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Association of Building Societies and Credit Unions

Abacus
Australian Mutuals

27 July 2007

Mr Andrew McGowan
Inquiry Secretary
Inquiry into Home Loan Lending Practices & Processes
House of Representatives Standing Committee on
Economics, Finance and Public Administration
Parliament of Australia
By email: andrew.mcgowan.reps@aph.gov.au

Dear Mr McGowan,

Inquiry into home loan lending practices and processes

Abacus – Australian Mutuals is the industry association for credit unions and mutual building societies. Abacus draws together the representation activities of the former Credit Union Industry Association (part of Cuscal Ltd), National Credit Union Association and Australian Association of Permanent Building Societies. For more detail on Abacus and its members, see www.abacus.org.au.

Abacus thanks the Committee for inviting us to make a submission to provide background information for the Inquiry's 10 August 2007 roundtable.

There are 150 mutual Authorised Deposit-taking Institutions (ADIs) in Australia, with more than 4.5 million members and more than $60 billion in total assets. Credit unions and building societies are diverse institutions in terms of coverage, geographic footprint and asset size. Mutual ADIs range in asset size from $10 million to $5 billion.

Mutual ADIs operate on the principles of member and community service, financial prudence and social responsibility. This approach is reflected in customer satisfaction ratings measured by Roy Morgan. Credit unions and building societies comprehensively outperform big banks in Roy Morgan's latest survey (June 2007), scoring 88 per cent for customer satisfaction compared to the four major banks' 70 per cent.

Credit unions and mutual building societies are prudent and responsible lenders.

All credit unions and building societies are ADIs regulated by APRA and are subject to APRA's prudential standards. These standards include requirements to hold certain amounts of capital against housing loans according to whether the loans are "qualifying mortgages" and the loan to valuation ratio (LVR). There are significant regulatory capital penalties for inappropriate valuation practices, high LVR loans, loans where income is not verified and LVR is greater than 60 per cent, and loans secured against properties that are not readily marketable.

Non-ADI lenders are not subject to APRA's prudential standards.

Credit unions and mutual building societies are currently drafting a new code of practice, including new provisions on credit assessment and use of brokers.

Section 15.1 of the existing Credit Union Code of Practice says:

> In considering whether to provide a Credit Union Product or Service involving the provision of credit to a Member, a Credit Union will take into account the range of factors it considers are relevant to the Member and the Credit Union Product or Service to establish whether, in the Credit Union's view, the Member has or may have in the future the capacity to repay the credit. These factors may include:
> (i) the Member's income and expenditure;
> (ii) the purpose for which the Credit Union Product or Service is to be used;
> (iii) credit scoring (being a scoring method used by the Credit Union to assess whether a credit applicant is an acceptable risk); and
> (iv) the Member's assets and liabilities.

Abacus sees a home loan market and credit standards that are evolving due to fierce competition and developments such as the continuing growth of residential mortgage-backed securities (RMBS), and the increasing role of lenders' mortgage insurers and mortgage brokers.

In this economic cycle those organisations offering non-standard lending products are typically high users of securitisation and mortgages are often mortgage insured. Therefore, to the extent there is increased risk attributable to lower credit standards, a significant amount of that risk is held by mortgage insurers and investors in the securitisation trusts.

Abacus is confident that APRA has the capacity and vigilance to respond to these developments and to enforce prudential standards rigorously and impartially. Abacus supports action by APRA to crack down on lenders taking unacceptable risks to gain market share.

Good communication between stakeholders - lenders, the prudential regulator, and consumer groups - is likely to be more effective in responding to problems than new regulation.

New laws or prescriptive regulatory initiatives aimed at irresponsible lenders might impact on all lenders and increase costs and reduce the availability of credit to first home buyers. Responses to aggressive or predatory lending practices should target particular market practices and should not add regulatory costs to responsible lenders.

If the Committee concludes that policy responses are warranted to improve home lending practices, Abacus recommends consideration of the following options:

- Measures to assist and encourage first home buyers to save for deposits;
- Reforms to credit reporting laws to improve the capacity of lenders to engage in responsible lending;
- Uniform regulation of mortgage brokers; and
- Better consumer education about the risks of over-commitment.

See the **Attachment** to this submission for comments by individual credit unions and mutual building societies in response to the following issues raised by the Committee.

1. To what extent have credit standards declined in recent years?

APRA and the RBA have both observed a lowering of credit standards in recent years.

The RBA's most recent Financial Stability Review reported:

> "Surveys suggest that, in aggregate, households are generally positive about the outlook for their personal finances, and while mortgage arrears have increased following the general lowering of credit standards over the past decade, they remain relatively low both by historical and international standards. There are some pockets where household finances are under strain, particularly in western Sydney, and among households that took out loans with high loan-to-valuation ratios in 2003 and 2004, but the overall picture remains, at present, quite reassuring.
>
> "Competition…has been associated with some notable changes in lending practices [including:] an increase in permissible debt-servicing and loan-to-valuation ratios; the use of alternative property valuation techniques; an increased reliance on brokers to originate loans; and the wider availability of low-doc loans. More recently, it appears that many lenders have attempted to maintain strong growth in their mortgage portfolios at the same time as the demand for housing finance has moderated from its peaks in 2003."[1]

APRA chairman Dr John Laker noted recently that "ADIs have been willing to move out the risk spectrum by loosening their credit standards, around the edges certainly."[2]

Abacus also notes the following observations by Dr Laker in his speech last month on credit standards:

- APRA found significant – "more so than we expected" - variation in credit policy methodology and assumptions in a large sample of ADIs;
- Lenders with an increased appetite for risks need to identify and carefully manage those risks;
- APRA does not hanker for a complete return to traditional lending practices;
- The Australian community has benefited from the narrowing of loan margins and the product innovations produced by competition in housing lending;
- 35 per cent of the loans in September 2006 by APRA's sample of ADIs were originated through third parties such as mortgage brokers;
- 10 per cent of the loans by value were low-doc loans; and
- nearly half the ADIs in APRA's sample were making such loans (although they were taking a cautious approach with low LVRs).

Credit unions and mutual building societies have maintained their commitment to quality lending practices in the face of fierce competition where some participants seek to increase market share by reducing credit standards.

Such increases in market share can be short lived as the rest of the market moves in the same direction.

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[1] *Financial Stability Review* March 2007. Reserve Bank of Australia.
[2] *Credit Standards in Housing Lending – some further insights* 20 June 2007, John F Laker, Australian Prudential Regulation Authority.

The rise of brokers in loan distribution is often cited as a driver of declining credit standards.

Dr Laker says APRA closely monitors the use of brokers by ADIs because "we have found that some lenders were less diligent in verifying borrower information when borrowers did not walk through branch doors."[3]

Uniform regulation of brokers has been on the national policy agenda for some time, with the industry body for brokers, the Mortgage and Finance Association of Australia, lobbying for the past four years for consistent nationwide regulation.

It was reported last month that "someone can still hang up a shingle in most parts of Australia and call themselves a mortgage or finance broker" and "operate almost unregulated."[4]

The importance of brokers to ADIs, particularly for ADIs without national branch networks, is illustrated by a survey of brokers of 'overall performance' of banks by *Mortgage Professional Australia* magazine.

"In what must be viewed as testimony to its consistency, Macquarie Bank has topped the overall chart again for the third year running," the magazine reported in its June 2007 edition.[5] "Not far behind is ING, which was rated as runner-up for the second year running." Brokers reportedly felt that the both banks were predictably quick with loan approvals and settlements. ANZ, Westpac and St George Bank rounded out the top 5 performers in the survey rankings.

Abacus supports regulation of brokers with due recognition of the costs of regulatory intervention identified by the Productivity Commission:

- if poorly designed, it can stifle efficient market competition, the entry of new competitors, investment and innovation, and thereby be detrimental to the longer term interests of consumers;
- although regulation and standards that reduce the range of products and services may ease the 'burden of choice' for some consumers, for others, they may represent an unwanted constraint on purchasing decisions; and
- regulatory compliance and enforcement costs can often by significant.[6]

2. Have declining credit standards caused an increase in the number of loans in arrears and the number of repossessions?

The RBA says housing and personal arrears are higher than they were a few years ago but so far this has not translated into increased write-offs.[7] The RBA says total write-offs for the four largest banks are equivalent to 0.20% of domestic loans outstanding in 2006 (down from 0.26% in 2004).

[3] *Credit Standards in Housing Lending – some further insights* 20 June 2007, John F Laker, Australian Prudential Regulation Authority.
[4] 'We need uniform laws to rein in dodgy mortgage brokers' *The Australian* 9 June 2007
[5] 'The form guide: the banks brokers are backing' *Mortgage Professional Australia* June 2007
[6] *Consumer Policy Framework* Productivity Commission Issues Paper, January 2007
[7] *Financial Stability Review* March 2007. Reserve Bank of Australia.

Write-offs for credit unions are much lower. Data available to Abacus shows that bad debt write-offs for credit unions from June 2004 to March 2007 in the range of 0.07% to 0.10%.

Loans by credit unions and building societies underlying RMBS have arrears levels of 0.74% - lower than major banks (0.77%) and regional banks (1.01%) and less than a third the levels of non-bank originators (2.35%).[8]

Declining credit standards must over time lead to an increase in loans in arrears and the number of repossessions. However, the key factors in defaults are events such as job losses, illness or divorce. Job losses on a wide scale are obviously related to the economic cycle.

Borrower stress is likely to show up first in unsecured loans and car loans. Credit is widely available, including store credit with very high interest rates after ‘no interest’ periods of up to 4 years. These additional commitments – credit card loans, personal loans – are often behind the surprise bankruptcy of a credit union or building society member.

Better credit reference information through reform of credit reporting laws would enable all lenders to better assess borrowers’ capacity to repay. The Australian Law Reform Commission is currently reviewing the credit reporting provisions of the *Privacy Act 1988*.

Possible benefits of moving from the current ‘negative’ credit reporting model to a ‘comprehensive’ model are:

- Enhanced accuracy of credit risk assessment, which in turn promotes responsible lending;
- Enhanced competition in credit markets which would in turn encourage lower interest rates for borrowers; and
- Reduction in the cost of credit for individuals.

We acknowledge that it is also argued that enhanced accuracy of credit risk assessment will not necessarily reduce over-indebtedness because of the greater availability of credit.[9]

3. Are borrowers in financial difficulty being treated appropriately by lenders?

Hardship provisions of the Uniform Consumer Credit Code protect borrowers who are unable to make repayments due to temporary hardship, such as illness or unemployment.

Credit unions and mutual building societies treat borrowers in financial difficulty with care and devote time and resources to finding the best possible outcome.

Respectful treatment of members is the essence of mutuality.

As noted above, credit unions and mutual building societies are currently drafting a new code of practice, with new provisions covering members in financial difficulties.

The sympathetic and positive approach of credit unions and mutual building societies to members experiencing genuine difficulties will be codified with a set of procedural steps to assist members.

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[8] Standard & Poor’s SPIN Index, March 2007.
[9] *Presentation to 4th International Consumer Credit Card Summit 2007* ALRC Commissioner Professor Les McCrimmon

Under the existing Credit Union Code of Practice, members have access to internal and external dispute resolution processes. “The external and impartial process will apply the law and this Code and also may take into account what is fair in all the circumstances to both a Member and the Credit Union,” the Code says.

4. Are declining credit standards likely to have any long term implications for the Australian financial system?

Abacus believes that overall lending standards for prudentially regulated lenders are strong and secure and subject to review by APRA.

Some relaxation of credit standards, within prudent limits, in a period of strong economic growth is not likely to have significant negative long term implications for the Australian financial system.

However, aggressive lending to increase market share will inevitably result in higher default rates with consequences for insurers and investors.

A continuing ‘race to the bottom’ in credit standards could have negative long term implications, including:

- increased bankruptcies and losses by investors and insurers;
- a reduction in the number of lenders;
- increased regulatory compliance costs for lenders;
- less competition and choice for borrowers; and
- higher costs to borrowers.

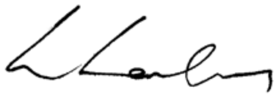
Sharply rising house prices have already made it harder for first home buyers to get into the market. While lenders mortgage insurance (LMI) enables first home buyers to obtain loans without substantial deposits, LMI protects lenders and does not protect borrowers.

There would be less risk for lenders and borrowers alike if first home buyers were encouraged and assisted to save larger deposits. Abacus urges the Committee to recommend the introduction of tax incentives to help first home buyers to save larger deposits.

Abacus supports the promotion of sound credit assessment practices and quality lending standards. Credit unions and mutual building societies have a well-deserved reputation for prudent lending. Any proposals for new regulation in the lending market should be rigorously assessed to ensure they are properly targeted and effective.

Please don’t hesitate to contact me on 02 6232 666 or 0418 213 025 to discuss any aspect of this submission.

Yours sincerely,



LUKE LAWLER
Senior Adviser, Policy & Public Affairs

ATTACHMENT

Abacus sought feedback at short notice from a sample of members on the issues raised by the Committee. Here are extracts from those comments by individual credit unions and mutual building societies (CU/BS).

1. **To what extent have credit standards declined in recent years?**

The market has changed over the past 10 or so years and that timeframe may be longer. Competition has increased and lenders have sought ways to maintain and increase market share. The obvious way of doing this is by making lesser quality loans. It is worth noting the introduction of brokers possibly started this chain reaction leading to changes in credit quality. Many in the lending industry take the view that if a mortgage insurer will cover the deal, then that is all that is needed – that the risk is offloaded and end-of-story. 'Does the lender have a moral obligation to ensure a borrower has the ability to repay the debt?' I have a belief that there is a moral position that lenders should take but that is not the common direction taken by lenders in today's marketplace. The driving force in all of this is the competitive factor – if one lender breaks from the pack in terms of relaxing lending criteria, then the pack either follows or loses market share.
[NSW CU/BS]

Credit standards have changed probably in recent times for a few reasons, including the introduction of parent equity loans, reverse mortgages, 100% loans and the extension of some loans to 30 year terms. Competitive pressures have contributed to these changes and lenders have tried to gain a competitive advantage, albeit for the short term, as others tend to follow fairly quickly. One thing that we always stick rigidly to, is the member's capacity to repay the loan and no compromise is accepted here, including the fact that we index (annually) the expenses that we attribute to potential borrowers in our calculation of their disposable income after taking on a new loan.
[South Australian CU/BS]

[Queensland CU/BS] has maintained high lending standards through a low risk appetite, conservative lending policies and practices, a centralised credit approval function and experienced credit officers. Our loan product range consists many of conventional loan products. Low documentation loans are our only venture into the non-conforming market. However, they are a minor part of our normal lending business and can only be originated by our employees. Brokers are excluded from offering this product. Lending policies have remained fairly stable over the past several years and there has not been any significant relaxation in policy requirements to facilitate loan production. New loan applications can only be approved by officers who are independent of the distribution network and are not influenced by sales targets. In this way, we have been able to apply a high degree of objectivity in the decisioning of loan applications. Use of brokers to originate new lending business is closely controlled and is currently restricted to two key broker groups. We aim to cap broker introduced business at around 30% of loan originations. Apart from sourcing new loan business, brokers do not carry out elements of the lending process on our behalf. All applications must be approved by an employee and verification of key

application data is also performed by our employees. While we securitise our loan portfolio, all loans taken into the securitisation program are originated under our lending policies and procedures and are not subjected to any differential treatment.
[Queensland CU/BS]

Credit standards for (NSW CU/BS) have not declined in recent years, although we are constantly reviewing our products and procedures which are being challenged by declining lending standards and less stringent products of competitors in a very competitive market.
[NSW CU/BS]

[Sydney CU/BS] has not weakened its credit standards and hence we have had no repossessions. However, we do lose some deals to other organisations who have less or no scruples. We have seen a growing incidence of 100%+ loans, low of no doc loans, reverse mortgages, giving loans to people who probably should never get one. This is creating a great deal of hardship in the market, in particular in our area. Relaxation in standards allows more people to get into housing with a much higher incidence of foreclosures. Incentives based mortgage brokering is also creating a great deal of pain as they do not always give the customer the best deal as they strive to meet quotas from the highest commission payers.
[Sydney CU/BS]

I don't believe our internal credit standards have declined over recent years but [South Australian CU/BS] is now able to offer 100% lends with mortgage loss insurance. We have approved only a 'handful' of these 100% lends and are very aware of not 'setting up' our mortgage loss insurer and have declined more than we have approved due to employment stability, limited net asset position and limited personal debt reduction history of applicants. We do engage loan brokers who will present potential deals for our consideration. Our arrangements with brokers do ensure that the broker does not approve the proposal. In all cases, our assessability criteria is used to avoid compromising our credit standards.
[South Australian CU/BS]

I don't think from a [Sydney CU/BS] perspective they have, however we do receive payouts on a regular basis that you wonder how they were able to 'do the deal'. The advent of low doc lending and broker introduced loans has had an effect as has a lack of on site inspections or valuations being done. If the organisation relies on the broker to do the checks, quality may be compromised, particularly capacity to repay. Of course, this is nothing new but is an effect of competition. We only feel pressured to relax a standard in some area when a member is on the phone proudly telling us that he has got his no doc 100% LVR line of credit at ABC Bank.
[Sydney CU/BS]

There has been no decline in [Queensland CU/BS] credit standards in recent years. [Queensland CU/BS] is renowned as a prudent lender that prides itself on its credit risk management credentials. [Queensland CU/BS] is currently still enjoying very low arrears rates and a recent credit risk by APRA did not highlight any significant issues. [Queensland CU/BS] has noted that some lenders have relaxed their credit standards in recent years. These lenders originally charged higher interest rates to offset some of the increased risk but increased competition has resulted in the higher margin on these loans being eroded.
[Queensland CU/BS]

Credit standards by other lenders have declined (and there are more types of lenders). This [Sydney CU/BS] has maintained its high mortgage loan procedures and tightened its personal loan credit standards in relation to unsecured amounts – partially due to members being loaded up with other forms of credit after taking a [Sydney CU/BS] personal loan.
[Sydney CU/BS]

2. Have declining credit standards caused an increase in the number of loans in arrears and the number of repossessions?

Yes. The answer is axiomatic – it had to be that way. Borrowers cannot afford to borrow to the level that many lenders are prepared to lend.
[NSW CU/BS]

[Queensland CU/BS] is not experiencing any significant rise in arrears or repossessions at this time. The main cause of defaults can generally be attributed to a change in circumstances (eg. loss of employment, illness etc) or additional debt incurred by borrowers after the home loan is originated (eg. store credit). We have not noticed any trend of defaults that can be traced back to poor assessment of the original loan applications or non-compliance with key policy requirements.
[Queensland CU/BS]

Not with us. Obviously there will be a flow on effect in the market. While people will strive to pay mortgages first, if capacity to repay is not evident, the stress will show first in unsecured debt and car loans.
[Sydney CU/BS]

It should be noted that relaxed credit standards by themselves do not necessarily lead to higher arrears rates and repossession. The primary drivers for higher arrears and repossessions are generally unemployment, business failure and separation/divorce.
[Queensland CU/BS]

In our experience the changing credit standards have not, at this stage, caused an increase in arrears or repossessions, but we have been in a positive phase of the credit cycle and we may be about to enter a less positive part of the credit cycle, which could lead to higher arrears and more potential repossession, but this is debateable. It should be noted that we are relatively conservative with our credit policies and historically our delinquency position has been better than industry average.
[South Australian CU/BS]

The number of personal loans in arrears did increase (as did bankruptcies) but we rarely have a problem with a housing loan.
[Sydney CU/BS]

3. Are borrowers in financial difficulty being treated appropriately by lenders?

Our general approach is to treat each situation on its merits and to work with the member to develop a solution that is appropriate to the member's financial circumstances and can engender repayment of the loan in the long term. The

solution may include a moratorium on repayments for a short period, extending the loan term and reducing repayments, or a combination of both. Refinancing of revolving credit by an amortising loan and debt consolidation are considered to represent a feasible solution. The member may be referred to government agencies where it is believed they may qualify for relief/assistance.
[Queensland CU/BS]

Borrowers are afforded all rights under the Credit Code, obviously, but the [NSW CU/BS] works with the member to prevent arrears and assist the member to get back on track with finances and obligations. This is dependent on mutual co-operation of both parties.
[NSW CU/BS]

Borrowers in difficulty are given every chance to redeem their position under conditions of hardship. A lot of our defaulting borrowers have been able to refinance their bad debt with us to other lenders.
[Sydney CU/BS]

We apply our actions on a ‘case by case’ basis. Generally we will provide advice on whether the sale of the property would be appropriate and reluctantly enforce this course of action where a borrower is not attempting to ‘help’ themselves, i.e. ignoring the debt. We may refer the borrower to a non conforming lender although this would be rare.
[South Australian CU/BS]

We have a policy of dealing with each case on its merits. We request the member to complete a statement of financial position and update all details. Upon doing this, in consultation with the member, we arrange to reduce or postpose payments as we are able and work with the member to maintain the payment arrangement. We make sure obligations on both sides are understood and set a review date (usually 60 days). Any action is suspended. Long term plans are also then discussed and the member is advised of the NSW Mortgage Assistance Scheme and other appropriate assistance should things become serious. In all areas we put the borrower first and attempt to solve the problem.
[Sydney CU/BS]

We adopt the approach that we are obliged to help the borrower in any way possible to see them through their ordeal. There are times when the borrower’s position is not one of credit but one of job loss or family breakdown but whatever the reason, the lender has to see the borrower through to the end so that they retain their dignity and pride but come out of the ordeal with the best credit position possible. Is that the direction taken by all lenders? Probably no, and one of the reasons that another, more harsh approach is taken is because the lender has brought about a bigger problem that will have larger repercussions on the balance sheet and hence ‘kicking the borrower out as quickly as possible’ is a better choice for the lender.
[NSW CU/BS]

Our policy for borrowers experiencing difficulties in repaying their loans is to assist them as much as possible to correct their arrears position. We do this by initiating communication with members as soon as possible when a loan is in arrears. It

should be noted that we view the repossession of properties as a last resort that benefits no party to the transaction.
[Queensland CU/BS]

For borrowers in difficulty, we deal with them on a case by case basis with our aim to assist members to overcome their financial difficulties, with support and advice. This may include an arrangement to extend the term of the loan, or some budgeting advice, combined with some form of arrangement suitable to both parties. We do try to work closely (and compassionately) with members who approach us in financial hardship.
[South Australian CU/BS]

We make numerous efforts to get the member to talk to us and review their total financial situation (total debts, number of creditors, reason for difficulty and member's own financial management ability) with a view to restructuring their repayments and setting up a budget, and making arrangements with other creditors. If appropriate, we suggest credit counselling or financial planning advice, also we check the member's eligibility for the NSW Department of Housing Mortgage Assistance Scheme or Release of Superannuation Benefits and advise them of those options (and to get independent advice). If member does not respond we would pursue collection action.
[Sydney CUB/BS]

4. Are declining credit standards likely to have any long term implications for the Australian financial system?

During periods where there is economic prosperity and it is likely to continue in an upward trend then a case can be made for prudently relaxing credit standards. Care needs to be exercised if the trend of prosperity is likely to decline and as a result interest rates and unemployment increase. During these times a re-evaluation and possible tightening of credit standards should occur. It should be noted that the difference in the current upward cycle from previous cycles is that those organisations offering non-standard lending products are typically high users of securitisation and mortgages are often mortgage insured. Consequently, the risk sits with the mortgage insurers and investors in the securitisation trusts. There is consequently unlikely to be significant impact on the stability of the financial system but there is likely to be repricing of non-standard securitised mortgages, meaning risk will once again be correctly priced against the cost of standard, fully assessed mortgages. This will mean the retail borrowers who do not meet normal assessment criteria will have to pay significantly more to borrow. In addition, if there is a really big shake out of the industry due to, say, rising interest rates, the postcode areas with an over-representation of highly geared loans will in all likelihood experience a fall in property values which will result in increased affordability. As a prudent lender, we would welcome positive credit reporting as it would assist in better assessing the credit worthiness of applicants. Also, we can only see positives in any government initiative that encourages young people to accumulate sufficient funds for a deposit on a house.
[Queensland CU/BS]

The long term implications for the Australian financial system of declining credit standards would be higher bankruptcy, more foreclosures on mortgages and the

possible reduction in the number of lenders. In addition, there is the possibility of reputation risk to the system and some lenders within it, particularly if lenders are exposed in the media as dealing unfairly with borrowers.
[South Australian CU/BS]

Declining credit standards have the potential to create significant management problems in collections and recovery/workouts for financial institutions that do not follow responsible lending practices. Declining credit standards do not pose a significant threat to most participants in the finance industry. But we do see non-ADIs as more vulnerable to collapse, particularly if there are other significant shifts in environment factors, for example, an economic downturn. The collapse of a number of non-ADIs would erode confidence in the financial sector as a whole. Consumers would gravitate to the larger players in the financial system to the detriment of smaller institutions. The current focus on home lending standards and housing affordability raises a concern about additional consumer credit or other regulation that may prescribe specific credit standards or other requirements (eg. education) for home buyers. Financial institutions would need to modify their systems and processes accordingly at a significant cost. We would argue against additional regulation that is narrowly aimed at curbing the activities or a minor number of irresponsible lenders in the marketplace. Regulation would affect all participants, including those engaging in responsible lending practices, and may limit access to home loan funding from reputable sources. An undesirable outcome may be an increase in the cost of credit to the consumer due to the cost of complying with additional regulation. We would support the introduction of a more constructive solution in the form or a move to positive credit reporting to enhance the ability of lenders to better qualify loan applicants.
[Queensland CU/BS]

More foreclosures as borrowers can not meet repayment obligations due to poor assessability practices, eg. low doc loans. Where security is insufficient to satisfy debts on a forced sale, mortgage loss insurers may have to pay more claims. This would put pressure on this service which may lead to mortgage loss insurers imposing tighter assessability standards and/or leave the market.
[South Australian CU/BS]

More stringent assessment criteria is going to be required if effects of lax lending standards start to affect profitability. The effects of lax lending standards may not surface in a major way until interest rates increase and/or values of properties may decrease. If neither of the above two downsides happen, then competition within lenders may see continued further declining lending standards.
[NSW CU/BS]

The credit standards have definitely changed, with security being more of a focus and less focus on the income. Credit standards in assessing income have declined because of the significant rise in the house price (security) seems to have outweighed the need to prove capacity to pay. There is an increased reliance on house prices to remain at existing levels.
[Sydney CU/BS]

Declining credit standards have the long-term implication of changing the way people deal with the housing market. People who have had a bad experience lose faith in the system and see renting as the easiest choice. Others who have not had the bad experience may know someone who has they too react accordingly – with less confidence in the way forward and with less desire to use the financial system to better their future. How can this be corrected? That is a time issue and one where confidence has to be rebuilt. One loser in all of this is the prudential managers who are seen to have failed the Australian people because to them, this breaking down of credit standards is something they should have a good handle on. [NSW CU/BS]

Increased arrears, repossessions, debt agreements, and bankruptcies leading to even more regulation. Increased "bad press" and change in composition of industry. [Sydney CU/BS]

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