
The Parliament of the Commonwealth of Australia

Advisory Report on the National Consumer Credit Protection Amendment (Home Loans and Credit Cards) Bill 2011

House of Representatives
Standing Committee on Economics

June 2011
Canberra

© Commonwealth of Australia 2011

ISBN 978-0-642-79476-5 (Printed version)

ISBN 978-0-642-79477-2 (HTML version)



Foreword

The National Consumer Credit Protection Amendment (Home Loans and Credit Cards) Bill 2011 makes a number of reforms to lenders' practices for home loans and credit cards. For example, it requires lenders to publish key fact sheets for both these products, which will make it easier for consumers to compare products. Additional reforms for credit cards are:

- preventing lenders sending unsolicited limit increase offers to individuals, unless they elect to receive them;
- preventing lenders charging fees where a consumer goes over their credit limit, unless the consumer elects to be able to go over their credit limit; and
- requiring lenders to pay off consumers' debt with the highest interest, unless the consumer elects otherwise.

The most important reform concerns unsolicited credit limit increase offers to individuals. The committee heard consistent evidence during the inquiry that the aggressive marketing by banks of limit increases was a key reason why some consumers have credit problems. Credit cards have a number of unique features, two of which are high interest rates and that consumers are only required to pay a very small amount each month. Aggressive marketing by the banks appears designed to put consumers at the limit of their credit capacity, whereupon the unique features of credit cards mean that the individuals concerned are paying interest with little capacity to reduce the principal.

While the 'debt treadmill' may be good for bank profits, it has significant social costs and this is why the committee supports the Bill.

The committee also supports the Bill because it will increase competition in the market and make consumers better off. Therefore, while there will probably be

transition costs for lenders, the extra compliance should have no impact on prices for consumers due to increased competition. Costs for lenders should be further reduced because many have already voluntarily adopted some of the reforms.

In addition to recommending the Bill's passage, the committee is also recommending that the commencement date for fact sheets for home loans be set back from 1 September 2011 to 1 January 2012. This is because the industry has consistently stated that they need more time to prepare their systems and Treasury has agreed that this is the case. Industry has also stated that end of year is a busy period, so the committee believes that ASIC should be practical in how it enforces home loan fact sheets in the early weeks of January.

I would like to thank those organisations that assisted the committee during the inquiry through submissions or participating in the hearing in Canberra. I also thank my colleagues on the committee for their contribution to the report.

Craig Thomson MP
Chair



Contents

Foreword	iii
Membership of the Committee	viii
Terms of reference	ix
List of abbreviations	x
List of recommendations	xi

THE REPORT


1 Introduction	1
Background	1
Purpose and overview of the Bill	1
Are reforms needed to the credit card and home loans industries?	4
Unsolicited credit card limit increase offers	5
Profit maximisation	6
Responsible lending	7
Conclusions	8
Consultations	9
Committee objectives and scope	10
Conduct of the inquiry	10
2 Analysis of the Bill	11
Commencement dates	11

Background	11
Analysis.....	11
Conclusion	13
Retrospectivity	14
Background.....	14
Analysis.....	14
Conclusion	15
Costs to industry.....	16
Background	16
Analysis.....	16
Conclusions	18
Use of regulations.....	18
Background	18
Analysis.....	19
Conclusion	20
Home loan websites.....	20
Background	20
Analysis.....	20
Conclusion	21
Definition of a credit limit increase invitation.....	21
Background	21
Analysis.....	22
Conclusion	23
Does the default buffer amount to ‘free credit’?	24
Background	24
Analysis.....	25
Conclusion	26
Are the buffers too complicated?	27
Background	27
Analysis.....	28
Conclusion	29
Effect on balance transfer cards.....	29
Background	29

Analysis..... 29
Conclusion 30
Overall conclusion 31

APPENDICES

Appendix A – Submissions 33
Appendix B – Witnesses..... 35
Appendix C – Exhibits 37



Membership of the Committee

Chair Mr Craig Thomson MP

Deputy Chair Mr Steven Ciobo MP

Members Mr Scott Buchholz MP

Mr Stephen Jones MP

Dr Andrew Leigh MP

Ms Kelly O'Dwyer MP

Ms Julie Owens MP

Committee Secretariat

Secretary Mr Stephen Boyd

Inquiry Secretary Mr David Monk

Research Officer Ms Jacqui Woods

Administrative Officer Ms Natasha Petrovic



Terms of reference

On 11 May 2011 the Selection Committee asked the Committee to inquire into and report on the National Consumer Credit Protection Amendment (Home Loans and Credit Cards) Bill 2011.

Under Standing Order 222(e), the House is taken to have adopted the Selection Committee's reports when they are presented.



List of abbreviations

ABA	Australian Bankers' Association
AFC	Australian Finance Conference
ASIC	Australian Securities and Investments Commission
COAG	Council of Australian Governments
NCCP Act	National Consumer Credit Protection Act



List of recommendations

2 Analysis of the Bill

Recommendation 1

Clause 2 of the Bill be amended so that the commencement date for the provisions relating to Key Fact Sheets for home loans be set back to 1 January 2012. ASIC should take a practical approach to enforcing the provisions in the initial weeks after commencement.

Recommendation 2

Subject to the other recommendation in this report, the House of Representatives pass the Bill.