

Consumer Affairs Victoria

Financial Services Factsheet

Comparison rates decoded

October 2003

Banks and other credit providers are required to give consumers an idea of how much they're really paying for their credit. A comparison rate includes both the interest rate and the fees and charges, reduced to a single percentage figure.

Need more information?

Call Consumer Affairs Victoria Helpline on 1300 55 81 81

Quick Tip

A comparison rate may not reflect the full cost of your loan if you choose to use any optional features that attract an extra fee.

How is a comparison rate calculated?

Comparison rates are calculated using a standard formula that takes into account:

- the interest rate for that particular credit product, such as a housing loan
- all fees and charges related to the loan that a borrower **MUST** pay under the loan contract eg, establishment and valuation fees you have to pay the lender to enter the loan, plus any sort of ongoing fees
- the amount that is borrowed
- the term of the loan
- the repayment frequency

but excludes:

- Government charges, such as stamp duty or mortgage registration fees
- fees and charges which you incur separately, such as fees charged by your solicitor or surveyor
- fees and charges that cannot be known in advance because you may not incur them, such as late

fees, or that are for optional features of a loan that you may or may not use, such as redraw fees or early repayment fees.

You should always consider how the comparison rate is calculated.

- A comparison rate may not reflect the full cost of your loan if you choose to use optional features that attract extra fees.
- Because comparison rates take into account the amount and term of a loan, there is no such thing as a "standard" comparison rate for a particular credit product. Each credit product will have a range of comparison rates that vary according to the amount you borrow and the length of time it takes for you to repay it.
- If you are checking comparison rates listed by different credit providers, make sure the rates you look at cover the same amounts and terms.

SAMPLE TABLE COMPARING RATES OF TWO CREDIT PROVIDERS

Credit Provider A					Credit provider B				
Amount	Term	Interest Rate	Fee	Comp. Rate	Amount	Term	Interest Rate	Fee	Comp. Rate
\$300,000	30 yrs	7.55%	\$8/mnth	7.60%	\$300,000	30 yrs	6.97%	\$600 est.	7.0%
\$100,000	25 yrs	7.55%	\$8/mnth	7.68%	\$100,000	25 yrs	6.97% (yr 1) 7.55% (yr2-25)	\$8/mnth	7.61%
\$30,000	5 yrs	7.55%	\$3/mnth	7.9%	\$30,000	5 yrs	7.44%	\$300 est.	7.86%

(Sample table only, intended to demonstrate the use of comparison rates. Does not reflect any credit products offered by credit providers.)

Quick Tip

If you are checking comparison rates listed by different credit providers, make sure the rates you look at cover the same amounts and terms.

What kind of credit is covered?

All personal credit arrangements or loans that:

- are **fixed term** ie, that are for a specific amount that is repaid over a specified time
- that are primarily for personal or domestic purposes

This includes, for example, home loans and personal loans, but excludes “continuing credit” products where the amount and repayment term cannot be known in advance, such as credit cards. It also excludes loans that are solely for investment or business purposes.

Which credit providers are covered?

All major financial institutions and other providers of personal credit, including:

- banks
- building societies
- credit unions
- finance companies
- friendly societies
- retail stores and other businesses
- Government bodies offering credit
- pay day lenders.

What are credit providers required to do?

From 1 July 2003:

- credit providers, finance brokers, and suppliers linked to credit providers must provide consumers with lists of comparison rates – called a comparison rate schedule – for a standard range of loan amounts and terms for their fixed term credit products
- any advertisement for fixed term consumer credit that gives an interest rate must also provide a comparison rate.

Comparison rate schedule

A comparison rate schedule is a list of comparison rates for a range of standard loan amounts and terms for a particular credit product.

The standard amounts and terms have been set in legislation and the credit provider **must** calculate a comparison rate for all of the listed amounts that are generally available for a credit product.

This means you can, for example, compare the comparison rates on personal loans between different credit providers.

Comparison rate schedules must be made available at any premises of a credit provider, finance broker or linked supplier at which consumer credit products are advertised or at which members of the public can lodge credit applications in person.

A relevant comparison rate schedule must also accompany any credit application that is sent or given to you by a credit provider, finance broker or linked supplier. Whenever credit products are advertised on the internet, electronic access to a relevant comparison rate schedule must also be made available.

Comparison rates in advertisements

As different loan amounts and terms produce different comparison rates, comparison rates in advertisements must be based on the amount and term in the legislated standard list that is most typical of the loan being advertised.

For example, the standard list includes a loan of \$30,000 for 5 years, which would be similar to a typical car loan, and \$150,000 for 25 years, which would be similar to a typical home loan.

Points to remember

- 1 Different loan amounts and terms produce different comparison rates and the comparison rate schedule does not include all combinations of amounts and terms. This means the comparison rate for your particular loan may not be included in the comparison rate schedule. You can always ask a credit provider to calculate the comparison rate for the particular amount and term you are seeking, but credit providers are not legally obliged to provide this information.
- 2 The comparison rate does not include government fees and charges, fees you incur separately, or fees and charges that can't be known in advance. Therefore, a comparison rate may not provide a complete picture of the total cost of a loan.

Quick Tip
A credit advertisement must clearly state the amount and term on which a comparison rate is based.

List of standard amounts and terms to be included in comparison rate schedules	
\$250 for a term of 2 weeks	\$50 000 for a term of 7 years
\$600 for a term of 8 weeks	\$70 000 for a term of 25 years
\$1 000 for a term of 6 months	\$100 000 for a term of 25 years
\$1 500 for a term of 1 year	\$130 000 for a term of 25 years
\$2 500 for a term of 2 years	\$150 000 for a term of 25 years
\$5 000 for a term of 2 years	\$200 000 for a term of 25 years
\$10 000 for a term of 3 years	\$225 000 for a term of 25 years
\$15 000 for a term of 4 years	\$250 000 for a term of 25 years
\$20 000 for a term of 4 years	\$275 000 for a term of 30 years
\$25 000 for a term of 5 years	\$300 000 for a term of 30 years
\$30 000 for a term of 5 years	

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3 The comparison rate is a useful tool for comparing the cost of loans but the loan with the lower comparison rate doesn't necessarily represent better value for money.

You need to consider the terms and conditions of the loan, such as whether you are able to make additional repayments, whether you can access these additional repayments at a later date and whether the loan is portable. A comparison rate also does not take into account some factors which may make a loan more attractive, such as fee-free banking or flexible repayment arrangements.

You should give careful consideration to whether these features are important to you and the effect they will have on the cost of the loan.

More information

Information on financial services is available from:

**Consumer Affairs Victoria
Victorian Consumer &
Business Centre**

113 Exhibition Street
Melbourne 3000

Telephone: 1300 55 81 81

Website www.consumer.vic.gov.au

More information

The National Consumer Credit Code website – www.creditcode.gov.au – this website has a list of frequently asked questions and more information about your rights and responsibilities as a credit consumer.

Further reading

Consumer Affairs Victoria has a range of financial services related factsheets:

- Borrowing money
- Credit cards
- Dealing with Ccredit problems
- Debt collectors: your rights in Victoria
- Debt consolidation
- Finance brokers
- Investment seminars and get rich quick schemes
- Pay day lenders and the consumer credit code



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