How lenders and brokers should assess credit card costs now

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New responsible lending rules have changed the way brokers and lenders should now calculate credit card costs in all lending applications .

In the first part of this series, we explained what the new responsible lending rules for credit cards are. These new rules also affect how you should calculate credit card costs in all other loan applications when determining whether someone will be in substantial hardship.

What should you do?

Your responsible lending assessment of an applicant should be based on whether they can repay their existing credit card limits within 3 years. This means you can't just apply a nominal percentage to the total of all existing credit card balances any more.

When should you start doing this?

You don't have time to sit back and think about this for too long – ASIC expects you to change the way you calculate credit card repayments by **1 July 2019**.

What interest rate should you use?

When calculating how much an applicant will need to repay their credit cards, you should use the highest rate that applies under their contract. If you don't know what the highest rate is on their existing cards, you should use the highest rate that's reasonably likely to apply. ASIC suggests that this is 22%.

Should you include fees?

It's not necessary to include all account-related fees in your assessment. But if you're aware of fees that would significantly affect how long it would take someone to repay their credit card limit then you should include those in your calculation.

What should you do now?

You need to review your Responsible Lending Policy to make sure it meets these new rules. In particular, look carefully at how you assess credit card repayments. For further guidance you can also see ASIC's Report 590.

By Chris Deeble