SUBMISSION 25

Wesley Mission Submission to:

House of Representatives Standing Committee on Economics

Title: New Inquiry into Competition in the Banking and Non-Banking Sectors

INQUIRY INTO COMPETITION IN THE BANKING AND NON-BANKING SECTORS

Competition is an important economic concept that is highly valued by economic rationalists and has been adopted by governments as a political mantra.

However, competition needs to be tempered with an appropriate measure of consumer protection. This is particularly the case in the area of consumer finance products.

The Consumer Credit Code was introduced into Australia in 1996. It was intended to improve the efficiency of the consumer credit market by ensuring that consumers had sufficient information to enable them to make informed choices about credit products. One of the important lessons demonstrated by the Consumer Credit Code is that economic theory and practical reality are 2 different things. The lending industry now provides more information to consumers, but the result has been increased confusion due to a mass of complex, hard to comprehend information.

The current consumer credit market is competitive, but continues to rely upon complexity and tricky marketing rather than fair practices. For example, very few lenders publish comparison rates for their products. Comparison rates were designed as a simple way for consumers to compare the cost of financial products.

It would not be true to say that the lending practices of the financial sector are responsible for poverty in our community. However, the financial sector exacerbates the gulf between rich and poor by offering the cheapest credit products to the richest customers and the most expensive credit products to the poorest customer.

Poor people have a limited choice in credit products due to their low income, unstable employment, low self-esteem, lack of education, limited access to transport, possible credit defaults, lack of money management skills, health issues etc. They are more likely to accept what credit is offered to them rather than shop around for the best deal.

Clients of our financial counselling services primarily get into financial difficulty due to loss of employment, health problems and poor money management skills (including gambling). It is difficult to identify or predict these issues at the time a loan is made.

Whilst we have concerns about finance industry lending practices, debt collection practices and fees, these are of lesser concern than the issues which relate to the client.

Through overly easy access to credit (either personal loans, financing or credit cards) many of our clients in rehabilitation services at Wesley Mission face the burden of loans that they can never pay back. In some cases, through the easy access to credit, families have used different family members, family names and addresses to rank up numerous credit debts for short term gains or to pay off other creditors. Often individuals and in particular families, have to manage massive debt either incurred when they are in a poor mental state and therefore making poor decisions. Many clients also get loans who have severe addictions (including gambling). Broken relationships or needing/desiring various house-hold items and/or cars drives them to seek out loans. Easy access to credit without proper financial planning appears to our vulnerable clients as an easy solution to their debt problems, when it only compounds the problem.

The incidence of family homelessness through financial stress is increasing. We are currently housing 25 families in the Sydney area and turn a further 10 families away each week.

We would like to see greater regulation in the areas of:

- Lending practices to reduce excessive lending to consumers
- Debt collection practices to enable consumers to get back on their feet when they have a personal crisis, especially loss of employment or health problems
- Penalty fees and charges for late payments, over-limit charges
- Fringe and predatory lending

One way in which lending practices could be improved is control of the system of bonuses and commissions that exist in lending institutions. In many cases, people are sold loans beyond their means by salespeople who are keen to earn a commission or bonus. However, the situation in Australia is much less acute than the sub-prime market in the US because our lending institutions are much more careful in who they lend to than the Americans have been.

The problems consumers are facing with their mortgages are very much a problem of the economic cycle – namely that borrowers sign up for long-term financial commitments and are at risk of short-term fluctuations in the economy and unexpected changes in their financial circumstances. The economic rationalists would say that tens of thousands of people losing their homes in a recession is a small price to pay for an efficient economy. We would say that the cost of loss of even one person’s home and possible bankruptcy is a very great personal cost to pay.

Consumers mostly shop around for a home loan and lenders are more careful who they lend to for the purchase of a home. Many people are able to commit a high percentage of their income to their mortgage payments and not get into financial difficulty. However, others do get into financial difficulty.

Credit card and other unsecured lending is a greater concern than mortgage lending. For example, consumers who take advantage of the “interest-free” offers of retailers usually end up with a credit card that they didn’t really want.

It is difficult for a financial institution to predict who will get into financial difficulty when it makes the loan, as the borrower may lose their job any time after the money is lent. We would not support compulsory financial counselling at the time people take out a loan however voluntary access to such services for those who really want help with decisions would be an advantage. The decision about who to lend to and how much should remain with the lender.

Therefore we want better regulation to help borrowers keep their homes when they get into financial difficulty. This would make it more difficult for lenders to take possession of a person’s home if they fall behind in their repayments. These remedies should include the ability to restructure the loan and obtain an interest-free moratorium on repayments.

If it were more difficult for lenders to take possession of people's homes and sell them, they would be more careful in their lending practices.

Wesley Mission has recently done research into the issues around financial stress. This report can be access on the following link http://www.wesleymission.org.au/News/research and provides considerable data on issues relating to this inquiry.

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