HBOS Australia

SUBMISSION 3

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Mr Andrew McGowan
Inquiry Secretary
House Standing Committee on Economics
Finance and Public Administration
Parliament House
CANBERRA ACT 2601

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Dear Mr McGowan

Inquiry into home lending practices

Thank you for providing HBOS Australia with an opportunity to participate in the Committee's inquiry into home lending practices.

By way of background, HBOS Australia Pty Ltd is a holding company formed in 2004 to oversee the operations of the Australian operations of UK financial services group, HBOS plc. HBOSA comprises four diverse financial services operations - BankWest, Capital Finance, St Andrew's Australia and BOS International. Its parent, HBOS plc, is one of the world's largest financial services groups.

The following comments are to provide background information for the roundtable, addressing issues as requested:

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.

In our view, lending standards for authorised deposit taking institutions ('ADI's) have not declined in recent years. ADIs are now more highly regulated than ever before in the area of consumer credit as a result of initiatives such as the Consumer Credit Code and the Code of Banking Practice, both of which provide substantial protection for borrowers and guarantors. These protections were further strengthened in 2005 by the introduction (by ASIC and the ACCC) of the Debt Collection Guidelines. There is also some debate in Australia at the moment (as part of the Law Reform Commission's review of Privacy) as to the merits and possible introduction of comprehensive credit reporting which, some argue, further assists lenders in assessing borrowers capacity to service their debt. It should be noted though that the requirement for independent studies into the costs and benefits of comprehensive credit reporting in Australia has also been raised by industry.

We would also submit that lending standards have in fact changed for the better as lenders make use of more sophisticated models to measure the affordability and serviceability of loans.

This does not mean that <u>all</u> lenders have maintained high lending standards. Unlike ADI's, some of the fringe credit providers and non-conforming lenders have seen an opportunity to drive high returns from borrowers who have failed or would have failed to secure a loan from an ADI. However we do note that the issues surrounding fringe credit providers is currently being addressed by proposed amendments to the Consumer Credit Code and an exposure draft Bill is expected to be released for consultation towards the latter half of this year.

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.

There are multiple factors that influence the number of loans in arrears and repossessions and we do not agree that this is a result of 'declining credit standards'.

The priority of some borrowers to meet their home loan payments over all other outgoings has declined over the years. In the past, the number one goal of all borrowers was to pay their debt (mortgage) off as soon as possible and the main priority was the family home. Over the past 15 or so years that has changed. Where, previously, borrowers were willing to forgo luxuries such as 'brown goods' (TV's and stereos etc) until they could afford them, people are now much more willing to seek credit from a variety of sources including interest free store credit and this has contributed to an increase in the overall level of individual and household debt.

In relation to an increase in 'agreed' sales, borrowers now seem more willing to sell the family home and start again when in financial trouble. They then utilise finance options such as 100%LVR+ loans to get back into the market or they rent for a period of time. This is hard to measure as property growth in the early 2000's (and more recently in WA) have masked this trend.

Another trend has been for borrowers to refinance unsecured debts into their mortgage, for example to pay for renovations, and this has also lead to an increase in the number of loans and possible arrears.

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

Financial institutions such as Banks ensure they comply with the provisions of both the Consumer Credit Code and the Code of Banking Practice which provide borrowers with assistance and protection when experiencing financial hardship, including the ability to apply to the lender to have the terms of the contract amended.

In fact, banks that subscribe to the Code of Banking Practice have a *positive* obligation to inform customers, if applicable, that the hardship variation provisions of the Code could apply to their circumstances. Additionally, lenders now have more sophisticated arrears management systems enabling them to contact borrowers early (if they suspect that financial hardship may be a factor) in order to discuss the borrower's financial situation.

We ensure our staff are trained to recognise and assist any customers that may be experiencing financial hardship. We also have a financial hardship policy in place that ensures anybody suffering from financial hardship is referred to a specialist lender who can assist. Information on the financial hardship provisions contained in the Code of Banking Practice is published on our website and available in branches.

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.

The Australian market can take some learning from the US sub prime market crisis, however the US lenders most affected in this crisis are small specialist lenders. The market in Australia is dominated by regulated ADI's who are subject to APRA regulations around capital requirements. This means there are controls in place that would safeguard borrowers and lenders. ADI issued mortgages that have high LVRs require mortgage insurance and as such the lenders are protected from credit loss.

We again wish to thank the Committee for this opportunity to participate and look forward to the roundtable in August.

Yours sincerely,

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