

Mar 28, 2019

Consultation Paper 309: Update to RG 209: Credit licensing - Responsible lending conduct

Responses to questions: B1Q3, C2Q2

B1Q3: Are there any kinds of credit products, consumers or circumstances for which you consider it maybe reasonable to undertake fewer inquiries and verification steps? Yes

Please identify the kinds of products, consumers and circumstances and features you think are relevant.

Given Credit Bureau Scores have now reached critical mass, and a broader cross section of consumer profiles are now attracted to the same product offerings (e.g. BNPL Providers, 0% Balance Transfers), there's an opportunity to: -

Proposal 1 - scale verification based on: a) Product Complexity b) Consumer Credit Bureau Scores

Proposal 2 - outline acceptable Income and Outgoing/Expense Scenarios

Proposal 3 - extend NCCP protections to Short-Term Credit Providers

Proposal 4 - implement New Regulatory Framework for BNPL Providers

Proposal 1 - Scale Income and Outgoing Verification BY Product Complexity AND Consumer Credit Bureau Scores

1. Under RG 209, 'New/Existing Customers' are considered 'relevant factors' when implementing a 'scalable' approach to reasonable financial inquiries and financial verification. This proposal submits 'New/Existing Customers' be replaced with 'Consumer Credit Bureau Scores'. Matrix below outlines minimum verification requirements.

Category	Products	Income Verification						Expense Verification					
Secured Credit	Product Type 9 - Mortgages, Motor Retail Loans, Secured Personal Loans	<div>- Obtain and Refer to forms of verifying information</div> <div>- Income Estimation Models permitted, but only as 'validation tools'</div>						<div>- Obtain and Refer to forms of verifying information</div> <div>- Living Expense Benchmarks permitted, but only as 'validation tools'</div>					
Unsecured Credit	Product Type 8 - Unsecured Personal Loans												
	Product Type 7 - Credit Cards												
Consumer Lease	Product Type 6 - Consumer Leases	<div>- Income Estimation Models permitted</div>						<div>- Living Expense Benchmarks permitted</div>					
High Cost Unsecured Credit: Cost Rate \geq 36% or Short Term Loans (< 62 Days)	Product Type 5 - High Cost Loans, Credit Cards where Cost Rate \geq 36% Product Type 4 - Short Term Credit (< 62 days)												
BNPL	Product Type 3 - Fee Charging BNPL, Revolving BNPL	<div>- Income Verification Non Compulsory</div>						<div>- Expense Verification Non Compulsory</div>					
	Product Type 2 - Fee Free BNPL (payments sourced via Credit facilities)												
	Product Type 1 - Fee Free BNPL (payments sourced via Debit facilities), BNPL (revolving, non revolving) < \$150												
Refer 'General Notes', #12		Excellent	Very Good	Good	Okay / Average	Below Average	Unknown	Excellent	Very Good	Good	Okay / Average	Below Average	Unknown
		Consumer Credit Bureau Score						Consumer Credit Bureau Score					

Red Zone	Proposed Minimum Verification Requirements	vs RG 209	vs APG 223	vs CP 309
Salary Income	- Satisfy reasonable steps to verify the consumer's financial situation by Obtaining and Referring to forms of verifying information, as per CP309, Appendix 1.	Tightening	Neutral	Neutral
Outgoings: Living Expenses		Tightening	Tightening	Tightening
Other Outgoings: 'Non-Basic' Expenses (e.g. rent, medical fees)		Tightening	Tightening	Neutral
Other Debts (Credit Card, Mortgage)	- Satisfy reasonable steps to verify the consumer's financial situation by Obtaining and Referring to CCR Data.	Tightening	Neutral	Neutral

Note: Given verification of full financials is modelled on '2013 NCCP SACC Enhancement', these proposed changes represent a 'Neutral' impact for SACC Loans.

Amber Zone	Proposed Minimum Verification Requirements	vs RG 209	vs APG 223	vs CP 309
Salary Income	- Satisfy reasonable steps to verify the consumer's financial situation by Obtaining and Referring 'Income Estimation Models'.	Neutral	Easing	Easing
Outgoings: Living Expenses	- Satisfy reasonable steps to verify the consumer's financial situation by Obtaining and Referring 'Living Expense Benchmarks'.	Tightening	Tightening	Tightening
Other Outgoings: 'Non-Basic' Expenses (e.g. rent, medical fees)	- In the absence of Outgoing/Expense Benchmarks, and given the totality of 'tightening' measures outlined in this proposal, verification of 'Other Outgoings/Expenses' can remain at Credit Providers discretion. That is, Credit Providers can accept borrower 'Declared' values without further reference to benchmark or verified values, particularly in cases where Declared 'Other Outgoings/Expenses' do not play a material role in determining final credit decision.	Neutral	Neutral	Easing
Other Debts (Credit Card, Mortgage)	- Satisfy reasonable steps to verify the consumer's financial situation by Obtaining and Referring to CCR Data.	Tightening	Neutral	Neutral

Note: Given '2013 NCCP SACC Enhancements' require full verification (via reference to bank statements etc), these proposed changes represent an 'Easing' impact for SACC loans.

Proposal 2 - Acceptable Income and Outgoing/Expense Scenarios

Red Zone	This zone requires Income and Expenses/Outgoings be verified via verifiable sources (as per Appendix 1, CP 309)	Salary Income	1. Income Scenarios
			- PART 1 - When 3 Income Sources are made available: - A) Verified Salary Income B) Declared Salary Income C) Benchmark Salary Income
			- IF 'A' IS LESS THAN 'B' or 'C' → 'A' should apply
			- IF 'A' IS NOT MORE THAN 1.3 times 'B' or 'C' → 'A' should apply
			- IF 'A' IS MORE THAN 1.3 times of 'B' or 'C' → preferable the borrower be referred to test the veracity of income provided.
		Outgoings: Living Expenses	2. Outgoings: Living Expenses
			- PART 2 - When 3 Expense Sources are made available: -A) Verified Living Expenses B) Declared Living Expenses C) Benchmark Living Expenses
			- Maximum between A) Verified Living Expenses B) Declared Living Expenses C) Benchmark Living Expenses
			- BUT IF 'B' or 'C' IS MORE THAN 1.3 times of 'A' → preferable the borrower be referred to test the veracity of expenses provided.
Amber Zone	This zone affords greater flexibility when verifying Income and Expenses/Outgoings.	Salary Income	3. Other Outgoings: 'Non-Basic' Expenses, Other Debts
			- PART 3 - When 3 Expense Sources are made available: - A) Verified Other Outgoings B) Declared Other Outgoings C) Benchmark Other Outgoings (if available)
			- Maximum between A) Verified Other Outgoings B) Declared Other Outgoings C) Benchmark Other Outgoings (if available)
			- BUT IF 'B' or 'C' IS MORE THAN 1.3 times of 'A' → preferable the borrower be referred to test the veracity of expenses provided.
		Outgoings: Living Expenses	1. Income Scenarios
			- PART 4 - When 3 Income Sources are made available: - A) Verified Salary Income B) Declared Salary Income C) Benchmark Salary Income
			- As per 'Part 1'
			- PART 5 - When 2 Income Sources are made available: - B) Declared Salary Income C) Benchmark Salary Income
			- Minimum between: - B) Declared Salary Income C) Benchmark Salary Income
			- BUT IF 'B' IS MORE THAN 1.3 times 'C' OR IF 'C' IS MORE THAN 1.3 times of 'B' → preferable the borrower be referred to test the veracity of income provided.
		Other Outgoings: 'Non-Basic' Expenses (eg rent, medical fees), Other Debts (Credit Card, Mortgage)	2. Outgoings: Living Expenses
			- PART6 - When 3 Expense Sources are made available: -A) Verified Living Expenses B) Declared Living Expenses C) Benchmark Living Expenses
			- As per 'Part 2'
			- PART 7 - When 2 Expense Sources are made available: - B) Declared Living Expenses C) Benchmark Living Expenses
Green Zone	This zone affords borrowers greater opportunity to exercise a greater degree of 'responsible spending / borrowing'.	Salary Income	- Maximum between B) Declared Living Expenses C) Benchmark Living Expenses
			- BUT IF 'B' IS MORE THAN 1.3 times 'C' OR IF 'C' IS MORE THAN 1.3 times of 'B' → preferable the borrower be referred to test the veracity of expenses provided.
			3. Other Outgoings: 'Non-Basic' Expenses, Other Debts
			- PART 8 - When 3 Expense Sources are made available: - A) Verified Other Outgoings B) Declared Other Outgoings C) Benchmark Other Outgoings (if available)
		Living Expenses	- As per 'Part 3'
			- PART 9 - When 2 Expense Sources are made available: - B) Declared Other Outgoings C) Benchmark Other Outgoings (if available)
			- Maximum between B) Declared Other Outgoings C) Benchmark Other Outgoings (if available)
			- BUT IF 'B' IS MORE THAN 1.3 times 'C' OR IF 'C' IS MORE THAN 1.3 times of 'B' → preferable the borrower be referred to test the veracity of expenses provided.
		Salary Income	1. Income Scenarios
			- PART 10 - When 3 Income Sources are made available: - A) Verified Salary Income B) Declared Salary Income C) Benchmark Salary Income
			- As per 'Part 1'
			- PART 11 - When 2 Income Sources are made available: - B) Declared Salary Income C) Benchmark Salary Income
			- As per 'Part 5'
		Living Expenses	2 & 3 - Outgoings (Living Expenses), Other Outgoing (Non-Basic Expenses, Other Debts)
			' - PART 12 - IF Expense verifying information is already available (eg existing customers with transaction accounts), or made available by the borrower during the Credit Assessment process (eg via Bank Statements), then Credit Providers should not be required to factor Expense verifying information as part of the final Credit Decision. Instead, Credit Providers should be expected to look out for potential 'adverse credit triggers' when determining final underwriting decision eg declining high risk merchant spend, high number days overdrawn as per recent bank transactions.

Proposal 3 - Extend NCCP protections to Short-Term Credit Providers

2. This proposal submits to extend NCC protections to Short-Term Credit Providers. From a verification perspective, Income Models and Living Expense Benchmarks will be permitted.

Proposal 4 - New Regulatory Framework for BNPL Providers

3. Recent government announcements, including recommendations following 2019 Senate Economics Committee, seek to broaden 'Product Intervention Powers' to all products regulated by the ASIC Act, including Short Term Credit and BNPL Providers. Although these changes will strengthen borrower protections, the risk of piling on new debt to pre-existing problematic debt will largely remain.
4. To complement imminent extension of PIPs to BNPL providers, this proposal recommends the creation of a new NCCP 'lite' framework. This will require
 - **Proposed Change 1:** Mandatory subscription to comprehensive credit reporting to mitigate the risk of high-risk borrowers from piling on new debt to existing problematic debt. Although Open Banking and Account Aggregator Services will deepen our understanding of borrower's financial commitments (including credit performance by way of penalty fee transactions), mandatory subscription will provide greater visibility of past and current credit performance. Given its unique product offering, credit checks will not be required: -
 - IF BNPL are Fee-Free And payments sourced via Debit Facilities OR
 - IF BNPL are < \$150 (including revolving, non-revolving)
 - **Proposed Change 2:** Income Verification, with 'Income Estimation Models' permitted (as per Income Matrix)
 - **Proposed Change 3:** Leveraging from 2013 NCCP Enhancement Act, applying a 'rebuttable assumption' IF the borrower satisfies any of the 3 conditions below
 - a) is in current default under another BNPL account (>30days arrears) OR
 - b) has opened > 2 new BNPLs Accounts within the 90-day period before the assessment OR
 - c) new repayment obligations exceed 10% Net Monthly Income (NMI). In this case, NMI defined as: Income, Post Tax.

Note: 'rebuttable assumption' will not apply

- IF Credit Bureau Score Band is 'Good' or above OR
- IF BNPL are Fee-Free And payments sourced via Debit Facilities OR
- IF BNPL are < \$150 (including revolving, non-revolving) OR
- IF BNPL perform full income and expense verification

C2Q2: Would an ‘if not, why not’ approach encourage improvements to current verification practices? Why or why not? If a risk-based approach (adopting Consumer Credit Bureau Scores) is implemented then ‘if not, why not’ should lead to balanced and consistent verification practices.

	‘if not, why not’ to obtain forms of verifying information that are readily available	‘if not, why not’ to refer to forms of verifying information that are readily available	Net Income Surplus Calculation
Red Zone	Credit Providers should be required to OBTAIN Income and Outgoing/Expense verifying information.	Credit Providers should be required to FACTOR 'Income' and 'Outgoing/Expense' verifying information as part of the Final Capacity Assessment. Net Income Surplus should be defined as -->	Net Income (as per Part 1) minus Outgoings: Living Expenses (as per Part 2) minus Other Outgoings (as per Part 3) minus New Monthly Loan Obligation.
Amber Zone	Outside of automated access to CCR Data, Credit Providers should not be required to OBTAIN Income and Outgoing/Expense verifying information.	Amber Zone A - IF 'Income' or 'Outgoing/Expense' verifying information is NOT available via current systems OR not provided by the borrower as part of the credit assessment THEN Credit Providers should not be required to FACTOR 'Income' and 'Outgoing/Expense' verifying information as part of the Final Capacity Assessment. THEN Net Income Surplus could be defined as -->	Net Income (as per Part 5) minus Outgoings: Living Expenses (as per Part 7) minus Other Outgoings (as per Part 9) minus New Monthly Loan Obligation.
		Amber Zone B - IF Complete 'Income' or 'Outgoing/Expense' verifying information is available via current systems OR provided by the borrower as part of the credit assessment THEN Credit Providers should be required to FACTOR Income and Outgoing/Expense verifying information as part of the Final Capacity Assessment. THEN Net Income Surplus could be defined as -->	Net Income (as per Part 4) minus Outgoings: Living Expenses (as per Part 6) minus Other Outgoings (as per Part 8) minus New Monthly Loan Obligation.
		Amber Zone C - IF Incomplete or Partial Income 'Income' or 'Outgoing/Expense' verifying information is available via current systems OR provided by borrower as part of the credit assessment THEN Credit Providers could be able to a) request further information before determining Net Customer Surplus b) refer to current available data (including Verified, Declared and Benchmark data) to determine Net Customer Surplus. IF option b) is taken THEN Net Income Surplus could be defined as --> Note: IF Potential Credit Triggers have been made available during the Financial Verification Process, OR IF Verified Income or Outgoing/Expenses are inconsistent with Declared or Benchmark values THEN further examination of borrowers Full Financials should be exercised before Net Income Surplus is determined.	Depending on the circumstance, Net Income Surplus could be based on combination of a) Verified b) Declared and c) Benchmark Values.
Green Zone	Credit Providers should not be required to OBTAIN Verifying information.	Credit Providers should not required to FACTOR Income and Outgoing/Expense verifying information as part of the Final Credit Decision. Note: Where Credit Triggers have been identified, further examination of borrowers financial situation should be exercised	Depending on the circumstance, Final Salary Income could be based on combination of a) Verified b) Declared and c) Benchmark Values.

General Notes

Red Zone

5. For the most part, Credit Providers recognise the economic benefits and insist on Full Income and Expense Verification to 'Red Zone' borrowers. But to mitigate against Credit Providers seeking short-term advantage, a blanket 'Full Verification' ruling should apply.
6. This proposal also seeks to bridge the gap in minimum verification standards by extending SACC verification obligations to a broader range of Credit Providers where Consumer Risk profiles are aligned, particularly to other Unsecured Credit facilities.

Amber Zone

7. Credit Providers should be afforded greater flexibility when determining Income and Outgoings.
8. As Open Banking and Account Aggregator Services play a greater role in the digital delivery and summarisation of financial data, the role of 'Income Estimation Models' and 'Living Expense Benchmarks' as 'primary verification tools' will naturally diminish but they can still play their part when determining Final Income and Outgoings.
9. Credit Providers will be required to adjust 'Living Expense Benchmarks' to Income. Credit Providers unable to scale HEM Benchmarks to Income will default to 'Red Zone' verification obligations.
10. Proposal includes added 'verification controls' when 'suspect' borrower declared values are submitted during the Credit Assessment Process. For example, where 'Living Expense Benchmark's are more than 1.3 times 'Customer Declared', the borrower be referred to determine next appropriate actions.

Credit Bureau / Credit Scoring

11. Credit Providers with established robust and internal customer scoring models and can claim a greater percentage of the borrowers recent and current credit facilities, then internal 'Customer Level Score Bands' should be considered as alternative.
12. To better recognise borrowers maintaining clean repayment history, this proposal submits the option of deploying 'Credit Bureau Overlays'. A possible Credit Bureau Overlay.....
 - IF borrowers flagged as 'Good' Or 'Average / Okay'
 - And meet 3 conditions below
 - THEN bureau score band can be shifted up one band eg 'Average / Okay' borrower can be shifted to 'good' score band.

Possible Credit Bureau Overlay → Condition 1: Minimum 'Age of Credit Bureau' > 5 years; Condition 2: No Adverse Listings (e.g. Bankruptcy, Infringements, Writs/Judgements, Defaults) last 5 Years; Condition 2: Never > 1 DPD last 12 months

- Borrowers sitting in 'Below Average' or lower are most likely operating at the margins. Verifying Financials via verifiable data would seem an appropriate action.

APRA Updated Guidance

13. Changes outlined in this proposal may require require further updates to APG 223. For example,
 - **Proposed Change 1:** where borrowers record 'Excellent' and 'Very Good' Credit Bureau Scores, Credit Providers should have the discretion to waive added serviceability buffers (eg 2% interest rate buffers, 7% minimum assessment rates), particularly where Income/Expenses have been verified via financial data sources. And given APRA's macroprudential serviceability measures were designed and implemented during the time HEM driven serviceability assessments were operating at their peak (approximately 70%-75% of approved mortgage applications), there's an opportunity for APRA to review its blanket approach to buffer, assessment rates.