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Wesley Mission Submission to the Inquiry into Home Loan Lending Practices and Processes

Introduction
For almost 200 years Wesley Mission has been providing assistance to the people of NSW through the provision of welfare and support services to the community – ranging from the old, mentally ill, unemployed, homeless and the needy.

Last year, in response to the feedback received through undertaking its work, Wesley Mission embarked on a research program in Sydney to explore the level of financial stress in the community, the contributors to financial stress and the impact it has on the individual, family and the wider community. This was followed by a number of forums attended by representatives from major financial institutions, service providers and Government, which defined the three key contributing factors and developed some recommendations to address the issue.

One of the major contributing factors identified from both the research and the focus groups was access to credit (including credit card facilities, personal loans and Home Loans). Some of the issues around the issue of credit included the ready availability of finance, 100 per cent (or more) loans, low and no doc loans, the terms around credit and treatment of lenders in financial stress.

The Wesley Report: Financial Stress and its impact
The Wesley Report *Financial Stress and its Impact* revealed that while there are indicators that show a strong and prosperous economy, there is a significant proportion of the population who are struggling with their personal financial situation. The report showed:

- One in three households was anxious about their ability to meet expenses for the coming year.
  - Six per cent of these were unable to pay the mortgage or rent on time.
- One in four households would be unable to draw on their savings or redraw on their mortgage if faced with an unexpected one-off expense of $2,000.
- Almost 15 per cent of households would find it difficult or totally impossible to meet a regular increase of $40 per week in household expenses (i.e.: mortgage payments or food bill).

The report also identified financial exposure, financial literacy and awareness of financial assistance as being contributors to financial stress. In relation to financial exposure, some of the research relevant to the Inquiry into Home Lending practices and Processes include:

- 88 per cent had at least some form of financial debt or a line of credit, including 31 per cent with a mortgage
- a poll by ninemsn found 40 per cent of people felt they were taking on dangerous levels of debt to own their own home
- 27 per cent of those with mortgages did not know the exact amount of their monthly mortgage repayment
- 66 percent of those with a mortgage did not know the exact amount that their monthly repayment would increase from an interest rate rise

The need to improve credit standards
Following the publication of the concerning figures around financial stress, it was clear that the credit standards in Australia did not reflect the level of financial stress in the community, with credit being too easy to access. For example in home lending, we have seen the introduction of 100 per cent mortgages, low-doc loans and no doc products, mortgage redraw facilities.

At our subsequent forums, Wesley Mission and representatives from the financial services sector, welfare groups and community representatives concluded that access to credit is a serious issue and one that must be urgently addressed.

In a soon-to-be-released whitepaper, some of the proposals to tighten access to credit include:

- **Appropriate credit checks:** Wesley Mission encourages lenders to perform rigorous credit checks and to refrain from taking part in exploitative practices. This includes comprehensive credit assessment in terms of the initial credit application and its subsequent increases.
- **Second-tier lenders onerous credit terms:** Ancillary to the issue of proper credit assessment is the issue of second-tier lenders or fringe lenders. We encourage these lenders to refrain from giving credit on onerous terms. Many of the clients who suffer from financial exclusion in the mainstream market (either due to its more stringent requirements or to the type of financial services sought) often tap this flexible, secondary market, resulting in the low income and disadvantaged individuals being high users of fringe lenders. To take advantage of this vulnerable group is socially irresponsible and unacceptable.

Treatment of borrowers

On a daily basis, Wesley Mission is contacted by many individuals from across the community seeking help and assistance to overcome situations of financial stress.

This includes many who find themselves in difficulties with their lenders. The Wesley Report: *Financial Stress and its Impact* includes two case studies which are similar to the stories heard by Wesley Mission's financial counselors on a regular basis. They suggest the need for some changes by financial institutions on dealing with those in financial stress.

Case study 1: Helen and her husband John found themselves in major financial difficulties, when John had to resign from his from his $150,000 a year position following him being diagnosed with cancer. The couple had a house valued at $700,000, with a mortgage debt of $500,000. The couple was three months behind on their mortgage repayment when issued with a "Notice to Vacate". The family had not been able to find alternate accommodation when the mortgagee changed the locks on the property – meaning the family was unable to get their possessions out. Only through the intervention of Wesley Mission, was the family able to negotiate with the mortgagee to give them time to sell the property at market value and find suitable accommodation to rent.

Case study 2: Jane and her husband were reliant on the income from his work in the home building industry – which could be up to $2,500 per week but at other weeks could be zero. The stress of the financial situation provided constant tension in the household. Almost a year ago, Jane separated from her husband mid-renovation of their home that carried a mortgage debt of $770,000 and upon being completed would be valued at around $900,000. Jane continued to live in the family home, though was worried that the bank would foreclose on the mortgage, leaving her locked out of the house and unable to access the household possessions. Six months ago, Jane received a statement of claim from the bank and had 21 days to file a defence. Following consultation with Wesley Mission, Jane decided that going bankrupt was the only solution.

In a soon to be released whitepaper, some of the proposals to address the treatment of borrowers include:

- **Provision of complete and simple financial information to borrowers:** Truth in lending is the foundation of consumer credit legislation in Australia. The challenge is for providers to fully embrace this principle. This implies provision of accurate, complete, easily comprehensible financial information to their clients. Trustworthy and simple financial information will assist consumers in making the right and rational choice, one that would fit their needs and circumstances. Responsible provision of credit also implies the provision of more information to consumers – encouraging them to think carefully taking on any new borrowing. Such information could include data on the number of years it would take the client to pay a loan if only the minimum repayment is made, and what would happen to the loan repayments should interest rates change. The Government should also consider providing public information on responsible borrowing to empower consumers to take control of their finances.
- **Assisting those in financial stress:** As part of social responsibility programs, the financial services sector should educate and train staff to be able to assist customers in financial stress. Wesley Mission endorses an early intervention approach that does not preclude the proper role of financial institutions in assisting their clients. In fact, we encourage industry-driven initiatives to solve the problem. For instance, financial service providers must encourage and advise clients to take early action to solve their financial problems. This calls for: commitment by financial institutions to train their staff with skills in helping clients at the very first instance of engagement (in some financial institutions, this staff training is already common practice), commitments to responsible lending codes of practice, and the provision of information on responsible borrowing.