17th May 2019.

Update to RG 209: Credit licensing: Responsible lending conduct.

Consultation paper 309.
Feedback provided by Tic:Toc Online (496431)

Reasonable inquiries and verification steps.

PROPOSAL B1.

We are considering whether to identify particular inquiries and verification steps in RG 209 that we think would generally be reasonable to provide greater certainty to licensees about complying with their obligations.

B1Q1 Would it be useful for licensees if ASIC were to identify the inquiries and verification steps that we consider should be taken? Why or why not?

Although Tic:Toc is hesitant to state that specific inquiries and verification steps should be identified and outlined in RG209, guidance on the level of verification that ASIC considers compliant with licensee's obligations would provide greater certainty to licensees that they are complying with their obligations.

To give more context to that statement, the assessment of credit, including verification of information provided, is a risk-based decision. The level of verification required should consider the type and amount of credit being applied for, the robustness of the techniques used to gather and verify the information (digital techniques including the use of data aggregation service and optical character recognition (OCR) now provide more sophisticated tools to gather information and verify the full financial position of the customer) and the serviceability methodology used by the licensee (for example, the use of buffers to determine financial position rather than using verified information).

Tic:Toc would benefit from ASIC providing high level guidance but ensuring that scalability of reasonable inquires and verification obligations was extended to consider these factors. We would be concerned with ASIC outlining the exact inquires and verification steps required as we feel this would see inappropriate one-size-fits-all approach taken to credit assessment.

B1Q2 If there are particular examples of industry practice that you consider should be reflected in any guidance, please provide details of those practices.

At present, the inquires and verification steps regarding living expenses is a key aspect that is missing from the current guidance provided in RG 209. Although again, a prescriptive process within the guidance is not desired, an indication of the types of information that should be used (including if and when the use of industry benchmarks is appropriate) would be helpful.

There is also no approach outlined in the guidance to assist licensee to determine when it is reasonable to exclude or discount living expenses, in particular how licensees can deal with discretionary living expenses whilst complying with their obligations.

Tic:Toc understands that not every transaction made by a customer is an expense that a consumer must make, and that customers are generally willing and able to reduce some expenditure in order to afford a credit contract. There is, however, nothing in the current guidance regarding what is an acceptable basis for licensees to accept those reductions to be realistically achievable and on what grounds it would be reasonable for a licensee to exclude or discount transactions they see in a customer's transaction history.

Tic:Toc does support the full verification of customers' financial in which we include the verification of expenses over a reasonable period.

B1Q3 Are there any kinds of credit products, consumers or circumstances for which you consider it may be reasonable to undertake fewer inquiries and verification steps? Please identify the kinds of products, consumers and circumstances and particular features you think are relevant.

Tic:Toc believes that it is reasonable to undertake fewer inquiries and verification steps depending on credit product and the circumstances of the consumer. As mentioned, we believe that both the type and amount of credit (essentially the risk and liability being imposed on the customer) impact the level of inquiries and verification that would be considered reasonable.

Within residential mortgage lending products there are circumstances where it may be reasonable to undertake fewer inquiries and verification steps. For existing customers (who we already hold information about) where only a short period had transpired between applications and it was reasonable to accept that a customer's position had not changed fewer inquiries and verification steps may be reasonable. Similarly, where existing customers may be looking to change their credit product or top up their borrowing amount.

With regard to refinancing home loans, Tic:Toc is supportive of consistent inquiries and verification steps as aligned with purchasing, however we consider with more advanced verification techniques and processes (specifically digital verification using data aggregation services and optical character recognition (OCR)) that thresholds should be adjusted. We discuss this in detail under **Other Matters**.

As Tic:Toc is strictly a residential mortgage lender, we don't feel in a position to elaborate across other credit products in detail.

B1Q4 In your view, what aspects of the consumer's financial situation would a licensee need to inquire about in all circumstances? If you think some aspects of the consumer's financial situation do not need to be inquired about, please explain why.

Tic:Toc believe that for all residential mortgage lending applications a licensee needs to inquire into the customers full financial situation including their credit history, income, existing debt levels (including but not limited to, credit and store cards, other home loans, personal and car loans), actual living expenses and collateral.

B1Q5 In your view, what aspects of the consumer's financial situation would a licensee need to verify in all circumstances? If you think some aspects of the consumer's financial situation do not need to be verified, please explain why.

Tic:Toc believes that all information gathered as part of the assessment process should be verified, within reason. We do not support the gathering of information that has little relevance to the assessment process especially if (as has occasionally been the case in the industry previously) the information is going to influence the decision without the requirement for verification. The common example is asking the customer what their asset base (cars, boats etc) is when that asset base does not impact a customer's ability to service a loan.

The obvious exception to this rule relates to a customers' intentions with regard to servicing or paying down the loan in retirement. The customers' intentions are sometimes difficult to verify however the greater value to the licensee is establishing that the customer understands that, their future thinking and financial planning need to account for the situation in which they may continue to incur liability repayments without and income to support them.

B1Q6 What would be the effect on consumers of ASIC identifying particular inquiries and verification steps? For example, what would be the effect on access to and cost of credit for consumers?

The increased compliance would likely have a direct cost in the application of credit. There are also indirect costs that needs to be considered by the industry. Increased complexity of the credit assessment process would hinder the application of credit (especially in the home loan industry) resulting in continued downward pressure on the property market. It would also inhibit customers' ability to easily refinance which would likely impose inflated repayments compared to the available market.

B1Q7 What would be the effect on business costs of ASIC identifying particular inquiries and verification steps? Please provide details of the effect on compliance costs for the licensee, and any factors that are likely to affect the level of cost or cost savings.

Although Tic:Toc agrees that the industry would initially incur significant cost to implement the processes to comply with identified inquires and verifications steps we see technology innovation as a viable and cost effective solution to responsible lending within the industry overall.

The full verification of a customers' financial situation can currently be performed using data aggregation services and in the future will be facilitated by open banking. These two digital strategies will be complimented by OCR technology to convert hard copy transaction statements to a form that can easily be processed. Tic:Toc notes, that currently the technology to effectively manage a full transaction history is limited to the digital participants of the industry and non-digital players may incur substantial costs to comply. However, based on our own experience these are more than offset by the cost savings realised.

B1Q8 In your view, what would be the effect (either positive or negative) on competition between licensees? Please provide details.

Tic:Toc believes that if ASIC becomes more prescriptive within RG209 that this will negatively affect competition within the market. Ultimately by outlining the exact process that needs to be undertaken by all licensee they will not be able to set their own risk appetites and licensees will be forced to assess credit applications with a one-size-fits-all approach. Prescriptive steps would also hinder technological innovation which has given consumers speed and convenience and facilitated low cost origination and fulfilment by licensees.

Verification of consumer's financial situation.

PROPOSAL C1.

We propose to amend the current guidance in RG 209 on forms of verification to:

> ***(a) clarify our guidance on kinds of information that could be used for verification of the consumer's financial situation, and provide a list of forms of verification that we consider are readily available in common circumstances; and***
>
> ***(b) clearly state that views on what are 'reasonable steps' will change over time, as different forms or sources of verifying information become available. For example, developments in open banking and data aggregation services will assist licensees to efficiently confirm the financial situation of a consumer (including allowing simultaneous inquiry about and verification of some information).***

C1Q1 Please provide details of any particular types of information that you consider should be reflected in the guidance as being appropriate and readily available forms of verification?

Tic:Toc believe the following sources to be appropriate for verification and also consider them to be readily available. We also believe that some sources carry higher weight with regard to verification than others. We have not outlined our detailed thoughts here but note that some sources (like a phone conversation with an employer) would not be sufficient alone and should be considered a supporting source.

Income:

- Transaction account statements (obtained as hard copy documents or through data aggregation services)
- Payslips
- Phone confirmation with employer
- Letter confirmation from employer
- Income tax returns
- Centrelink statements

Existing debts/liabilities:

- Transaction account statements (obtained as hard copy documents or through data aggregation services)
- Loan account statements - home loans and personal loans (obtained as hard copy documents or through data aggregation services)
- Credit card statements (obtained as hard copy documents or through data aggregation services)
- Credit report(s)

Living expenses (fixed and variable):

- Transaction account statements
- Credit card statements

Tic:Toc obtain transaction statements (obtained as traditional documents or through data aggregation services) for all applications. We also require credit card statements and other loan statements (home and personal loans) to verify existing liabilities.

We believe guidance around the importance and value to the licensee of the information held in transaction account statements (obtained traditionally or via data aggregation services) would be useful. Particularly as we believe these to be a readily available form of verification, with our customers having no issues supplying them to us or allowing us to access them though data aggregation services. Tic:Toc's view is that these are currently the most reliable source for facilitating overall "full picture" financial verification by giving understanding into many aspects of the customers financial position including income, living expenses (fixed and variable) and identifying existing debts and liabilities (disclosed or undisclosed).

C1Q2 Do you consider that the examples included in Appendix 1 are appropriate? Why or why not?

TicToc consider the examples outlined in Appendix 1 are appropriate examples of forms of verification. We also agree that these verification sources should be considered 'readily available'. These sources all form part of our credit policy for expected methods of verification of financial position and have done since our launch in 2017.

We do note that there are limited sources listed to validate existing debts and liabilities and would argue that home loan, personal loan and credit card statements would all be readily available for use to verify these items. It is good to see comprehensive credit reporting (CCR) data shown, however as we know this information isn't available to all licensees it might be useful for the guidance to reflect other sources that could be used and to highlight that lack of access to CCR data is not an acceptable excuse for failure to verify existing debts and liabilities to a reasonable level.

Tic:Toc also feel that the outlined list should not preclude the use of other sources if they are considered reasonable (and can be justified) by the licensee. In particular, it is often the case that technology innovation outruns the industry's ability to review legislation and guidance and innovation should not be stymied through prescriptiveness.

C1Q3 Are there particular issues with using data aggregation services that you consider should be raised in our guidance? Please provide details of those issues, and information that you consider should be included in our guidance. For example, would it be useful to include specific guidance on matters the licensee could, or should, raise with the consumer before obtaining the consumer's consent to use this kind of service?

From a responsible lending perspective Tic:Toc believes there is little that is required in the form of guidance that needs to be provided regarding their use. Tic:Toc has been using information through data aggregation services since July 2017. Tic:Toc recognise that licensees must inform the customer that their data will be stored in multiple places (data aggregator, sender and recipient) but they have the right to have their information deidentified/deleted once no longer required.

At Tic:Toc we do not force our customers to use data aggregation as we know the value of offering customers choice. We have two pathways to validation – digital (data aggregation services) and manual (uploading traditional verification documents). Two thirds of our customers chose to use the digital pathway. Whilst we certainly acknowledge that customer consent is required to use data aggregation services, Tic:Toc believes that these processes are currently well managed using the Privacy Act.

PROPOSAL C2.

We propose to expand our guidance on what are reasonable steps to verify the financial situation of a consumer by:

> ***(a) more clearly stating that it is not sufficient merely to obtain verifying information but not have regard to it, or to use a source of information to verify only one aspect of the consumer's financial situation if it contains other (potentially inconsistent) information about other aspects of the consumer's financial situation; and***
>
> ***(b) including an 'if not, why not?' approach—that is, if a licensee decides not to obtain or refer to forms of verifying information that are readily available, we consider they should be able to explain why it was not reasonable to obtain or refer to those forms of verification in the circumstances of the particular consumer involved.***

C2Q1 Do you consider that the proposed clarification of guidance on reasonable verification steps would be useful? Are there any other aspects of our guidance on verification that you consider would be useful?

We feel it would be useful to clearly outline to licensees that it is not reasonable to use a source of information to verify only one aspect of the consumer's financial position. The guidance should clearly articulate that if the licensee has information relating to the customers financial position, they must reference it in their assessment.

C2Q2 Would an 'if not, why not' approach encourage improvements to current verification practices? Why or why not?

Tic:Toc is always supportive of the 'if not, why not' approach as we feel it would be inappropriate to apply a one-size-fits-all approach to credit assessment. Tic:Toc agree with ASIC's position that if a licensee is able to make the determination that they consider it reasonable to not obtain verifying information that is readily available or to ignore information contained in those sources, then it is reasonable that the licensee be able to justify and appropriately record why they have taken that approach.

C2Q3 What are the benefits, risks and costs for consumers in this approach (including any effect on access to and cost of credit for consumers)?

This approach would see licensees having a more complete picture of the customers financial position and allow them to make more accurate conclusions with regard to loan unsuitability. This is a benefit to the consumer in that they should be less likely to be recommended credit products that could cause them substantial financial hardship.

C2Q4 What additional business costs would be involved in this approach?

There is an obvious increase in cost in additional assessor time to fully analyse all information presented and to justify why certain information is not requested (assuming that it is not being performed currently). Tic:Toc believes that this should be standard practice however and currently assesses to this standard cost effectively through the use of our technology platform developed for this purpose.

If not prescribed, there is a risk that some licensees may deliberately refrain from obtaining particular sources of verification in an attempt to circumvent the guidance and the requirement to use the information obtained to verify other aspects of the customers financial position. For example, licensees may refrain from obtaining bank statements or using data aggregation services as this would provide a "complete" picture of the customers financial position (including actual living expenses).

C2Q5 In your view, what would be the effect (either positive or negative) on competition between licensees? Please provide details.

Tic:Toc do not have any feedback on this question.

Use of benchmarks

PROPOSAL C3.

We propose to clarify our guidance in RG 209 on the use of benchmarks as follows:

- ***A benchmark figure does not provide any positive confirmation of what a particular consumer's income and expenses actually are. However, we consider that benchmarks can be a useful tool to help determine whether information provided by the consumer is plausible (i.e. whether it is more or less likely to be true and able to be relied upon).***

- ***If a benchmark figure is used to test expense information, licensees should generally take the following kinds of steps:***
  1. ***ensure that the benchmark figure that is being used is a realistic figure, that is adjusted for variables such as different income ranges, dependants and geographic location, and that is not merely reflective of 'low budget' spending;***

  2. ***if the benchmark figure being referred to is more reflective of 'low budget' spending (such as the Household Expenditure Measure), apply a reasonable buffer amount that reflects the likelihood that many consumers would have a higher level of expenses; and***

  3. ***periodically review the expense figures being relied upon across the licensee's portfolio—if there is a high proportion of consumers recorded as having expenses that are at or near the benchmark figure, rather than demonstrating the kind of spread in expenses that is predicted by the methodology underlying the benchmark calculation, this may be an indication that the licensee's inquiries are not being effective to elicit accurate information about the consumer's expenses.***

C3Q1 Do you consider that the proposed clarification of guidance about use of benchmarks would be useful? Why or why not?

Tic:Toc firmly believe that a benchmark figure does not provide any positive confirmation of what a particular consumer's income and expenses actually are and that these should not be relied upon as a substitute for making inquiries into the customer's financial position.

We agree that benchmarks (such as HEM) could potentially be useful as a tool to test the plausibility of consumer provided information, but not to give a positive confirmation. Based on actual Tic:Toc customer data, we can see that our customers understate their living expenses the majority of the time, even when using a number of expense breakdowns and making responses mandatory.

At Tic:Toc we also use the HEM benchmark as an indicator of when the scalability of reasonable inquiries needs to be increased. For example, if a customer declares their living expenses are <75% of HEM we believe that further care needs to be taken when validating the customers expenses as, in our experience, given that the HEM does not take in to account all expenses it is extremely unlikely that the customers 'true' expenses could be that low.

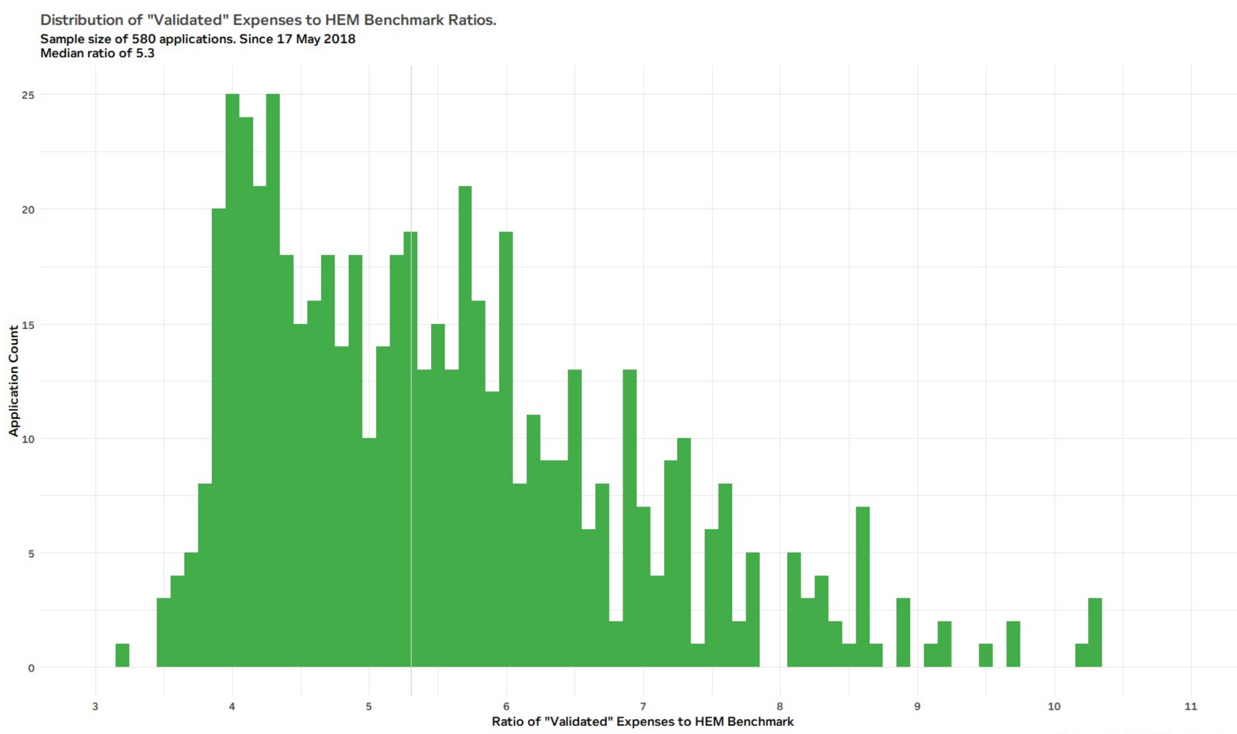
We currently use the greater of HEM and the customers' **verified** expenses (using aggregation, OCR or directly from transaction account statements) only to reflect what is considered 'best' industry practice. Tic:Toc believes that if a verified expense figure can be obtained, inflating that figure gives no benefit to the assessment process.

C3Q2 Please provide information on what buffer amounts you currently apply or would otherwise consider to be reasonable.

Tic:Toc do not apply any buffer amounts to benchmarks and do not consider this to be best practice. Tic:Toc look to use the customers actual expenses in serviceability calculations (obtained via data aggregation services or bank transaction statements).
As discussed in C3Q1, we consider benchmarks a very valuable indicator as to the level of scrutiny required in the verification process.

Further to our position that the HEM benchmark cannot reasonably be relied upon as a substitute for making inquiries into the customer's financial position, we have studied our customer data from the past 12 months.

From our data, shown below, we can see that the customers validated expenses are generally always higher than the HEM benchmark with a median ratio of 5.3.



C3Q3 What are the benefits, risks and costs for consumers in this approach (including any effect on access to and cost of credit for consumers)?

An obvious risk to consumers is that unsuitable lending is not discouraged if benchmarks (buffered or otherwise) continue to be accepted and used in assessing loan suitability. Tic:Toc do not support the use of buffers as a replacement for verification of living expenses and do not support the introduction of a buffer on top of this benchmark. We feel that this will not improve the deficiencies in the processes that some licensees are using to verify borrower expenses, and that an introduction of a buffer on top of benchmarks such as HEM will see licensees continue to default to these measures rather than verify the consumers true financial position.

C3Q4 What additional business costs would be involved in this approach?

The use of benchmarks, (or buffers applied to these benchmarks) make it faster and easier for licensees to assess credit applications, particularly in the residential mortgage lending industry. However, a benchmark figure is not providing any confirmation of the consumer's true position.

Although Tic:Toc agrees that the industry would initially incur significant cost to implement the processes to comply with identified inquiry and verification steps we see technology innovation as a viable solution to both responsible lending obligations and cost efficiency within the industry.

The full verification of a customers' financial situation can currently be performed using data aggregation services and in the future will be facilitated by open banking. These two digital strategies can be complimented by optical character recognition (OCR) technology to convert hard copy transaction statements to a form that can easily be processed.

Customer’s requirements and objectives

PROPOSAL C4

We propose to update the current guidance in RG 209 on reasonable inquiries about the consumer’s requirements and objectives to reflect the findings and guidance in Report 493 Review of interest-only home loans: Mortgage brokers’ inquiries into consumers’ requirements and objectives (REP 493).

C4Q1 Do you consider that the proposed clarification of guidance about understanding the consumer’s requirements and objectives would be useful? Why or why not?

Tic:Toc believes that channel of the customer interaction needs to be considered, particularly as Report 493 is focused on the findings of the performance of mortgage brokers. In a digital channel it is possible to “build in” aspects of responsible lending practice to ensure they can’t be ignored or forgotten and to ensure that the outcomes are accurately and appropriately captured and documented.

As opposed to mortgage brokers, ADI’s, non-bank lenders and mortgage managers would generally have policies and procedures that contain tailored information on specific products and loan features in their product suite that may impose increased financial obligations or restrict repayment flexibility.

In a digital environment the recording of inquiries can be done in real time and audit tracked. The digital environment also allows for record keeping to be more consistent and complete. As each question asked of the consumer and option presented to them can be captured in real time, it is simple for digital lenders to extract information from the system regarding the customers requirements and objectives and how the loan meets those objectives.
A digital platform also allows for the targeting of specific products that are requested by the customer to ensure the correct amount of scalability is applied to the inquiries and verifications when determining if the loan is not unsuitable. For example, owner occupier looking for interest only repayments can be referred for manual assessment by an underwriter to ensure further inquiries and verifications can be conducted.

C4Q2 What are the benefits, risks and costs for consumers in this approach (including any effect on access to and cost of credit for consumers)?

Tic:Toc do not have any feedback on this question.

C4Q3 What additional business costs would be involved in this approach?

Tic:Toc do not have any feedback on this question.

Areas where responsible lending obligations do not apply

PROPOSAL D1

We propose to include new guidance in RG 209 on the areas where the responsible lending obligations do not apply.

D1Q1 Are there any forms of lending where the responsible lending obligations are being used by licensees in situations where the law does not require the responsible lending obligations in the National Credit Act to apply? Please describe the situations where this takes place.

Tic:Toc do not have any feedback on this question.

D1Q2 Are there any forms of small business lending where licensees are unsure about whether the responsible lending obligations in the National Credit Act apply? Please describe the situations which give rise to this uncertainty.

Tic:Toc do not have any feedback on this question.

Fraud risks and impact on responsible lending obligations

PROPOSAL D2

We propose to include new guidance in RG 209 on:

(a) the role of the responsible lending obligations, and in particular the obligation to take reasonable steps to verify information provided about the consumer's financial situation, in mitigating risks involved in loan fraud; and

(b) risk factors that might indicate that additional verification steps should be taken.

D2Q1 Would specific guidance about loan fraud and the impact on responsible lending obligations of the licensee be useful? Would guidance encourage broader improvements in processes for identifying fraud and reduce the risk of consumers entering unsuitable credit contracts as a result of fraud? Why or why not?

Traditionally fraud detection has focused only on information provided by the applicant. As Tic:Toc operates in an online environment it is essential that fraudulent applications can be detected without relying on applicant supplied data.

Tic:Toc believe the industry would benefit from guidance around how digital origination techniques and digital verification methods (such as data aggregation services, open banking and optical character recognition (OCR)) can help to reduce the impact of customers overstating their income or understating their expenses (either deliberately or due to a mistake or misunderstanding) and how whilst there is a relatively large number of sources that are considered "readily available" for verifying financial position, some sources are more robust and provide better protections against fraud attempts.

D2Q2 Please provide details of any risk factors that you consider it would be useful to identify, and additional verifying steps you consider to be reasonable in those circumstances.

Tic:Toc do not have any feedback on this question.

D2Q3 What are the benefits, risks and costs for consumers in this approach (including any effect on access to and cost of credit for consumers)?

Tic:Toc do not have any feedback on this question.

D2Q4 What additional business costs would be involved in this approach?

Tic:Toc do not have any feedback on this question.

Use of repayment history information

PROPOSAL D3

We propose to include guidance in RG 209 to clarify how repayment history information may be used, including that:

(a) the occurrence of repayment difficulties on one product will not necessarily mean that a new credit product will in all cases be unsuitable for that consumer; and

(b) this information should instead trigger the licensee to make more inquiries to enable them to understand those repayment difficulties, and the likelihood that the circumstances of the consumer leading to those difficulties will mean that the consumer would also be unable to meet financial obligations under the new product being considered

D3Q1 Would guidance about use of negative repayment history information and hardship indicators reduce the risk that credit providers consider it necessary to refuse applications for further credit products that may in fact be affordable for the consumer? Why or why not?

Tic:Toc would find this guidance useful as it would provide comfort to licensees that they are not breaching any responsible lending guidelines by entering into credit contracts with these consumers (provided that reasonable enquiries into their financial situation had been conducted). Currently it is 'safer' for licensees to decline these applications as there is no guidance to indicate if/when it is considered reasonable and responsible to offer further credit to consumers who have a demonstrated history of payment difficulty and hardship.

Such guidance should not detract from licensees being able to decline customers with negative repayment history or hardship indicators should the licensee deem these types of applications to be outside their risk appetite.

D3Q2 What are the benefits, risks and costs for consumers in this approach (including any effect on access to and cost of credit for consumers)?

The benefit of this approach would be that consumers that have experienced payment difficulties and hardship would have a greater access to financial products and increased competition for their business which could also see the cost of credit decrease.
The risk to consumers is that reasonable enquiries into their financial position are not conducted appropriately and they are provided with credit contracts which further erode their financial position.

D3Q3 What additional business costs would be involved in this approach?

Tic:Toc do not have any feedback on this question.

Records of inquiries and verifications

PROPOSAL D4

We propose to include new guidance in RG 209 about maintaining records of the inquiries made and verification steps taken by the licensee, reflecting our findings and recommendations on good recording practices included in REP 493.

D4Q1 Do you consider that guidance on industry best practice for recording the inquiries and verification steps that have been undertaken would be useful for licensees? Why or why not?

Tic:Toc note that RG 209 does not currently include any precise guidance regarding the type of information licensees should record for the purpose of enabling them to allow them to demonstrate compliance with their responsible lending obligations, however we have found the guidance that is included to be sufficient for us as we have not had any customers request us to provide them a copy of our assessment.

We also acknowledge the practices undertaken with regard to recording the inquiries and verifications that have been made by the licensee will likely vary greatly, particularly between different industries and channels. Any further guidance provided should take into account the difference between traditional and digital channels and the different ways application information, questions regarding requirements and objectives and verification of that information can be captured and recorded.

D4Q2 Please provide any comments on the particular recording practices identified as 'best practice' by ASIC, and whether you consider those practices are generally appropriate for licensees.

The best practices noted in CP 309 are useful for traditional and face to face lending scenarios but are not reflective of the change in industry and the emergence of many digital players. For example:

- Online applications forms ensure all information is captured and all fields are completed. The structure insures all consumers are asked the right questions as they can be tailored to the correct situation. (e.g. asking different questions for a home loan purchase versus a home loan refinance).

- Digital techniques allow for information to be captured in real time, eliminating the risk that information is missed or forgotten to be entered. These methods also allow for the easy capture of additional information that is obtained through subsequent communications to the consumer before final assessment (clarifying requirements and objectives, inconsistencies in the information that has been provided, and to determine willingness and ability to reduce current expenditure level to afford repayments on a particular product).

- In a digital origination and assessment environment an understanding of the requirements and objectives of the applicant can be formed by reference to the questions asked throughout an application form. A concise ‘digital’ narrative summary can be built including all information obtained through the process and included on the consumer’s ‘digital’ file. This can then be easily be provided the consumer if requested.

D4Q3 What are the benefits, risks and costs for consumers in this approach (including any effect on access to and cost of credit for consumers)?

Digital players could be negatively impacted if prescriptive guidance is provided on particular recording practices that should be undertaken. Any guidance provided needs to reference that certain recording methods are only best practice is traditional environments and adopting a digital approach does not mean the licensee is not meeting their responsible lending obligations. As digital channels provide some of the most cost effective (lowest cost) products to consumers, it is important that the steps taken by digital channels be included as acceptable within any guidance and requirements.

D4Q4 What additional business costs would be involved in this approach?

Prescriptive guidance on recording practices that is not tailorable to channel could be very detrimental and costly to some licensees. Digital businesses would be particularly impacted if they were forced to move away from digital methods and required to adopt more traditional recording techniques. This would likely see the cost of doing business increase for these businesses and the convenience for customers reduced.

Content of a written assessment

PROPOSAL D5

We propose to provide additional guidance in RG 209 on what information we think should be included in a written assessment.

D5Q1 Would it be useful for ASIC to provide an example of a written assessment to illustrate the level of information that we think should be included? Why or why not?

We have not had any customer requests to provide them with a copy of this assessment so feel we are unable to provide valuable feedback either way.
We did however feel that there was enough guidance in RG 209 for us to create an assessment and provide it to a customer and that we would meet our obligations.

D5Q2 Please provide any comments on the example set out in Appendix 2.

The example assessment is very useful with regard to the level of information ASIC is looking for licensees to include to ensure they are complying with their obligations, however we feel the guidance needs to be clear that this is an example and that the assessment and the content of the example is more important than the format.

D5Q3 What are the benefits, risks and costs for consumers in this approach (including any effect on access to and cost of credit for consumers)?

The benefit for consumers would be that there is a more consistent approach to how the assessment is shared with them. This may also trigger some licensees to reflect further about how they are capturing and recording information that is required in the written assessment, ultimately making their assessment techniques more responsible.

D5Q4 What additional business costs would be involved in this approach?

There is a risk that licensees already have a pre-built template that they use for creating written assessments. Prescriptive guidance around what is required in the written assessment would mean many licensees would need to rework what they have already created to ensure compliance.

Other matters

We are appreciative of the opportunity to provide feedback on other matters that we consider to be important. The key item for us being consumers defined as “mortgage prisoners”.

As a residential mortgage lending licensee, we are observing this consumer segment on a daily basis and can see that a large cohort of existing mortgage holders (whom have taken out loans in recent years) are finding it difficult to refinance their existing loans, despite no issues with their repayment history or significant increase in other debts and liabilities. If these customers are unable to refinance it results in them being "trapped" with their current home loan provider, even if other loan products would be more suitable for them.

There are an increasing number of competitive deals in the current market that these customers are not able to take advantage of, even though refinancing could put them in an overall better financial position.

Tic:Toc believe that the latest affordability tests and the assessment rates used in those tests whilst implemented to ensure responsible lending practises are upheld, may actually be harming some consumer segments rather than helping them.

We have found an alarming number of owner occupied consumers that are looking to refinance their existing mortgage and take advantage of our very low rates are being declined due to not passing serviceability requirements despite the fact that they have excellent repayment payment history and are not looking to access any additional funds.

Tic:Toc recognise that in APG 223 - Residential Mortgage Lending, APRA discuss how prudent ADI’s would apply a buffer over the loan’s interest rate to assess the serviceability of the borrower (interest rate buffer) and that this buffer should be of at least two percentage points.[1] APRA go on to comment on floor assessment rates and how a prudent ADI would implement a minimum floor assessment rate of at least 7%.[2]

Tic:Toc acknowledge that the floor assessment was intended to ensure that the interest rate buffer used is adequate when lenders are operating in a low interest rate environment, however we feel the interest rate floor (of 7%) is aimed primarily at traditional banking products and hasn’t moved with the shift to digital origination and the consequential low cost options available to consumers, particularly in residential mortgage lending. These buffers result in artificially high repayments even when considering interest rate movements over time.

We also content that these buffers and floors are of more importance when serviceability assessments do not consider the customers **true financial position** (by using benchmarks or buffered benchmarks as a substitute for verifying the customers actual living expenses). We believe that the level of interrogation and validation of a customer’s financial position can be directly linked to the level of buffers and interest rate floors that are required to be used when determining serviceability. Digital underwriting (in particular validation of full financial position) provides a highly accurate representation of the customers overall financial

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[1] APRA Prudential practice guide APG 223 Residential Mortgage Lending section 27.

[2] APRA Prudential practice guide APG 223 Residential Mortgage Lending section 32 and 33.

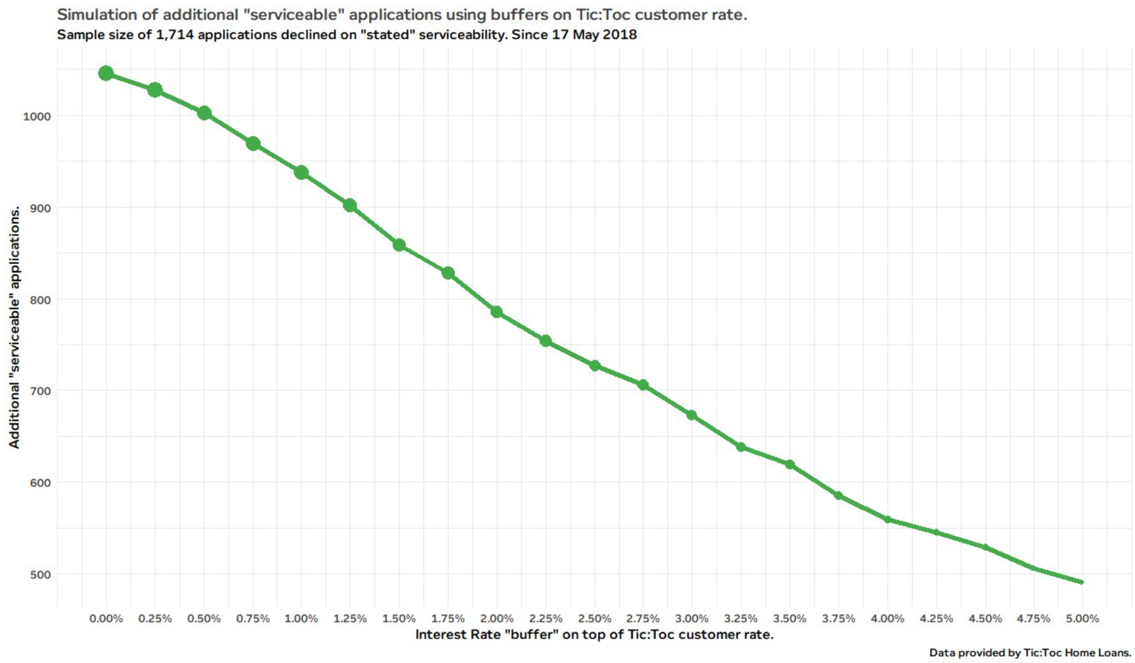
position, allowing greater insight to the true impact that interest rate rises could have on the consumer.

Tic:Toc believe that the use of interest rate buffers and interest rate floors should be scaled down for particular consumer segments. A buffer, applied to the interest rate the customer will be paying (under the new credit contract) rather than a high interest rate floor is far more suitable and will allow more customers to take advantage of the low-cost options in the market whilst still ensuring that potential increases in interest rates do not adversely impact the borrower's capacity to repay the loan. We believe this scaled down approach should be applied to consumer's who are:

- Refinancing an existing residential mortgage loan to a lower interest rate (reducing current borrowing costs);
- Paying out their existing residential mortgage loan only and not trying to obtain any additional funds;
- Not increasing their current loan term;
- Not showing signs of systemic arrears on the residential mortgage loan or any other liabilities held;
- Not displaying adverse conduct in the consumers credit history;
- Digital or "full" validation of the customers financial position has been completed to ensure a highly accurate picture of the customers financial position has been captured.

From our initial analysis we have identified a significant number of additional customers in the last 12 months that we feel may have been able to take up one of the many low rate offers currently available in the market if the interest rate buffers and interest rate floors were scaled back. This scaling back would allow consumers to refinance their existing debt and would likely see them in a "no-worse off" position after the refinance.

The below simulation has been run using our customer data for applications we have received in the last 12 months for consumers looking to refinance their existing residential mortgage loans.



The simulation has been run to show how many additional refinance applications could have potentially been approved if a scaled back buffer methodology was used for the particular consumer segment described above.

Using the customers stated financial position we can see that using a scaled back buffer methodology (% added to the Tic:Toc customer rate) rather than the 7.35% interest rate floor we using in serviceability calculations currently, the number of additional customers that could potentially have been approved to refinance their existing loans is substantial, with close to 800 additional applications potentially approved when the interest rate buffer of 2% on top of the Tic:Toc customer rate is used.

We do note that this is a simulation only and is incorporating only information on Tic:Toc's customer data set. We also acknowledge that there are other factors that may cause an application to be declined other than net serviceability ratios.

We welcome the opportunity to discuss this matter further with ASIC, including sharing our customer data relating to this issue should you be interested.