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Crackdown on credit sharks

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TIGHTER rules to protect small-business borrowers and a crackdown on payday lenders and unfair credit card fees are among changes being considered by the government as part of the second stage of its national credit reforms.

The reforms, outlined in a green paper yesterday, could form part of Labor's second-term agenda if it wins the election.

Loan sharks that charge borrowers up to 1000 per cent interest on short-term loans could face a new national interest rate cap and a ban on rolling over or extending outstanding loans.

And, in an effort to rein in credit card debt, banks and other lenders could be forced to let consumers nominate their own credit card limits so they are not handed more credit than they need.

Australians currently owe \$47 billion on their credit cards -- 5 per cent more than a year ago, and over three times more than 10 years ago.

Consumers add about \$18.8bn a month to their credit cards.

As part of the package of reforms being considered, any debt that exceeded the amount consumers could afford to repay on their cards without substantial hardship could become unenforceable.

The mooted changes go further than new responsible-lending laws introduced by the Rudd government, which require banks and others to first assess a consumer's ability to repay before credit is extended.

To ensure vulnerable or disadvantaged consumers are not hit with unexpected fees or interest charges, the government is also considering steps to ensure essential information about interest rates and key-card features is more clearly set out.

It is also examining reforms to protect Australia's two million small business owners, including extending the new consumer credit laws to mum-and-dad entrepreneurs and requiring that banks ensure they can afford to repay their loans.

The green paper acknowledges this could make it harder for them to get credit, and increase their borrowing costs.

Financial Services Minister Chris Bowen said there was "more work to do to strengthen credit protections for Australian consumers".

Responses to the green paper are due in a month.