

## ANGLICARE FINANCIAL COUNSELLING SERVICE

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The Secretary  
Senate Economics References Committee  
Suite SG.64  
Parliament House  
CANBERRA ACT 2600  
& by email: [economics.sen@aph.gov.au](mailto:economics.sen@aph.gov.au)

Dear Secretary and Senators

***RE: Public Inquiry into "Possible links between household debt, demand for imported goods and Australia's current account deficit"***

Attached is a submission to the above inquiry on behalf of Anglicare Tasmania's Financial Counselling Service (ATFCS).

ATFCS provides counselling, information, advocacy and support services to individuals and families experiencing financial difficulties across the state of Tasmania. ATFCS employs eight financial counsellors whom assisted approximately twelve hundred individuals and families over the last financial year.

This submission will address the Terms of Reference (b), (e), (f) and (g) as it is these points that ATFCS feels it can confidently and competently make comment on. ATFCS would be happy further expand on these comments if required to do so.

Yours faithfully

**Chris Jones**

**Chief Executive Officer**

**OBSERVATIONS ON THE TERMS OF REFERENCE:**

***(b) factors, including the lending policies of banks and other financial institutions, that contribute to household debt levels;***

ATFCS is witnessing the increasing cost of living to be a contributing factor to increasing household debt levels with basic living expenses such as rent, power and petrol consuming a large percentage of the income of many of its clients. This often forces individuals to apply for high interest credit to purchase basic household items such as furniture, whitegoods and even clothes.

The changing face of technology and the accompanying societal expectations and pressures that result in consumers purchasing the newest technology to be “fashionable” is also a major contributing factor leading Australian households into ever increasing debt. A good example of this is the increasing amount of household income spent on telecommunications in particular mobile telephones. The ease by which consumers can access credit to purchase these goods, in particular interest-free period loans and in-store credit that is offered by most large department stores and chains at very high interest rates (up to 25%) further encourages/supports consumers to purchase luxury items that they often cannot realistically afford. At present, little financial information needs to be provided by the customer to access this form of credit and oftentimes clients do not fully understand the terms of the contract. ATFCS recommends that the lending policies of these credit providers be made more stringent and that the terms of the contracts be clear and easily understood by the general public.

The role of advertising and media needs also to be acknowledged. It is becoming common knowledge of the advertising’s industry increasing focus on society’s youth.

Another emerging factor ATFCS is witnessing to be contributing to the level of household debt is the increase in unsolicited offers of an increase in credit on existent credit accounts by credit providers to individuals without any reassessment of their ability to service an increased credit account. It is our recommendation that these procedures to be reviewed and regulated.

Other factors worth noting here which are more difficult to address but nonetheless pertinent to this subject include the increasing need for instant gratification and consequential “buy now/pay later” mentality of our society today and the level of financial literacy in Australian society which both the ANZ Financial Literacy report released in 2003 and the Consumer and Financial Literacy Taskforce discussion paper released last year agreed needs to be “improved”.

***(e) risks for households and the economy of high household debt levels;***

High household debt poses a number of risks to Australian households. Oftentimes once a household pays all of its regular repayments and bills little is left to provide for basic life expenses such as food and clothes. ATFCS has witnessed clients prepared to go without food in order to ensure all of their bills and repayments are paid.

High household debt also places great emotional and mental strain on individuals and families. Many live with the fear of having legal action taken against them in the form of bailiffs coming to their door, garnishees being placed on their wages, their ability to access further credit being affected by their names being placed on the National Credit Reference Record and the threat of bankruptcy. This form of stress can lead to illness, depression and anxiety, family discord and breakdown, verbal and physical violence and even suicide. Hence the overall impact of high household debt on Australian society and the economy is potentially great and far-reaching.

***(f) whether there is a case for addressing the lending policies of banks and other credit providers and if so, what practical options are available;***

ATFCS believes there is a very good and very necessary case for addressing the lending policies of banks and other credit providers. We hold that credit providers need to be regulated to ensure that thorough assessments of a consumer's capacity to repay credit are made before offering consumers new credit cards, or an increase on their credit limit. The ACT is so far the only jurisdiction in the country to have taken some steps to address the issue. In the ACT credit providers are now required to assess a consumer's capacity to repay the credit on pre-existing cards. We recommend this approach be adopted nationally.

ATFCS also advocates for the provision of credit products in the lending market that are designed with the needs and vulnerabilities of low income consumers in mind.

***(g) whether there are other measures that might be taken in the place of possible restrictions on lending practices which would be as effective;***

Other measures that ATFCS views that could be taken in addition to, but NOT in place of, restrictions on lending practices include the development of flexible and comprehensive consumer hardship policies by banks and other credit providers; a review of the merits of the Positive Credit Reporting and the implementation of the key recommendations of the Consumer and Financial Literacy Taskforce to address the levels of financial literacy within Australia.

**FEBRUARY 2005**