

STANDING COMMITTEE OF OFFICIALS OF CONSUMER AFFAIRS

CONSUMER CREDIT CODE

STATEMENT OF ENFORCEMENT POLICY

COMPARISON RATES FOR LOANS OFFERED FOR TERMS OTHER THAN THE DESIGNATED TERM

The *Consumer Credit (Queensland) Amendment Act 2002* inserts into the Consumer Credit Code a new Part 9A, which provides for the mandatory disclosure of comparison rates:

- in advertisements for fixed term credit which feature an annual percentage rate, and
- in comparison rate schedules which are to be made available to consumers.

Section 146M of the Act provides that comparison rate schedules are required to list comparison rates for the consumer credit product concerned, calculated for each of the amounts of credit and terms prescribed for the purposes of that section.

Section 146M(3) provides that, if credit for one of the prescribed amounts is generally available, the comparison rate schedule is to list a comparison rate for that amount and its corresponding term, whether or not the credit is generally available for that term.

It has become apparent that this requirement could mislead consumers if it results in an interest rate designed for a loan such as a car loan being used to calculate a comparison rate for a prescribed amount and term which is intended to represent a home loan. For example, the prescribed amounts and terms include a category of \$70,000 for 25 years, which is designed to represent a rural home loan. Some credit providers, however, offer credit of \$70,000, but only for car loans, and at terms of around 5 years. In this case the interest rate is likely to be different from the rate that would be charged if the loan were offered for a home loan of 25 years. Using an interest rate designed for a car loan to provide a comparison rate for a 25 year home loan may therefore be misleading for consumers.

In response to this problem, the Standing Committee of Officials of Consumer Affairs (SCOCA) has agreed that the *Consumer Credit Regulation 1995* should be amended to provide that, where a credit provider offers credit for any of the prescribed amounts which have 25 year terms (all of which are intended to represent categories of home loan), but the credit provider only offers that amount of credit for a term of less than 25 years and for purposes other than a home loan, the comparison rate schedule should provide a comparison rate which is based on the term for which that amount of credit is actually offered rather than the 25 year term. The schedule should state the term for which the comparison rate is calculated.

Until this amendment is made SCOCA has endorsed the following agreed enforcement approach by government consumer agencies in relation to this issue:

Where a credit provider offers credit for any of the prescribed amounts which have 25 year terms, but the credit provider only offers that amount for a term of less than 25 years and for purposes other than a home loan, the comparison rate schedule should provide a comparison rate which is based on the term for which that amount of credit is actually offered rather than the 25 year term. The schedule should state the term for which the comparison rate is calculated.