

11 November 2010

**The Chairman  
Senate Enquiry into the Banking Industry  
The Senate  
Parliament House  
Canberra, ACT 2600**

**Dear Sir**

I write to point out how unfair and indeed misleading the banks are in quoting interest rates

Attached is a sheet of a recent credit card statement showing a 'Purchase Rate' of 20.490 % and a 'Daily Rate' of 0.05614 %

No doubt the 'Daily Rate' is per day, but it is silent about compounding. But what is the 'Purchase Rate'? Is it per annum? And what about compounding? If one divides 20.490 % by 365 days one gets 0.056137 % per day. But why should any bank just round it up to 0.05614 %? That is \$millions per annum of extra dollars suffered by bank customers!

But it gets worse!

When one takes monthly compounding into account as is shown on the second attached sheet the true rate of interest a bank customer pays expressed as an annual percentage rate is 22.43 %! Not 20.49 %. In other words through monthly compounding banks may be charging their customers nearly an extra 2 % per annum without telling them. In some jurisdictions this is a criminal offence and the bank's directors should go to jail.

[The 20.49 % should in fact be 20.47 % but this just adds to the confusion.]

As all interest rates can be made equivalent to an annual percentage rate paid in one sum on the last day of the year this is the rate banks should have to display **prominently** on all documentation. Any error should be a very serious matter as bank customers are being misled

If you are able to take up these comments in your report I should be delighted.

Yours faithfully

**Alan W. M. Mills**

Page number

Statement begins

Statement ends

Account number

Oct 2010

Nov 2010

**Visa transactions continued**

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Interest charged on purchases	Purchase Rate 20.490%	Daily Rate 0.05614%	0.00
Interest charged on cash advances	Cash Advance Rate 21.490%	Daily Rate 0.05888%	0.00

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**American Express transactions**

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Date	Transaction details	Amount (A\$)
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**Interest Rates for Senate Enquiry November 2010**

Prepared 11 November 2010

Assumptions -

1 Credit purchases of \$100 start to attract interest on 1st January 2010

	days in month	Daily interest rate %	Principal outstanding \$	This month's interest on the principal \$ d = a.b.c	Cumulative interest \$	This month's interest on the principal and interest \$	Cumulative interest \$
	a	b	c		e	f	g
January	31	0.05614	100.00	1.74	1.74	1.74	1.74
February	28	0.05614	100.00	1.57	3.31	1.60	3.34
March	31	0.05614	100.00	1.74	5.05	1.80	5.14
April	30	0.05614	100.00	1.68	6.73	1.77	6.91
May	31	0.05614	100.00	1.74	8.47	1.86	8.77
June	30	0.05614	100.00	1.68	10.15	1.83	10.60
July	31	0.05614	100.00	1.74	11.89	1.92	12.52
August	31	0.05614	100.00	1.74	13.63	1.95	14.47
September	30	0.05614	100.00	1.68	15.31	1.91	16.38
October	31	0.05614	100.00	1.74	17.05	2.01	18.39
November	30	0.05614	100.00	1.68	18.73	1.97	20.36
December	31	0.05614	100.00	1.74	20.47	2.07	22.43
	<u>365</u>			<u>20.47</u>		<u>22.43</u>	
				<u><u>20.47</u></u>		<u><u>22.43</u></u>	<b>1.96 Excess !</b>