

CONSUMER CREDIT LEGAL SERVICE INC (VIC)

SUBMISSION ON CREDIT ASSESSMENT AND JOINT ACCOUNTS IN RESPONSE TO THE REVIEW OF THE CODE OF BANKING PRACTICE ISSUES PAPER

20th June 2001

Dick Viney
Review of Banking Code of Practice

via email

Dear Dick,

Please find below some comments from CCLS on credit assessment and joint accounts.

Credit Assessment and Credit Cards

Inadequate assessment of the consumer's ability to pay appears to be a significant problem in relation to credit cards.

We don't know the figures, but understand that some years ago about 1/3 of credit card customers didn't pay by the due date. While the majority may use a credit card as a "cash flow management tool", others clearly do not (and we understand that banks will offer a credit card instead of a personal loan when a smaller amount is required).

Banks must be required to assess the individual customer's ability to pay – not simply identify the level of risk taken by the bank. We therefore don't believe that behaviour scoring is adequate to verify a customer's capacity to pay. We note that the UCCC allows the tribunal, in deciding whether to reopen a contract, to consider whether ".....the credit provider knew, or could have ascertained by reasonable inquiry of the debtor at the time, that the debtor could not pay in accordance with its terms or not without substantial hardship".

We don't believe that the tribunal would accept that a "behaviour score" was adequate, and given UCCC provisions have been used as a guide in some parts of the Code it would make sense here.

We believe it is the use of scoring instead of assessment of capacity to pay that leads to some consumers being seriously overcommitted, often due to receiving offers or extensions of credit when they are already suffering financial hardship.

Preventing further credit being drawn on joint accounts

As stated in the Issues Paper, the New South Wales government submission suggests that relationship breakdown, gambling or drug addiction are situations where one joint debtor may wish to stop further advances being made on a joint account. These tend to be crisis situations, where a delay in terminating liability for future advances could be devastating to one of the debtors.

It is therefore important that banks commit to preventing further drawings on joint accounts immediately on request, and not as proposed “by adequate written notice”.

Carolyn Bond