

**“I owe, I owe, so off to
work I go....”**

The rise and rise of consumer debt.

Consumer Credit Legal Centre (NSW)

Consumer Credit Legal Centre (“CCLC”) is a community legal centre specialising in credit, debt and banking for NSW consumers, particularly disadvantaged consumers.

CCLC operates the Credit and Debt Hotline, the first port of call for NSW individuals experiencing financial difficulties and the key referral point for financial counsellors across NSW.

CCLC analysis – callers with credit card debt Sept 2004 – Jun 2006

Debt Range – Total amount owed across all credit card accounts

Amount Owed	Number of callers within range
Under \$3,000	500
\$3,000 - \$5,000	460
\$5,000 – \$9,999	501
\$10,000 - \$19,999	528
\$20,000 - 39,999	372
\$40,000 - \$79,999	144
Greater than \$80,000	48
Insufficient information given	0

CCLC analysis – callers with credit card debt Sept 2004 – Jun 2006

Number of cards held per debtor

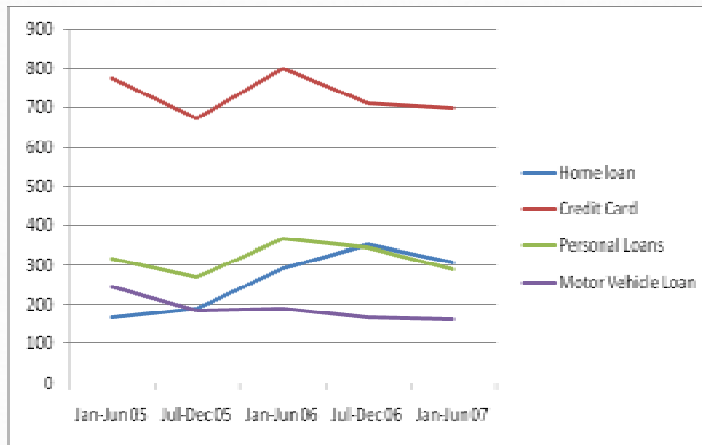
Number of card	Number of callers
1	1657
2	456
3	183
4	76
5 or more	47
Insufficient information given	134

- Of 2533 callers in the analysis, 844 were in receipt of government benefits and the majority of the others were working.
- The caller's income was low (below \$26,000) in 58% of cases and a further 15% were medium (below \$52,000). Only 3% identified an income level of over \$52,000 and the remainder did not specify their income level.

Credit Card Debt Problems

- Easily obtained
- Limit increases granted on conduct of account, not financial position
- Minimum payments very low – some people pay off balances for many years and pay considerable interest as a result
- Limit high compared to income as a result of low minimum repayments required
- Masks mismatch between income and expenditure
- Debt can be juggled for many years disguising financial stress in the community

Calls to CCLC by loan type



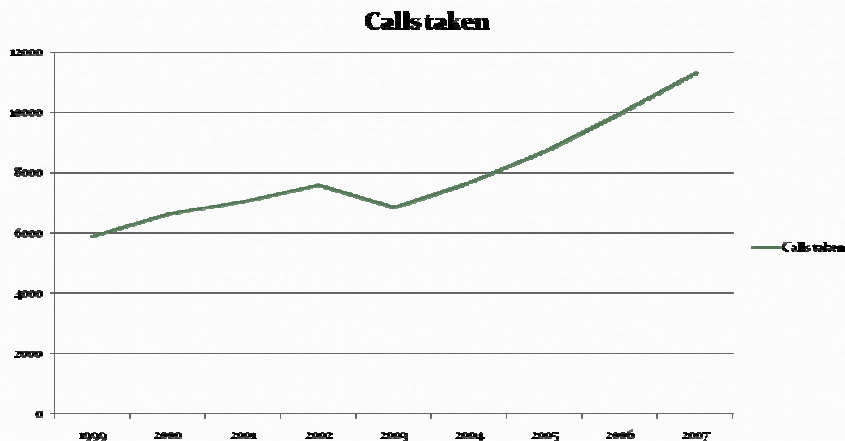
Changes noted by consumer legal services and financial counsellors

- Shift in the demographics of people seeking requests for assistance (including requests for material aid)
- Greater numbers of people requesting help in relation to home mortgages
- Lo-doc and non-conforming (sub-prime) loans are over-represented among the home loans taken out by clients compared to market share
- Non-bank/non deposit taking lenders are over-represented in the proportion of mortgage difficulties reported
- Most clients have obtained their home loan through a finance/mortgage broker or other third party

Case studies – multiple debts

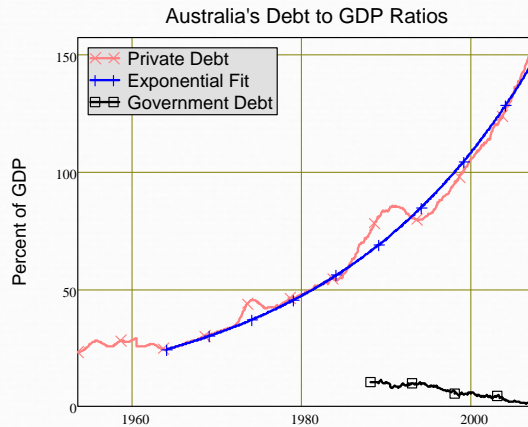
- Caller has home Loan \$65,000, and 2 credit cards totalling \$7,000. Now has back injury and cannot work
- Caller has home loan of \$270,000 and 4 credit cards totalling \$150,000. Working but can't keep up.
- Caller has home loan of \$500,000 and 14 credit cards totalling. Running their own business.
- Caller has a credit cards and 3 loans to small fringe lenders and two large phone bills. Working casually.
- Caller had home with considerable equity but has refinanced 3 times in 4 years at increasing rates of interest and fees. No equity left and can't repay loan.

Calls taken by Credit & Debt Hotline 1990-2007



And Deeper in Debt....

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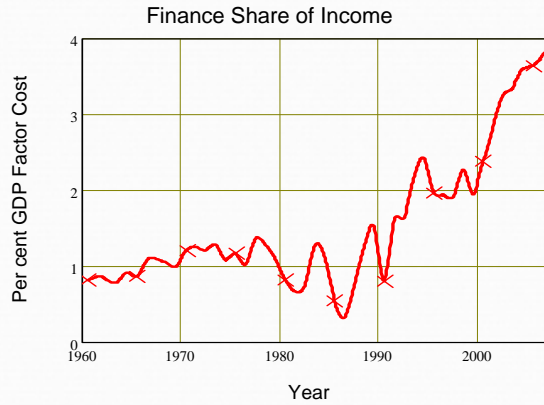


What have we to show for all this debt?

- Increased levels of financial stress
- Increased bankruptcies (highest in NSW)
- Stable home ownership rates (fully owned + mortgaged properties) but a higher proportion of those with housing debt
- Record housing repossessions (highest in NSW)
- Increased house prices
- Increased rents
- More income required to achieve same lifestyle
- Increased profits for the finance sector as a percentage of GDP
- Growth of industries feeding on financial stress

And Deeper in Debt....

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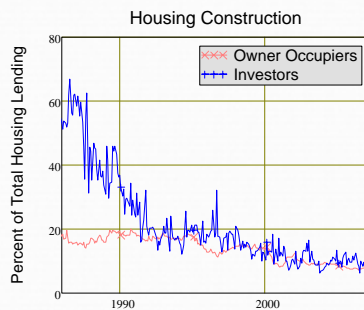
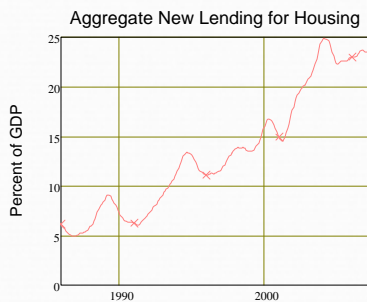


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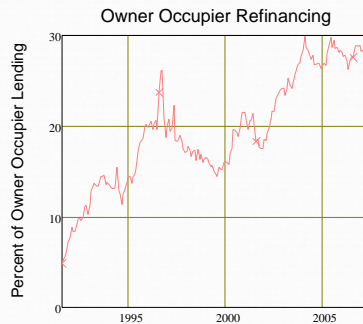
New lending for housing

Housing Construction



And Deeper in Debt....

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Perils of Consolidating Unsecured Debt

- Borrower may pay more over time, despite lower interest rate
- Underlying cause of debt accumulation not addressed, leading to risk of further debts being incurred
- House is in the immediate firing line when debtor can't pay

Perils of Consolidating Unsecured Debt

“The Plastic Safety Net: The Reality Behind Debt in America”, Demos and the Center for Responsible Lending, October 2005. This US survey found that of 1,000 borrowers surveyed, half had refinanced or taken a second mortgage to pay down credit card debt. The same homeowners had added on average \$US12,000 to their mortgage debt and still had at the time of the survey \$US14,000 on average in credit card debt (usually accumulated after the refinance).

Office of Fair Trading research in the UK, “Debt Consolidation: A Report on an OFT Study”, March 2004, found that 24% of respondents who had consolidated debt borrowed further amounts after consolidation, including obtaining new credit cards. 38% of those who had consolidated debt had done so before.

Not just a problem for Debtors

The “Debt” problem is not just a debate about personal freedom/responsibility versus adequate regulation.

It is about broader public concerns including:

- Health & productivity (of debtors)
- Family well-being (debtors and their dependents)
- Affordable housing (for all members of the community)
- Economic stability (for all members of the community)