

Senate Economics Legislation Committee

PO Box 6100  
Parliament House  
CANBERRA ACT 2600

12 July 2010

Comments on the Banking Amendment (Delivering Essential Fin Services for the Community) Bill 2010 (the Bill)

About Redfern Legal Centre

Redfern Legal Centre (RLC) is an independent non-profit community-based organisation with a prominent profile in the Redfern area of over 25 years' standing. We provide free legal advice and assistance, community education and advocacy on law and policy reform issues.

RLC identifies economic rights as important in the attainment of a just society. RLC has long recognised that, without the ability to exercise their economic rights, people are unable to effectively maintain any of their other rights to participation in society, including keeping families together, safe housing, jobs, and freedom. For this reason RLC has continued to emphasise casework delivery to people in relation to banking, credit and debt problems. RLC provides a specialist credit and debt face-to-face and telephone advice services.

Our view in summary

Overall, Redfern Legal Centre (RLC) expresses its support for the Bill and the areas of proposed reform. We make no comment in relation to the proposed amendments on fixed interest gap mortgages at this stage.

**Basic transaction accounts**The Bill proposes amendments requiring banks to offer 'basic transaction accounts' with lower and/or no fees. We support this amendment. In our experience, the imposition of penalty and account-keeping fees impacts in a disproportionately high manner on the most economically disadvantaged consumers in the community. Consumers who are already in financial distress are more likely to incur penalty fees, or "exception fees" as they are referred to in the banking industry. Although these exception fees are usually between \$5 and \$25, these are not insignificant sums of money for a person on Centrelink benefits already struggling to keep up with interest repayments and other debts.

Consumers in debt often have multiple credit cards and bank accounts, and may be incurring exception fees on most or all of their accounts. These fees send the client deeper into financial hardship, at a time when the consumer should be using the money to pay off existing debts, rather than bank fees. This is particularly so given that the fees

charged by banks often do not reflect the true cost of the service provision. ATM charges  
The Bill proposes abolishing ATM fees at a bank's own-branded ATMs and capping  
charges for the use of other ATMS at the cost of the service provision.

We support this amendment. Our client-base includes the elderly and people with disabilities, who in our experience are more likely to experience difficulty in travelling in order to access fee-free ATMs. They are also often less able to afford the fees. Consumers living in areas that are under-serviced by banks (often due to branch closures in rural, regional and remote areas) have little choice between banks or ability to travel in order to avoid ATM fees. Accordingly, the imposition of ATM fees has a greater impact on people living in non-urban areas. Given that there are generally higher levels of unemployment and lower average incomes in such areas, ATM fees are hardest to avoid by the people who are least able to afford them.

#### Case Study 1: Ms F

Ms F is an RLC client. She receives the disability pension. Ms F came to us with credit card debts of almost \$10,000. These debts were incurred at a time when Ms F had a job and a stable income. She lost her job a few years ago and now relies solely on the disability pension. The combination of interest and late payment penalties on her accounts meant that Ms P felt she would never be able to repay her debts out of her Centrelink payments. This caused her considerable anxiety and stress, which she was ill-equipped to deal with due to her disability.

Ms F lives in an area where there is only one bank ATM within walking distance of her residence. Other ATMs are located in hotels in the area. If she needs to withdraw cash after dark, Ms F prefers to do so in the safety of one of the hotels, rather than from the street ATM. Every time she does so, she incurs a fee from her bank and a fee from the ATM owner. The penalties incurred by Ms F are applied to her credit accounts and the fees are deducted directly from her bank account every time she makes a cash withdrawal from a non-Bank ATM. In practice, this meant that her as her debt grew, the amount of money left in her bank account to service her debts from her Centrelink payments was reduced. Ms F came to us in a state of extreme anxiety and fear.

This case study illustrates the effect that the accumulation of penalties and bank fees can have on a client's ability to service a debt, and also on the stress and anxiety they can cause. In our experience, vulnerable clients like Ms F feel overwhelmed and helpless when trying to overcome their debt issues, particularly when they continue incurring fees and penalties that they are unable to avoid.

Early exit fees We support the proposed amendment to require banks to include early exit fees in their advertising and to link the calculation of their early exit fees to their actual costs. Consumers of mortgage products dissatisfied with the product or service they receive from their bank or mortgage provider feel trapped by the exit fee, which discourages them from switching. The provision of such information is important to

increasing consumer understanding of the different mortgage products available, and to encouraging competition in the market by making it easier for consumers to switch mortgage providers if they are dissatisfied with the service or product they receive.

Summary of submissionThe amendments proposed by Senator Bob Brown in the Bill would have a positive impact on consumers of banking products and services, particularly vulnerable consumers dealing with debt and facing financial crisis. In our view, the Bill would also help foster much-needed competition in the banking industry. RLC supports the Bill.

We would welcome the opportunity to comment further on the Bill.

If you have any queries or require further information please contact Michelle Schonstein, Solicitor, Redfern Legal Centre, on 02 9698 7277.

Yours Sincerely,

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