

COMPARISON RATES: FREQUENTLY ASKED QUESTIONS

Why don't comparison rates have to be provided for continuing credit products?

The comparison rate formula requires the amount and term of a loan to be known. In the case of continuing credit products such as credit cards, however, neither the amount nor the term of the loan are known in advance.

What does the warning accompanying a comparison rate mean?

The warning advises consumers that the comparison rate is accurate only for the particular loan amount and term on which it is based, as different amounts and terms will produce different comparison rates.

The warning also advises consumers of the limitations of comparison rates, by noting that:

- as a comparison rate does not include government fees and charges or fees and charges which are only charged in certain circumstances, it may not provide a complete picture of the total cost of a loan;
- a comparison rate does not take into account some factors which may make a loan more attractive, such as fee free banking, or flexible repayment arrangements.

The warning is intended to make consumers aware that, while a comparison rate can be a useful tool for comparing the cost of different loans, it is important to consider all of a loan's features and not just focus on the comparison rate.

Are credit application and establishment fees included in the comparison rate calculation?

Yes. The comparison rate formula includes credit fees and charges which are payable before credit is provided and which are payable even if the credit is not provided.

Are fees paid to brokers, lawyers and valuers included in the comparison rate calculation?

The comparison rate calculation includes fees and charges payable in connection with a credit contract or mortgage, except for:

- government charges, such as stamp duty or mortgage registration fees;
- fees and charges which may or may not be charged, because they depend on some event which may or may not occur (for example, fees for early repayment or redraw fees); and
- fees and charges which are not ascertainable at the time the comparison rate is provided.

Fees charged by brokers, lawyers, and valuers will only be included in the comparison rate calculation if they are payable in connection with the credit contract.

Generally, if you have no choice but to pay a fee or charge, it will be included in the comparison rate, provided the charge is ascertainable whether the comparison rate is provided and it is not a government fee or charge.

Therefore if the credit provider requires you to pay a valuation fee, for example, this will be included in the comparison rate calculation. However if you employ a valuer independently of the credit provider the fee will not be included in the comparison rate.

What can I do if the amount or term of my loan are not listed in the comparison rate schedule?

The amounts and terms shown on a comparison rate schedule do not represent all the possible combinations of amounts and terms.

This means the amount and term of your particular loan may not be included in the comparison rate schedule. In order to get an idea of the comparison rate which applies to your loan, look at the comparison rate for the amount and term closest to the amount and term of your loan.

If I do not expect to keep a loan for the full term, does that make any difference to the comparison rate?

No. The comparison rate must be calculated in accordance with a standard formula, which takes into account the term of the loan as stated in the credit contract. The contractual term is always used in the calculation of the comparison rate, whether or not the consumer intends to keep the loan for that term.

Does the comparison rate differ for interest only and principal and interest loans of the same amounts and terms?

The comparison rate will usually be slightly higher for an interest only loan than for an equivalent principal and interest loan, because slightly more interest is paid on an interest only loan.

Are home loans which feature a line of credit covered by the comparison rate requirements?

The home loan is a fixed term credit product, and is therefore covered by the comparison rate requirements. The line of credit is an extra feature, and is not covered by the comparison rate requirements as it is a continuing credit product.

This means that the comparison rate for a home loan with a line of credit only applies to the fixed term home loan.

If a credit application is made over the telephone, must a comparison rate be provided?

No, a comparison rate doesn't have to be provided if a credit application is made over the phone.

Are advertisements which say that a loan is interest free required to contain a comparison rate?

No. These advertisements do not feature an interest rate and so do not have to provide a comparison rate.

Do advertisements which state how much you will save on a loan have to contain a comparison rate?

Not unless they also contain an interest rate. Comparison rates only have to be provided in advertisements which feature an interest rate.

Does the repayment frequency affect the comparison rate, and if so, could the comparison rate be manipulated by using the repayment frequency that produces the lowest comparison rate?

Different repayment frequencies have only a very minor effect on the comparison rate. For example, changing the repayment frequency from fortnightly to weekly on a loan with an interest rate of between 6% and 10% will usually reduce the comparison rate by about 0.01%.

The comparison rate formula requires the comparison rate to be calculated on the basis of the repayment frequency which is required by the credit contract. Most credit providers have a standard contract for their credit products, which will stipulate a certain repayment frequency.