

## COMPARISON RATES – A CONSUMER GUIDE

### **What is a comparison rate?**

A comparison rate is a tool to help consumers identify the true cost of a loan.

It is a rate which includes both the interest rate and fees and charges relating to a loan, reduced to a single percentage figure. For example, a bank's advertised interest rate may be 5.49% and its comparison rate 6.75%.

### **When must I be provided with a comparison rate?**

Comparison rates only have to be provided for:

- credit which is wholly or mainly for personal, domestic or household purposes;
- fixed term credit – that is, credit that must be repaid within a specified time period. (A home loan with a term of 25 years, and a car loan with a term of 5 years are examples of fixed term credit. In contrast, credit cards, which do not have to be repaid within a particular time period, are examples of continuing credit).

From 1 July 2003:

- a comparison rate must be included in any advertisement for fixed term consumer credit which contains an interest rate; and
- consumers must be provided with comparison rate schedules – that is, lists of comparison rates for a standard range of loan amounts and terms – by credit providers, finance brokers, and linked suppliers (suppliers of goods and services who refer customers in need of finance to particular credit providers).

### **How is a comparison rate calculated?**

Comparison rates are calculated in accordance with a standard formula, which takes into account:

- the amount of the loan;
- the term of the loan;
- the repayment frequency;
- the interest rate; and
- the fees and charges connected with the loan, except for
  - government charges, such as stamp duty or mortgage registration fees;
  - fees and charges which may or may not be charged, because they depend on some event which may or may not occur (for example, fees for early repayment or redraw fees); and
  - fees and charges which are not ascertainable at the time the comparison rate is provided.

### **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 a 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 is similar to a typical car loan, and \$150,000 for 25 years, which is similar to a typical home loan.

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

### **Comparison rate schedules**

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 a comparison rate must be provided for all of the listed amounts that are generally available for that credit product.

As they use the same loan amounts and terms, comparison rate schedules can be used to compare the comparison rates of different credit products.

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.

### **Points to remember when using comparison rates**

1. A comparison rate can be a useful tool for comparing the cost of different loans, but it is important to consider all of a loan's features and not just focus on the comparison rate.

Remember that the comparison rate does not include government fees and charges or fees and charges which will only be charged in certain circumstances. Therefore the comparison rate may not provide a complete picture of the total cost of a loan.

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.

2. The amounts and terms shown on a comparison rate schedule do not represent all the possible combinations of amounts and terms.

This means the amount and term of your particular loan may not be included in the comparison rate schedule. In order to get an idea of the comparison rate which applies to your loan, look at the comparison rate for the amount and term closest to the amount and term of your loan.

Credit providers, finance brokers and suppliers linked to credit providers are not required to provide you with a comparison rate for your particular loan amount and term, but some may be willing to do so if you ask them.

3. Credit advertisements and comparison rate schedules may sometimes state whether a comparison rate is based on a secured loan (that is, a loan for which the credit provider takes a mortgage over property) or an unsecured loan (where no mortgage is taken).

This is because there can be a significant difference in the comparison rate for a secured loan and an unsecured loan of the same value, due to the higher interest rates usually charged for unsecured loans and the higher up-front fees for secured loans.

If a comparison rate is based on a secured loan, it is unlikely to be accurate for an unsecured loan of the same value, and vice versa.

**Where can I get further information?**

A list of frequently asked questions about comparison rates is available at [www.creditcode.gov.au](http://www.creditcode.gov.au).

Questions can also be directed to your nearest Fair Trading Centre.