

MEDIA RELEASE

Thursday, 10 May 2012

Linked credit case could cast doubt on more NAB student loans

The Consumer Action Law Centre has lodged a complaint with the Financial Ombudsman Service (FOS) against the National Australia Bank (NAB) and is seeking to have its client's NAB student loan terminated. A ruling in favour of the borrower could have flow on effects both for the NAB and customers who took out similar loans, and may result in the NAB terminating and/or reimbursing amounts paid under such loans.

The complaint contends that Consumer Action's client, Mr Shannon Squires, was referred to the NAB by Excom, an IT college he was enrolling in, and that when the NAB approved the loan it established a 'tied credit' contract. Under consumer credit legislation relating to such loans, should the service provider, in this case Excom, be unable to provide the service because, for example, it goes out of business, the loan contract can be terminated by the borrower and no repayments are required to be made. Excom went into administration on 25 August 2010 and Mr Squires was unable to complete his studies—however, the NAB continued to demand repayments.

Catriona Lowe, co-CEO of Consumer Action said she was uncertain how many Excom students had taken out loans with the NAB but that Consumer Action had reason to believe that Excom regularly referred students to NAB for the purpose of obtaining a loan to pay for Excom's services.

'Mr Squires \$20,000 loan is at the heart of this debate, but former Excom students who have taken out similar loans should be paying very close attention. If you were referred to the NAB by Excom and received a loan, Consumer Action would certainly like to hear from you.

'Many consumers take out linked credit loans and think they're committed to the repayments even if they never receive the product or service they were buying. But if the contract between the customer and the service provider is terminated, it is possible the credit contract can be also,' said Ms Lowe.

Consumer Action was involved in another high profile linked credit case in 2009 when whitegoods retailer Kleenmaid went into liquidation. Ms Lowe said in that case Consumer Action acted for a client who recovered over \$9,000 paid to a linked credit provider of Kleenmaid.

'Mr Squire's case is similar to one we took on when Kleenmaid went out of business. In both cases the credit provider provided the loan to the customer to pay for the product or services but the customer never received the product or service. The issue here is about whether the loan constituted linked credit.

'We're arguing that the NAB was requiring repayments from Mr Squire when it should have accepted his termination of the loan contract. Anyone who thinks they're stuck in a similar situation should pick up the phone and call Consumer Action's legal help line – getting expert advice can provide clarity, peace of mind and, on occasion, can save you a few dollars,' said Ms Lowe.

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