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House of Representatives Economics, Finance and Public Administration Committee
Home Loan Lending Inquiry

Dear Hon Bruce Baird MP, Committee Chair

House Economics Committee Inquiry into Home Loan Lending Practices

GE Money welcomes the opportunity to make a submission to the House of Representatives Economics, Finance and Public Administration Committee inquiry, into Home Loan Lending Practices.

GE Money is a group of legal entities that commenced operations in Australia in 1995 and is now one of Australia's leading consumer finance companies, offering a range of consumer lending products including mortgages. GE Money has assets in excess of A\$30 billion and over 3 million customers across Australia and New Zealand and now employs in excess of 4000 people in Australia alone. GE Money is part of the global GE network, a company with a AAA rating and global lending experience.

The purpose of this submission is to highlight the desirability of a comprehensive credit bureau.

A comprehensive credit bureau is expected to deliver a tangible benefit to customers, as a positive reporting environment would enable GE to gain a more complete and accurate understanding of an applicants credit obligations and consequently improve our ability to assess their credit risk.

This improved capability enables us to reduce credit losses which potentially reduces the cost of credit to the consumers and it reduces the number of consumers who take on unsustainable levels of credit commitment.

We recognise that there are a number of viable alternative models for positive reporting as demonstrated by comparing and contrasting the USA and UK bureau environments, both of which have positive reporting models. This comparison highlights a number of principles that we would expect to be incorporated in any Australian bureau.

Specifically we believe that the principles of reciprocity; the prohibition of supply of positive data for Marketing; and the requirement for a comprehensive range of data for evaluating risk and capacity and for fraud prevention are all necessary to produce an effective and sustainable benefit to both credit provider and consumer. These issues are discussed further in the attachment.

Recommendation: GE money strongly recommends a positive data credit bureau is implemented in Australia.

GE Money's representatives would welcome the opportunity to discuss this recommendation further. Please contact me in the first instance.

Yours faithfully

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Vice President, Government Relations

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ATTACHMENT

1. Benefit to Customers and Credit Providers

As a prudent credit provider and as required by law, we assess applicants credit risk prior to disbursing funds.

The purpose of this risk assessment is to

- a) avoid uneconomic levels of credit risk, (a benefit to GECF) and
- b) reduce the incidence of consumers incurring debts they are unable to service.

In all of our underwriting processes, we utilise credit scorecards and capacity (Income and Expenditure) metrics to assess the applicants credit risk. The credit scoring process utilises application data (eg. stability surrogates like Time with Current Employer) and the available credit bureau data such as Number of Defaults, which demonstrates the applicant's historic capacity and / or willingness to service their debts.

The effectiveness of the credit scorecards used to underwrite applications is dependant on the predictive power or discriminating power contributed by each individual characteristic. In many studies in a diverse range of international markets, positive credit bureau data has been proven to add more predictive power to the scorecards than the demographic data supplied by the applicant on the application form. This is due to positive credit performance data having two advantages over application form information.

Unlike application form data, the credit performance data cannot be manipulated, exaggerated or omitted as it is supplied by the 3rd party credit provider who is, ostensibly, neutral in regard to the underwriting decision, unlike the applicant.

In addition, the causal link between good performance on a credit facility and the expected performance on the new facility is stronger than the causal link between demographic data (eg. time in job) and the expected performance on the new credit product. To put it another way, the relationship between the applicants ability to maintain a new credit facility is intuitively obvious, when they are, or have previously, run a credit facility well where as the link between "time in job" and credit performance is much less obvious and can be statistically proven to be less powerful.

2. Reciprocity

Credit Bureaux operate on the basis of mutual benefit to all providers and recipients of data.

As no individual provider of data, usually, contributes more than 10-15% of the total file, every recipient receives benefit. [The total file is usually at least 6 times larger than the individual contribution of any one provider and this is likely to be the case in Australia].

In order to maintain the ongoing commitment to report full and accurate data on all accounts, it is our requirement that any positive file Credit Bureau adopts the principle of reciprocity. That is to say business searching the Credit Bureau are only entitled to receive data at the level that they contribute.

This principle needs to be applied at a business and product level to ensure that providers are incentivised to supply data for each product. eg. a provider who supplies full, positive data for its credit card portfolio, default or negative data for its Home Loans and no data for its Personal Loan portfolio would in turn be entitled to receive positive data relating to applicants for credit card, negative data only relating to applicants for a Home Loan and no data for applicants for a personal loan.

Failure to adopt the principle of reciprocity will result in less reason to provide data and therefore reduce the overall value of the scheme and consequently retard the ability to make accurate credit risk assessments.

In order to ensure compliance with the principle of reciprocity it is recommended that the credit bureau is required to audit suppliers on an annual basis.

3. No Use of Positive Data for Marketing

The historic reason for the banks initial lack of support for a positive credit bureau in the UK was due the perceived risk of smaller providers or new entrants prospecting or “cherry picking” good customers directly from the credit bureaus lists or by matching the Electoral Roll to the entire bureau file and consequently receiving a positive indication of a creditors performance.

Supply of positive data for pre-screening, as is the case in the USA, would be a significant disincentive to participation by providers with large market share.

GE Money support the use of credit bureau data for credit assessment purposes especially since the public expectation of the use of this data would be for credit assessment purposes only and not for marketing.

4. Comprehensive Data

In order to improve the ability to evaluate credit risk and capacity, we recommend that a comprehensive range of data is made available via the credit bureau.

As previously stated, the credit bureau data is more predictive than application data. In addition it cannot be manipulated by the consumer and as such is likely to be a more accurate representation of their obligations and their current and historic ability to service these obligations.

The broader the range of data held by the credit bureau, the less the credit providers will have to rely on expensive, time consuming and potentially inaccurate or unreliable assessment and verification of details supplied by the applicant.

We would specifically recommend that the following data be recorded by the credit bureau for each credit account:

- Product eg. Credit Card, Personal Loan
- Start Date
- Closed Date
- Initial Advance or Credit Limit (\$)
- Current Balance (\$)
- Delinquency status x 13 months (months delinquent)
- Date of last payment
- Account status eg. Written off, Inactive etc.
- Date of Account Status
- Monthly repayments (\$)
- Worst ever Delinquency status
- Amount of Write-off (\$)
- Current unpaid Write-off (\$)
- Date debt sold (if sold to a third party)
- Value of debt at time of sale (if sold to a third party)
- Extended Credit Application summary (see 6 below)

In order to ensure correct and consistent interpretation of the data, it will be necessary to adopt a common, objective definition across all providers for a number of the data items eg. How do you calculate delinquency for an over drawn current / chequing account?

To ensure the veracity and reliability of the data it will be necessary to ensure that consumers have no right to “opt out” of provision of positive data.

An issue that may need to be addressed is the need for consent. Specifically, will providers need to retrospectively gain consent to supply positive data to the credit bureau given that they are unlikely to have contemplated this in the privacy disclosure on their credit application form?

5. Extended Credit Application Summary (ECAS)

In order to significantly improve fraud prevention capability we would recommend that the credit bureau should be allowed to capture and reference an extended number of application form or demographic data items such as time at address, time in job etc.

By comparing previously captured demographic data to the data submitted by the applicant, it is possible to highlight inconsistencies between applications that fraudsters find it hard to avoid. ie. An application fraud perpetrated by someone who has stolen a purse or wallet may be able to find the name, address, date of birth, credit card and drivers licence details from the purse but it is unlikely that the purse would contain accurate details on the time at address, residential status or number of dependants.

Applications where there are significant inconsistencies between the current and prior applications could be highlighted by the credit bureau and referred for evaluation to a fraud prevention officer in the credit providers employ.

As with the provision of performance data ECAS data should be subject to the principle of reciprocity.

The list of demographic data items should be unconstrained by legislation (other than by it being fit for fraud prevention purposes by way of comparison to previous applications) but should include:

- Time at address
- Time with employer
- Time with bank
- Date of birth
- Drivers license number
- Number of dependants
- Home phone number
- Work phone number
- Time at previous address
- Residential status