

MEDIA RELEASE

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CONSUMER ACTION LAUNCHES TEST CASE AGAINST MORTGAGE EXIT FEES

Consumer Action Law Centre has today initiated a test case legal action against RHG Mortgage Corporation (formerly RAMS Mortgage Corporation) on behalf of Ms Emily Hamilton. Ms Hamilton faces an excessive early termination fee to switch her home loan, despite RHG imposing interest rate rises well in excess of the Reserve Bank's (RBA) headline rate and the market.

Nicole Rich, Director – Policy & Campaigns, said that Ms Hamilton sought help after RHG increased the interest rate under her variable home loan well above RBA official rate rises but when she looked into refinancing to a more competitive loan she was faced with an early termination fee of over \$12,000.

“Emily chose a RAMS low-doc loan after considering her options and reading advertising material promising that the loan was market leading, she would not pay “non-conforming” interest rates and the interest rates would be competitive,” Ms Rich said.

“After she entered into the loan in July last year RAMS, later RHG, started raising her interest rate to a point where now, even after recent RBA rate decreases, her rate is sitting at 0.99% higher than when she signed, while the official RBA rate is 2% lower.

“RHG do not seem to be too concerned about Emily switching to a more competitive home loan because their contract provides that she will be charged a large early termination fee if she pays out the mortgage within two years – over \$12,000 in Emily's case. Even if she waits longer before switching she will have to pay over \$9,000 if she does so after two but within three years.”

Ms Rich said that Consumer Action's legal case is arguing that the early termination fee is unconscionable because it exceeds RHG's reasonable costs arising from the early end to the loan.

“Mortgage exit fees are a serious concern in Australia, as confirmed by the Australian Securities and Investments Commission review requested by the Federal Government earlier this year.

“They become a barrier to borrowers switching home loans, causing economic harm to individuals and dampening competition in Australia's already overly-concentrated home loan market.

“Despite ongoing problems with the way these fees are disclosed to potential borrowers and their often excessive level, we have not yet seen any effective action to address them.”

Ms Rich said the legal action also alleges that the changes in the interest rate under Ms Hamilton's contract are unconscionable because they are unreasonable, particularly given RAMS' advertising.

“Borrowers sign up to variable home loans understanding that their contract allows the lender to raise or lower the interest rate, but this does not give lenders the right to make arbitrary or unfair changes.

“Our claim also asserts that RHG has engaged in misleading and deceptive conduct by representing that the interest rate under the loan would remain competitive and not exceed the rate on a market leading loan, when this has not been the reality.”

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