

Household debt, demand for imported
goods and Australia's current account
deficit

Submission to the Senate Economic
References Committee

Parliament of Australia

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Executive Summary

Household debt levels in Australia have risen noticeably over the past decade to September 2004, driven by a sustained 'boom' in house prices, itself driven by a marked reduction in interest rates, solid growth in household incomes and an increase in the demand for investment properties.

The debt-to-income ratio for Australian households has risen from well below international benchmarks for developed economies over the past decade to now being at the higher end of all English-speaking countries.

However, in isolation, gross debt-to-income ratios offer limited insight in assessing the vulnerability of the household sector and can provide a misleading view. Debt-to-income ratios do not reflect other key factors such as changing debt-servicing costs or household sector asset accumulation. Debt-service and household gearing ratios are much more useful measures and both currently indicate that the financial position of Australian households is currently within a serviceable range.

The attitude of Australians to, and usage of, credit has changed. Banks have responded to this change by offering more flexible products such as 'equity loans' and 'low doc' loans. We expect that the way households manage their finances across their life cycle will continue to change as Australia's population ages, there is an increased need for people to provide for their own retirement, working lives are extended and there is an increase in the number of people working part-time and those that are self-employed.

Ongoing growth in household disposable income and employment remain the keys to the sustainability of household credit. In the event of a sharp deterioration in economic and employment growth, the level of debt servicing and gearing are second order issues. In this circumstance, there would likely be hardship irrespective of the aggregate level of the debt-servicing burden.

The policy response to rising household debt levels should not be broad-based restrictions on bank lending policies. This could take us back to the days of 'credit rationing', put a brake on economic growth and restrict banks' ability to respond to changing credit needs of consumers. A more targeted response aimed at protecting the more vulnerable in the community with regulation and sanctions in place against those who seek to exploit the weak would be desirable. As part of any response, a distinction must also be drawn between professional investors who choose to take informed risks, and who therefore require minimal protection and those that genuinely require regulatory protection.

Elements of a targeted response could include:

- More effective restriction of practices of 'predatory lenders';
- Making available safer alternatives to 'predatory lenders';
- Informing people about prudent credit use and management and
- Ensuring adequate support services for those in financial hardship including advice and financial counselling.

There has been debate about credit card marketing practices, in particular the practice of making pre-approved credit limit increase offers to existing credit card holders. ANZ makes credit card limit increase offers based on a customer's behaviour and excludes certain

customers: those identified as receiving benefits payments, those lacking potential capacity to service the limit increase as indicated by data in the bank's systems on monthly payment history and those with poor credit history or evidence of stress on other ANZ credit products.

ANZ recognises it can play and should play a part. ANZ has a responsibility to lend responsibly and is undertaking research into why people get into financial difficulty including consideration of the impact of pre-approved credit limit increase offers. ANZ also has a responsibility to market products in a way that allows the costs and benefits to be understood by customers. ANZ is active in providing information to its customers to support their decision-making about credit. Also, in partnership with others ANZ is contributing to lifting levels of financial capability of the more vulnerable in the community, assisting customers who are in financial difficulty and making available 'safe' finance to those otherwise at risk from predatory lenders.

In 2003 ANZ released the first National Survey of Adult Financial Literacy in Australia. The research identified groups with low levels of financial literacy: those on low incomes with low savings, low levels of education, the young (18-24) and older people (70 plus). Later research in 2004 showed similar characteristics among those 'financially excluded' from mainstream lenders.

Based on these pieces of research, ANZ is undertaking a number of initiatives including:

- Saver Plus, a financial literacy and matched savings program, aimed at helping families on low-incomes improve their financial knowledge, build a long-term savings habit and save for their children's education;
- MoneyMinded, Australia's first comprehensive adult financial education program was developed to help community educators and financial counsellors assist people, in particular those on low incomes, to build financial knowledge and make informed decisions about their money;
- A 'small loans' program to provide an alternative to payday lending;
- Information about how credit works and tips for good management of it available in branches and on-line; and
- Training a 'hardship team' in ANZ's call centre to assist customers in financial difficulty and refer them as needed to an independent financial counsellor.

For the purposes of the Senate Committee's inquiry, ANZ will limit its comments to the Terms of Reference that relate to household debt levels, to bank lending policies and areas where ANZ can provide some insight.

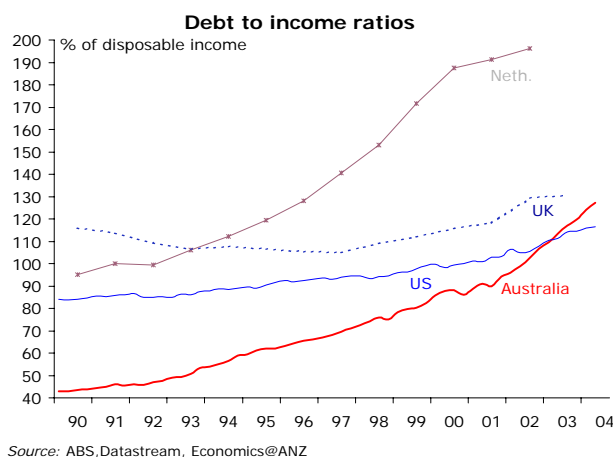
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1. Household debt

Household debt levels in Australia have risen noticeably over the past decade to September 2004, driven by a sustained boom in house prices, a sustained low interest rate environment and solid growth in household incomes. Combined, these factors have led to a reduction in Australian households' traditional debt aversion, resulting in a dramatic change in household balance sheets and the way households use debt. That is, over the last 15 years, Australian households have emerged from a position of being 'under-gear'd' relative to other developed countries due to a debt-averse culture, financial market regulation and the limitations of one-size-fits-all financial products, to one where households are now prepared to take on higher levels of debt and where financial service providers are robustly competing with a significantly more diverse product offering to meet customers' individual needs and preferences.

Household debt has risen to record levels...



1.1 Debt serviceability

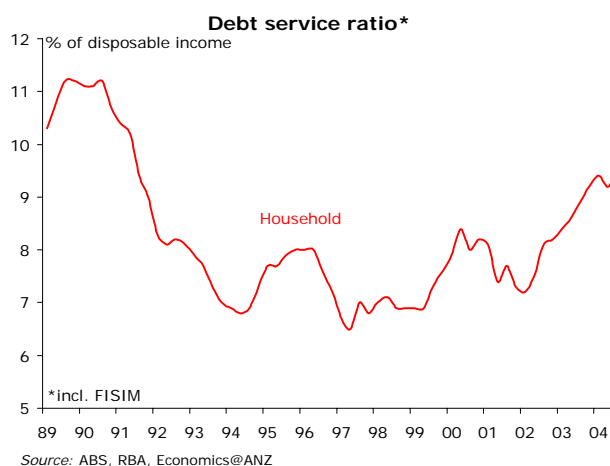
The historically high aggregate household debt-to-income ratio we are currently observing has prompted some analysts to predict a looming household debt crisis. However, in isolation, gross debt-to-income ratios offer no reliable guidance for assessing the vulnerability of the household sector and if used alone can provide a misleading view of fundamental conditions, as it does not take into account changing debt-servicing costs or even the household sector's asset accumulation. That is, by simply focusing on the overall level of debt issued, or purely on the debt-to-income ratio, many current commentators are only analysing half of the picture. To fully understand the issue of household debt, the level of debt must be examined in the context of a household's accumulated assets and current income.

Debt-service and household gearing ratios are much more appropriate and useful measures. The debt-service ratio presents an accurate picture of the actual burden of debt (i.e. debt servicing as a percentage of disposable income) and the household gearing ratio shows what percentage of assets is encumbered by debt.

These measures indicate that debt serviceability remains manageable (currently at 9.6%) compared with the situation facing Australian households during the late 80s and early 90s

which peaked at 11.2% in 1989. However, in the event of a sharp deterioration in economic and employment growth, the level of debt servicing and gearing become second order issues. In this circumstance, more households would likely face hardship irrespective of the aggregate level of the debt-servicing burden.

...but debt serviceability has not



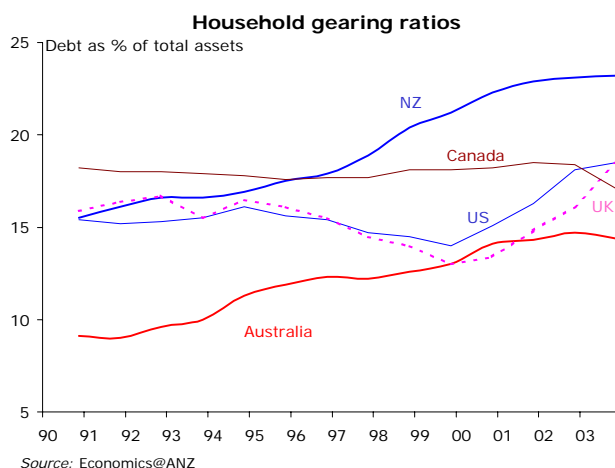
When analyzing total household debt, we should also note the distinction between mortgage and non-mortgage debt. In recent times, secured mortgage debt, which supports growth in household net worth, has been the key driver behind increasing total debt levels. Over the past decade we have seen much stronger average growth, 15.5% p.a, in mortgage credit compared to average growth of only 11.4% p.a in personal credit.

1.2 Household gearing and house prices

Driven by rising house prices, net household assets have grown considerably, averaging annual growth of 11% over the past five years. While moving higher, the aggregate household-gearing ratio (household debt to net assets) remains well below international benchmarks.

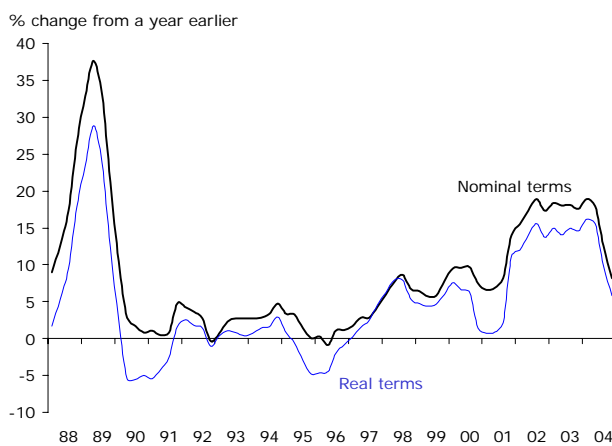
ANZ believes that while house prices have increased rapidly in recent years, the ability of borrowers to repay their mortgages has not diminished proportionately, largely because interest rates have fallen at the same time that house prices have risen. The recent boom in house prices has also been driven by property investment decisions of baby boomers seeking to use equity in existing homes to build and diversify wealth to fund their retirement.

Household gearing is low internationally



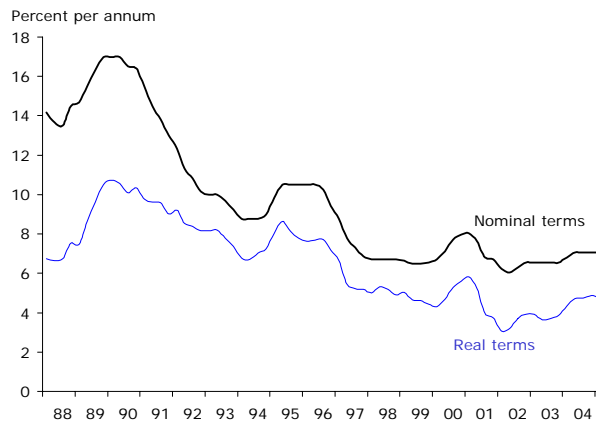
While never approaching the massive boom of the late 1980s (when house prices increased in one year by nearly 40 per cent in nominal terms, or just over 30 per cent in real terms), since the late 1990s nominal house prices have consistently grown at least 10 per cent per year, and in 2003, at near double that rate. Growth in real terms was subdued at the turn of the decade by the effects of the GST on inflation. On any analysis, Australia has experienced a housing boom.

HOUSE PRICES OVER PAST 17 YEARS (NOMINAL & REAL TERMS)



Nominal interest rates, which determine the cash flows of borrowers, are currently at 20-year lows.

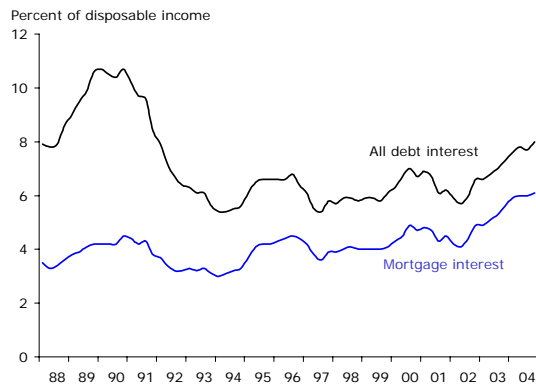
STANDARD VARIABLE MORTGAGE RATE



Source: RBA; ANZ

While mortgage interest payments as a share of disposable income have surpassed the levels experienced in the late 1980s, *total* household interest payments remain well below peak levels.

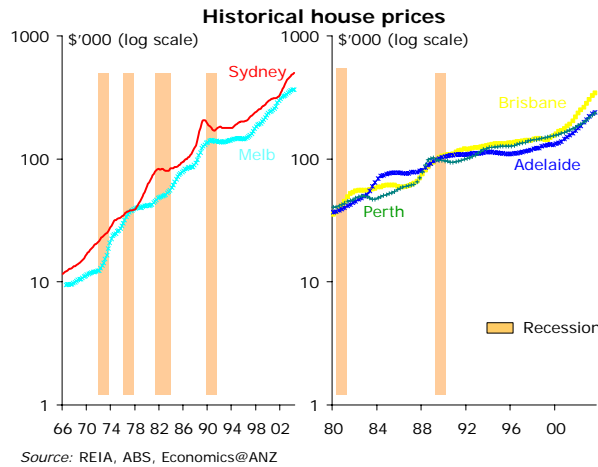
INTEREST PAYMENTS AS A SHARE OF DISPOSABLE INCOME



Source: RBA; ANZ

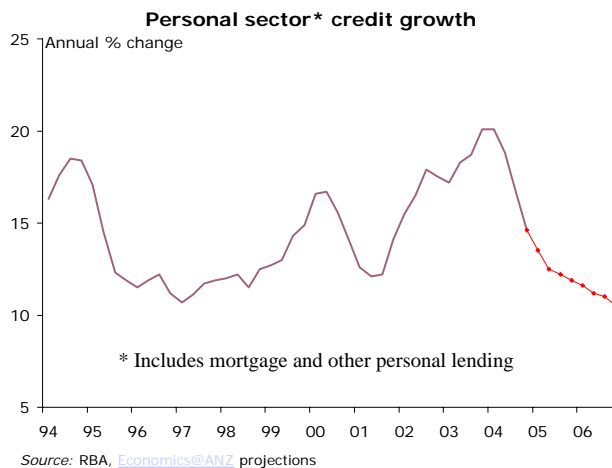
It has been argued that gearing ratios present an overly optimistic picture of the household sector’s net asset position due to the potential for sharp falls in house prices. However, downward corrections in aggregate Australian house prices are extremely rare and have only occurred in very special circumstances i.e. deep economic recessions accompanied by sharp increases in interest rates and high unemployment (e.g. 1982-83, 1990-91). Even in these dire economic conditions, house prices, at worst, tend to flatten before consolidating at peak levels and then commencing a renewed growth phase. We believe the current economic outlook combined with solid housing market fundamentals makes *significant* falls in aggregate house prices in this cycle most unlikely given we are also seeing record low unemployment and continued strong economic performance.

Historical house prices



A modest slowing in house price rises and the consequent tempering of expectations for future growth will serve to slow debt accumulation and soften to some extent the momentum of the structural shift we have seen in recent years. Already we have seen the cyclical impact of two interest rate rises in late-2003 on the rate of debt accumulation. After growing at an annualised rate of 22% in the December 2003 quarter, personal sector debt is now running at an annualised rate of around 12%. The RBA's *Statement on Monetary Policy (February 2005)* found that within the total, investor loan approvals and credit have slowed much more than the owner-occupier components. After peaking in late 2003 at close to double the rate of growth in owner-occupier credit, the growth rate of investor credit is now similar to that for owner-occupier housing credit.

Household debt growth has already slowed



Policy makers should be mindful that a large proportion of the rise in household debt-to-income has been a perfectly rational response to the structural downward shift in interest rates since the early 1990s.

Significant economic reform and 13 years of positive and relatively stable economic growth and low inflation have not only lowered interest rates but have also increased confidence that interest rates will remain comparatively low and stable. Combined with surging asset prices, this has substantially influenced households' decision to manage increased debt levels.

We can expect household debt to continue to grow faster than income growth for several years (although the growth premium will be much reduced) but by the end of the decade, some reversion towards incomes growth can be expected as the demographic 'drag' from baby boomer retirements becomes the primary driver.

1.3 Consumer Behaviour

Traditionally, the debt-holdings of householders followed a fairly predictable pattern over their life-cycle, with debt levels jumping sharply in the household formation/expansion life stages and then being unwound gradually in preparation for retirement. In future, the balance sheets of the pre-retiree and retiree sets will be quite different to balance sheets of the corresponding sets in previous decades given more diverse financial and lifestyle aspirations.

While the purchase of a home remains the biggest financial investment in one's lifetime, financing patterns surrounding and following such a purchase are changing. As consumer preferences are changing, this in turn is driving demand for more flexible mortgage products as consumers are more prepared to use equity in the home to fund either consumption or other investments, for example, reverse mortgages and mortgages with redraw facilities.

In addition, demographic shifts are impacting lending products, particularly the growth in home and small businesses and the numbers of self-employed, an ageing population that is extending its work life (either full- or part-time), the growth in part-time employment and the need these groups have for access to mortgage and other lending products.

This implies a clear shift in the typical pattern of household debt behaviour over the life-cycle, with debt being sustained at higher levels for longer periods on average and displaying larger swings. Banks have moved to meet demand in the market for those able to service debt. This is not a case of relaxing lending standards or risk assessments, rather, the development of a new market in non-traditional lending products.

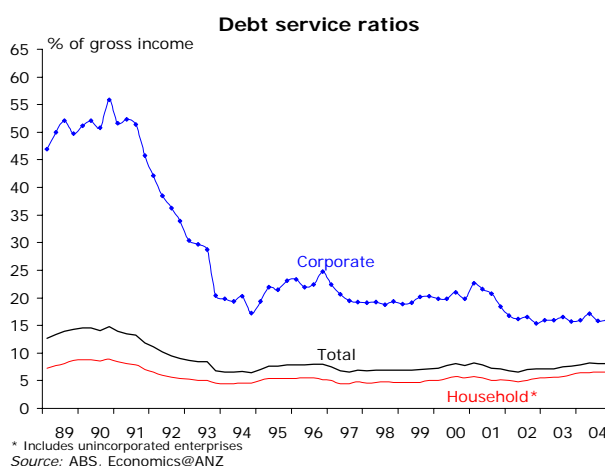
Products such as home equity loans ('reverse mortgages'), interest-only loans, 'low doc loans' and loans with redraw facilities demonstrate the changing debt management needs of the Australian community. This change is only in its early stages and we will see a growing demand for non-traditional lending products and more flexible lending assessment decisions that will continue to be based on prudentially sound standards of customer debt servicing ability.

The trend is evolutionary as the 'old school' of borrowers makes way for a less debt-averse set of borrowers. Until this cultural shift has 'washed through', structural increases in aggregate household debt are likely to continue.

1.4 Future debt levels

It has been widely argued that the heightened indebtedness of the household sector has left the economy far more at risk in any potential future economic downturn. This ignores the substantial reduction in business debt after the early 1990s recession, structural improvement in government sector finances and the improvement in risk management practices adopted by lenders.

Aggregate debt servicing costs remain low



Aggregate private sector debt-servicing burdens remain near historic lows. In particular, business sector balance sheets are in great shape and suggest financial disturbances to business have less chance of flowing through to labour markets and consumer confidence than occurred in the early 1990s.

1.5 Monetary authorities

With the household debt-to-income ratio at record levels, it is easy to see why there may be heightened levels of anxiety about potential fall-out. These fears are exacerbated by talk of substantial increases in interest rates and by simulations of the effects of such rises on economic growth, unemployment etc. Without a reasonable context or rationale, the probability of such scenarios actually occurring remains low.

Policy makers are undoubtedly well aware of the heightened sensitivity of the household sector to interest rate movements and we would not expect them to exert undue influence on it. Rate rises of just 50 basis points in late 2003 resulted in a 20% fall in housing finance approvals. We believe only modest interest rate movements (in either direction) over the medium term would offer sufficient leverage to achieve necessary shifts in economic momentum.

The economy is well positioned to grow at a healthy rate in the years ahead. Risks to a stable economic environment are ever-present but none, at this stage, is likely to have a fundamental impact on the economic environment.

2. Bank lending policies

There are a number of levels of controls over the Australian market ranging from the macro level controls of fiscal and monetary policy to the regulatory and prudential policies of the Australian Prudential Regulation Authority (APRA) and the lending policies of individual banks.

These provide the right controls over lending practices in the Australian market.

2.1 Australian Prudential Regulation Authority (APRA)

APRA plays an important role in ensuring the continued protection of Australian depositors and has adopted a forward looking, risk-based framework that oversees safe and sensible approaches to lending by banks. APRA's approach includes:

- a robust supervisory methodology for identifying and assessing weaknesses in a supervised entity;
- constant oversight of supervised entities including consultations and on-site visits; and
- supervisory intervention and enforcement of prudential standards and regulations, where necessary.

A recent example of APRA's supervision was a "stress test" it undertook in 2004 to help gauge the resilience of housing loan portfolios in the event there was a substantial housing market downturn. The results demonstrated the Australian banking system is well capitalised and could withstand a major housing market correction without putting depositors at risk through large-scale defaults. Another example is APRA's tightening of prudential standards for "low doc" and other non-traditional mortgage loans.

In 2005 APRA will set down a revised prudential framework for the next 10 years for banks, as well as general insurers and superannuation funds. Already, APRA has adopted robust risk rating systems that allow APRA supervisors to make a detailed analysis of the health of a financial institution. This means that banks are required to maintain lending policies that rely on prudentially acceptable risk assessment standards including a sound assessment of a customer's ability to service debt.

ANZ acknowledges that APRA has substantially upgraded its risk assessment capabilities, enabling it to deploy its resources more effectively and prioritise its dealings with supervised entities.

ANZ complies with all APRA policies applicable to it, including those that regulate prudentially safe approaches to lending decisions.

2.2 Mortgages

The terms of reference of this Inquiry raise the question of whether bank lending policies have had a negative effect on household debt levels and are in need of "restrictions" or "regulatory intervention". In fact, bank-lending policies need to be permitted to operate under market forces and to remain flexible and innovative to prevent a return of credit squeezes and discriminatory access to credit, which characterised the Australian financial services market prior to deregulation.

Flexibility and innovation will be the keys to supporting a smooth evolution in borrowing needs and preferences over the next few decades.

ANZ is a responsible credit provider whose underlying principle is to lend only to customers who have been assessed as having the ability to service and repay the approved loan. ANZ has adopted a series of policies that assess a customer's creditworthiness and propensity to make repayments. These include:

- Default cost of living expenses – the higher of either default living expenses or customer advised living expenses is built into the ANZ servicing model framework.
- Servicing Margin – ANZ's debt-servicing calculation incorporates an interest rate margin added to the borrowing interest rate to allow for future interest rate increases. This margin ensures that the customer has the ability to meet repayments on the borrowings if interest rates rise. Customers must exhibit a surplus monthly income after cost of living and debt-servicing costs to be eligible for a mortgage loan
- Application and Behaviour Scoring – ANZ uses application and behaviour scorecards to assess applicants. Applications and behaviour scoring are combined to assess the customers credit worthiness. This combined score is then compared to ANZ's scorecard thresholds to determine if the application will be approved (subject to other policy rules), referred or declined.

Monitoring of debt servicing is accomplished in a number of ways including:

- Behaviour Scoring – ANZ introduced behaviour scoring in 2001 within its suite of tools to assess its customers' ability to service debts. Behaviour scoring uses the transactional history of customers' accounts to predict the prospects of the customer servicing their mortgage.

Using statistical modeling ANZ is able to predict those customers who may have difficulty in servicing a mortgage based upon the management of their day-to-day bank accounts (including their savings accounts, cheque accounts, credit cards and other borrowings).

- Monitoring – ANZ Mortgages Risk team monitors the debt-servicing performance of customers. We are able to tell the proportion of our portfolio with mortgage repayments in excess of that required to clear the loan within the original term. This is a healthy lead indicator of the borrowers servicing capabilities at a point in time and at present there is no evidence of increased stress within the portfolio
- Portfolio Monitoring – of performance, growth and concentration risk by geography, product and channel. ANZ has very detailed Management Information capable of analysing any form of trend within the portfolio at a point in time. For example, any negative trends in product arrears by postcode can be detected and used dynamically to lift hurdles for approvals in that postcode.

We tend not to see any specific differentiation according to origination channel, rather a consistency in using demographic and product type as a lead indicator of performance in the existing portfolio.

- Stress testing – proactive portfolio monitoring is used to identify any potential early signs of stress. ANZ conducts regular stress testing of its portfolio as does our regulator,

APRA. Typically the stress testing is conducted using shocks in house prices as the principal measure however other factors such as unemployment rates, levels of prepayment and repayment arrears by time band are all early indicators of stress.

The RBA's *Statement on Monetary Policy, February 2005* noted that the customer servicing burden does not appear to be constraining households, with the normal indicators of financial stress, such as loan arrears, all remaining low.

ANZ concurs with this assessment and ANZ's lending portfolio is characterised by consistent credit quality and lending standards. ANZ undertakes stress testing of its loan book to assess the impact on the portfolio under a range of interest rate, economic and security scenarios and adheres to internationally accepted risk management standards. ANZ acknowledges public comments late in 2004 by the Chairman of APRA and Governor of the RBA reminding banks not to lower lending standards as credit demand slows.

2.3 Credit cards

The *Reserve Bank of Australia Bulletin December 2004* reported that credit card debt comprises only 3.9% of all household debt, with housing debt at 84.5%.

ANZ assesses an applicant's financial capacity to use and repay a credit card through statistical models, fraud and other verification checks including credit bureau data, their history of any existing relationship with ANZ and financial information provided by the customer. Other information available such as customer behaviour on other ANZ products is also used in the assessment process.

A combined score is then compared to ANZ's scorecard thresholds to decide if the application is approved or declined. ANZ conducts a serviceability test, which includes an assessment of uncommitted monthly income and a stress test set in excess of the minimum repayment. The result of the serviceability test is combined with the credit score to determine if a certain limit is appropriate for the customer.

An analysis of applications made by ANZ customers for moratoriums on payments to credit cards shows that the majority of customers fall into hardship as a result of unemployment (69%) and ill health (25%) with only 3% citing over-commitment. The average age of customers requesting a moratorium is 49, with an equal male/female split.

In relation to credit card limit changes, ANZ has adopted a number of initiatives to improve disclosure and meet customer and community expectations. These include:

- Pre-approved credit card limit increase offers explain to customers how much more they will have to pay each month if they use all of the increased credit made available. The customer is then able to assess the potential financial implications of accepting the credit limit increase;
- Advice to customers, on credit card offers, that if their personal circumstances have changed, for example loss of employment, they should not accept any pre-approved credit limit increase, and should immediately contact their bank;
- Provision for individuals to opt for a lower credit amount than the pre-approved increase; and

- A system to ensure prompt processing of any customer request to reduce their credit limit. ANZ requires that a reduction in a customer's credit card limit will take no longer than 24 hours when received by telephone (or through a branch), and no longer than 48 hours in the case of a written request. Information on how to reduce a credit card limit is readily available to customers through a variety of information channels. Channels at ANZ include:
 - the ANZ Cards call centre (Ph. 13 22 73),
 - as part of the welcome kit sent to all new cardholders,
 - ANZ internet banking and the ANZ website and

Credit card limit increase offers are made based on the customer's behaviour using industry standard models. We use a range of criteria to exclude customers from these credit limit increases including:

- Evidence of benefits payments to customer's ANZ accounts such as pensions
- Lack of potential capacity to service the limit increase from data held within our systems, that is, we take into consideration the amount of monthly payments the customer has made compared to the minimum required
- Historical credit card performance through Behavioural Scoring models
- Poor performance of existing credit, that is, a customer's delinquency history
- Evidence of stress on other ANZ banking products such as delinquency

ANZ will shortly commence research into the causes of people falling into financial hardship, including the impact of offers of pre-approved credit limit increases.

3. Financial literacy

ANZ suggests that the Committee consider, as part of this review, the importance of financial literacy to any discussion on managing sustainable levels of personal debt.

Financial literacy is the ability to make informed judgements and effective decisions about the use and management of money and is an essential skill for functioning in modern society.

ANZ's survey in 2003 into adult financial literacy was the first research of its kind in Australia. It provided valuable information on the size and nature of the financial literacy issue and identified areas for action. We will update the research in 2005 including examining the importance of financial literacy in taking on and managing personal debt.

ANZ wants to make a leading contribution to ensuring that Australians are equipped to make informed and confident decisions regarding all aspects of their finances. As a bank, we can help address issues that lead to low levels of savings, unsustainable levels of personal debt, financial stress and the personal distress this can create. This, in turn, will help to create strong communities and a healthy economy.

Financial literacy is a matter of national significance and, while ANZ has made some progress in this area, we are still in the early stages of a long-term commitment to address this issue.

Significant and lasting improvements also depend upon the coordinated and sustained efforts of consumer and community groups, educators, the financial services industry and government. ANZ is working closely with all of these groups, as well as our own staff and customers, to address the issues identified in our research.

For example, ANZ supports the Federal Government's \$21 million *Understanding Money* strategy, a response to the recommendations of the Consumer and Literacy Taskforce, which aims to help Australian consumers more effectively manage their money.

The key elements of the *Understanding Money* strategy as outlined in Assistant Treasurer the Honourable Mal Brough's statement of October 2004 are:

- Establishing a \$5 million Consumer and Financial Literacy Foundation, and a centralised clearinghouse for consumer and financial literacy education and information resources;
- Investing \$16 million over two years in a national information and education program to educate and inform people about consumer and financial literacy; and
- Working with State and Territory governments to incorporate financial literacy skills into school curricula.

ANZ is using its financial expertise and resources to help our staff, customers and the community to better understand and manage the financial aspects of their lives.

3.1 ANZ's actions to address financial literacy:

A. Clear customer communication and education

ANZ's financial literacy research demonstrated the importance of using simple and clear language when presenting financial information and as a result we have redesigned and rewritten our customer brochures to make them simpler and easier to understand. In the interests of clarity for customers we were the first to begin using comparison rates in 2003, and did so ahead of regulatory requirements.

ANZ has also produced a series of brochures and provided customers with information on key financial issues to help them better manage their money.

- ***Kick Start***

The *Kick-start your financial fitness* booklet was developed to help staff assist our customers. *Kick-start* provides practical advice on where to begin and includes information and tips on saving, managing debt and credit, investing, retirement planning and protecting assets. A pullout budget planner and a glossary of common financial terms accompany it. The booklet is available from all ANZ branches.

We have developed specific credit education materials to help individuals better understand how to use and manage credit, as the ANZ recognises that understanding and managing credit can be a problem for some members of the community.

The *How credit works* website and *Understanding credit card interest* and *How credit cards work* brochures, aim to help customers and the community become aware of how credit

works, how to manage credit, and the responsibilities that come with taking out a credit card or personal loan.

- ***MoneyMinded***

MoneyMinded is Australia's first comprehensive adult financial education program developed to help community educators and financial counsellors assist people, in particular those on low incomes, to build their financial knowledge and make informed decisions about their money.

MoneyMinded was written by financial counsellors working with the NSW Department of Education and Training, and its development was funded by ANZ. MoneyMinded provides unbiased consumer education and does not promote any financial products or services.

ANZ is now funding the Brotherhood of St Laurence, Berry Street Victoria, The Benevolent Society and The Smith Family to trial MoneyMinded. RMIT University is evaluating this trial between February and April 2005, and will release its report in May 2005 – the recommendations of which will be used to improve the MoneyMinded program. ANZ is also funding MoneyMinded facilitator training for interested community agencies and financial counselling networks.

This training program was written and is delivered by the Victorian Department of Education and Training. It familiarises participants with MoneyMinded content and structure, offers tips in facilitating adult education, and provides a training manual that can be used to train other facilitators. To date, over 90 financial counsellors have completed MoneyMinded facilitator training.

ANZ understands the importance of face-to-face delivery of financial literacy training and that it is the most effective way to reach low-income earners who are disadvantaged through a low level of financial knowledge. By continuing to work with community organisations and financial counselling agencies that are best placed to reach the target audience, it is our aim that 10,000 consumers will participate in MoneyMinded workshops in 2005.

More information on MoneyMinded can be found at www.moneyminded.com.au

- ***Community Development Finance***

ANZ is introducing a range of Community Development Finance (CDF) programs to assist Australians facing financial exclusion. CDF is an umbrella term, which encompasses programs that aim to address financial exclusion such as small loans, loans for enterprise development, matched savings schemes, insurance, financial counselling and advice and financial literacy training. Our interest in this area reflects ANZ's concern to address those issues, which directly relate to the relationship between financial services organisations and the community.

ANZ's research found that some Australians are struggling to access appropriate low-cost and safe financial services from mainstream providers. This is especially the case for low-income households.

A growing issue, especially for low-income households, is the emergence of payday lenders in Australia. 'Payday lending' as the name suggests is the practice of a lender advancing

money to a customer until their next 'pay day' in exchange for a fee. A 2002 study on this issue by the Consumer Law Centre Victoria (CLCV) found that typically loans were for two to four weeks and rarely for a period over 28 days.

The CLCV report shows that the prime users of payday lending are most likely to be in their late 20's or early 30's, with average earnings of around \$24,500 pa. The core issue with payday lenders is that rather than charge interest on the loan amount, payday lenders charge a 'fee' for issuing the loan that varies according to the period of the loan.

Although regulation has gone some way to regulating payday lenders (Consumer Credit Amendment Regulations 2001) there are still issues that need to be addressed. Currently payday lenders are not required to disclose the cost of credit as an annual interest rate to the consumer, the 48% national interest rate cap on short term loans does not currently apply in all Australian States and Territories nor does the 2001 Amendment explicitly state that the Code's interest rate cap (where it applies) must include all relevant fees in determining the (effective) rate of interest on the loan.

Payday lending has been termed predatory lending given that it is targeted at people on the fringes of mainstream banking who could be considered financially excluded, that is, they have limited access to appropriate financial products and services.

In response to the its consultation program and research, ANZ has committed to:

- Develop a new loans program tailored to the needs of people on low incomes who are currently using 'payday' lenders and other fringe credit providers;
- Fund additional resources to assist the delivery of the MoneyMinded financial literacy education program to 100,000 potentially 'at risk' Australians over the next five years;
- Initiate micro-finance programs including funding, financial literacy education, mentoring and support to facilitate the development of Indigenous businesses, delivered with the assistance of local credit unions; and
- Expand ANZ's Saver Plus matched savings scheme into Indigenous communities.

ANZ will work in partnership with community organisations, specialist financial services providers and Government to deliver the initiatives.

B. Building the most financially fit workforce

- *Financial fitness sessions*

ANZ is also helping its own people to understand and deal with their personal finances through 'financial fitness' sessions, covering information such as budgeting and savings, credit management and retirement and superannuation planning. Tailored sessions are also held for ANZ's graduate intake each year and for staff considering their retirement options. More than 2,000 staff have participated in these sessions and plans are underway to extend the program using ANZ's network of financial planners to deliver financial fitness sessions to staff in every state.

- ***Service consultant training and identifying customer issues***

ANZ is providing its service consultants and call centre and collections staff with training to help them identify and assist customers who may be struggling to understand and manage their finances.

Complementing this is the development of a pilot program designed to refer customers experiencing financial hardship directly to independent financial counsellors in their local community.

4. Conclusion

Record household debt levels are a result of low interest rates, largely centred on a solidly performing economy, a historical house price boom and changing views by Australians on how to use debt at various life stages. Continued economic growth and low interest rates are key to households' ability to manage debt. In the event of a sharp deterioration in economic and employment growth, the level of debt servicing and gearing are second order issues. In this circumstance, there would likely be hardship irrespective of the aggregate level of the debt-servicing burden.

Broad-based restrictions on bank lending policies would not be a suitable response. Such a response could take us back to the days of 'credit rationing', put a brake on economic growth and restrict banks' ability to respond to changing credit needs of consumers. Rather, we should continue to rely on the existing controls and checks: macro management of the economy, APRA's policies and the policies of the banks themselves. Any regulatory response should be targeted at protecting the most vulnerable in the community and against the egregious practices of those who would exploit them.

Elements of a targeted response could include:

- More effective restriction of practices of 'predatory lenders'
- Making available safer alternatives to 'predatory lenders'
- Informing people about prudent credit use and management
- Ensuring adequate support services for those in financial hardship including advice and financial counselling.

This approach would require actions by financial institutions, Governments and others. ANZ for its part recognizes its responsibilities to its customers and the community and is prepared to work with the Government to address any substantive issues identified by the Inquiry.