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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

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Questioner
Speaker Mr SIDEBOTTOM

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(Braddon) (NaN.NaN pm)

Mr SIDEBOTTOM (Braddon) (12:16): The 'Money' section in the *Age*, in an article by John Collett on 16 March 2011 about the legislation before us, supported these reforms, noting:

The proposed new laws on credit cards should be passed by parliament as they will help to limit the dangers of the not-so-fantastic plastic.

That sums up in essence what this legislation is all about. The National Consumer Credit Protection Amendment (Home Loans and Credit Cards) Bill 2011 will amend the National Consumer Credit Protection Act 2009 to give effect to the government's Fairer, Simpler Banking policy and introduce a requirement for lenders to give borrowers a simple one-page key facts sheet for home loans to help them shop around for a better deal.

The bill delivers on the government's election commitment to crack down on what people generally believe to be unfair treatment of Australians with credit cards and to help them get a better deal in the banking system. It is intended to give a better deal to the consumer, who I would have thought was the most important person in the banking system. The bill will give consumers more say over how they use their credit cards and help them better understand what they are signing up to. This is an important reform for the many households and businesses that use credit cards, whether sporadically or every day. Credit cards are here to stay, so we want a fairer system surrounding credit cards.

The measures in this bill build on the government's new national responsible lending reforms by giving credit card holders more control over the amount of money they borrow and ensuring that they are not charged excessive fees. This is about credit limits and the fees that go with such borrowing. It is all about sticking up for consumers against the big banks, stopping price gouging and reducing credit traps for the unwary. The main measures in this bill are in the areas of over-limit fees, the allocation of debt payments and credit extensions.

What do we mean by over-limit fees? Consumers want and need a credit card market that is transparent,

that competes hard for customers and has built-in protections to help stop them falling into credit card debt traps that they may not be able to get out of. As the former speaker, the member for Banks, quite rightly pointed out, those people that can least afford it are those that are trapped in credit debt. Of course, a lot of us could not survive without our credit cards, especially in terms of convenience, but a large proportion of credit card revenue in fact comes from penalty fees, which include fees for exceeding the card limit. Credit card providers currently charge approximately \$225 million a year in over-limit fees. Credit card providers generally allow accounts to go over their credit limits, with the credit provider then charging the borrower what we call an over-limit fee.

The reforms will ban over-limit fees unless a consumer has specifically asked for the ability to go over their limit and has indicated that they are prepared to pay a fee for this service. Without this agreement, lenders will be able to provide credit over a consumer's limit provided no fees are charged. It is important to allow lenders this discretion. For example, it is in the interests of a borrower for their lender to honour a payment of an electricity bill so their power is not shut off. Consumers can opt out of this default buffer if that is best for them. Indeed, they may consider it would help them to manage their finances better. They will also be able to ask their lender, if they so choose, for a larger buffer if they decide they are prepared to pay a fee for this service. It is about clear, transparent communications in what is, after all, one of the major relationships that takes place in our community.

What do we mean by the allocation of repayments? The measures we are putting in place in this legislation will force credit card lenders to allocate repayments to higher interest debts first rather than last, as it currently stands. Most credit card providers charge more interest for things like cash advances, as is their right. This bill will mean that credit card users who find that they need a cash advance for an unexpected bill, for example, will not have to wait to pay off all other credit card debt before the higher interest rate debt is reduced. The bill will reverse this order so that the consumers can pay off their higher-interest-bearing debts first, resulting in reduced interest charges. This is a very simple matter, and it is a welcome change. It is estimated that a credit card user could save \$360 a year or more depending on their spending habits and

credit limit. This approach has already been adopted in the UK and the United States of America. In response to the government's election announcement, the NAB has already introduced this change—all part of its marketing strategy now that it is a different bank—and that has benefits for consumers, particularly in terms of competition.

What do we mean by unsolicited credit limit extension offers? Sometimes consumers are offered credit limit extensions that require only a click of the mouse, an answer of 'yes' on the phone or a tick on a reply paid form. Only that! This can result in consumers extending their credit limits without due consideration of the implications, which may include more debt and reduced lending capacity for home loans, personal loans and so on. Some consumers think: 'The bank is offering me this limit; I must be able to afford it. Surely the bank wouldn't offer me something if they didn't responsibly think I could afford it.' Forget it.

Relatively high limits might mean a debt can only be repaid over many years, incurring considerable costs in interest and potentially causing financial difficulty, if not ruination. The legislation will ban unsolicited credit limit extension offers from being sent to credit card holders unless they have specifically given previous permission to receive them. It is better to have that box ticked 'yes' than to give a willy-nilly blank-cheque credit extension. This will make sure that lenders give consumers more say over nominating their own credit limit. The government will introduce amendments to the bill to clarify that consents obtained before commencement will be valid for the purposes of sending unsolicited credit limit increase offers.

Other reforms announced as part of the Fairer, Simpler Banking policy are intended to be introduced through regulations to the National Consumer Credit Protection Act 2009, which I mentioned earlier. These include another important measure, to ensure that lenders tell consumers the implications of making only minimum repayments, such as repayment time frames et cetera. This is a very important one. It will help consumers avoid long-term credit card debt put on the never-never, resulting in higher debts and interest payments. The calculation of interest will also be standardised within these regulations to enhance comparability between credit cards. Lenders will also be required to ask consumers to nominate a credit limit when they apply for a credit card.

What about the application forms? The bill will require application forms for credit to include a key facts sheet for potential credit card users. This will give consumers upfront information in plain English about the key features of the credit card for which they are about to apply. Such information will include the interest rates

on purchases, cash advances and promotional offers, the annual fee and other relevant fees.

The greater credit package also delivers on our commitment last year to introduce a compulsory, one-page key facts sheet for new home loan customers. This will allow consumers to easily compare loans they are offered by a big bank side-by-side with what will often be a better deal from their local credit union or building society, so people can clearly make the comparison in a table. We want consumers informed through better information so that they can compare deals, which will encourage banks and non-bank lenders to put forward better deals. Reform of the regulation of credit cards is part of phase 2 of the national credit reforms. These reforms are part of COAG's national credit reform agenda, as agreed by the Business Regulation and Competition Working Group chaired by Senator Sherry—from my own neck of the woods, Tassie—and Senator Wong.

The key facts sheet for home loans measure was part of the government's banking package, announced in December 2010. Lenders must set out on key facts sheets the costs of their standard home loans in a consistent and clear single-page format. It will allow consumers to easily compare home loans, particularly in relation to costs. Consumer testing in January 2011 showed that consumers found the information to be very helpful and that the standardised nature of the document permitted easy comparison between home loan products. Consumers who already had home loans stated a wish that the key facts sheet had been available when they were shopping for a home loan.

The prohibition on unsolicited credit limit extension offers and the election commitment to include advice about minimum repayments on statements, which is to be implemented in the regulations, will apply to both new and existing credit card contracts. That is a very important point to make. It will also involve and apply to existing credit card contracts. The government has strong legal advice from the Australian Government Solicitor that this is appropriate, because these reforms do not affect the original contract signed between the lender and the borrower. Finally, this government has a terrific record in maintaining a more competitive and sustainable banking system. Let me remind members of the House: banning exit fees outright on new home loans from 1 July 2011, boosting consumer flexibility to transfer deposits and mortgages, introducing a mandatory key facts sheet for new home loan customers, empowering the ACCC to prosecute anticompetitive price signalling, fast-tracking legislation to get a better deal for Australians with credit cards and the launching of a national community awareness campaign to empower consumers in banking. I want to remain positive about

not just this legislation but our record, so I will not raise the opposition's very poor and inconsistent record of assisting consumers with credit cards, loans and home loans. I commend the legislation to the House.