Athena CP309 – RESPONSIBLE LENDING GUIDANCE

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Submission on CP309 – Responsible Lending

Athena Home lending is pleased to have the opportunity to comment on ASIC's proposals outlined in CP309 to update RG209.

Athena Home Lending launched to the public in February this year. Athena strives to help customers pay their loan down faster by providing a simple to use digital platform using simple language and a policy of driving great value and straight rates for both our new and existing customers.

We provide some key observations below and address the questions raised in CP309 in the Schedule at the end of this letter.

These responses are driven by our experience since launch as a new Mortgage Financier in the market.

Executive summary

1. Further guidance should have the dual objective of creating good customer outcomes while maintaining competition and adding stimulus for further innovation. Competition is essential for good customer outcomes especially in relation to price and service.

2. RG209 should be principle based with examples of the minimum 'base inquiries and verifications' for specific product/customer types

3. Income and fixed liabilities (loan repayments, rent etc) are reasonably easy to ascertain and verify and should form part of most assessments. Detailed verification of other expenses is imprecise and costly and is not relevant to the extent these expenses are discretionary and are likely to be reduced or eliminated once the new credit is taken on. Athena believes that using a statistical base that is appropriately aligned to the customers characteristics as a base for further scalable enquiries is appropriate.

4. Customers wanting to refinance who are meeting their obligations and have with strong credit scores are finding it difficult to refinance to lower interest rates. Athena believes that serviceability (given no material changes to the customer) should be evidenced by the customers actual behaviour. See *appendix A* highlighting customers that are servicing lending with other credit providers but are unable to refinance to the serviceability standards being applied today by most lenders factoring a number of buffers.

Key observations

We make the following observations before dealing with the questions raised in CP309.

1. **Continue to drive an environment of real competition and pricing transparency for consumers.**

   The Australian mortgage market is strongly bank dominated – non banks reduced from 30% to 8% of the market since the GFC. Australian consumers bear a heavy cost from bank pricing power – banks have increased margins (relative to cash rate) by 200-300 bp since 2007, costing borrowers billions. Most borrowers are paying well above competitive rates on their mortgage – estimated $8-10B of excess interest costs every year. To this point, it is critical that the solutions being driven by this consultation paper are not ones which further cement the market position and investment strength of the majors reducing the number of competitors in the market place and reducing competitive pricing pressures.

2. **The need for rate transparency**

   Consumers demand rate transparency. The market is dominated by lenders who are offering rates which are not reflective of the true rate the consumer will pay. The existing practice of publishing honeymoon rates and then gradually lifting rates or introducing fees is causing many customers to be misled and ultimately paying much more than they need to. Many of the customers trapped by this practice find it difficult to obtain lending with other lenders with their existing lender having little incentive to price them at a market competitive rate. This practice damages consumer confidence and creates a reluctance for many consumers to change to another lender. Our consumer testing highlighted how consumers are often confused by what a comparison rate is. Athena would welcome additional efforts to increase the broader markets understanding of the comparison rate mechanism. It is our view that the comparison rate should be revised to reflect the real rate a customer will pay over the life of the loan as evidenced by the lenders current back book of lending.

3. **To determine what is responsible one must consider the purpose of the loan.**

   What is responsible can vary depending on the purpose of the loan. A lender supporting a customer borrowing for an owner-occupied home should ensure that they can sustain the impact of a number of interest rate rises as it is difficult for owners to leave their primary residence. On the other hand, an investor can more easily sell an investment property and hence any buffer should be adjusted to a more reasonable level given an acceptance by the customer that the sale of the property is a valid exit option if needed.

4. **Customers should be able to easily move from one lender to another driving loan portability**

   Consumers who have existing lending should be able to simply transfer their loan to a new financier. The new financier should be able to take the consumers history with the existing loan, on a like for like basis, as evidence that the customer has capacity to meet the repayment required. Of course, some important checks will still need to be done such as checking the credit history both negative and positive, ensuring that there have been no detrimental changes in the customer situation since the original loan was taken and also that the product is not unsuitable for the customer.

We are seeing many cases today of customers who have an existing loan that they have been servicing for a number of years but under today's guidance and suggested buffers are unable to meet serviceability requirements even though they would be moving to a substantially reduced interest rate and ultimately improving their ability to service existing debt.

Any change to more easily allow customers with exiting loans to transfer from one lender to another will significantly increase market competition and drive huge financial benefit to consumers. The difficulty in evidencing serviceability at buffered amounts is why we believe we see only ~5% of mortgages refinanced each year (excl. home purchase), even though the majority of borrowers could get a better deal with excess interest costs potentially as high as $8-10 billion each year (~50-60bp) relative to market competitive interest rates**.**

5. **Scalability can be better described**

   The law implies and RG209 reflects that due diligence is scalable. This means that for certain consumers and products more detailed steps must be taken, and conversely, for others, less steps need to be taken. We therefore suggest that RG209 should specify that the **first step** in responsible lending is a high-level review of the consumer and the product to assess the scale of assessment to be applied. An example appears in the following table where high means more detailed inquiry and verification is required. The table below is an example:

Key Customer Considerations	Required level of scalable enquiry		
	Low	**Medium**	**High**
Demonstrated track record of managing this level of credit.	Customers has clearly managed this level of credit e.g. a Like for like refinance	Customer has a demonstrated track record but is looking for further flexibility (change in terms such as period of loan, or use of funds available through redraw)	Customer does not have a demonstrated track record or not at this level of credit. e.g. customer taking on a new purchase
Financial sophistication of borrower	A financially sophisticated borrower e.g. borrower has a High levels of Income and a high net worth.	A financially sophisticated borrower e.g. borrower has an above average levels of Income and an above average net worth.	A financially sophisticated borrower e.g. borrower has an average levels of Income and an average net worth.
Risk profile of lending	Lower levels or risk (LVR, DTI) in comparison to the net worth and income levels of the borrower. Readily easy exit strategy such as the sale of investment	Average levels or risk (LVR, DTI) in comparison to the net worth and income levels of the borrower. Readily easy exit strategy such as sale of investment	Higher levels or risk (LVR, DTI) in comparison to the net worth and income levels of the borrower. Exit strategy could be more complex as it relies on the sale of a residental home.

Conclusion

Through the revision of RG209 it is important that we strike the right balance between consumer protection, access to credit, and competition between lenders. As we find this balance it is important that the required due diligence does not become a full audit of consumer's affairs, nor an impediment to eligible consumers obtaining appropriate finance.

Athena believe that a principle-based approach to Responsible Lending is ultimately in the best interest of the consumer and will drive a competitive environment allowing financiers of all size to prosper in the market. Athena would welcome further articulation of the principles supporting RG209.

It is critical that ASIC accelerate the implementation of Open Banking as it is a key enabler to allow effective scalable enquires without undue burden to the consumer. The adoption of Open Banking will allow true innovation and open loan portability which will maximize consumer benefit. We would welcome ASIC accelerating the Open Banking implementation timeframes.

Regards,

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