SUBMISSION ON POLICY ISSUES IDENTIFIED IN THE INTERIM REPORT

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Submission for: My Self
Name of other person, business or organisation:
Do you agree to your submission being published: Yes
Do you agree to your full name being published: Yes
Your submission:
Re: Interim Report

Dear Mr Hayne,

Let's start with the example of Robert Regan from the article published in the Financial Review on 7 October 2018 titled, "*Bank bonuses in firing line as CEOs ready for committee grilling*". The article states that the mortgage broker underestimated his living expenses and that ANZ approved his loan without checking his bank statements. He was then unable to make his repayments and was forced to sell his home.

On 4 of September 2018, ASIC published a media statement saying that Westpac had agreed to a $35 million civil penalty in relation to 100,000 home loans where insufficient expense verification had occurred.

$35 million divided by 100,000 is $350.

The civil penalty for a lender taking little notice of an applicant's living expenses is $350.

We are talking about whether lenders and brokers have done sufficient due diligence to ensure an applicant can handle repaying their new mortgage at a stress tested interest rate of at least 7.25%, where the worst outcome if that due diligence is not done correctly is the applicant potentially losing their home, and the penalty for non-compliance is $350?

And you want to suggest the broker is at fault?

I struggle to see that this Royal Commission is anything other than a joke.

Did the banks write background papers 1 and 2 at the start of the commission?

When a consumer walks into a bank wanting to borrow money to buy a house, does the bank have a financial incentive to offer them as much debt as they can take on? Even if all staff and executive sales bonuses were removed, would it not still be the case that the bank, as a business, has an incentive to lend as much as possible?

With banks having a net interest margin of 2.5%, if a consumer takes out a $500,000 loan, it only takes just over ten days to cover the possible ASIC penalty of $350 for ignoring the living expenses. If a lender can add another $100 per week in loan repayments by not taking a close look at living expenses, that's an additional $63,000 that can be borrowed over 30 years at a stress tested interest rate of 7.25%.

Is the appropriate change to start setting prices on what interest rates banks should lend at (i.e. by removing their ability to charge interest on money lent, so that they no longer have an incentive to maximise the debt of the consumer) or would it be to focus on ensuring consumers can only ever borrow an amount that still enables them to live a reasonable life, even if interest rates rise significantly in the future?

From my perspective, the appropriate response is the later.

By checking what a consumer can actually repay over a few months (i.e. say what they are paying in rent + their regular savings) and making sure they are doing that not by running up a credit card debt or borrowing from friends and family, I can work backwards to what that would mean as a loan repayment at the stress tested rate while factoring in the actual likely ownership costs of their intended purchase.

Since starting as a broker in 2015, only one lender has sought to discontinue their membership with me because I was not meeting their volume requirements. At that time my first thought was that in order to meet their requirements, I would need to suggest to clients to take out one of their loans, even though their loans were not the most suitable. Since

then, no other lender has communicated to me that they have any minimum loan volume requirement to maintain registration.

You have relied on that one lenders "admission" that there is a conflict with broker remuneration.

If I felt this Royal Commission was 80% serious and 20% a joke I would write more, but unfortunately, I do not feel that way.

Kind regards,

David Collett