

## HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

### REVIEW OF THE FOUR MAJOR BANKS

#### Westpac Banking Corporation

**WBC13QON: CHAIR:** Are there regulations in particular that you can stipulate, that you can provide to the committee, which would outline what you think is creating a barrier to the bank doing business?

**Mr Hartzler:** We're happy to provide that on notice.

**Answer:** Where Small and Medium sized individual business owners are borrowing for both consumer and business purposes at the same time and the loan is for predominantly domestic or household use or to purchase, improve or renovate residential investment property, the loan will be regulated by the NCCP Act. It is common for these customers to borrow in this way as their housing loan is often their biggest commitment, but at the same time they want to have funds to invest in their business. As the loan will be regulated, responsible lending obligations apply. Responsible lending requires reasonable inquiries to be made about the consumer's financial situation and for reasonable steps to be taken to verify that situation.

The focus is on current verifiable income, expenses and liabilities rather than business cashflow forecasts. This means that it is difficult for the serviceability assessment to reasonably take into account income projections from a business entering growth phase or new venture (in the way that a business loan may). Responsible lending requirements therefore mean the business owner's borrowing capacity may be reduced as it will be judged on current income and future projections would either not be taken into account or would be heavily discounted. Whilst in some cases the business owner could apply for a separate small business loan, in many cases the customer wants the convenience of one loan especially where interest rates on a consumer loan are generally lower than for a small business loan.

Where a customer has a mix of regulated and non-regulated lending or has income and expenses across multiple types of legal entities, our bankers operate across different legislative regimes with different inquiry and verification standards, adding complexity to the process. Complexity requires additional resources for customers and for some this will be prohibitive.