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Committee Secretary
Senate Economics Legislation Committee
PO Box 6100
Parliament House
CANBERRRA ACT 2600

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Supplementary Submission:
Inquiry into the National Consumer Credit Protection Bill 2009 and related bills

The purpose of this supplementary submission¹ is to address a numbers of matters that have arisen in the course of the Committee's hearings in connection with its Inquiry into the National Consumer Credit Protection Bill 2009 ("the Bill") and, in GE's view, warrant clarification.

1. Disclosure by consumer lease providers

Concerns have been expressed to the Committee that more disclosure will not necessarily help consumers to understand their rights and obligations under a credit contract or consumer lease.² GE agrees and supports the elimination of duplication in disclosures to consumers. However, concerns have also been expressed about the fact that consumer lease providers "do not tell people what the actual total cost is" of "buying" goods under a consumer lease contract and that this creates enormous problems³.

Lessors do not tell their customers what they need to know because there is no legal obligation for them to do so⁴. In our view, imposing a disclosure obligation on lessors that results in customers being able to compare apples with apples is an appropriate, and in fact urgent, addition to the disclosure regime and should be dealt with in the Bill. Given that consumer leases do not have an interest rate or interest component in the same way that credit contracts do, the disclosure to consumers by lessors should include an "effective interest rate" calculated by taking rental/lease charges and fees over the full term of the lease into account.

¹ GE Capital Finance Australasia Pty Ltd ("GE") made its initial submission to the Committee on 17 July 2009

² For instance, the evidence of Mr Gerard Brody, Proof Committee Hansard, Senate Economics Legislation Committee, Wednesday 26 August 2009 Sydney, page E14.

³ Ms Carolyn Bond and Ms Katherine Lane, *ibid.*, at page E5.

⁴ The government has indicated that this will be dealt with in stage 2 of the national credit reform package.

2. How GE's "interest free" works

GE is concerned that there appears to be some misconceptions about how its interest free products work – and how they compare to other credit products. To assist the Committee's understanding, here are some key facts:

- Interest is not backdated or calculated on the original purchase price if the customer does not pay off the entire amount within the interest free period. Interest only applies after the end of the interest free period, and interest is only calculated on the remaining unpaid balance.
- A customer can pay out the full balance before the end of the interest free period without being penalized in any way. There are no additional fees for early pay out.
- 70% of customers pay out before the end of the interest free period.
- Many customers use interest free products again and again.
- Interest free terms can be significantly more cost effective than using a standard interest rate credit card. A worked example is set out in the Appendix to this supplementary submission.

3. Confusion with other products claiming "interest free"

We are concerned that some other products (not provided by GE) that claim to be interest free may be confused with GE's interest free products.

One example is a product that is a direct debit facility offered through various retailers of big-ticket items that is promoted to consumers as "no interest ever". The provider of this product takes a direct debit authority from the customer's deposit account or credit card account to pay down the purchase price over an agreed period of time. The customer is typically required to pay various fees (such as establishment fee, payment handling fee, direct debit dishonour and reinstatement fees – and a fee to change the date of payment) – so these products also have an effective "cost of facility".

Another example is where a low value asset is sold at an egregiously inflated price (for example, a car with a market value of \$2000 is sold for \$8000) that is paid back in "interest free" instalments.

These products should not be confused with the interest free terms offered by GE through its retailer partnerships.

4. Access to justice

In our initial submission, we did not address any issues under the Bill relating to the avenues available to consumers to seek redress in connection with disputes about credit. Under the Bill, linked credit actions cannot be taken through the small claims procedure. Evidence given to the Committee suggests that access to justice issues will arise as a result, but that a simple fix would be to simply add linked credit actions to the types of actions that can, under the Bill, be brought in a small claims procedure⁵.

⁵ Ms Nicole Rich, Proof Committee Hansard, Senate Economics Legislation Committee, Wednesday 26 August 2009 Sydney, page E7-E8.

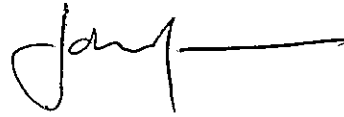
GE agrees that the Bill should be amended to permit linked credit claims to be brought in a small claims procedure. This would reflect the current position (at least in Victoria and New South Wales) under the Uniform Consumer Credit Code.

If you would like further information about any of the matters raised in this supplementary submission, please call Debra Kruse (03 9921 6859) in the first instance.

Sincerely



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John Harrison
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APPENDIX

Scenario 1:

This comparison is of a customer who makes a \$2000 purchase on interest free and a customer who makes the same purchase on a standard credit card.

This scenario is representative of the 70% of customers who chose to pay out within the interest free period.

	GE 36 months interest free	Other credit card
Monthly payment \$*	\$60	\$60
Annual percentage rate	29.49% (only applies after the end of the interest free period)	18.99%
Establishment fee	\$25	\$0
Monthly account service fee	\$3.95	\$0
Total fees/interest	\$167.20	\$733.14
Months to pay for goods	36 months	46 months
Total repayments	\$2167.70	\$2,733.14

*This scenario assumes the customers decide to make a monthly repayment of \$60.

The interest free customer is significantly better off because they have chosen to make regular repayments and take full advantage of the interest free period.

Scenario 2:

The second comparison looks at the smaller percentage of customers who do not pay out in the interest free period and go on to incur interest at 29.49% per annum on the outstanding balance.

Based on the same \$2000 purchase the customers pay the minimum monthly repayment of \$60 for the first month and then keep paying the minimum repayment until it reduces to \$40. The customers then continue to pay \$40 each month until the total amount is repaid.

	GE 36 months interest free	Other credit card
Monthly payment % or monthly payment \$	The greater of 3% of balance or \$40	The greater of 3% of balance or \$40
Annual percentage rate	29.49%	18.99%
Establishment fee	\$25	\$0
Monthly account service fee	\$3.95	\$0
Total fees/interest	\$412.13	\$1,188.96
Months to pay for goods	57 months	74 months
Total repayments	\$2412.13	\$3,188.96

The interest free customer is again better off in this scenario because they have taken advantage of the 36 month interest free period. Even though they go on to incur interest at 29.49% they are still better off because interest is not back-dated and is only calculated on any balance still outstanding when the interest free period ends.