The Australian Financial Review
www.afr.com • Monday 4 April 2011

Letters

Credit lifeline can be a dead weight

So, Citigroup's Ray Gori and Nick Greiner claim a ban on unsolicited offers to raise credit card limits will increase irresponsible lending because lenders will give higher credit limits from the outset rather than gradually increasing limits over time ("Citigroup warns on credit card reforms", April 1).

By now we're used to hearing knee-jerk reactions in response to almost any banking reform proposals, but this one is too ludicrous to let pass unchallenged. The new laws will not prevent customers from requesting credit increases if they want them, and still allow lenders to make unsolicited offers to consenting customers.

According to Greiner, preventing a gradual increase in credit limits is "counter-intuitive". We disagree — a gradual credit increase is a poor option for consumers where it makes expensive credit seem affordable.

If lenders offer a consumer a $20,000 loan at 16 per cent, most will realise what a terrible deal that is. But from a low base, small credit increases can be accepted — and used — with little thought.

It is for this reason that unsolicited credit increase offers make a lot of money for banks. However, our experience at Consumer Action Law Centre shows that, over time, gradual increases can lead consumers into considerable financial distress.

Rather than being a financial lifeline, unsolicited credit increases can frequently be little more than a dead weight. In conjunction with the new responsible-lending provisions, a ban on such offers will prevent many people from getting into severe financial distress.

David Leermakers
Policy officer
Consumer Action Law Centre
Melbourne Vic

SUBMITTING LETTERS

■ Fax: (02) 9282 3137