Changes to Disclosure Requirements under the *National Consumer Protection Act 2009*

Discussion Paper

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Manager
Communications
The Treasury
Langton Crescent Parkes ACT 2600
Email: medialiaison@treasury.gov.au

CONSULTATION PROCESS

Request for feedback and comments

Interested parties are invited to comment on the discussion paper.

While submissions may be lodged electronically or by post, electronic lodgement is preferred. For accessibility reasons, please submit responses sent via email in a Word or RTF format. An additional PDF version may also be submitted.

All information (including name and address details) contained in submissions will be made available to the public on the Treasury website unless you indicate that you would like all or part of your submission to remain in confidence. Automatically generated confidentiality statements in emails do not suffice for this purpose. Respondents who would like part of their submission to remain in confidence should provide this information marked as such in a separate attachment.

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Closing date for submissions: 13 May 2013

Email:	disclosurereforms@treasury.gov.au
Mail:	Manager Disclosure and International Unit Retail Investor Division The Treasury Langton Crescent PARKES ACT 2600
Enquiries:	Enquiries can be initially directed to Christian Mikula
Phone:	02 6263 2046

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SUMMARY

This Discussion Paper invites comments on possible changes to the format, content and timing of disclosure requirements under the *National Consumer Credit Protection Act 2009* on both credit providers and lessors.

The changes are largely based on empirical research into precontractual disclosure that was commissioned by the Standing Committee of Officials on Consumer Affairs. The proposals are framed by the following policy objectives:

- Making changes that will improve consumer understanding.
- Highlighting key pricing information in a new Table, called the Financial Summary Table.
- Repealing existing unnecessary disclosure requirements.

1. Context

1.1. This Discussion Paper seeks comments in relation to possible changes to the disclosure requirements under the National Credit Code (the Code).

1.2. The changes are based on research commissioned by the Standing Committee of Officials on Consumer Affairs (SCOCA). SCOCA commissioned UniQuest Pty Limited to conduct research into precontractual disclosure under the UCCC, to develop an evidence-based disclosure model to meet the information needs of consumers and provide them with a better understanding of the cost and features of their credit contracts.

1.3. The subsequent report, Simplification of Disclosure Regulation for the Consumer Credit Code: Empirical Research and Redesign — Final Report (the Uniquest report), was released in March 2010. The findings of the Uniquest report are based upon comprehensive research into consumer credit disclosure.

1.4. A key recommendation in the Uniquest report was the introduction of a Financial Summary Table. This is a targeted and high-impact version of the existing financial table that is restricted to key pricing information (relative to the more exhaustive range of matters that can be currently included; see Credit Regulation 72).

1.5. The objective of the Financial Summary Tables is to change the presentation of some of the matters or items required to be disclosed under section 17. If adopted it is envisaged that the balance of the matters could still be disclosed separately, below or following the Financial Summary Table. The intention is to minimise changes to the content of the matters required to be disclosed by section 17, and to allow the majority of matters to be disclosed separately from the Financial Summary Table.

1.6. The Uniquest report proposed product-specific disclosure for the following four categories of products: home loans; credit cards; car loans; and store cards. In previous Treasury consultations the list of products for which product-specific disclosure could be developed was extended to include: reverse mortgages; small amount credit contracts; consumer leases; and personal loans.

1.7. The draft Financial Summary Table for consumer leases has been the subject of separate consultation with a specialist Working Group. Accordingly, no questions have been included with this Attachment, although stakeholders are free to comment.

1.8. No draft Financial Summary Table has been included for small amount credit contracts, as these have different disclosure requirements, following the changes introduced by the Consumer Credit Legislation Amendment (Enhancements) Act 2012.

1.9. Contemporaneously, Treasury has been consulting on a draft Information Statement in respect of Lenders Mortgage Insurance. This product is typically provided with home loans. Comments are also sought on the draft Information Statement.

1.10. This paper therefore has draft Financial Summary Tables for the following products:

- home Loans (Attachment A) — with the draft Information Statement in respect of Lenders Mortgage Insurance (Attachment B);
- credit cards, including store cards (Attachment C);
- personal loans, including car loans (Attachment D);
- reverse mortgages (Attachment E); and
- consumer leases (Attachment F).

1.11. Specific questions for stakeholders are included in relation to the Attachments, other than that for consumer leases.

1.12. In addition to seeking comments on the draft Financial Summary Tables, this paper seeks views on the following three issues:

- Whether credit providers should continue to be required to provide an Information Statement to borrowers under section 16 of the National Credit Code (the Code).
- Whether any of the matters required to be disclosed in section 17 of the Code should be altered (in particular, the way in which commissions are disclosed).
- Whether credit providers should be required to provide pre-contractual disclosure documents, where practical, at an earlier point in time than is currently the case.

1.13. The Discussion Paper therefore includes a number of specific questions in respect of these issues. Stakeholders are of course free to address other matters in their responses.

1.14. Treasury's view is that there should be a minimum period of 12 months to implement any changes from passage of the law (both Acts and Regulations as necessary) finalising the new requirements.

ABA Introductory Comments

The ABA is concerned that the possible changes to the format, content and timing of disclosure requirements under the National Consumer Credit Protection Act 2009 on both credit providers and lessors will be made at a significant cost to the ABA's members without any proven commensurate benefits for consumers.

It is important to take into account that possible changes to the pre-contractual disclosures and processes under the then UCCC arose in the 1999 Post-Implementation Review of the UCCC.

It was not until 2007 that the tendering process for a research project was commenced. The successful tenderer, "Uniquest" undertook research in early 2008.

Further, since 1999, there have been significant changes in consumer practices and availability of information for consumers seeking credit. Changes include a nationally regulated finance broker industry under the NCCP, a range of internet search facilities to assist consumers to investigate credit and credit provider options, information in the media about interest rates and other loan features and home loan key facts sheets for standard form loans and for credit cards. There has been a widespread campaign to raise the level of consumer financial literacy which ASIC is leading through its "Moneysmart" program which is supported by the ABA and its members.

The ABA assumes that response to this April 2013 Discussion Paper will inform a Regulatory Impact Statement in accordance with stated Government regulatory policy before any decision is made about the possible changes.

If changes are to be made it is understood those changes will not be subject to Parliamentary scrutiny because they can be made by subordinate regulation under powers conferred by the NCC.

The ABA urges caution in proceeding down this path until the benefits of any possible changes are clearly established.

In regard to likely costs to ABA members to implement the changes described in the Discussion Paper, an initial estimate in the order of $.5m per product channel is within scope. For one bank this could add up to $2m or more and across banks more than $30m.

Given three years have elapsed since the Uniquest Report in March 2010 this suggests that the next steps in considering whether these changes are desirable and likely to be cost effective are not of a pressing nature.

If the proposed changes are made, an implementation period of up to 18 months as a minimum would be essential taking into account the range of other regulatory reforms that are currently to be implemented into and during 2014. Depending on when the regulatory changes are made, further consideration would be needed to take account of individual member banks IT releases timing and customary IT "freezes" over the December/January months and financial year ends.

Issue 1 Removing the requirement to provide the Information Statement

1.15. Lenders are currently required to provide an Information Statement of the debtor's statutory rights and obligations to borrowers; see section 16 of the Code and Form 5 as prescribed by Regulation 70. Previous Treasury consultations suggested that there was little point in retaining this requirement (noting that the Information Statement includes disclosure of the credit provider's membership of an External Dispute Resolution scheme, with this disclosure replicated in the Credit Guide).

1.16. Treasury therefore considers that the requirement to provide the Information Statement should be repealed.

1.17. It is noted that there is no equivalent statutory obligation for lessors.

Question

- If the requirement to provide the Information Statement is repealed, is there any information in this document that credit providers should still be required to disclose (for example, in the Credit Guide)?

ABA Comment

The ABA is not opposed to dispensing with the Form 5 requirement but if this would mean requiring changes to a bank's Credit Guide or some other disclosure requirement, the better approach could be to retain the Form 5 disclosure provided that it is clear this information is read and used by consumers.

It is noted there is far more general information in Form 5 than there is in the Credit Guide. The Credit Guide appears to focus exclusively on three issues: complaint resolution processes; the credit provider's obligations before providing credit; the Credit Assessment Statement.

The Information Statement has a much more extensive range of questions, but perhaps of questionable value to customers. Banks and other ADIs would respond to a request for a copy of the credit contract to be provided to the customer and many other aspects are covered in the credit contract Terms and Conditions.

The only questions that might be considered to be retained in the Form 5 Information Statement are the hardship related questions. However, banks and many other credit providers provide this type of information on their websites which is readily available to customers.

ISSUE 2 CHANGES TO DISCLOSURE REQUIREMENTS IN SECTION 17

1.18. Lenders are currently required to provide pre-contractual disclosure of a range of matters as set out in section 17 of the Code. Apart from matters included in the draft Financial Summary Tables this includes disclosure of:

- frequency of statements of account;
- information about any mortgage or guarantee provided with the credit contract;
- information about any default rate of interest;
- a statement as to when enforcement expenses become payable;
- details of credit-related insurance contracts that are financed by the credit contract; and
- information in relation to commissions.

1.19. Having reviewed these matters, Treasury's view is that that the only item (other than disclosure in respect of LMI as discussed below) where possible changes to the requirements in section 17 should be considered further is in relation to the disclosure of commissions by credit providers. Treasury also considers that the same issue arises for lessors, given that they are currently under no equivalent obligations.

1.20. Section 17(14) requires a credit provider to disclose the fact that a commission is to be paid by or to the credit provider for the introduction of credit business or business financed by the contract, and disclosure of the amount of commission, but only if it is ascertainable.

1.21. Commissions payable in connection with a credit-related insurance contract are required to be disclosed in accordance with section 17(15). Again, the provision requires disclosure of the existence of a commission in all cases, but disclosure of the amount of commission only if it is ascertainable.

1.22. The requirement in section 17(15) is in the following terms:

(d) if the credit provider knows of any commission to be paid by the insurer for the introduction of the insurance business--a statement that it is to be paid and, if ascertainable, the amount of the commission expressed either as a monetary amount or as a proportion of the premium.

In the case of consumer credit insurance that includes a contract of general insurance within the meaning of the Insurance Contracts Act 1984:

… (f) it is sufficient compliance with paragraph (d) relating to the amount of commission if the contract document contains the total amount of commission (expressed as a monetary amount or as a proportion of the premium) to be paid by the insurers.

1.23. The obligation on credit providers is to be contrasted with the obligation on persons providing credit assistance. Section 121(2)(b) of the Credit Act requires these persons to disclose *"**a reasonable estimate of the total amount of any commissions** that the licensee, or an employee, director or credit representative of the licensee, is likely to receive in relation to the credit contract and the method used for working out that amount"*. Regulations further clarify the way in which this information should be disclosed; see Credit Regulation 28G.

1.24. Persons providing credit assistance are therefore required to provide a reasonable estimate of commissions, including, in some cases, the same commissions where the credit provider is under a more limited disclosure obligation. Treasury's preliminary view is that there should be consistency in the disclosure obligations between persons providing credit assistance and credit providers, and that accordingly there should be disclosure in relation to the amount of the commission, even where it may not be ascertainable.

1.25. It is not proposed to change the definition of commission that acts as a trigger for disclosure, so that any disclosure obligation would continue to operate only if a commission as described in subsections (14) and (15) of sections 17 is payable.

Questions

- Where the amount of the commission is not ascertainable, should a credit provider be under an obligation to provide a reasonable estimate of the amount of any such commissions? If so, should this disclosure be in accordance with the methods used for calculating this amount for providers of credit assistance?

ABA Comment

One of ABA's members is supportive of this proposal because it has some consistency with similar obligations under Ch 7 of the Corporations Act (in respect of FSGs and SoAs) and the Credit Guide requirements of credit assistance providers.

It is noted that Treasury is not proposing that commission disclosures are to be included in Financial Summary Tables (although under regulation 72 this is optional).

However, as stated earlier in the ABA's introductory comments there are significant concerns about the prospect of the proposed changes to the existing pre-contractual disclosure requirements in the NCC and with the possible changes to the Financial Summary Tables.

For this and the following reasons, there should be no changes to the existing commission disclosures requirements.

The role of credit assistance providers is partially advisory for the consumer client. It is consistent with this relationship that a reasonable estimate of the amount of commission payable to the credit assistant provider by a credit provider to whom the consumer's credit facility is referred is disclosed.

It should be explained why this disclosure would need to be duplicated by the credit provider.

The principle of having consistency in disclosures cannot be approached without an understanding of the different relationships that exist between a consumer's credit assistance provider and the consumer's credit provider.

A further issue is how a "reasonable estimate" is arrived at for disclosure purposes particularly where trail commissions are involved. Presumably this would require the method of calculation to be disclosed. These calculations would be likely to vary across the industry according to commercial factors.

If Treasury were disposed to include this more detailed disclosure it should ensure there is flexibility in a credit provider may provide a 'reasonable estimate' of the commission - to include:

- an estimated amount in dollars;
- an estimated range of amounts; or
- a method of calculation

- Should lessors be under the same obligation as credit providers to disclose commissions? Alternatively, are there any differences in relation to commission arrangements for lessors that would prevent disclosure or require a different approach to be taken to disclosure of commissions?

ABA Comment

The ABA recommends that this question is considered by Treasury's specialist consumer lease consultation group.

- Should there be any other changes to the matters required to be disclosed by section 17?

ABA Comment

No.

Issue 3 Timing of precontractual disclosure

1.26. Section 16 of the National Credit Code currently requires credit providers to give the precontractual summary of the contract (the financial table) to the consumer *at any time before entering into the contract*. In practice this means that consumers are usually provided with the summary at the same time as they enter into the contract. This limits a consumer's opportunity to understand the exact terms of the offer.

1.27. The Uniquest report suggests that consumers, when provided with disclosure at an early stage of the transaction, tended to choose lower risk products with a lower overall cost of credit. Their confidence in their choice and level of comprehension also increased.

1.28. Changes in technology, particularly the availability of emails, now make it easier for lenders to communicate quickly and directly with consumers.

1.29. Consequent on the findings in the Uniquest report Treasury's view is that the earlier disclosure is provided the more this will assist consumer comprehension, and that options for mandating earlier disclosure should be considered.

1.30. The requirement to provide precontractual disclosure earlier could be reformulated as either a requirement to provide the specified information under:

- A flexible approach — such as within a reasonable time before the contract is entered into.
- A more prescriptive approach — for example, as soon as practicable once the provider has determined the terms on which it is prepared to enter into a contract with the consumer.

1.31. Such reformulation would generally have a greater impact on home loans and loasn for large amounts of credit, where there is a usually a longer gap between approval and the borrower entering into the contract. It is unlikely to make a significant difference to, for example, retail credit in cases where there is a minimal difference in time between applying for credit, eligibility being determined and the consumer entering into a contract (so that a reasonable time before entering into the contract would be shortly before entering into the contract).

1.32. However, any change based on a requirement to provide documents ‘within a reasonable time’ or ‘as soon as practicable’ may have some initial degree of uncertainty requiring further guidance for credit providers. This change may also result in increased compliance costs for industry.

Questions

- What are stakeholders' views on the advantages and disadvantages of changing the timing for disclosure in relation to credit contracts?

ABA Comment

The ABA does not agree to a change to the timing of pre-contractual disclosures.

As we understand, the proposal is to bring forward precontractual disclosure under the NCC to either:

- Within a reasonable time before the contract is entered into; or
- As soon as practicable once the credit provider has determined the terms of the credit contract.

This proposal disregards the fact that the existing disclosure model already has a 'built in' cooling off period during which the customer can review the pre-contractual disclosure.

The debtor controls the timing for entering into the contract after having received the pre-contractual disclosures.

Included with the disclosures, on the proposed credit contract there is a warning (Form 7) to the consumer above the place the consumer is to sign to make sure the customer understands the contract. Many credit providers suggest that the consumer considers seeking legal or financial advice where they feel a need to do so.

Generally speaking credit providers issue letters of offer to customers as soon as the terms are finalised. This is what the customer is looking for having made his/her decision to apply for credit. It is difficult to see how a change to the timing of the pre-contractual disclosures would be consistent with the credit provider's processes and the customer's expectations.

In bringing forward these disclosures there is the increased risk that key aspects of the disclosures could change, for example interest rates or fees, which would make the disclosures out-of-date.

It needs to be recognised that many credit providers choose to make these disclosures in the contract document itself (as the NCC permits) to comply with section 17 of the NCC with a copy of the contract document serving as the pre-contractual statement.

For credit cards, if there were changes to pre-contractual disclosure to require credit card issuers to disclose earlier, this would have an impact on card issuance as it could potentially delay the issue of plastic card, thereby disadvantaging customers.

Further, as the credit card key facts sheet outlines all variable conditions of the interest charges and the varying annual fee per product, this already ensures that customers have the option of choosing a lower risk and lower overall cost product in the early stages and before entering into the contract.

To bring forward the timing of the pre-contractual disclosure would provide little advantage to customers applying for credit cards in light of the information already available at application and prior to activation.

In summary, changing the timing of disclosure and bringing it forward could have the following impacts:

- confusion for customers as multiple updated disclosures may need to be issued,
- reduced accuracy of disclosures (as disclosure is generally provided as soon as the final details of the credit facility are available), and
- additional costs, system changes and rework for credit providers.

At 1.28 Treasury suggests that the availability of email communications enables credit providers to communicate quickly and directly with consumers. While as a general proposition this is true but there is a range of legal requirements associated with this form of communication which impede that activity. Currently, this form of communication is not the default medium; rather it is an opt-in medium. Consideration should be given to reversing this by prescribing electronic communication with consumers being free to opt-out.

Finally, a rhetorical question, is it not intended that the proposed changes to the pre-contractual information would provide the customer with the opportunity to readily consider and understand key information in a simpler format? Why then would it be necessary to bring forward the timing of those disclosures?

Are the phrases ‘a reasonable time before the contract is entered’ and ‘as soon as practicable’ sufficiently certain for credit providers to be able to readily comply with a requirement based on such terms? If not, are there any other more precise ways to articulate the trigger for compliance?

ABA Comment

These phrases are not clear compared with the existing provisions that require disclosure to be made prior to the contract being entered into.

The existing timing should be retained.

- What costs might industry incur if they were required to provide the precontractual summary of the contract to the consumer within a reasonable time before the contract is entered?

ABA Comment

Costs would include:

Re-engineered loan approval confirmations to customers.

Multiple communications with customers: first, approval and pre-contractual disclosure, possible changes to accommodate changes to interest rates and fees, secondly, providing letter of offer (contract document for customer’s acceptance).

Legal advice and decisions on varying scenarios of what is a “reasonable time before the contract is entered” depending on the credit product and the customer’s needs and circumstances.

IT changes to structure of documentation and processes.

Staff training

Overall increase in compliance costs for credit providers with no ascertainable benefit for consumers to offset those costs.

- Should any such obligation apply to all credit products, or only to particular categories?

ABA Comment

The timing of disclosure under the NCC should not be changed i.e. brought forward.

ATTACHMENT A

INTRODUCTION

This attachment has the following draft Financial Summary Tables for home loans:

- the Uniquest model (Model A.3);
- the Uniquest model modified to reflect changes introduced by the Home Loan key Facts Sheet (Model A.1) — this is Treasury's preferred model; and
- a further version of Attachment A, but outlining which disclosure items are currently required by section 17, and which have been imported from the Key Facts Sheet (Model A.2).

Questions for Stakeholders

1. The requirement to provide a Home Loans Key Facts Sheet only applies to *standard home loans*, as defined in section 133AA of the Credit Act and Credit Regulation 28LA; in general terms this refers to contracts where the repayments will meet both principal and interest. It follows that the requirement to provide a Financial Summary Table, to the extent it imports known concepts from the Home Loans Key Facts Sheet, could easily apply to standard home loans. What are stakeholder's views on what modifications, if any, would be necessary to enable the Financial Summary Table to apply to other home loans (particularly those where the consumer is not obliged to make repayments that will repay principal and interest for the full term of the home loan, such as loans where the repayments only meet interest with a lump sum repayment after a number of years)?

ABA Comment

Generally speaking, there would be significant systems costs in changing the format of the NCC Schedule which would also require a significant transition period for the changes to be made.

There is an additional problem in that the table will be difficult and expensive to produce on legacy mainframe computer systems. Unlike desktop publishing software, mainframe computers can have difficulty in reproducing tables well.

It is unclear how these tables are to interact with other information that currently forms part of the financial table in pre-contractual disclosure - there are only vague references to this information being disclosed 'after' the financial summary table

These financial table summary tables have been based on the key fact sheets. However key facts sheets (KFS) were designed as comparison documents to assist consumers who are shopping around a number of providers

These objectives of brevity and comparison are not relevant to contractual disclosure which should provide customers with a more complete picture of costs, product features etc.

Arguably, the KFS is a much more appropriate place to cover this off, as it is during the enquiry stage. As described above, at the point the letter of offer is produced, the customer will usually have already made up his/her mind which product and price is wanted and arguably, information such as personalised comparison rates and the breakdown of total costs is of limited value.

There is great potential for customer confusion here because the information in the table does not cover the total contract. Customers may have difficulty knowing where to look for information - in the new financial summary table, or in later parts of the letter of offer.

There is also a danger that customers will regard the information in the new summary table as a comprehensive statement of all they need to know about their credit contract. Based on the example, there will be some less frequent credit fees and charges that will not appear in the summary table

Reflecting on the card's proposal, it is not clear how this will work with the existing KFS obligation. The current NCCP requirement is to provide a KFS that reflects the terms of the customer's credit contract before the customer accepts the offer. If a bank issues a customised KFS with every welcome kit that reflects the contract terms - non generic - so much of the information shown in the proposed disclosure document may duplicate the KFS.

With credit cards, this could lead to confusion for the customer as to what are the contract terms.

The fields in the draft financial summary tables reflect existing information required to be disclosed under section 17 except for a limited number of fields which are identical to what is required under KFS documents.

Obviously Regulation 28LA, which restricts the definition of "standard home loan" would need to be amended as loans which have any interest only period or which do not have a set term (e.g. equity access loans) are currently excluded. Reverse mortgages are also currently excluded as they do not require principal and interest repayments.

It would be necessary to clarify about how packages (which may include a home loan interest rate discount) are to be treated under the new disclosure regime.

Also, some products will not have a personalised comparison rate e.g. a line of credit facility.

Further, the table would need to differentiate between repayment options such as interest only, principal and interest or where line of credit facilities do not have comparable repayments. If there is no differentiation, customers may not understand why their repayment amount changes when interest rates revert. It would also be difficult for a customer to understand how the ‘estimated cost of credit’ and ‘estimated total amount to be paid back’ are calculated.

Early termination fees do not apply (other than to fixed rate credit facilities) to variable rate loans.

2. The draft Financial Summary Tables address a scenario in which the home loan has a simple variable interest rate. There are a range of other ways in which interest rates can operate, for example, honeymoon periods. It is considered that these alternatives could be encompassed within the existing template, consistently with the disclosure developed for the Home Loans Key Facts Sheets, as in the example below. Are there any difficulties in using the Financial Summary Table to address home loans where the interest rate applies in this way?

ABA Comment

Please refer to the ABA Comment above to question 1 in this section.

Items	Details of your contract	Important information
Interest rate	[variable interest rate] per annum	**This varies according to the Better Home Loans Pty Ltd Discount Variable Rate.**
	[fixed interest rate] per annum fixed for [number] years, then a variable rate currently [variable interest rate] per annum	**After [number] years, a variable interest rate applies, changing according to the Better Home Loans Pty Ltd Discount Variable Rate.**
	[variable interest rate] per annum for [number] years, then [discount interest rate] per annum	**For [number] years, a variable interest rate applies, changing according to the Better Home Loans Pty Ltd Discount Variable Rate.**
	[introductory interest rate] per annum for [number] years, then a variable rate currently [variable interest rate] per annum	**After [number] years, a variable interest rate applies, changing according to the Better Home Loans Pty Ltd Discount Variable Rate.**

3. What are stakeholder's views on the advantages and disadvantages of introducing new requirements to disclose the following matters (noting that these matters are required to be disclosed in the Home Loans Key Facts Sheet):

   3.1. The Name (if any) of the Credit Facility.

   3.2. The Estimated Cost of Credit.

ABA Comment

This is a new concept which may be unfamiliar to consumers and cause confusion. This is not included in the KFS.

   3.3. The Estimated Total Amount To Be Paid Back.

   3.4. A Personalised Comparison Rate.

ABA Comment

The future use of the comparison rate has not been determined and there is a low level of consumer understanding of it. This aspect should be deferred until after the future utility of the mandatory comparison rate has been assessed and determined.

3.5. The Term of the Loan.

ABA Comment
It is noted that the former UCC Regulation 79 allowed the inclusion of the "period over which repayments are made" in the financial table but this was not replicated in the NCC.

4. The Uniquest report only proposed including a statement of the amount of credit, and not a breakdown of how it was paid. Currently Section 17(3)(a)(ii) requires a credit provider to disclose *"the persons, bodies or agents (including the credit provider) to whom it is to be paid and the amounts payable to each of them, but only if both the person, body or agent and the amount are ascertainable"*. Should this information be disclosed in the Financial Summary Table or separately?

ABA Comment
No. While some may find it might be easier for this information to be together, by including this information in the Financial Summary Table this would be inconsistent with the objective of simplification of the Table. It is suggested that optional disclosures that are permitted to be included in the financial table (such as under s.17(3)(ii)) should be retained to provide credit providers with this flexibility.

5. The Financial Summary Table refers to both 'Fees and Charges', noting that section 17(8) of the Code refers to credit fees and charges. Is there any distinction between fees and charges, or could the disclosure in the Financial Summary Table be simplified by only referring to fees?

ABA Comment
There is a tendency to use these terms interchangeably although there is technical legal difference. It would be better to simplify this to just "fees".

6. Should Late Payment Fees and Early Termination Fees be specifically disclosed in the Financial Summary Table, or should they be included in the list of all fees and charges to be separately disclosed?

ABA Comment
Certain fees should be separately disclosed, noting that early termination fees apply only to certain products. Subject to the comment above about the comparison rate, fees that would be included in the comparison rate calculation and that are common across products e.g. establishment, loan service, settlement etc fees only should be included. As above, it is suggested that optional disclosures that are permitted to be included in the financial table (such as under s17(8)) should be retained to provide credit providers with this flexibility.

Model A.1 (Preferred Option): modified version of the Uniquest Template (using same language as in the Home Loans Key Facts Sheet, and minor changes)

Better home loans PTY LTD ('The Credit Provider') — financial summary table

Items	Details of your contract	Important information
Name of credit facility	**Standard Variable Home Loan**	
Loan amount	**$332,400.00**	
Estimated cost of credit	**+ $695,243.00**	The calculation of these amounts assumes you will pay the monthly payments on time over the full term of the loan, that the Interest Rate will not change and you will only be charged the known Fees and Charges.
Estimated total amount to be paid back	**= $1,027,643.00**	
By repayments of	**$2,854.57 per month**	If the Interest Rate changes then the amount of the Repayments will also change.
Interest rate	**9.0 per cent**	**This varies according to the Better Home Loans Pty Ltd Discount Variable Rate.**
Personalised comparison rate	**9.14 per cent**	The personalised comparison rate includes known fees and charges that will apply (other than government fees, charges or duties).
With known fees and charges of	**$840.00 establishment fee** **$540 each year in ongoing fees**	This does not include Fees and Charges which are dependent on events that may not occur. These Fees and Charges are listed below. Better Home Loans Pty Ltd can change the amount of these Fees and Charges, and can also introduce new Fees and Charges. It will give you notice of any changes.
Late payment fee	**$10**	
Term of loan	**30 years**	
Early termination fee	**Minimum of $400**	Plus an amount calculated by the credit provider to reflect any additional loss incurred due to early termination.

ABA Comment on Model A1

The Financial Summary Table should state the date of its currency. Is it proposed that the concept of a disclosure date is to be removed? The date of disclosure should be retained for certainty of all parties.

It is suggested that credit providers be given the option of personalising their financial tables with the customer's name in the heading to each of the relevant tables.

In the "interest rate" row, the words "according to" are quite vague. It does not cater for a margin above or below the standard rate. Packages will often include an interest rate discount subject to certain conditions.

In the "With known fees and charges of" row, the credit provider is referred to by its name "Better Home Loans Pty Limited". In the "Early termination fee" row the credit provider is referred to as "the credit provider". The Financial Summary Table should use consistent language throughout. Ideally the credit provider should be permitted to refer to itself as "we" (as in other NCCP documents) or by using its trading name rather than its entity name.

Model A.2: same as model A.1 but identifies which requirements are new

Better Home Loans PTY LTD ('The Credit Provider')[1] — financial summary table

Items	Details of your contract	Important information
Name of credit facility[2]	Standard Variable Home Loan	
Loan amount[3]	$332,400.00	
Estimated cost of credit[4]	+ $695,243.00	The calculation of these amounts assumes you will pay the monthly payments on time over the full term of the loan, that the Interest Rate will not change and you will only be charged the known Fees and Charges.
Estimated total amount to be paid back[5]	= $1,027,643.00	
By repayments of	$2,854.57 per month[6]	If the Interest Rate changes then the amount of the Repayments will also change.
Interest rate[7]	9.0 per cent	**This varies according to the Better Home Loans Pty Ltd Discount Variable Rate.**[8]
Personalised comparison rate[9]	9.14 per cent	The personalised comparison rate includes known fees and charges that will apply (other than government fees, charges or duties).
With known fees and charges of[10]	$840.00 establishment fee $540 each year in ongoing fees	This does not include Fees and Charges which are dependent on events that may not occur. These Fees and Charges are listed below. Better Home Loans Pty Ltd can change the amount of these Fees and Charges, and can also introduce new Fees and Charges. It will give you notice of any changes.
Late payment fee[11]	$10	
Term of loan[12]	30 years	
Early termination fee	Minimum of $400	Plus an amount calculated by the credit provider to reflect any additional loss incurred due to early termination.

1 Section 17(2): credit provider's name.
2 New requirement; but equivalent to a requirement in respect of a Home Loans Key Facts Sheet to state the name of the product.
3 Section 17(3)(a): amount of credit being provided (if ascertainable, otherwise maximum amount).
4 New requirement: section 17(6) does not apply to loans with a term of more than 7 years; the amount can be calculated once an estimate of the total amount to be paid back is calculated.
5 New requirement: section 17(6) would not apply to home loans; but equivalent to a requirement in respect of Home Loans Key Facts Sheets to state the total amount to be paid back.
6 Section 17(7): the number and frequency of the repayments.
7 Section 17(4)(a): the annual percentage rate under the contract.
8 Section 17(4)(c)(i): the name of the rate or a description of it.
9 New requirement: but equivalent to a requirement in respect of Home Loans Key Facts Sheets.
10 Section 17(8)(c): the total amount of credit fees and charges payable under the contract to the extent that it is ascertainable.
11 Section 17(8): requires a statement of all credit fees and charges that are, or may become, payable under the contract, and the amount of any such fee or charge if ascertainable, but, if not, the method of calculation of the fee or charge, if ascertainable.
12 New requirement: the term of the loan would only need to be disclosed if it was ascertainable.

ABA Comment on Model A.2 SAME AS MODEL A.1 BUT IDENTIFIES WHICH REQUIREMENTS ARE NEW

It is not clear from note 4 in Model A.2 whether Treasury proposes a different disclosure requirement for home loans depending on whether the loan was greater or less than 7 years.

Under the NCC the credit provider is only obliged to state the total amount of interest and the total amount of repayments if the loan term is less than 7 years based on assumptions in the NCC. This obligation will continue but for loans with terms greater than 7 years, but will the credit provider be required to estimate the "estimated cost of credit" (interest and fees) and the "total amount to be paid back" (principal plus interest and fees) as per the home loan KFS requirement? There does not appear to be any reason why there should be different NCC Schedules for loans with terms less than 7 years (e.g. bridging loans) and loans with longer terms.

Model A.3: Template in Uniquest Report

Better Home Loans PTY LTD ('The Credit Provider') — financial summary table

Items	Amounts	Important references
Type of credit facility	**Standard Variable Home Loan**	
Amount of credit	**$332,400.00**	
+ Estimated cost of credit	**$695,243.00**	Based on minimum monthly payments over the full term of the loan at the current Annual Percentage Rate and current Fees and Charges
= Estimated total amount payable	**$1,027,643.00**	Estimate based on above
By repayments of	**$2,854.57 per month**	If the Annual percentage rate changes then the Repayments change.
At annual percentage rate of interest	**9.0 per cent per year**	**This varies according to the Better Home Loans Pty Ltd Discount Variable Rate**
With fees and charges of	**$840.00 up front** **$540 each year**	**On 20 days notice,** the Fees and Charges may change and new Fees and Charges may be imposed. Additional government charges may require payment and these have not been included. Stamp duty on transfer of land has not been included.
Late payment fee	**$10**	
Term of loan	**30 years**	
Early termination fee	**Minimum of $400**	Plus an amount calculated by the credit provider to reflect any loss incurred due to early termination.

ATTACHMENT B

INTRODUCTION

The introduction of an Information Statement in relation to Lenders Mortgage Insurance (LMI) is intended to help consumers understand the way in which this product operates, the benefits to borrowers (even though they are not covered by the insurance), and the consequences for them when a claim is made by the lender.

Questions for Stakeholders

1. It is proposed that credit providers would be obliged to give the debtor the Information Statement, and that it would be badged as a document of the credit provider, as it would include their name and Australian Credit Licence number. Given this, should the Statement replace the references to 'the lender' with either 'us' or the name of the credit provider (as appropriate)?

2. The Information Statement refers to the borrower paying an LMI premium. Will it always be the cases that the premium is deducted from the amount of credit, or do some credit providers have business models in which the cost is not paid in this way? If the latter, how should this type of arrangement be disclosed in the Information Statement?

3. The draft encourages a borrower to contact the LMI insurer if they want more information about LMI. Stakeholders' views are sought on whether it would be better to direct the borrower to their lender, given that it is unusual for LMI providers to have such direct contact?

4. Section 17 does not specifically address disclosure in relation to LMI products currently disclosure is covered by section 17(3)(a)(ii), which requires a credit provider to disclose *"the persons, bodies or agents (including the credit provider) to whom it is to be paid and the amounts payable to each of them, but only if both the person, body or agent and the amount are ascertainable."* Credit providers may have models where the LMI premium is not deducted from the amount of credit. If this is the case, should there be any new disclosure requirements in relation to the existence of an LMI policy, or is disclosure sufficiently addressed in the Information Statement?

ABA Comment

The LMI Information Statement appears not to have been updated with suggested changes provided by the ABA and some member banks:

The suggestion that borrowers may contact LMI insurers should be removed – the borrower is not the policy holder.

- The reference to "80% and above " should be removed as this is not a fixed percentage and there are circumstances where LMI may be required below this loan to value ratio level. The percentage may also vary among providers and according to market conditions.

A bank may either capitalise the LMI premium into the loan amount or the customer is able to pay the premium upfront. Both scenarios are adequately covered in the statement from a disclosure perspective.

Specific feedback re changes to the following paragraphs -

"What happens if I default and my property is sold?"

If you have problems and cannot make repayments and no other resolution is found, your property may need to be sold to cover the outstanding loan amount."

This change which removes the remainder of this paragraph is recommended to reiterate previous feedback that customers can owe a sum to the LMI provider even if the property is sold voluntarily following a default. It is important to ensure customers understand that even if they sell the property themselves a debt may be payable to the LMI insurer not just if the credit provider enforces the mortgage and sells the property as mortgagee.

"Is LMI refundable?"

As a standardised form the wording needs to be generic, but the fact the form will contain the credit provider's Name/Logo/Licence Number will cause problems if the credit provider has a "No Refund" policy in place. The fact the wording includes 'may be partially refunded' will not stop complaints from customers expecting a refund.

LMI Information Statement

Credit provider's name and Australian Credit Licence Number

IMPORTANT FACTS ABOUT LENDERS' MORTGAGE INSURANCE

What is lenders' mortgage insurance (LMI)?

LMI is insurance that a lender takes out to insure itself against the risk of not recovering the full loan balance should you, the borrower, be unable to meet your loan payments. **It is important to understand that LMI covers the lender, not you**.

In other words, LMI:

- Provides consumers with a benefit as it allows **lenders** to provide home loans to those who otherwise meet their lending requirements but who may still be rejected for a loan because they are seeking to borrow more than 80 per cent of the value of the property; and
- Means that if you, the **borrower,** can't meet your loan payments (and all other options are exhausted), and there needs to be a forced sale of the property, the LMI insurer will pay to the lender any shortfall, if any, on the outstanding amount of the loan.

You will still have to repay any shortfall on the amount owing to the LMI insurer, instead of the lender — see the example below.

What is the cost of LMI?

The LMI premium is payable when you, the borrower, enter into the loan. The cost varies depending on the lender, how much is borrowed and the size of the deposit. The premium may be able to be included as part of the loan amount or as an upfront cash sum. Your lender can provide details of the likely costs after you have applied for the loan. On refinancing, LMI may be payable again (especially if you are increasing your loan amount).

What happens if I default and my property is sold?

If you have problems and cannot make repayments and no other resolution is found, your lender may need to sell your property to cover the outstanding loan amount. In this situation sometimes the house is sold for less than the amount owing. The LMI insurer will pay your lender the difference between the amount outstanding and the sale price, and will then ask you, the borrower, to repay this sum, plus any enforcement expenses, directly to them.

Example

John borrows $450,000 to buy a home valued at $500,000. As John's deposit is less than the lender's requirements, John pays the cost of the LMI which for him is included in the amount borrowed. John then becomes unemployed and defaults on his repayments. The lender repossesses the home and sells it for only $400,000, leaving a difference of $50,000. The LMI insurer under the policy pays the lender $50,000, and then requires John to repay this amount to them.

Important: If you experience problems making your repayments, you need to contact your lender as soon as possible as you may be able to arrange a payment variation on the grounds of hardship.

Is LMI refundable?

LMI may be partially refundable if the loan is terminated early in the life of the loan (usually the first year or two only). Each lender can provide details of their own refund arrangements.

Where can I find out more information about LMI?

You can contact your lender, the LMI insurer (your lender can advise their details), or the consumer credit regulator, the Australian Securities and Investments Commission on 1300 300 630, or through their consumer website at www.moneysmart.gov.au.

ATTACHMENT C

INTRODUCTION

This attachment has the following draft Financial Summary Tables for credit cards, including store cards:

- the Uniquest models for credit cards (Model C.3) and store cards (Model C.4);
- the Uniquest model modified to reflect changes introduced by the Credit Cards Key Facts Sheet, and capable of applying to both credit cards and store cards (Model C.1) — this is Treasury's preferred model; and
- a version of Model C.1 that outlines which disclosure items are currently required by section 17, and which have been imported from the Key Facts Sheet (Model C.2).

The same template has been used for store cards and credit cards, given that there are minimal differences in the two Uniquest templates.

The Uniquest report found that comprehension levels across demographics were significantly increased when information was presented using the Uniquest proposed disclosure model.

The models all propose disclosure of the Interest free arrangements in relation to the product. It is envisaged that these could be disclosed consistently with those being considered in relation to credit cards more generally (noting that these are still to be finalised).

Questions for Stakeholders

1. The models all refer to disclosure of an annual fee. However, this row of the Table could be adapted to allow for the disclosure of either monthly or annual fees (or both), according to how the credit provider charges fees. Do stakeholders have any comments on this approach?

2. Stakeholders' views are sought on whether other common fees (for example, cash advance fees and foreign transaction fees) should be disclosed in the Table, or only separately below the Table?

3. The Uniquest templates (Models C.3 and C.4) include a minimum repayment warning above the table. Stakeholders' views are sought on whether this requirement should be retained, given that a similar requirement has already been mandated in relation to monthly statements on credit cards.

4. What are stakeholder's views on the advantages and disadvantages of introducing new requirements to disclose the following matters:

4.1. The Name (if any) of the Credit Facility.

4.2. The Term of the Loan.

ABA Comment

1. Not at this stage. It is common for banks to charge only an annual fee.
2. None at this stage other than if this were to be a requirement it should be consistent across the finance industry.
3. It is unnecessary for this warning to be repeated in the Financial Summary Table. From an IT perspective some banks cite difficulty in implementing this IT-wise. Further, the effectiveness of the warning on statements of account is untested and if it is to be extended as proposed an evaluation of its utility should be undertaken.
4. (a) In 4.1, disclosure of the product name may not be suitable for "white label" product arrangements.

   (b) In 4.2, credit cards do not have a fixed term.

MODEL C.1 (PREFERRED OPTION): MODIFIED VERSION OF THE UNIQUEST TEMPLATE (USING SAME LANGUAGE AS IN THE CREDIT CARDS KEY FACTS SHEET, AND MINOR CHANGES)

Cards PTY LTD ('The Credit Provider') — financial summary table

Items	Details of your contract	Important information
Type of credit facility	Low Rate Mastercard (Silver)	
Credit limit	$4,000	
Interest rates	Interest Rate on purchases: 14.99 per cent	
	Introductory Interest Rate on purchases for the first 6 months: 4.99 per cent	
	Balance Transfer Interest Rate for the first 6 months: 0 per cent	
	Cash Advance Interest Rate: 20.49 per cent	
Interest free period	Up to 55 days on purchases only	Applies only if the outstanding balance is repaid by the due date. Cash advances or payment will attract interest from the date of the advance.
Annual fee	$75 each year	This fee may be varied by the credit provider.
Minimum repayments	Maximum of $88.80	This is the minimum repayment you would be required to make if you had used all the credit available under your limit.
Term of loan	Until cancelled	The credit provider reserves the right to call up the loan in certain circumstances and cancel the facility

Late payment fee	$10	

ABA Comment on Treasury's Preferred Model C.1 (credit cards)

This type of information is provided to customers in some form or another.

There would obviously be costs associated in making documentation changes and to reformat the information to support the Financial Summary Table. Any addition of new data (i.e. introductory balance transfer rates, minimum payment amount) would require system changes to include this information and this would in turn significantly increase the associated costs.

There would considerable duplication in providing Financial Summary Table because the applicant customer will have a credit card KFS providing similar information about the credit card product the customer wishes to obtain.

Credit cards are products that have a quick application and approval process. This would mean than having read the credit card KFS the customer would receive almost on top of the KFS the Financial Summary Table with the contract package. This would be inconsistent with the objective of simplification and removing unnecessary disclosure mentioned in the Discussion Paper.

A Table and its layout could simplify information for the customer but this should not be mandatory.

Some more technical comments are:

Re "Type of credit facility"- is usually on the cover page of the Letter of Offer.

Re "Interest rates" - Balance transfer rates for existing card customers often differ from those for new customers (i.e. introductory rates) therefore consideration needs to be given to how this information would be displayed. Introductory balance transfer rates are not currently displayed on the Letter of Offer and new data processes would be required (at significant cost) to present this information.

Re "Minimum repayments" – this should be limited to the minimum repayment calculation. This will also cover the situation where a customer exceeds their limit. The minimum repayment warning and amount should be contained in the statement of account where it is possibly more relevant for the customer.

Re "Term of Loan" – this is not appropriate for credit card contracts as credit cards do not have a set term. Customers will not understand what "call up the loan" means. Also, credit card providers do not generally reserve the right to call up the loan. Repayment of all amounts owing will only happen after breach and following the default and acceleration requirements of the NCC, including giving notice.

All interest rates should be referred to as "per annum" or "p.a.". It is incorrect to describe an interest rate without showing it is annualised.

In the "Interest free period" row, it is noted that Treasury has yet to finalise the regulation dealing with the expression “interest free”.

In the "Minimum repayments" row, the minimum repayment is described as "Maximum of $88.80". This is incorrect.

MODEL C.2: SAME AS MODEL C.1 BUT IDENTIFIES WHICH REQUIREMENTS ARE NEW

Cards PTY LTD (‘The Credit Provider’) [13] — financial summary table

Items	Details of your contract	Important information
Name of Credit Facility[14]	Low Rate Mastercard (Silver)	
Credit Limit[15]	$4,000	
Interest Rates[16]	Interest Rate on purchases: 14.99 per cent	
	Introductory Interest Rate on purchases for the first 6 months: 4.99 per cent	
	Balance Transfer Interest Rate for the first 6 months: 0 per cent	
	Cash Advance Interest Rate: 20.49 per cent	
Interest Free Period[17]	Up to 55 days on purchases only	Applies only if the outstanding balance is repaid by the due date. Cash advances or payment will attract interest from the date of the advance.
Annual Fee[18]	$75 each year	This fee may be varied by the credit provider.
Minimum Repayments[19]	Maximum of $80. 2 per cent of the outstanding balance.	This is the minimum repayment you would be required to make if you had used all the credit available under your limit.
Term of Loan[20]	Until cancelled	The credit provider reserves the right to call up the loan in certain circumstances and cancel the facility

13 Section 17(2): credit provider's name.
14 New requirement; but equivalent to a requirement in respect of a Credit Card Key Facts Sheet to state the name of the product.
15 Section 17(3)(b): the maximum amount of credit agreed to be provided, or the credit limit under the contract.
16 Section 17(4)(a): the annual percentage rate or rates under the contract.
17 New requirement; but equivalent to a requirement in respect of a Credit Card Key Facts Sheet to provide a description of the interest free period.
18 Section 17(8): requires a statement of all credit fees and charges that are, or may become, payable under the contract, and the amount of any such fee or charge if ascertainable, but, if not, the method of calculation of the fee or charge, if ascertainable.
19 Section 17(7)(b) : if the contract provides for a minimum repayment, the amount of that repayment, if ascertainable, but, if not, the method of calculation of the minimum repayments.
20 New requirement.

Late Payment Fee[21]	$10	

Model C.3: Template in Uniquest Report — credit cards

Cards PTY LTD ('The Credit Provider') — financial summary table

Warning: if you pay only the minimum monthly payments of $124 on the credit limit which is $5,000 you will have to make 90 payments over approximately 7 years and 6 months and will pay $1,185 in fees and an estimated $6,112 in interest at the Standard Annual Rate.

Type of credit facility	Standard rate MasterCard	
Credit limit	$5,000	
Annual percentage rates	Standard Annual percentage rate: 24.99 per cent Retail Annual percentage rate for first 12 months: 4.99 per cent Balance Transfer Annual percentage rate for the first 12 months: 0 per cent Cash Advances Annual percentage rate: 24.99 per cent	
Interest free period	Up to **55 days** on purchases only	Applies only if the outstanding balance is repaid by the due date. Cash advances or payment will attract interest from the date of the advance.
Fees and charges	**$158 each year**	These, including the annual fee, may be varied by the credit provider.
Minimum repayments	**$124.00**	This is the minimum repayment on the fully drawn credit limit.
Term of loan	**Until cancelled**	The credit provider reserves the right to call up the loan in certain circumstances and cancel the facility
Late payment fee	**$100**	

21 Section 17(8): requires a statement of all credit fees and charges that are, or may become, payable under the contract, and the amount of any such fee or charge if ascertainable, but, if not, the method of calculation of the fee or charge, if ascertainable.

Model C.4: Template in Uniquest Report — store cards

Cards PTY LTD ('The Credit Provider') — financial summary table

WARNING: If you have reached the credit limit of $4,000 and only make the required minimum monthly payments, which will then be $120, you will have to make 69 payments over approximately 5 years and 9 months. You will then pay $297.55 in fees and an estimated $4,345.70 in interest after the conclusion of any promotional interest free period.

Items	Amounts	Important References
Credit Limit	**$4,000**	
Annual percentage rates	**Purchase rate: 29.49 per cent** **Cash Advances Annual percentage rate: 29.49 per cent**	
Interest Free Period	**12 months**	Only applies to purchasers with promotional offers. Cash advances will attract interest from the date of the advance.
Fees and Charges	**$25.00 establishment fee.** **$3.95 per month.**	Other Fees and Charges may apply in certain circumstances These may be varied by the credit provider.
Minimum Repayments	**3 per cent of the balance or $40 whichever is greater.** **Example: $120 on fully drawn credit limit**	Minimum repayments must be made during the interest free period unless covered by a Buy Now Pay Later promotional offer.
Term of Loan	**Until cancelled**	The credit provider reserves the right to call up the loan in certain circumstances and cancel the facility.
Late Payment Fee	**$35.00**	

Attachment D

Introduction

This attachment has the following draft Financial Summary Tables for personal loans, including car loans:

- the Uniquest models for car loans (Model D.3);
- the Uniquest model modified to be consistent with the preferred model for Home Loans (Model D.1); and
- a version of Model D.1 that outlines which disclosure items are currently required by section 17, and which are new (Model D.2).

Treasury considers that the template developed for car loans (Model D.3) can be used for both personal loans and for car loans, given the overlap between these two products.

There are differences in the content and presentation of information between the Uniquest templates for car loans and home loans, as set out in Attachment A. The differences relate to the following matters:

- inclusion of components of total cost of credit; and
- presentation of ascertainable fees and charges as a total, or with a breakdown.

Inclusion of components of total cost of credit

The Uniquest template in Model C.3 sets out costs as a two-step model as follows:

- Interest Charges + Total Fees and Charges = Total Cost of Credit; and
- Total Cost of Credit + Amount of Credit = Total Amount Payable.

The home loan Table presents costs as follows:

- Loan Amount + Estimated Cost of Credit = Estimated Total Amount To Be Paid Back.

Presentation of ascertainable fees and charges

The Uniquest template in Model C.3 sets out costs as follows:

- as a total amount ($596.74 in the example in Model C.3); and
- as a breakdown of the amount of the individual fees (304.24 up front and $2.25 each fortnight in the example).

The Table for home loans only sets out the ascertainable fees and charges as a breakdown of the amount of the individual fees (both upfront and ongoing), and not as a total amount.

Treasury does not have any strong preference for one approach or the other, although it notes that there may be merit in a consistent approach to disclosure between home loans and personal loans.

Questions for Stakeholders

1. Stakeholders' views are sought on the differences in disclosure in relation to the components of the total cost of credit and the ascertainable fees and charges, and whether they have a preference for a particular disclosure model.

2. Model C.1 only has a statement of the amount of credit, and not a breakdown of how it was paid. Currently Section 17(3)(a)(ii) requires a credit provider to disclose *"the persons, bodies or agents (including the credit provider) to whom it is to be paid and the amounts payable to each of them, but only if both the person, body or agent and the amount are ascertainable."* However, in relation to car loans, it is not uncommon for the amount borrowed to also finance a range of financial products (for example, comprehensive insurance, gap insurance, tyre and rim insurance, consumer credit insurance and warranties). In some cases a significant percentage of the amount borrowed can be attributed to these expenses.

   In relation to loans for the purchase of a motor vehicle, stakeholders' views are sought on the advantages and disadvantages of including separate statements of the amount of credit provided to purchase the motor vehicle, and the amount of credit provided for other purposes. Stakeholders' views are also sought on whether any such disclosure should be in the Financial Summary Table, or separately, with other items.

   An example of how this disclosure could operate is set out below (presented as it might appear if included in the Financial Summary Table). The example assumes a credit contract in which 25 per cent of the amount borrowed is used to pay for costs other than the purchase of the motor vehicle itself.

Total cost of credit	**$4,968.56**	
+ Amount of credit	**$18,388.39**	
= Total amount payable	**$23,356.95**	
Amount borrowed for motor vehicle (including registration and stamp duty)	**75 per cent of the amount of credit ($13,791.29)**	This means the total amount you will pay for the motor vehicle, including interest charges, is $17,517.71
Amount borrowed for all other costs	**25 per cent of the amount of credit ($4,597.10)**	This means the total amount you will pay for other costs, including interest charges, is $5,839.24

3. What are stakeholder's views on the advantages and disadvantages of introducing new requirements to disclose the following matters (noting that these matters are required to be disclosed in the Home Loans Key Facts Sheet):

   3.1. The Name (if any) of the Credit Facility.

   3.2. A Personalised Comparison Rate.

   3.3. The Term of the Loan.

Model D.1: Modified version of the Uniquest Template (based on the language and format in Model A.1)

Car Finance PTY LTD ('the Credit Provider') — financial summary table

Items	Details of your contract	Important Information
Name of credit facility	**Consumer Loan Contract**	
Loan amount	**$18,388.39**	
Estimated cost of credit	**$4,968.56**	The calculation of these amounts assumes you will pay the monthly payments on time over the full term of the loan, that the Interest Rate will not change and you will only be charged the known Fees and Charges.
Estimated total amount to be paid back	**$23,356.95**	
By repayments of	**$203.61 each fortnight**	If the Interest Rate changes then the amount of the Repayments will also change.
Interest rate	**8.8 per cent**	**The interest rate is fixed for the term of your loan.**
Personalised comparison rate	**8.9 per cent**	The personalised comparison rate includes known fees and charges that will apply (other than government fees, charges or duties).
With known fees and charges of	**$304.24** up front **$2.25** each fortnight	This does not include Fees and Charges which are dependent on events that may not occur. These Fees and Charges are listed below. Car Finance Pty Ltd can change the amount of these Fees and Charges, and can also introduce new Fees and Charges. It will give you notice of any changes.
Late payment fee	**$40**	
Term of loan	**5 years**	
Early termination fee	**$750 + (Number of months left x $750)/60**	Imposed when the Loan Contract ends early whether by choice or by default.

Model D.2: same as Model D.1 but identifies which requirements are new

Car Finance PTY LTD ('the Credit Provider') [22] — financial summary table

Items	Details of your contract	Important information
Name of credit facility[23]	**Consumer Loan Contract**	
Loan amount[24]	**$18,388.39**	
Estimated cost of credit[25]	**$4,968.56**	The calculation of these amounts assumes you will pay the monthly payments on time over the full term of the loan, that the Interest Rate will
Estimated total amount to be paid back[26]	**$23,356.95**	

22 Section 17(2): credit provider's name.
23 New requirement; but equivalent to a requirement in respect of a Home Loans Key Facts Sheet to state the name of the product.
24 Section 17(3)(a): amount of credit being provided (if ascertainable, otherwise maximum amount).
25 Section 17(6) applies to contracts with a term of less than 7 years, and requires a statement of the total amount of interest charges.

Items	Details of your contract	Important information
		not change and you will only be charged the known Fees and Charges.
By repayments of	**$203.61 each fortnight**[27]	If the Interest Rate changes then the amount of the Repayments will also change.
Interest rate[28]	**8.8 per cent**	**The interest rate is fixed for the term of your loan.**
Personalised comparison rate[29]	**8.9 per cent**	The personalised comparison rate includes known fees and charges that will apply (other than government fees, charges or duties).
With known fees and charges of[30]	**$304.24** up front **$2.25** each fortnight	This does not include Fees and Charges which are dependent on events that may not occur. These Fees and Charges are listed below. Car Finance Pty Ltd can change the amount of these Fees and Charges, and can also introduce new Fees and Charges. It will give you notice of any changes.
Late payment fee[31]	**$40**	
Term of loan[32]	**5 years**	
Early termination fee[33]	**$750 + (<u>Number of months left</u> x $750)/ 60**	Imposed when the Loan Contract ends early whether by choice or by default.

Model D.3: Uniquest model

Car Finance PTY LTD ('the Credit Provider') — financial summary table

Type of credit facility	**Consumer Loan Contract**	
Total of interest charges	**$4,371.82**	
+ Total fees and charges	**$596.74**	$304.24 up front $2.25 each fortnight New fees and charges may be imposed or existing fees and charges changed without your consent
= Total cost of credit	**$4,968.56**	
+ Amount of credit	**$18,388.39**	

26 Section 17(7) applies to contracts with a term of less than 7 years, and requires a statement of the total amount of the repayments due under the contract.
27 Section 17(7): the number and frequency of the repayments.
28 Section 17(4)(a): the annual percentage rate under the contract.
29 New requirement: but equivalent to a requirement in respect of Home Loans Key Facts Sheets.
30 Section 17(8)(c): the total amount of credit fees and charges payable under the contract to the extent that it is ascertainable.
31 Section 17(8): requires a statement of all credit fees and charges that are, or may become, payable under the contract, and the amount of any such fee or charge if ascertainable, but, if not, the method of calculation of the fee or charge, if ascertainable.
32 New requirement.
33 See section 17(8) above.

= Total amount payable	**$23,356.95**	
By repayments of	**$203.61 each fortnight**	
For the term of the loan	**5 Years**	
Early termination fee	**$750 + (Number of months left x $750)** **60**	Imposed when the Loan Contract ends early whether by choice or by default.
Annual percentage interest rate	**8.8 per cent**	Fixed
Late payment fee	**$40.00**	

ABA Comment

The ABA refers to and repeats its introductory comments about the possible changes to the financial disclosures for credit products.

If Treasury proceeds with revised Financial Summary Tables for car loans the preference would be for either Models D1 or D2 subject to these following comments.

The "loan amount" should be detailed as currently required under NCC section 17(3)(a)(ii).

With sales of insurance and other ancillary products a major feature on car loans, particularly in dealer and car finance broker channels, this would be an important disclosure to ensure the customer understands what the loan includes.

There is no support for separate statements (presumably this is a reference to the earlier statement in the Discussion Paper about the amount of credit provided to purchase a motor vehicle, and the amount of credit provided for other purposes to be included in separate financial summary tables) of the amount of credit provided to purchase the vehicle and the amount of credit provided for other purposes. This is likely to be too much detail for the typical consumer to absorb and would detract from the value and impact of the main Financial Summary Table.

For an unsecured car loan this would require contract and system changes that could be quite costly. This could also add time to the sales process. If it impacts all car loans (and all personal loans), it is considered to be unnecessary, of little customer benefit, high cost and impractical.

Inclusion of the term of the loan and the clear disclosure of the early termination fee is appropriate. It is important that the credit provider is able to retain commercial flexibility with regard to break costs (as distinct from and in addition to an early termination fee (many asset finance loans are at a fixed rate for a fixed term and are affected by interest rate movements). However, the disclosure requirements for the early termination fee should not have the effect of the credit provider not being able to charge a break cost just because it cannot be determined when the Financial Summary Table needs to be produced for the customer.

Including a Personalised Comparison Rate would be difficult to implement on individual contract and is questionable if all fees are listed in the table.

Generally speaking, there would be significant systems costs and implications in changing the car and personal loans disclosures which would also require a significant transition period for the changes to be made.

ATTACHMENT E

INTRODUCTION

This attachment has draft Financial Summary Tables for reverse mortgages developed so as to be consistent with the preferred model for Home Loans. Two versions are set out: a clean copy (Model E.1), and a version that outlines which disclosure items are currently required by section 17, and which are new (Model E.2).

Questions for Stakeholders

1. Where the contract has a fixed interest rate, should the credit provider be provided to include an example of the break fee that would be charged after a specified period (for example, five years), given that the amount of these fees can be extremely high?

2. What are stakeholder's views on the advantages and disadvantages of introducing new requirements to disclose the following matters (noting that these matters are required to be disclosed in the Home Loans Key Facts Sheet):

    2.1. The Name (if any) of the Credit Facility.

    2.2. A Personalised Comparison Rate (including whether this is feasible where the end date of the contract is not known).

ABA Comment

Given the requirements under s.133DB to give potential borrowers projections, s.133DC & 133DB to give an information statement and under s.18C for borrowers to obtain legal advice before entry into the contract, the need to vary the current credit contract financial table which sets out the same information (plus additional information) as the proposed new Financial Summary Table (except for the addition of a "personalised comparison rate") is questioned.

Since borrowers obtain legal advice, the information in the Financial Summary Table should be expected to be understood by them.

There is no comparison rate calculation for continuing credit contracts. Therefore, it is not possible to calculate and show a "Personalised Comparison Rate" for reverse mortgages which are lines of credit. As such, the "personalised comparison rate" is not appropriate for the reverse mortgage where it is a line of credit since the rate can only be calculated if the loan amount is fully drawn.

Further, the new requirements implemented in March 2013, provide tailored, relevant information for these customers and it seems that the proposed Financial Summary Table would not provide them with any additional useful information. As a number of fields would have to be 'unknown' this may actually cause more confusion and potentially anxiety for this particular customer segment.

Also, early termination fees have been outlawed (other than for fixed rate loans) and so it is unclear why an early termination fee has been included in the examples for the reverse mortgage and variable rate home loan.

MODEL E.1: MODEL ADAPTING MODEL A.1 FOR HOME LOANS

Senior Home Loans PTY LTD ('The Credit Provider') — financial summary table

Items	Details of your contract	Important information
Name of credit facility	Standard Reverse Mortgage	
Loan amount	$20,000.00	
Estimated cost of credit	Unknown	It is not known how much you will have to repay. This will depend on how long you have the loan and the interest rate.
Estimated total amount to be paid back	Unknown	By law, lenders must guarantee that when your reverse mortgage has to be repaid you will not have to pay back more than the value of your home. This is known as a 'no negative equity guarantee'. There are a few exceptions to this rule (for example, if the house is sold for less than its market value).
Repayments	Lump sum repayment required as the contract ends	
Interest rate	7.0 per cent	This varies according to the Senior Home Loans Pty Ltd Reverse Mortgage Variable Rate.[34]
Personalised comparison rate	7.14 per cent	The personalised comparison rate includes known fees and charges that will apply (other than government fees, charges or duties).
With known fees and charges of	$10 each month in ongoing fees $300 valuation fee payable every 3 years	This does not include Fees and Charges which are dependent on events that may not occur. These Fees and Charges are listed below. Senior Home Loans Pty Ltd can change the amount of these Fees and Charges, and can also introduce new Fees and Charges. It will give you notice of any changes.
Early termination fee	Minimum of $400	Plus an amount calculated by the credit provider to reflect any additional loss incurred due to early termination.

34 Section 17(4)(c)(i): the name of the rate or a description of it.

Model E.2: same as model E.1 but identifies which requirements are new

Senior Home Loans PTY LTD ('The Credit Provider') [35] — financial summary table

Items	Details of your contract	Important information
Name of credit facility[36]	Standard Reverse Mortgage	
Loan amount[37]	$20,000.00	
Estimated cost of credit[38]	Unknown	It is not known how much you will have to repay. This will depend on how long you have the loan and the interest rate.
Estimated total amount to be paid back[39]	Unknown	By law, lenders must guarantee that when your reverse mortgage contract ends you will not have to pay back more than the value of your home. This is known as a 'no negative equity guarantee'. There are a few exceptions to this rule (for example, if the house is sold for less than its market value).
Repayments[40]	Lump sum repayment required as the contract ends	
Interest rate[41]	7.0 per cent	This varies according to the Senior Home Loans Pty Ltd Reverse Mortgage Variable Rate.
Personalised comparison rate[42]	7.14 per cent	The personalised comparison rate includes known fees and charges that will apply (other than government fees, charges or duties).
With known fees and charges of[43]	$10 each month in ongoing fees $300 valuation fee payable every 3 years	This does not include Fees and Charges which are dependent on events that may not occur. These Fees and Charges are listed below. Better Home Loans Pty Ltd can change the amount of these Fees and Charges, and can also introduce new Fees and Charges. It will give you notice of any changes.
Early termination fee[44]	Minimum of $400	Plus an amount calculated by the credit provider to reflect any additional loss incurred due to early termination.

35 Section 17(2): credit provider's name.
36 New requirement: equivalent to a requirement in respect of Home Loans Key Facts Sheet to state the name of the product.
37 Section 17(3)(a): amount of credit being provided (if ascertainable, otherwise maximum amount).
38 New requirement: section 17(6) does not apply to loans with a term of more than 7 years; the amount can be calculated once an estimate of the total amount to be paid back is calculated.
39 New requirement: to state that this amount is unascertainable.
40 Section 17(7): the amount of the and timing of the repayment, or the method of calculating the amount..
41 Section 17(4)(a): the annual percentage rate under the contract.
42 New requirement: but equivalent to a requirement in respect of Home Loans Key Facts Sheets.
43 Section 17(8)(c): the total amount of credit fees and charges payable under the contract to the extent that it is ascertainable.
44 Section 17(8): requires a statement of all credit fees and charges that are, or may become, payable under the contract, and the amount of any such fee or charge if ascertainable, but, if not, the method of calculation of the fee or charge, if ascertainable.

ATTACHMENT F

INTRODUCTION

This attachment has draft Financial Summary Tables for consumer leases developed so as to be consistent with the other templates. Two versions are set out: a clean copy (Model F.1), and a version that outlines which disclosure items are currently required by section 17, and which are new (Model F.2).

The templates include new lease-specific disclosure requirements in respect of the following matters:

- The cash value of goods — this is to enable consumers to be informed about the amount they are paying to lease the goods relative to their cash value.

- The amount payable under the contract relative to cash value of the goods — again, this is to ensure consumers are clearly informed about the amount they are paying to lease the goods relative to their cash value. This information is presented in two different ways, as a dollar value and as a percentage, as the amount paid for each dollar of the cash value of the goods.

- The cost of the lease expressed as an interest rate — this is to enable consumers to compare the cost of a lease with a credit contract, and to understand whether the cost of the finance is, in simple terms, high or low. An interest rate could be derived through the use of an 'assumed or notional interest rate', that is, an interest rate determined on the following key assumptions:

  – the cash price of the goods is equivalent to the amount financed;

  – the amount by which the rental payments due under the contract exceed the cash price of the goods is equivalent to the credit charges; and

  – the repayments to be used are those stipulated in the contract.

Given the product-specific nature of these requirements Treasury has been separately consulting with a specialist leases Working Group on whether or not these matters should be disclosed. There has been no decision yet as to whether the new disclosure requirements will be pursued.

Model F.1: Template developed on basis of principles in the Uniquest report with additional lease-specific requirements

XYZ Leases Pty Ltd ('The Lessor') — financial summary table

Items	Details of your contract	Important information
Goods being leased:	106cm HD TV	
Cash value of goods	$998	This is the lessor's estimate of what it would cost to purchase the goods for cash
Total rental payments	$1646	
Number, amount and timing of rental payments	24 payments of $72 a month	
Total fees and charges	$72	
Deposit	$0	
Total amount payable	$1728	
Amount paid in excess of cash value	$646	This means you will pay back $1.73 for every $1 of the cash value of the goods
Term of the lease	2 years	
Assumed or notional interest rate	48 per cent	A lease is not a credit contract. The interest rate comparison is based on assumptions that you borrowed $998 to purchase the goods and made the same repayments
Early termination fee		This amount is calculated to reflect any loss incurred by XYZ Leases Pty Ltd as a result of you terminating the contract early.
Late payment fee		Varies according to how late the payment is.

MODEL F.2: SAME AS MODEL F.1 BUT IDENTIFIES WHICH REQUIREMENTS ARE NEW

XYZ Leases Pty Ltd ('The Lessor') — financial summary table

Items	Details of your contract	Important information
Goods being leased[45]	106cm HD TV	
Cash value of goods[46]	**$998**	This is the lessor's estimate of what it would cost to purchase the goods for cash
Total rental payments[47]	**$1646**	
Number, amount and timing of rental payments[48]	**24 payments of $72 a month**	
Total fees and charges[49]	$72	
Deposit[50]	$0	
Total amount payable[51]	**$1728**	
Amount Paid in excess of cash value[52]	$646	This means you will pay back $1.73 for every $1 of the cash value of the goods
Term of the lease[53]	2 years	
Assumed or notional interest rate[54]	48 per cent	A lease is not a credit contract. The interest rate comparison is based on assumptions that you borrowed $998 to purchase the goods and made the same repayments
Early termination fee[55]		This amount is calculated to reflect any loss incurred by XYZ Leases Pty Ltd as a result of you terminating the contract early.
Late payment fee[56]		Varies according to how late the payment is.

45 174(1)(a): a description or identification of the goods hired under the lease.
46 New disclosure requirement.
47 174(1)(f): the total amount of rental payable under the lease.
48 174(1)(e): the amount of each rental payment to be made by the lessee under the lease. 174(1)(f): the number of rental payments to be made by the lessee.
49 174(1)(c): the amount of any stamp duty or other government charge (other than on receipts or withdrawals) payable by the lessee in respect of the lease. 174(1)(d): the amount of any other charges not included in the rental payable under the lease, and a description of those charges.
50 174(1)(b): the amount or value of any consideration to be paid or provided by the lessee before the delivery of those goods.
51 New disclosure requirement.
52 New disclosure requirement.
53 New disclosure requirement.
54 New disclosure requirement.
55 174(1)(h): a statement of the liabilities (if any) of the lessee on termination of the lease
56 New disclosure requirement.