SENATE STANDING COMMITTEE ON ECONOMICS QUESTION

(Supplementary Budget Estimates 20 October – 21 October)

Question: SBT 14

Topic: Credit Scoring

Senator Williams asked:

> Is automated credit scoring destroying the quality of assets by denying credit where a person supposedly owes a trivial amount that is disputed with a phone company? Have the banks become slaves to automated credit scoring?

Answer:

As a prudential regulator, APRA seeks to ensure that authorised deposit-taking institutions (ADIs) undertake a sound credit assessment process when considering making loans. However, APRA does not prescribe how banks or other ADIs should go about such processes. Automated scorecards are an efficient process adopted by ADIs over the past 20 years and lengthy experience has indicated that basic consumer credit decisions lend themselves to fairly straightforward applied mathematical solutions. However, it is most likely that any individual application that breaches a rule e.g. bankruptcy or debt commitments higher than net income, and/ or results in a 'score' less than the automated cut would be referred for further assessment by the ADI's expert assessors, rather than being refused outright. Such a referral would be more likely in the case of a loan where security is being offered than for unsecured lending.