From: JACKMAN, Ben
Sent: Friday, 25 September 2020 8:23 AM
To: KOHLER, Marion; SCHWARTZ, Carl; BRISCHETTO, Andrea
Cc: DM - IMS Analysts; DM Securities Markets - analysts
Subject: Morning news

Morning

The Australian (in reporting and a Josh Frydenberg op-ed) announces very significant changes to lending legislation. In short, these changes will end the 'responsible lending' framework in place since the GFC. These changes would allow banks to rely on information provided to them by borrowers, who would be held accountable for giving the lender accurate information (rather than banks having to conduct detailed verification, challenge expenses, and so on). Banks would still be accountable to the regulator. This could speed up and simplify business and home loan approvals significantly.

Thanks
Ben

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From: LIU, Qiang
Sent: Friday, 25 September 2020 5:44 PM
To: KOHLER, Marion
Cc: BRISCHETTO, Andrea ; SCHWARTZ, Carl ; DM - IMS Analysts

Subject: Changes to responsible lending laws [SEC=OFFICIAL]

Good afternoon

The Treasurer has announced changes to responsible lending obligations. The aim of these changes in to simplify the loan application process and reduce the need for extensive verification procedures. Lenders will be able to rely on information provided by borrowers, unless there are reasonable grounds to suspect it is unreliable. This essentially changes the approach from 'lender beware' to 'borrower responsibility'.

Key points:

- Most of the responsible lending obligations imposed by the government in 2009 following the GFC will be removed through changes to the *National Consumer Credit Protection Act 2009* (Credit Act). The most notable obligation being that lenders must assess whether the credit contract is 'not unsuitable' for the consumer.
- The exception is for small amount credit contracts (payday loans) and consumer leases, where obligations will remain in place and be tightened after the passage of legislation (changes discussed below).
- Banks' consumer lending will continue to be regulated by APRA's less prescriptive prudential standards. The Credit Act will be amended to extend these standards to apply to consumer lending by non-bank lenders. When the Credit Act is amended, the new standards will not apply if any portion of an application for credit is for a business purpose.
- These changes should ease access to credit for small businesses from current rules, but the extent and impact depends on how binding responsible lending obligations are to small business borrowers given weak demand for credit. Under the responsible lending obligations, individuals are exempt only if their loan is predominantly (more than 50 per cent) for a business purpose but banks have erred on the side of caution and applied responsible lending obligations for consumers to smaller businesses. They did this because it often hard to distinguish between the personal and business finances of small business owners. In March, a six-month exemption from responsible lending obligations for lenders providing credit to existing small business customers was introduced, and this change will expand it and make it permanent.
- ASIC will regulate non-bank lenders in relation to these new standards.
- Case law protections against unconscionable conduct will remain in place.

Enhancements to responsible lending laws:

- Total payments under consumer leases will be capped as a share of the cost of the goods.
- Currently, payday lenders are barred from offering loans to people receiving more than half their income from Centrelink that would result in their total repayments under payday loans exceeding 20 per cent of their *gross* income. There is no cap on repayments under consumer leases as a share of income. It is proposed that the 20 per cent cap will be extended to all people, apply to *net* income and will include repayments under both payday loans and consumer leases. People receiving more than half their income from Centrelink will be capped at making repayments under payday loans of no more than 10 per cent of net income.
- These changes will implemented through changes in the Credit Act and will take effect six months following the passage of legislation.

In addition:

- Debt management firms that represent consumers in dispute resolution processes with financial services firms will be required to hold an Australian credit license and meet the ongoing obligations imposed on credit licensees, including being a fit and proper person and acting efficiently, honestly and fairly. This change will allow consumers to have disputes with debt management firms be determined by the Australian Financial Complaints Authority.
- In late 2018, the Senate Committee on Economics heard that debt management firms were largely unregulated and rarely improve consumer's financial position.
- The change will be implemented through a change in regulations and will commence from 1 April 2021.

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From: LEWIS, Michelle
Sent: Tuesday, 6 October 2020 8:09 AM
To: KENT, Christopher
Cc: KOHLER, Marion; BRISCHETTO, Andrea; SCHWARTZ, Carl; DM - IMS Analysts
Subject: IMS board day update

Good morning Chris

There are no changes to your talking points or slides.

Some note-worthy news articles from the weekend:

- Former PM Kevin Rudd has an op-ed in The Guardian on the proposed changes to responsible lending. Rudd argues that there is no evidence that the availability of credit has been hampered by responsible lending laws and that 'repeal' of the lending laws harms borrowers and benefits the banks.

Thanks

Michelle

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TERM FUNDING FACILITY UPDATE – OCTOBER 2020

The Australian Government has announced changes to responsible lending obligations, which are intended to simplify the loan application process, reduce the need for extensive verification procedures, and remove the ambiguity regarding the application of consumer lending laws to small business lending. Several major banks have also launched new digital services aimed at reducing loan approval processing times for eligible small business customers.

Max Alston and Joel Bank
Institutional Markets
Domestic Markets Department
7 October 2020