

MEDIA RELEASE

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Consumer Action welcomes ASIC investigation into broker responsible lending conduct

Consumer Action Law Centre has welcomed the release of the Australian Securities and Investment Commission's (ASIC) investigation into mortgage brokers' responsible lending conduct, focusing on 'low doc' loans.^[1] And while the Centre was pleased ASIC found that most brokers were aware of the new responsible lending obligations and that brokers' practices had changed since the introduction of the new laws, it said the report served as a reminder that there was some way to go to achieve compliance—particularly in some segments of in the industry.

'Low doc' is the name given to home loans which require borrowers to provide only a limited amount of paperwork, traditionally given to self-employed borrowers who may struggle to obtain a mortgage from mainstream lenders. But while such loans might be marketed as being less stringent, brokers are still bound by responsible lending laws.

Carolyn Bond, co-CEO of Consumer Action, said lenders were required to inquire into an applicant's requirements or objectives for credit, so they could properly assess that the loan was "not unsuitable" for the borrower, but that ASIC's report showed this was not always happening.

'Brokers should seek specific information about what the borrower is looking for to ensure they offer an appropriate product, not just the product which brings the broker the biggest commission,' said Ms Bond.

'It's concerning to see ASIC find that some brokers were not investigating a borrower's requirements for a loan beyond noting that it was "to purchase a house". Brokers should be looking at longer-term goals, and consider the applicant's needs around the cost of the loan.

Consumer Action was pleased to see ASIC require brokers to verify self-employed applicants' income, but had concerns about how lax some brokers are.

'Brokers must verify self-employed applicants' income, but this needs to be more substantive than an applicant self-reporting income and estimates of future income.

'Brokers also need to make a considered assessment of an applicant's expenditure, taking into account likely increases over time. Relying on an automated calculation alone to make an assessment won't cut it—brokers should make inquiries into an applicant's actual living expenses and verify that.

'A key role of the broker is to ensure the loan they offer isn't destined to cause the applicant hardship now, or even down the track,' said Ms Bond.

ASIC's report did not find any examples of asset lending or equity stripping in the industry, but Consumer Action called for continued monitoring of the market.

^[1] ASIC's report 262, "Review of credit assistance providers' responsible lending conduct, focusing on 'low doc' home loans", [http://asic.gov.au/asic/pdflib.nsf/LookupByFileName/rep262-published-17-November-2011.pdf/\\$file/rep262-published-17-November-2011.pdf](http://asic.gov.au/asic/pdflib.nsf/LookupByFileName/rep262-published-17-November-2011.pdf/$file/rep262-published-17-November-2011.pdf)

Ms Bond said that over recent years, many vulnerable borrowers in desperate circumstances have obtained 'low doc' loans to access equity in their homes without proper assessment leaving their homes at risk. Where such practices occur, ASIC should act quickly to enforce the law.

Consumer Action congratulated ASIC on its report, and looked forward to further investigations into other problem areas in credit markets such as payday lending.

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