Fairer, Simpler Banking

Julia Gillard and Labor
Let's move Australia forward

A BETTER FINANCIAL DEAL FOR HARD WORKING AUSTRALIANS

The Gillard Labor Government will introduce a *Fairer, Simpler Banking* policy to help give hard working Australians a better deal when it comes to credit cards.

The policies will give consumers **a better deal on credit card fees and charges** by ensuring that:

- Consumers are not charged over-limit fees unless they specifically agree that their account can go over the limit.
- Credit card providers must allocate repayments to higher interest debts first.
- Interest charges are applied consistently under an industry-agreed standard, including when interest starts to accrue and on what balances.

The policies will also give **more say to consumers over their credit card products** by ensuring that:

- Unsolicited credit limit extension offers are not allowed unless the consumer has agreed to the service.
- Consumers are given more say over nominating their own credit limit, subject to responsible lending obligations.

And the policies will make it **easier for consumers to understand credit card products** by ensuring that:

- Credit card application forms include a clear summary of key account features.
- Consumers are informed about the implications of only making minimum repayments on their credit cards.

WHAT WILL THE CHANGES MEAN FOR CONSUMERS WITH CREDIT CARD PRODUCTS?

These changes will help make sure consumers are not caught out by the fine print on credit card contracts.

Credit card accounts will not be able to be drawn over their maximum limit unless the consumer specifically agrees to opt-in to the service

Credit card providers generally allow accounts to go over their maximum limit and then the borrower is subject to an over-limit fee.

While consumers can opt-out, this is not well known and is often not made clear. Over-limit fees can be around $20-$25 if you exceed your maximum limit.

Allowing consumers to opt-in rather than opt-out will mean they can avoid exceeding their credit limit and will be able to avoid over-limit fees.

Credit card repayments will be allocated to higher interest balances first

A single credit card can contain a number of different interest rates, such as on promotional purchases, balance transfers, cash advances and standard rates.

Consumers may be unaware that, in many cases, their repayments are used to pay off balances attracting the lowest interest charges first, leaving other balances to attract higher interest.

For example, a credit card provider may allocate a consumer repayment firstly to lower interest rate transactions like promotional purchase plans – for example a plan where a consumer can pay an introductory low interest rate for the first six months – then to higher interest rate transactions like cash advances and normal transactions.

It is difficult for consumers to work out from the fine print how repayments are allocated, which makes it hard to compare different products and work out exactly what the charges will be on an account.

Ensuring repayments are allocated to higher interest balances first will ensure consumers are not caught out and have to pay more interest than they expected.

Interest will have to be applied in a standard way

Credit providers can apply interest in various ways. There is no industry standard on how interest is calculated and charged on credit card balances.

Therefore, the actual interest paid on some credit products can vary greatly even if the interest rate looks to be the same. This is because credit issuers have different approaches in the way they apply interest, such as when interest starts accruing and balances on which it accrues.

Ensuring interest charges are applied under an industry-agreed standard will ensure consumers can compare interest rates on products.

Unsolicited credit limit extension offers will not be allowed

While credit card limit increases can only occur at the request of the consumer, credit providers are allowed to make unsolicited credit limit extension offers.

Preventing these offers, unless the consumer gives permission, will mean consumers can choose not to be enticed to increase their debt levels.

Consumers will have more say on their credit card limit

Giving consumers more say in setting credit limits will give them more power over their own debt management practices and will safeguard them against card issuers granting credit in excess of that requested by them.

This measure will be consistent with the responsible lending conduct provisions. Under these provisions, credit providers are unable to offer consumers a limit above a responsible amount.

Consumers will get a summary of key account features on application forms

Information such as the amount of credit, fees and repayments must already be disclosed in credit card contracts. However, the lengthy and technical nature of most contracts means it is easy to miss important information.

A summary of key features on the application form will draw important terms and conditions to the attention of consumers before they commit to credit cards.

Consumers will have to be informed of the implications of making minimum repayments on their credit card bills

Making sure consumers are made aware of the long-term implications of making minimum repayments on their credit card statements will help them manage their finances.

Such information will include the length of repayments and total interest payable if only minimum repayments are made. It will let consumers know how long they could expect to be indebted if they only make minimum repayments.

WHO WILL BENEFIT FROM THE CHANGES?

These changes will apply to new credit cards.

Approximately 150,000 new credit card accounts are opened each month. This includes those opening accounts for the first time and those that open new accounts and close others, for example as they switch banks or credit card products.

WHEN WILL THE CHANGES BE IMPLEMENTED BY?

The changes will be implemented by mid 2012.

WILL CONSULTATION BE UNDERTAKEN?

The Gillard Labor Government will work closely with Australia's financial institutions and consumer groups to implement these important reforms.

Federal Labor has a strong record when it comes to consultation on consumer credit matters. We worked closely with both industry and consumer groups as we worked to put in place a single, national consumer credit law – the National Consumer Credit Protection Reform Package.

LABOR'S RECORD

Federal Labor has a proud record of delivering reforms that strengthen protections for consumers and give regulators the tools they need to enforce the law.

The National Consumer Credit Code started on 1 July 2010. It folded eight State and Territory regulatory regimes into a single, national law and:

- Introduced a national licensing regime for all providers of consumer credit.
- Introduced new national responsible lending obligations for lenders and brokers (that will take full effect from 1 January 2011).
- Extended ASIC's powers as the sole regulator of consumer credit.

Under the new responsible lending obligations, lenders and brokers need to act responsibly by not providing or arranging credit that:

- Is unsuitable, given the consumer's requirements or objectives.
- The consumer does not have the capacity to meet or can only repay with financial hardship.

Under the new national code, credit providers face possible imprisonment for up to two years for serious breaches of the responsible lending conduct requirements or heavy fines of up $220,000 for an individual and $1.1 million for a corporation.

Federal Labor has also increased the monetary threshold under which consumers can request changes to their credit contract on hardship grounds to $500,000 for new contracts.

And Federal Labor has established a listing and switching service whereby all banks and credit unions are required to assist consumers with changing transaction accounts.

We also provided tough new powers to ASIC to pursue unfair mortgage exit fees as part of a new national unfair contract terms provision.

THE COALITION'S RECORD

Tony Abbott was a senior Minister in the former Coalition Government that:

- **Failed to deliver one national credit law** through the National Consumer Credit Protection Package, cutting through eight State and Territory credit laws.
- **Failed to introduce new national responsible lending obligations** that require lenders to ensure that the credit they provide is not unsuitable to the consumer and that the consumer has the capacity to repay the credit or loan product.
- **Failed to introduce a new national unfair contract terms provision** to allow consumers and the credit regulator, ASIC, to be able to challenger unfair terms in consumer credit contracts, like excessive mortgage or exit fees.

If he is elected Prime Minister, Mr Abbott has made it clear that:

- He will **wind-back the role of the Council of Australian Governments** (COAG).

Under Federal Labor, COAG's National Reform Agenda includes the **second phase of credit reforms** focused on the areas of small business credit, fringe or payday lending, and investment loans.

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