places some power back in the hands of consumers, making the information clear and concise, ensuring that people can objectively look at the different products that are available, whether they be credit cards or home loans, and allowing them to have some control and have information about these products. I am really pleased that it is this Labor government that has been committed to creating a fairer, simpler banking system. I believe that these reforms are part of an important step forward.

I hope that the Senate will also accept our exit fee legislation. I understand that there are some issues and the coalition in the Senate are trying to stop this. It seems a very odd situation when we here on the government side are trying to improve competition within the banking sector and trying to put choice under the control of householders. One of the ways of doing that is by banning unfair exit fees, something that I would expect both sides of the House to agree with, to ensure that there is competition within the banking sector. I hope that the Senate and the coalition members in the Senate see sense and pass that important legislation.

The legislation here before the House is one of the other important steps towards making a fairer, simpler banking system. I hope that this legislation here and the legislation in the Senate get passed because I think that they will make a real difference to local families in managing their credit and finances. On that note, I commend the bill to the House.