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Background

- A Comprehensive Reporting Pilot Study is being conducted by Veda and involves ten Australian Lenders and 24 portfolios.
- The objective is to simulate a comprehensive reporting (CR) environment to understand the overall impact this could have on credit lending.
- Independent advice and supervision was used for the privacy framework
- Data analysed is depersonalised and excludes other personal information about credit applicants and credit account holders potentially known to lenders. It also does not take into account pilot participant-specific lending policies or procedures undertaken as part of responsible lending requirements.
- These are preliminary findings, still subject to change and refinement.
- **For the Committee's consideration, early findings on home loan lending will be presented. Home loan lending accounts for 87 per cent of the total credit limit granted by Pilot participants.**

Preliminary key findings

The first four new datasets (account opened, closed, type of credit and current credit limit) will reveal true credit commitments not apparent in the current negative reporting environment.

The pilot study shows this additional information indicates:

- Certain patterns of borrowing are highly predictive of credit risk;
- Risk increases with the number of lenders, not necessarily with the number of credit accounts.

The fifth dataset, payment history on credit cards and loans, along with adverse information is a much better indicator of home loan applicant's future credit worthiness than just adverse information alone:

- Currently a high proportion of new-to-lender home loan applicants with credit adverse information are likely to result in rejection.
- However the study showed a substantial proportion of applicants with credit adverse information have good payment history and demonstrated subsequent low risk behaviour.
- Similarly there are applicants with no credit adverse information whose account payment record is indicative of future credit adverse incidents.

Preliminary key outcomes

Comprehensive credit reporting information means access to home ownership can be safely extended to individuals now seen as likely to default – and not extended to others whom, currently unseen, are entering or in credit stress.

For people with credit adverse information, account payment history will enable them to demonstrate credit worthiness when applying for home loans.

Responsible lending is supported by payment history; access to credit can be widened without increasing risk and bad debts can be reduced.

It is a micro-economic reform by way of stimulating lending to credit worthy applicants.

The ALRC recommendation that account payment history is linked to responsible lending is supported by the study – and is consistent with research overseas and in Australia (Access Economics 2008).

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Knowing active accounts better reveals true risk

The pilot study identified credit activity at a certain point - and then examined what occurred in the next twelve months.

In particular, the study looked to see if in the next twelve months there was credit adverse information on credit cards or loans held by the individual – defined as seriously delinquent missed payments (90 days past due or worse), defaults or court judgements.

The proportion of accounts with adverse information relative to all accounts open is the **bad rate.**

- ❑ Certain combinations of borrowing (credit card + personal loan) have a higher bad rate than any other combination or single form of credit.
- ❑ Multiple lenders is a better indicator of risk than multiple accounts.

CR will give a full view of all credit accounts

Currently, a line of credit more than five years old cannot be seen on a credit report...

- A line of credit "disappears" from view five years after application.
- This means active lines of credit – credit cards or even a mortgage may not be declared, or its current credit limit undisclosed.
- The first four new datasets (account opened/closed, type & limit) will give lenders insight into the full amount of potential credit commitments.
- The pilot study indicates that multiple accounts with multiple lenders doubles the risk of subsequent adverse behaviour.
- However, multiple credit accounts with the one lender does not affect risk.

Knowing all active accounts will increase the ability to accurately assess risk

Lowest Risk
Home loan, followed by home loan plus credit card

Highest Risk
Personal Loan and Credit Card Combination, followed by personal loan

Decrease Risk
Once people have a mortgage, they tend to become less risky across all combinations of other forms of credit

Credit activity risk
(lowest to highest)

1. Home loans
2. Home loans & credit cards
3. Credit cards
4. Home loan & personal loan
5. Personal loan, credit card & loan
6. Personal loan
7. Personal loan & credit card

Assessing risk is more accurate knowing account payment behaviour

The Pilot study did an historical examination of new-to-lender home loan applicants, benchmarked against a typical rejection rate. It considered:

- How applications were assessed under existing legislation;
- How they would have been assessed under CR; and
- What subsequent adverse behaviours occurred.

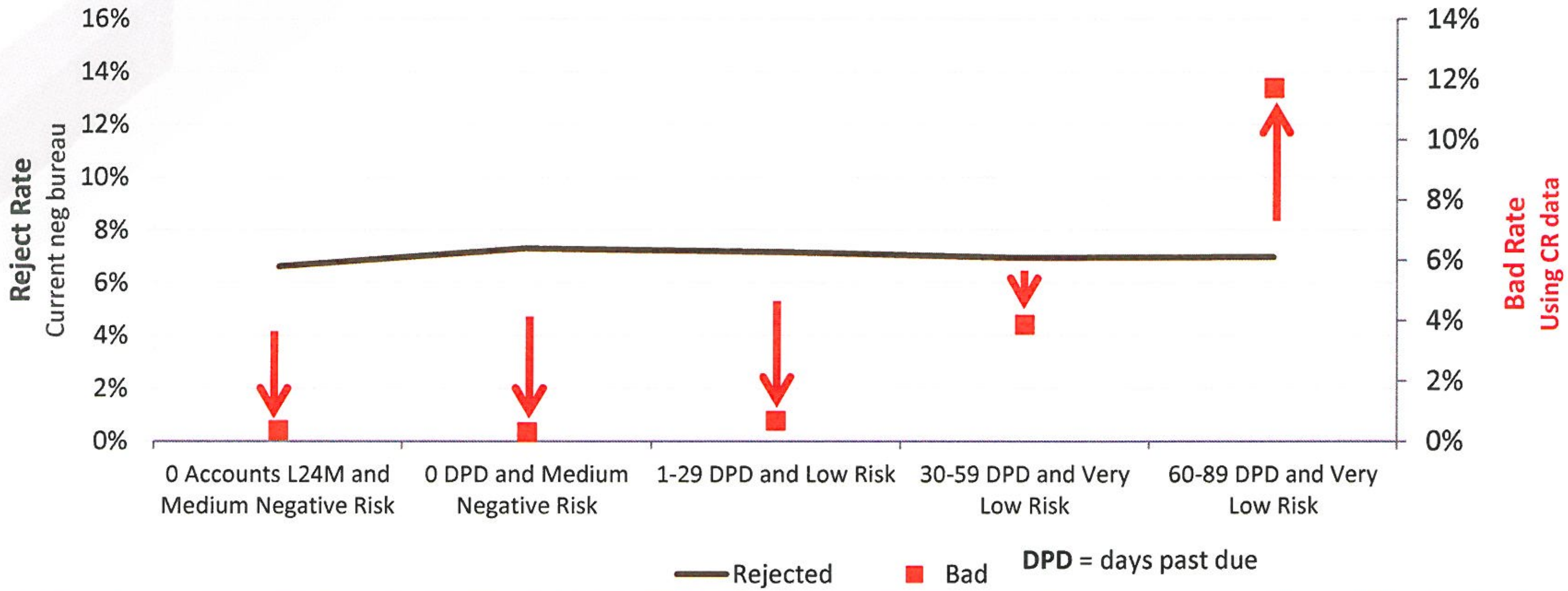
This allowed us to retrospectively assess the impact of what wasn't known at the time the application was made – their account payment history on credit cards and loans over the 24 months prior. We also looked at their current credit profile :

- **Low risk** no defaults, low credit activity.
- **Medium negative risk** – some credit cards, older default for low amount.
- **High negative risk** – series of defaults, potentially substantial.

The Study pointed to five categories of applicants where the result would be very different under CR.

New-to-lender home loan applicants

Accurate lending relies on 'good' credit records, not just 'clean' records



Payment history increases accurate risk assessment risk and can lead, overall, to more acceptances:

- ❑ Its estimated 20% of applicants with credit adverse information are paying their other credit commitments near to or on time.
- ❑ People without credit adverse information, but poor payment history, have a very high rate (12%) of subsequent "bad" credit behaviours (default, court judgement)