ATHENA

Athena CP309 – Responses to specific ASIC questions

B1 – Reasonable inquiries and verification steps

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?

Our view is that ASIC should be principle based, rather than prescriptive, around inquiries and verification steps. This will foster lender accountability in policy direction setting around the type and level of inquiries and verification based on the specific loan purpose and application particulars as set out within our Executive Summary cover letter. We are strongly of a view that a principle-based approach will also continue to foster innovation in this area.

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

An opportunity within RG209 is to be more prescriptive about the types of events that should require a scalable inquiries approach. For instance, refinance lending scalable inquires may be reduced if the customer has demonstrated that they have been able to service their existing debt level without deterioration to their credit scores. Investment loans may carry a reduced level of inquiry compared to loans for a customer's owner-occupied property, given the ability to dispose the asset. We strongly advocate for responsible credit underwriting principles and propose that refinance and investment property purchase lending applications should have reduced inquiries and verification given that refinances have a proven debt repayment history already established and with investment property purchases, there is a reasonable exit strategy available to extinguish the loan if required.

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.

Provision of responsible credit is an essential requirement and service to the economy. Providing support for consumers to refinance their mortgage, in particular when a customer is refinancing to a lower interest rate, should be a priority. For customers refinancing a like for like loan, serviceability should be demonstrated via the customers' ability to service their existing loans, resulting in fewer scaled inquiries.

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.

Inquiry into a consumer's requirements & objectives, foreseeable circumstances, exit strategy (when relevant), credit report history and their statement of position (employment, residential history, marital status, dependants, income, assets, commitments, fixed & discretionary expenses etc) are all reasonable inquiries in all circumstances.

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.

A lender should always verify an applicant's employment, income, credit report, refinance history, loan purpose with a scaled verification on declared living expenses depending on loan purpose (to earlier point around refinances and investment property purchases having a scaled verification approach).

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?

Smaller lenders have an integral role to play and we need to be mindful of any solutions that require the might and investment strength that only the larger lenders can be positioned to deliver given capital intensive nature of potential solutions requiring larger teams and significant investment. Any changes that increase the loan 'not unsuitable' assessment criteria will directly harm competition in the marketplace and has potential for increased cost being passed onto the customer given the lower margins and liquidity of smaller lenders.

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.

Increased verification requirements would directly increase operational costs (both in application processing and in lost productivity as would expect conversion rates to decrease). These factors would have material downstream consequences (e.g. passed on interest rate rises given return on equity constraints). In addition, changes could unnecessarily impact customers by increasing approval times.

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

As mentioned in B1Q6 & B1Q7, smaller licensees have an integral role to play and we need to mindful of any solutions that require the might and investment of the bigger licensees who are largely people or capital intensive. Any changes that increase the criteria to assess that a loan is 'not unsuitable' will directly harm competition in the marketplace and have potential for increased costs being passed onto the customer given the lower margins and liquidity of smaller lenders.

Updating or Clarification of Current Guidance

C1 – Info used for verification of consumer's financial situation

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?

Our view is that ASIC should be principle based, rather than prescriptive, around inquiries and verification steps. This will foster lender accountability in setting policy direction around the type and level of inquiries and verification based on the specific loan purpose and application particulars. As mentioned above in B1Q2, an opportunity within RG209 is to be more prescriptive about the types of events that should require a scalable inquiries approach. For instance, refinance lending or loans for investment property purposes consider a reduced scale of inquiries and verification approach versus where new credit is being sought for a principle place of residence, which requires further inquiries and verification.

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

As suggested in response C1Q1.

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?

Any use of data aggregation services should be covered within the individual lenders Privacy Policy, so we do not see any need for ASIC guidance on this. It is fair to say that consumers are reluctant to use services such as these. It would be useful for ASIC to provide its endorsement on some of the providers to help develop consumer confidence in the aggregation services. Our experience with the aggregation tools so far is that they have improved but actually still are in need of significant further improvement. We often see an increase in consumer enquiries as a result of the tool, as the tools struggle with mis-classification of transactions.

C2 – Reasonable steps for verification of consumer's financial situation

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?

As mentioned, our view is that ASIC should be principle based rather than prescriptive around the required steps for inquiries and verification. This will foster lender accountability in setting policy direction around the type and level of inquiries and verification based on the specific loan purpose and application particulars. As mentioned above, an opportunity within RG209 is to be more prescriptive about the types of events that should require a scalable inquiries approach.

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

An 'if not, why not, approach may be useful in a lenders decision to adopt reduced scalable enquiries, as mentioned above in the examples of refinance applications or investment purpose loans.

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)?

With principle based, rather than prescriptive, inquiries and verification requirements within RG209, this will foster lender accountability in setting policy direction around the type and level of inquiries and verification based on the specific loan purpose and application particulars. For consumers, this principle-based approach should in effect not limit access to credit or cost of credit. An overly prescriptive approach will also lead to many questions being asked that may not be relevant for the particular consumer or the consumer can't answer going forward. For example, whilst we can work through what a consumer spends on entertainment today this is not a reflection on what the consumer will spend tomorrow. In reality the consumers spend will adjust to what is now realistic post lending.

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

Additional costs would be limited with principle-based inquiries and verification requirements. Full verification of all expenses via account statements would increase costs by many times over and perhaps add only marginal value. The reality of today is that this would significantly stifle digital businesses who would need to build people based teams to work through the many queries that would be directed at customers.

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

As mentioned within B1Q6.

C3 – Use of benchmarks

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

Yes, the proposed benchmark within C3 of CP309 (page 15) (a), (b I & III) are reasonable. For (b II), applying a buffer in conjunction with already adopting a living expense benchmark would not be useful, as considering the applicant characteristics such as income, dependants and geographic location, coupled with a periodic review at a licensee portfolio level, would be sufficient insight into the robustness of a lenders benchmark setting and approach to reasonable inquiries.

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

The gathering, validating and operational verification activities associated with living expenses is an important topic, both for us and the customer, to ensure they can service their new home loan, but also for us to make sure we are meeting our obligations in satisfying that we have made reasonable inquiries to ensure the loan is 'not unsuitable'. We have the following approach to living expenses:

- Enhanced application customer declared expenses capture (sub-expenses category capture)
- More granular living expenses benchmark in place (income, marital status and postcode driven rules)
- Provision of data aggregation services (Proviso)
- Benchmark changes in line with the Melbourne Institute Applied Economic & Social Research quarterly releases
- Increased inquiries when declared living expenses highlight a potential risk characteristic (e.g. customer declared expenses below our benchmark or statements held show undisclosed liabilities, etc)

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)?

As an early adopter of applying a living expense benchmark that factors an applicant's income, dependants and geography, as well as use of data aggregation services, the cost of this approach is already part of our business model. In terms of (b II), in ASIC proposing to apply a buffer on top of our benchmark, this would have a direct impact to consumers in reducing access to credit.

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

As mentioned within C3Q3, as an early adopter, we are already applying these criteria to lending applications with the exception of the buffer to benchmark ASIC proposal, which would add additional business costs in the establishment and maintenance of this approach.

C4 – Consumer's requirements and objectives

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?

No – We already obtain sufficient details about why the customer requires the credit, including specific features such as the type, length, rate, term, special conditions and charges. We also assess whether interest only loans meet the requirements and objectives of the consumer, particularly when being requested for Owner Occupied loans, plus ensure that discussions have been held on the associated costs and prompt the customer to provide a specific breakdown of the primary loan purpose and any additional cash out, including documentary evidence where deemed appropriate. Our view is that the recommended guidance within CP309 (67) that a lender '*understand, identify, consider and demonstrate our understanding of the customer's requirements and objectives by clearly* *documenting these in a summary statement for confirmation of that understanding by the borrower*' is not necessary when considering the below reasonable inquiries are already established during the application process in determining the loan not being 'unsuitable.' We feel that a playback of the below information is sufficient to outline their requirements and objectives of the loan and therefore a written manual summary would not be required:

- Primary loan purpose (e.g. refinance, purchase)
- Overall loan purpose (e.g. owner occupied, investment, equity release, debt consolidation, etc)
- Any cash out purposes (e.g. Investment property, personal investment, personal use, etc)
- Property use (e.g. live in home, investment property)
- Reasons for refinance (e.g. get a great rate, consolidate debt, increase loan amount, obtain more loan features, dissatisfied with current lender, current term ending, get cash out)

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)?

There are no significant additional benefits to the consumer in this approach, as it is already in line with the processes that we follow today. There would be additional costs in requiring a written manual summary of the customer's requirements and objectives, since it will take time for the credit underwriter to outline these in their own words and provide it to the customer for confirmation.

Given we are a direct to consumer business, we see limited benefit to this. From a broader industry perspective, it may be useful in circumstances where the customer is dealing with intermediaries such as brokers, rather than the lending institution themselves.

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

As mentioned above, the additional business costs involved in this approach would be the time spent by credit underwriters to outline the customer's specific requirements and objectives in a manual written summary. These costs may be exacerbated by the time spent providing the customer with a copy, asking them to send back confirmation that they're accurate and potentially holding discussions on any minor discrepancies within the written summary which do not materially impact the application and credit decision.

Additional Guidance on Specific Issues

D1 – Areas where 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.

No

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.

Not applicable to Athena

D2 – Fraud risks and impact on responsible lending obligations

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?

Yes, further guidance on loan fraud processes that should be used to identify and reduce risks would be useful. An outline of the standard fraud tools that should be used within the industry, as well as the specific steps that should be taken when various suspicions arise, would support us to reconcile whether we are already taking sufficient steps to reduce the risks of entering into unsuitable credit contracts or need to update our fraud prevention processes.

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.

Some risk factors that may require additional verification would be:

- Deliberate non-disclosure of liabilities and/or expenses.

In these circumstances, it may be reasonable to obtain financial statements for all accounts that are evident within the customer's primary bank account, from which they receive their income (e.g. any accounts that have incoming funds from the primary account, such as transfer payments, credit card payments, bill payments, etc)

- Income evidence such as payslips are provided without the company ABN or YTD figures.

In these circumstances, it may be reasonable to either perform an additional verbal employment check with the applicant's employer or obtain a secondary source of income verification, such as income credits into the customer's account

- The declared living expenses are below HEM and a reasonable explanation cannot be provided for the categories that appear to be lower than would be expected for their household structure, post code and income levels.

In these circumstances, it would be reasonable to obtain bank and/or credit card statements for a physical verification of expenses

- There are potential matches for Fraud, PEP or Sanctions returned from Credit Bureau providers.

In these circumstances, it would be reasonable to complete additional verification steps to investigate whether it's a genuine match with our applicant, plus make inquiries with any other lenders that have registered a potential fraud warning

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)?

The benefits for the consumer would be a reduction in the risks of entering into an unsuitable loan contract or additional liabilities under fraudulent pretences. The costs to the consumer would be in the form of additional time spent investigating potential fraud or discrepancies in their declared financial position, which could delay financing and create additional expenses for them in the form of interest and/or penalties.

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

The additional business costs would be time spent investigating discrepancies in the declared financial position or potential fraud, which would be incurred in the form of increased personnel costs.

D3 – Use of repayment history information

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?

Yes, guidance in the use of both negative and positive repayment history would be of benefit. Whilst organisations today will have differing risk appetites, which is appropriate, it is true that customers are confused as to why one provider is open to lending to them and another isn't, since the customer will often receive a simple explanation that the lender's decision was based on information obtained from their bureau. In respect to hardship, this will be particularly useful given the lack of detail recorded within the bureaus. Without this guidance, it is possible that customers who have been in hardship in the past will be restricted from credit, whilst those in hardship may obtain credit which is unsuitable for them.

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 for consumers would be greater transparency in respect to the decision that was made and, more importantly, what would need to be done to get the decision they would prefer.

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

The additional costs to the business would include both the time spent on investigating the circumstances of the negative repayment history, incurred in the form of increased personnel costs, as well as the increased rate of defaults that may occur with applicants that had a history of demonstrated repayment issues. In respect to hardship flags, the lender would have real difficulty verifying the initial reason for hardship and, given the circumstances, this could place undue strain on the customers and lender as the lender asks for verification of the hardship situation to ensure that the situation is one in which additional lending would not be suitable for the consumer.

D4 – Records of inquiries and verification

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?

Yes, additional guidance for industry best practice processes of recording the inquiries and steps that have been undertaken would be quite helpful, as it would help in ensuring that we've taken adequate steps to verify the customer's financial situation in various circumstances. For example, it would be very beneficial for ASIC to clarify what level of inquiries would be considered sufficient for the industry in different situations, how these inquiries should be made and when the use of additional tools may be necessary.

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.

As mentioned in C4Q1, we are already following the vast majority of the guidance surrounding the customer's requirements and objectives within this report, but the one additional recommendation to record a summary of this information would be an update to our current processes and does seem generally appropriate. However, we feel that a playback of the information within the application that relates to the customer's requirements and objectives is sufficient and therefore a concise narrative summary to 'connect the dots' between the customer's responses is not necessary to demonstrate that these were understood and would be met by the credit product being entered.

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)?

- The benefit to the consumer would potentially be an increase in the amount of inquiries and steps for verification, which would allow the licensee to gain a better understanding of their overall financial situation and therefore limit the risks that they are entering into an unsuitable credit contract which may not be affordable to them.
- The risks to the customer in this approach would be that the licensee may become overly sensitive to any requirements and objectives that cannot be met, which could lead to a decline outcome even though they weren't truly essential to the loan.
- Similar to the response in D2Q3, the potential costs to the customer would be in the form of extra time spent making additional inquiries on the declared financial position, which could delay financing and create additional expenses for them in the form of interest and/or penalties.

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

The additional business costs would be experienced in the time spent making inquiries on the declared financial position and completing additional verification, which would be incurred in the form of increased salary and wage expenses.

D5 – Content of 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?

Yes, it would be useful for ASIC to provide examples of a written assessment that meets the industry best practice, so that we can ensure we've demonstrated compliance with the responsible lending obligations across each section of the credit assessment.

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

This example is already very closely aligned with the notes that we currently complete for our assessments. There are some minor discrepancies in the level of detail that has been included in this example, such as the specific breakdown of fixed and non-discretionary vs discretionary living expenses. However, as this information is generally held within the application details themselves, the exhaustive details relating to some categories hasn't been something that we've chosen to outline again within the written assessment. Some additional items that we might consider adding from this guidance would be explicit commentary on the features that the customer has indicated are not required, as well as a specific statement of whether the terms of the contract meet each of the specified requirements and objectives. Since we would not consider the financial support from a third party as an acceptable source of income to service the loan repayments, we do not feel that an outline of these details would be necessary.

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 to the consumer would be having access to a very clear and explicit outline of the entire credit assessment, which would allow them to confirm that all information held for the assessment is accurate and the loan will therefore not be unsuitable.

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

The additional business costs would be experienced in the time spent preparing manual written assessments that include some of the suggested additional info, which would be incurred in the form of increased personnel costs.