The Senate Economics
References Committee,
Suite SG 64,
PO Box 6100,
Parliament House,
Canberra, ACT, 2600.

Dear Sir or Madam,

I am writing a submission in regard to the Senate Inquiry into financial institutions.

The first part of my submission deals with credit cards. The CHOICE organisation has drawn publicity to the fact that if a consumer only pays the minimum payment required then a credit card debt could take up to 62 years to repay! It gave two examples of persons paying monthly on a credit card with $10,000 limit. If the minimum payment of $200 is paid then the loan will take 62 years to repay whereas if $250 is paid a month the amount is cleared after five years! The interest paid to the bank by the minimum monthly payment is $32,457 as against only $5,671 if $250 is paid a month.

I wish to submit that every time a notice is sent out the following sentence be included in red print, "You are reminded that if you only pay the minimum payment each month then the interest paid can be as much as over six times the interest if you pay more than the minimum". From July 1st the banks cannot automatically invite constant increases in credit which is a step forward. See cutting from press dated 4/3/11 in which the above example is shown.

A recent programme on ABC TV's *Four Corners* revealed that in Western Australia a bank called Bank West was employing staff to virtually sell loans to people. A number of borrowers responded and replied on valuations that had been completed for Bank West. Then the bank was sold off to the Commonwealth Bank and it began to get new and far more extensive valuations completed which undervalued the Bank West valuations and placed the loans made by Bank West as being too excessive for the value of the asset and therefore they required payment to bridge the gap.

My submission is that Parliament makes changes to the law to stop this practice. If a loan is made and the bank lends the money based on a valuation they made themselves then it is unconscionable to suddenly send a new valuer to revalue the asset and declare the asset is overvalued! The Bank Ombudsman needs to have far more powers to ascertain the truth behind some of the loans made and how the valuations were made.

The *Four Corners* programme dealt with middle aged couple who decided to buy a motel at a place called Nelson's Bay in NSW. It was priced at $2-4 million and they were reassured that it was good value as Bank West had valued it at $2-4 million! However, it seems the valuer only took a couple of hours to value the business and the couple ended up buying a motel with no beds and false returns! Nevertheless they did their best to make the business prosper but then Bank West sold out to the Commonwealth Bank and a new valuer arrived and spent five days valuing the business and came up with a figure of only $1-7 million making the couple liable for $700,000 cash!

The couple ended up virtually destitute and homeless as the Commonwealth got them evicted. I feel that the law courts should not have to power to evict anyone in circumstances where a loan is made and then a new valuation finds the loan is overvalued. The Bank Ombudsman should have the right to question the people who made that loan and the valuers who did the valuations. How was it that the Bank West valuation was made in only a few hours and the valuer did not see there were no beds! Why did the second valuation take five days? The correct thing to have done was to strike out the valuations and find the loan was by all purposes improper and that means the law of contract needs to be amended.

The community ends up paying for these bank excesses because couples often divorce and people end up on welfare. A second example is the case of the two men leasing a pub. When it came up for sale Bank West was keen to lend the money for the partners to buy their pub and again the valuation was so conveniently provided by Bank West! But along comes the Commonwealth Bank valuer who undervalues the loan making the partners in default and they are evicted!

I feel the Senate should make recommendations for the Bank Ombudsman to call evidence on oath to ascertain the truth behind the instructions for these valuations because it would appear Bank West was bought with the Commonwealth Bank planning to revalue loans and to evict genuine borrowers who had taken loans in absolute good faith and then found the new bankers were demanding hundreds of thousands in cash within seven days!

In Qld a financial advisor told a number of retirees to borrow cash on their houses and to buy shares to supplement their pensions. But the world recession caused the shares to fall below the level of their loans so the banks involved (Commonwealth & Bank of Qld) sold off their shares and then demanded the balance of the loans within seven days and the first these retirees knew of it was when they got demands from the banks for hundreds of thousands of dollars. The banks did not even have the decency to tell the clients they had sold off the shares! They claimed it was the duty of the financial advisor to do so whereas the financial advisor claimed it was the duty of the banks!

Bankers know full well that a number of these so called financial advisors are people without any tertiary education and come from a range of different occupations and backgrounds. It is irresponsible for bankers to make loans to elderly people in the evening of their lives using their major asset, their family home. It is totally unconscionable.

I feel the Parliament should draft laws to allow the Bank Ombudsman to make full inquiries into the granting of these loans when they know the retirees have no incomes other than their pensions and that their only asset is the family home. Modern medical science has now found that very often dementia begins much earlier than old age and therefore the mental capacity of the borrower in default should be inquired into.

Evidence has come to hand that debts as low as $3,000 have ended up with the family home being auctioned off after banks sell their debts to debt collectors who auction the home off interstate. Once again Parliament should change the law to stop this practice by making it illegal for any bank to sell off any debts to debt collectors without the matter being referred to the Bank Ombudsman first and for the debtor to be present when the matter is heard.

To sum up:

Recommendation One:

Every monthly statement for credit card payments clearly state that minimum payments mean high interest will take many years to repay.

Recommendation Two:

That where a loan is made for a business and a valuation is made by the banker then that valuation stands and should not be reassessed. That the Bank Ombudsman has the authority to call the bank officials who made the original loan and the valuer to ascertain whether the loan was granted under unconscionable circumstances and therefore the witness placed on oath. If it is found that the loan was made under what could be termed unconscionable then the Ombudsman have the right to strike out the loan. Lending money to novices to go into business when they have no real expertise but are asset rich might well be seen as unconscionable behaviour. A lot of people are being made redundant these days as manufacturing declines and they are in their fifties and have cash and a house etc and want to go into business! These people trust banks and financial advisors and buy a business but if it defaults then they risk losing all their assets. The cost of people losing all their assets ends up being paid for by the community because often ill-health strikes when people lose their life savings.

Recommendation Three:

In the case of retirees who apply for loans on their houses the application be placed on video to ensure the person fully understands that if the loan is for shares to supplement their pension and the shares fall then the bank can sell the shares and demand the balance in cash. If it is a reverse mortgage that the person understands it is in fact a fixed term loan usually expiring at age 85. Also a physician's report submitted in regard to any possibility of early dementia. In the event of any attempt by a banker to take proceedings against the elderly borrower the Bank Ombudsman have the right to view the original video and call evidence on oath with powers to strike out any debt made under what can be seen as unconscionable conditions.

Banker A grants B & C money to go into business. Banker A knows that B & C have many assets that have accrued in value. Banker A also knows A & B have no real business experience. If the business fails then Banker A can sell off B & C's assets and recoup the money. The question a Bank Ombudsman should be able to ascertain is whether Banker A knew all the time that the business would fail and that the B & C's assets were appreciating! Changes to the laws would be necessary to "police" the way these loans were made and if any pressure was placed on the couple.

Recommendation Four:

That all banks pursuing debts where they intend to sell off assets like houses should have to start their proceedings before the Bank Ombudsman and that selling small debts to interstate debt collectors knowing they intend to auction houses owned by the debtor should be prevented and in the cases of mortgage defaults evidence should be presented as to whether the original loan was made when it was clear the borrower could not service the loan! That all proceedings involving a debtor be made only when the debtor is present and that before any court action is attempted the matter be raised before the Bank Ombudsman.

Four Corners presented definite evidence of four borrowers who had been seriously misled or duped by Bank West yet got no protection from the law. The laws operating at present allow banks to carry out serious acts of injustice and only last week on *The 7-30 Report* ABC TV showed that a finance group called Tri-Capital was virtually fraudulent and $200 million is missing and some couples have lost their life savings! Yet the two bodies set up to protect Australians did not even realise Tri-Capital was bogus.

The IMF stated that in 1929 in the Great Depression and in the Great Recession of 2007 two things stood out. Lose monetary policies and financial deregulation. The Big Four banks in Australia have 82% of all home loans and they are keen to seize a house to sell off even if a person is two payments behind! This is why I submit the Ombudsman must be given far more power and authority to end many injustices being carried out on innocent people. A lot of people today grew up in an environment when the friendly bank manager was a person one could trust.

I have enclosed several press cuttings to emphasize my points.

Yours faithfully,

Victor R.E. Camp.

FEDERAL BUDGE

Credit debt sale uproar

Home sold off for $20,000

Kay Dibben

A BRISBANE couple lost their $315,000 home over a credit card debt of just $8000 — only finding out about it after their home was sold for $20,000 at a bailiff's auction.

The first they knew about it was when the new owner, who had to pay the couple's outstanding $220,000 mortgage, phoned them and said: "Get out."

Legal Aid Queensland lawyer Catherine Uhr said the couple were not given notice of the auction in January.

"All this married couple got back from the $20,000 that was paid for their house was a cheque for less than $5000, because of costs," said Ms Uhr, of the Consumer Protection Unit.

Legal Aid Queensland says it is just one of several cases of debt collection companies moving to sell Queenslanders' homes at bailiffs' auctions to recover credit card debts of less than $10,000.

LAQ says debt collection companies buy small credit card debts off lenders, often obtaining judgment for payment of the debt in a New South Wales court, then getting enforcement warrants for bailiffs' auctions in Queensland courts.

Since November, LAQ has handled five such cases, negotiating with creditors and stopping the auctions at the last minute in four of them. In one case a debt collection company tried to sell a home over a debt of only $850.

A Browns Plains purchasing manage 39, who had a credit card debt of $500 found out about the bailiff's auction c the $385,000 four-bedroom home sh and her husband fully owned, five day before it was due.

"We had bought our house and th credit card was part of the deal with th bank," the woman said.

"We later refinanced and we believec the credit card had been paid off."

Eventually the woman wrote to the debt collection company, agreeing to a repayment plan.

"I never received a reply, but I later got a call from a woman who said, 'Now we can take you for all we can get'."

The woman said she found out about the pending auction when a man rang offering her financial advice.

"It was a huge shock," she said.

The woman said she received a bailiff's letter about the auction two days before it was scheduled.

She paid $11,000 to stop it — just minutes before it was due to start.

A 40-year-old Jindalee mother-of-seven found out her $650,000 home was to be auctioned just after Easter, when a friend saw the bailiff's ad two weeks earlier.

The woman admitted she was "slack" in paying her credit card debt, but only owed about $3000. A solicitor negotiated to stop the auction.

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True cost of credit exposed

4/3/11

Paddy Hintz

BANKS could be forced to spell out how much it really costs if customers only pay the minimum monthly balance on their credit card debt.

Under reforms suggested by consumer organisation Choice, the banks would have to advise consumers that a $10,000 credit card loan at 18.5 per cent interest, for example, would take 62 years, eight months and $32,457 in interest to pay back.

If minimum monthly payments of $250 were applied to the same loan, the time to pay reduces to five years and four months with $5671 interest.

Policy director of the Consumer Action Law Centre Nicole Rich said a suite of 14 reforms suggested by Choice yesterday would arm the Federal Government with more reasons to pursue a fairer banking system.

The credit card recommendation would mean banks would have to outline how long a total debt would take to pay back if only the minimum repayment was made.

"Banks have an interest in keeping that minimum repayment level really low because the longer you take to pay off the loan, the more interest you pay," Ms Rich said.

"Overseas it has been shown to have a really big effect when consumers are shown how long it actually takes to pay off that loan using minimum payments and how much quicker that loan can be paid off even if only a slightly higher repayment amount is made."

Executive director of the Australian Financial Counselling and Credit Reform Association Fiona Guthrie said consumers would be alarmed if they knew the real cost of only making minimum payments.

"We've been trying to get better credit regulation for ever and this is the next wave that is needed," Ms Guthrie said.

PAYBACK TIME

A $10,000 credit card debt at 18.5%

Monthly repayments	Repayment period	Total interest
$200	62 yrs 8 mths	$32,457
$250	5 yrs 4 mths	$5671

Calculate the cost of repayments @ www.fido.gov.au

"The banks are resisting the recommendation for better disclosure; it is important that they don't negotiate some meaningless disclosure proposal.

"Nearly every single person a financial counsellor sees will have credit card debts."

Ms Rich said reforms directed towards lenders mortgage insurance outlined in the Choice package could also save consumers a bundle.

"This is the new, emerging issue in this area of banking reform," Ms Rich said.

"If you refinance your loan early on in the life of the loan, which is what a lot of people are doing, there's no refund on the premiums that you've paid for the rest of the loan."

Choice has called for a comprehensive review of lenders mortgage insurance "to ensure that it does not remain a barrier to switching home loans".

Ms Rich said many recommendations included in Choice's report, such as the introduction of portable account numbers, were currently being pursued or investigated by the Federal Government.

Several featured in Treasurer Wayne Swan's Competitive and Sustainable Banking Package introduced in December.

Houses seized as defaults hit record

Koren Helbig

THE number of homes and businesses repossessed by banks has reached an all-time high in Queensland as record numbers of owners default on mortgage repayments.

Justice Department figures show lenders lodged 193 claims to repossess homes and businesses in the state's courts during August.

It is the highest monthly total since records began about 1992, surpassing the previous record set in April last year by 17 claims.

Lifeline financial counselling practice leader Ken Campbell said the figures were just "the tip of the iceberg" as many cases never made it to court.

He said a lot of people negotiated with banks to suspend their mortgage repayment on the condition the homeowner put their property up for sale.

"It technically becomes a de facto repossession because the owner knows that if they don't get the property on the market then eventually the bank is going to sell it from under them," he said.

Mr Campbell said counsellors were "bracing for another onslaught in demand" after the RBA raised the official cash rate from 4.5 to 4.75 per cent on Tuesday.

Real Estate Institute of Queensland managing director Dan Molloy said the August spike showed the typical lag between rate rises and the impact on homeowners.

"The series of six interest rate increases in the period from October last year to May this year has had a dramatic and tragic impact on some people," he said.

"The cumulative effect of those adding up to $300 a month on the average $300,000 mortgage obviously was too much for some people and the financial institutions moved."

The Justice Department figures show repossession claims peaked in 2008-09 at the height of the global financial crisis with 1759 cases, before steadying to 1612 cases in 2009-10.

This financial year looks set to be worse, with claims made between July and September topping 532 – 95 more than the same period in 2008.

Australian Financial Counselling and Credit Reform Association executive director Fiona Guthrie said many people tried to ignore their impending financial doom.

She said those struggling to meet repayments should call a financial counsellor and organise hardship arrangements with their lender.

Disputes can be referred to the Financial Ombudsmen Service.

"It means that debt-collection activity and legal action has to cease so it gives you a breathing space to sort it out," she said.

Need help? Call Lifeline's free financial first-aid line on 1300 370 255

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5/11/10

①

Ruthless banks eject families for as little as $3000

Q ✓

Kay Dibben 2/11/10
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BANKS are ramping up repossessions of properties, selling off Queenslanders' homes for mortgage repayment debts as low as $3000.

Legal Aid Queensland consumer credit lawyer Catherine Uhr said banks had adopted a tough new policy to quickly repossess the homes of clients who were in arrears by one or two mortgage repayments.

"We've seen a number of repossessions over arrears of under $5000, and some for $3000," Ms Uhr said.

Claims for repossession of properties in Queensland have skyrocketed in the past few months, with 532 claims lodged in July, August and September in Queensland supreme and district courts. This compared with 448 claims for the same period last year.

"It's a curse to be a Queenslander," Ms Uhr said. "If you miss a mortgage payment they'll sell you up.

"I've spoken to five people in the last three days who all have one thing in common – they owe between $3000 and $5000 because they've missed one or two payments.

"They all are rescuable."

A *Sunday Mail* survey of 483 repossession claims by lenders, filed in Queensland courts between July 1 and November 4, showed the Commonwealth Bank was easily the most prolific litigant.

The Commonwealth had 160 claims, compared to Westpac (59), Bank of Queensland (59), NAB (54) and ANZ (33).

Ms Uhr said banks were moving quickly to foreclose instead of working out a plan to get people back on track with their repayments.

"They are failing to consider hardship applications and knocking people back for spurious reasons," she said.

A Commonwealth Bank spokeswoman said: "All banks have a very similar approach around arrears.

"As Commonwealth Bank is Australia's largest home lender, it makes senses that its repossession figures are higher than other banks."

Ms Uhr said that in 2009, banks made more accommodation for clients in hardship situations and did not repossess as many properties.

"There seems to be an all-bets-are-off attitude," she said.

Banking and Finance Ombudsman Philip Field said the number of financial difficulties disputes lodged with the Financial Ombudsman Service had increased by 165 a month since January.

Repossession claims filed by lenders in Queensland courts since July 1

Commonwealth Bank	160
Westpac	59
Bank of Queensland	59
NAB	54
Permanent Custodians	35
ANZ	33
Perpetual Trustees Victoria	25
Suncorp Metway	22
Bendigo and Adelaide Bank	16
ING	18

3-3-11

Banks face blitz on service

Choice issues a call to end unfair treatment

Paddy Hintz

HARD-hearted banks will be targeted in a new consumer campaign to force them to scrap unfair fees, poor service and dodgy computer systems.

"What needs to be changed is the culture of banking," Choice spokesman Christopher Zinn said.

"There is a definite groundswell of feeling growing among consumers that this sort of behaviour is not good enough and the role for Government is to listen to that voice."

In a series of 14 recommendations to be presented to Treasurer Wayne Swan today, Choice calls for banks to mend their ways so that "bank bashing" no longer ranks as the national sport.

"Over the years we've seen the banks become tougher, harder and more market-driven," Mr Zinn said.

"They've instituted penalty fees that were frankly unconscionable and which targeted the most vulnerable, the people who couldn't afford to pay late payment fees."

Banks had started to respond to a growing consumer backlash, which has included a $50 million class action by 27,000 consumers against ANZ over penalty fees, and some of the majors had started to drop exit fees from mortgages. But more change was needed.

"This is a way of drawing a line in the sand, to say what needs to be done," Mr Zinn said.

The conclusions from the Choice report have been drawn from a campaign started towards the end of last year calling for consumer input.

It will also be presented to the Senate Estimates hearing into the banking system and the chief executives of the major banks.

"People have sophisticated ideas," Mr Zinn said. "They don't have to have a degree in finance to have an idea of how the system is working."

While consumers were largely angry over fees, recent computer system malfunctions at both the Commonwealth Bank and National Australia Bank had also lessened trust in the banking system.

Choice said it would give the banks 12 months to effect change before lobbying Parliament to institute regulations forcing them to do so.

"Banks do not live in a bottle, there is change that is ongoing," Mr Zinn said. "But what we want to make sure is that the changes they're making are lasting and meaningful, that it's not all just spin."