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INQUIRY INTO HOME LOAN LENDING PRACTICES AND PROCESSES

SUBMISSION

by

THE FINANCE BROKERS ASSOCIATION OF AUSTRALIA

TO

The House of Representatives
Economics Committee

Parliament House
Canberrra ACT
2600

Enquiry into Home Loan lending Practices and Processes

The Finance Brokers Association of Australia is the Principal Industry body for Finance /Mortgage Brokers whose members' activities include arranging finance for both consumer and commercial clients.

We welcome the opportunity to participate in this Round Table enquiry into Home Loan Lending Practices and Processes.

Our submission covers the issues proposed and our comments are in the order as shown on the invitation.

Over the past years de-regulation of the financial landscape and significant innovation within financial markets has seen a rapid increase in the availability and type and number of consumer credit products.

There is a question however whether consumers, and particularly those with low incomes together with those that are vulnerable, have adjusted to this changed environment.

Credit is more freely available than ever. From little choice in products and suppliers twenty years ago, consumers now have an enormous range of choices available to them. From relatively straightforward calculations based on a basic loan repayment schedule, consumers now also have to contend with a variety of different charges on top of the loan repayments. For many, credit is a lot easier to obtain than it once was.

While on the one hand the explosion in the number of credit providers and available products certainly points to there being a competitive market, the very complexity of some of the products on offer means that there is an asymmetry of knowledge between consumers and providers. That is, providers have specialists who develop and sell these products, who have an intimate knowledge of how they operate. Consumers on the other hand, often have low levels of financial literacy and many make consumer credit decisions very rarely.

A key current public policy issue is how to ensure consumers are well informed and have the capacity to make effective evaluations of products on offer. Equally important is how best to protect the interests of consumers trying to make informed choices in markets involving complex and technical information, which might be beyond the capacity of many people to understand.

The introduction of the Lo-Doc and No-doc loan opened up home ownership to those with little no equity but with a higher disposable income. They are comfortably able to make higher payments on higher borrowing amount.

We wish now to comment on the questions posed.

1. To what extent have credit standards declined in Australia in recent years?
.*Market share of non-conforming lenders; increase in low-doc
products across the board.

From the perspective of the FBAA they have not.

Post way years, the only way you could buy a home was to have between 20% and 50% deposit.
To open up the market the then Federal Government created the first mortgage insurer, Housing Loans Insurance Corporation. With the payment of a reasonable premium, sometimes included in the loan amount this insured the loan against the default of the borrower thus protecting the lender against any eventual loss allowing the lenders to make advances up to 95% of the loan amount. Of recent time the advance may be 100%.

This spawned the birth of the Permanent Building Society movement into the home lending market throughout Australia. It must be remembered that to get a loan from the Building Society you had to be a member for some time prior to any application.

A short time later two more private mortgage insured MGICA and CU/AMIC came into the market thus opening up the housing market to many more lenders and home loan borrowers.

Without the introduction of HLIC and the additional two mortgage insurers the housing market would still be floundering today.

Prior to the introduction of mortgage insurance into the housing market a deposit for a loan was a minimum of 20% of the purchase price and the balance of the deposit funds were generally made up from additional costly short term borrowings the likes of personal loans, or a trading bank facility or private borrowings generally secured by a second mortgage over the same property being purchase. The added increased costs to the consumer for these ancillary loans was another burden to carry.

The higher lending ratio with mortgage insurance eliminated these additional costs thus making it more affordable long term.

2. Have declining credit standards caused an increase in the number of loans in arrears and the number of repossessions. Lack of accurate data on repossessions; 'agreed' sales hiding true rate of defaults.

3. Are borrowers in financial difficulty being treated appropriately by lenders?
Obligations under CBP and/or UCCC; access to superannuation for repayments.

Again from the perspective of the FBAA in both instances, they have not.

The so called lack of data and agreed sales hiding the true rate of defaults appears to be more of a media driven, headline grabbing scenario without intimate knowledge and the workings of lending arrears process.

It is not in the interest of any lender to have high delinquency rates and or repossessions. The adverse impact on the lenders bottom line and in some instances the consequent shareholder backlash makes the arrears control and repossession policy a priority in any lending organization. Not to say the least but the major lenders ratings may suffer.

There are many and various reasons for consumers to get into financial difficulty, unfortunately this is a fact f life and the age we live in. This does not say that lenders are callous and uncaring and there are no bouquets for repossessing the property.

It may be true that in this day and age the control of arrears is a more focussed process due to the greater number of players and the subsequent competition for the consumers business. It is much a better proposition to look after the client you have on your books and help them through any financial crisis.

The UCCC in its operation sets out specific guidelines and principles in regards to the actions associated with bother the arrears and repossession processes.

> 4. Are declining credit standards likely to have any long-term implications for the Australian financial system?
> Lessons from the current situation in the United States.

As previously stated the FBAA is of the opinion that credit standards have not and are not declining.

Yes we may learn some lessons from what is happening in the United States be it of little consequence in Australia. We are of the belief that it will not impact greatly on our market and overall lending practices as the market here is totally different and there is a more diligent lender and credit conscious consumer generally working in unison.

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