Banking & Finance Consumers Support Association (Inc)

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30th December 2010

Senate Standing Committee on Economics
P O Box 6100
Parliament House
Canberra ACT 2600

Dear Mr Hawkins,

Re: Senate Economics Committee Inquiry – "Competition within the Banking Sector."

Terms of Reference: (m) "Any other related matter."

We thank the Committee for this opportunity to present what we believe to be inhibitors of competition in the Australian Banking Sector: the instance of inappropriate and flawed products entering the market-place. We have chosen to focus on one particular product known as "Low Doc Loans."

Banking and Finance Consumers Support Association Inc **("BFCSA")** has developed from a specific need for consumers of banking and finance products and services to have completely independent representation when dealing with the Australian Banking system. Our incorporation is a continuation in part, of the previously successful Real Estate Consumers Association ("RECA" Inc). Our President is this year's winner of the Western Australian Consumer Protection Award (The Roma Oakley Award for individual achievement) 2010.

Consumers who have been adversely affected by the Low Doc Loan **("LDL")** wish us to acknowledge their experiences and notify the Senate Inquiry of these serious issues. We hope to empower consumers by knowledge and a truthful account of data and evidence collected to date.

Upon reading a number of submissions already made available, there are <u>none</u> that actually describe in any form of detail, concerns relating to a particular financial product. One submission from an unrelated party, commented on that fact. Competition has always relied upon a sense of fair-play, otherwise a lowering of standards becomes the "norm."

It is our intention to bring these matters to the Committee's attention. Our comments in relation to other parts of the Terms of Reference can be found at the end of Reference (m) on page 21.

Yours sincerely

Ms Denise Brailey
President.

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ACRONYMS:

ABN	Australian Business Number
ACCC	Australian Competition & Consumer Commission
AFSL	Australian Financial Services Licence
AGG	Aggregator – responsible for the Introducers
APRA	Australian Prudential Regulatory Authority
ARIP	“Asset Rich and Income Poor”
ASIC	Australian Security and Investment Commission
BDM	Business development Manager – employed by the Lenders
BFCSA	Banking and Finance Consumers Support Association (Inc)
LAF	“Loan Application Form”
LDL	Low Doc Loan
MSS	Mortgage Settlement Service provider
SBO	Small Business Organisations
SPM	Special Program Manager – appointed by the Lender/Trustee
TBTF	“Too Big to Fail”
TRC	Trustee Company – provider of the funds “The Lender”

1. INTRODUCTION

- **CONSUMER FOCUS: Low Doc Lending Products**

We recognise the growing need for consumers to have a voice which can effectively challenge the banking sector and all major players who are part of the network of banking related industry products and services.

Since our collective research involves at least six years of investigations and collecting of data in three states and overseas, relating to LDL practices, we will endeavour to focus on <u>Low Doc Lending</u> and highlight the flaws with that particular product.

Our consumer files demonstrate the devastation of pensioners and low income families who are constantly under threat of loss of their home. Conduct in the banking sector involving Low Doc Lending, are an appalling indictment on our Australian Banking System and should not be permitted to prevail.

Our team will endeavour to:-

a) Detail the abuse of the LDL Model, without identifying the serial offenders.
b) Expose the collusive nature of the activities uncovered to date.
c) Identify the "at risk" group targeted by the major players.
d) Re-create the Business Structure as a public service.
e) Fully inform all consumers of specific LDL product risks to promote future financial safety.
f) Define a set of pertinent questions for the Committee to consider.
g) Answer a few of the Terms of Reference which relate to how competition in the Banking Sector must be regularly policed with <u>specific audits of client files</u> by Federal regulatory authorities, in preference to the current and risky reliance upon industry self-regulation policy.

2. A DEFECTIVE PRODUCT – Impact on Consumers

Flaws in manufacture are costly, time consuming, stressful and can often lead to unwanted publicity. A defective lawn mower (motor vehicle, washing machine) design, in terms of consumerism, would immediately lead to a recall of product. To knowingly continue to manufacture and market product after identification of the flaw is revealed, is morally reprehensible. Sadly, that has been occurring in all states in Australia, in the banking sector as more victims of LDL Model come forward.

Therefore we ask Committee members to consider the following questions:-

1) "What action should be taken if the tragic financial consequences experienced by consumers to date, were caused by a <u>defective financial product</u>?"
2) "What action should be taken if those responsible for manufacturing and marketing defective financial products were aware of the heightened risks to consumers prior to the launch of that product?

3) If the defective product caused a loss to every consumer of say $100,000 to $800,000, should the manufacturer be responsible for the damage?
4) If the manufacturer is of a "Too Big to Fail" **("TBTF")** category, should the matter be given special attention by the Federal Regulators?
5) Should Taxpayers have to bail out the Manufacturers, if proven to be selling defective products?
6) If retiree funds were being channelled into the pockets of developers via pensioners as "borrowers" and therefore into default, who is ultimately responsible for that loss?
7) Is the loss, the responsibility of the Retiree, the Pensioner, the Shareholder, the Taxpayer or the Manufacturer?

We respectfully ask the Committee to consider the above questions as we now present to the Committee the details of the **Low Doc Loan Model,** both as an initial product concept for small business owners, and then changes made to processing of loan approvals gleaned from pensioners and low income families.

<u>The bar has been lowered</u> in terms of "standard" lending policies, strategies and practices. What we have uncovered in the banking sector is both morally and legally reprehensible. Integrity is not apparent in these dark corners.

3. THE LOW DOC LOAN MODEL:

1. Understanding the basic premise of the ORIGINAL Low Doc Lending Concept :-

1.1 Low Doc Loans were initially designed (sometime prior to 2002) to assist small business operators **<u>("SBO's")</u>** who, possibly due to a number of historical factors, may have had difficulties in obtaining credit.
1.2 The target market <u>must have equity</u> in a residential home or business premises.
1.3 <u>The risk</u> of these specific Low Doc Loan **("LDL")** defaults was <u>higher</u> for both lender and borrower and therefore costs reflected that higher risk.
1.4 Marketing suggested the LDL would assist SBO's to upgrade their businesses.
1.5 Facilities were structured to ensure:-

a) <u>An ABN number</u> had been actively utilised for <u>two years or more</u>.
b) Last two years <u>accounting records</u> to be submitted
c) Personal details to be checked included <u>stringent identification</u> <u>and income checks</u>. Including rate notice, bank statements, D/L, etc.
d) <u>Outsourcing</u> of five major components of lending structure to keep the bank's interest removed from that of borrower.
e) <u>Personal interviews</u> conducted by Mortgage Manager as a condition of prudent lending standards, as per lender/manager agreements.
f) <u>Confirmation of Conversation Forms</u> as a *one-on-one* identity verification method including confirmation of income and loan serviceability. These forms could not (according to lender/manager agreements), be of a tick-a-

box nature. Note: large blank spaces ensured a <u>verbatim record of phone call</u> was kept.

2. DRAMATIC CHANGES to the basic concept of the Low Doc Loan product:-

2.1 Low Doc Loans were offered (post 2002) to a New Target Market: Asset Rich, Income Poor **("ARIP")** eg: Pensioners and low income families who owned their own homes or had paid off a substantial portion of equity – their only asset.

2.2 The target market must have <u>equity in a residential home</u>. This predatory marketing became known as <u>**"asset lending."**</u>

2.3 The targeted ARIP's lacked any ability to service the loan repayments.

2.4 Banks knew that the <u>risk</u> of loans defaulting was <u>higher</u> for both the lender and borrower and costs reflected that higher risk.

2.5 Lenders knew they were placing vulnerable consumers at risk of losing their homes and anticipated massive defaults.

2.6 Consumer ARIP's were not informed of these risks.

2.7 Facilities were re-structured, unbeknown to vulnerable consumers, to ensure:-

a) An Australian Business Number **("ABN")** number could be used for one day only and still *"fit into current prudent lending criteria."*

b) Last two years <u>accounting records</u> no longer need to be submitted.

c) Several banks adopted a <u>*"self-certification"*</u> program, further eroding best practice and ensuring loss of home inevitable.

d) <u>Consumers, unaware</u> of the intricacies of the process and believed that all "attachments" were checked as a normal prudent lending practice.

e) <u>Personal details</u> to be checked by the Mortgage Manager Company **("MMC")**, the Australian Financial Services licensee **("AFS")** including identification attachments to each file: bank statements, rate notices, passports, driver's licence, etc.

f) <u>**Confirmation of Conversation Forms**</u> to be utilised according to Lender and MMC Agreements.

g) <u>**Personal Interviews**</u> to be conducted by the MMC, according to Lender and MMC Agreements .

2.7.1 In truth, no checks were carried out and personal interviews could not take place, due to the "no shop front" situation of the MMC a fact known to the Lender.

2.7.2 Lenders KNEW the interviews with their clients could not take place yet signed the Agreement anyway.

2.7.3 <u>NO PHONE calls</u> prior to approval, as a critical part of the approval process, were made to the bank's client <u>in all cases</u> we have investigated both in Australia and New Zealand.

2.7.4 Clients were presented with <u>only three pages</u> of the complete (11 page) LAF to sign and were <u>unaware until after default</u> that other pages and details had been inserted *after their signature obtained and without their knowledge or consent.*

2.7.5 NO COPY of the LAF or associated documents were ever given to the client in all cases.

2.7.6 The Original LAF was pre-filled in with personal details by persons unknown, victims did not sign blank documents as suggested by one institution.

2.7.7 In some cases, evidence shows that payments were being made on the loans directly from the Introducers' account to the MMC's account for the client's mortgage.

2.7.8 Clients unaware of the direct payments, believed "income from invested funds via the Introducer was paying off the loan" – for a suggested 12 month trial period.

2.7.9 Loans approved for thirty years for 80 year old pensioners, who were told the loans were for 12 months only.

2.7.10 The attachments proved the fraud: signatures forged on "awareness statements," drivers licence and passport showed the DOB (age) of client, the bank statement showed "Centrelink payments," the rate notices stated "pensioner concessions."

2.7.11 Lenders readily admit they devised a "self certification" system, yet this does not explain why the bank statements etc were a necessary part of loan approval process.

2.7.12 BDMs (as explained below) suggested to Introducers that the bank's "service calculator" be used…….this was specifically used by those processing the LAF, to calculate the amount of income needed to borrow say $400,000. Clients had no idea this process was in play. The **service calculator** page was then printed out and inserted into the LAF and faxed to the MMC for approval processing.

2.7.13 Clients were encouraged to borrow the maximum for a year and not leave "dead equity" in the home – as a specific financial strategy to gain say $10,000 additional income per annum to supplement their pensions, educate children, or travel. Introducers turned "financial strategies" into an art form, encouraged by the bank employees – all chasing large volumes of business.

2.7.14 A $50 Billion "new market" had opened up, void of any integrity.

3. OUTSOURCING TRADITIONAL MORTGAGE LENDING TASKS: A revamp of procedure.

3.1 Lenders were the Original Creators of the newly revamped Low Doc Loans. Each Lender/Trustee linked up with a specific Network of say five outsourced companies to replace five internal departments within each banking institution involved.

3.2 The Original Creators set up the Network, the Strategies to be used, Contracts and forms, Commission Structure, securitisation of assets, Marketing concepts and general delivery of services: detailed in a 100 page document of agreement signed by both the Banking Institution and the Mortgage Management Company **("MMC").**

3.3 Banks provided all legal documentation in relation to these loans.

3.4 We have evidence of collusive contact between the various operators: letters, emails, diagrams and notes.

3.5 Banks knew there were critical issues of dishonesty and fraud in dealing with Mortgage Originators up until 2003. Salespeople previously employed by banks were rebadged as Mortgage Loan Introducers **("Introducers")** were told they would now be "employed" by Lender appointed MMC's and registered by ASIC as an AFS licence holder**.**

3.6 Lenders arranged to pay commissions to the Aggregators **("AGG's")** appointed by the MMC's. Introducers (directors of proprietary limited companies) would now be paid commissions by ASIC registered AGG's

3.7 Lenders supply the commission stream to all involved trough the vertical structure we have uncovered.

3.8 Lenders appointed Business Development Managers **("BDM's")** to instruct, train and generally market the advantages of the bank's Low Doc products directly to an army of Introducers. Bigger AGG's employed up to 2000 Introducers.

3.9 Introducers were instructed by bank employed BDM's to seek out new clientele for the Banks: the preferred clientele being ARIP's.

3.10 Lenders sourced their funds from appointed Trustee Companies **("TRC's")**, to whom the securitisation of the subject mortgage (of the ARIP's home) would become registered. The source of these funds initially came from Australian retiree DIY funds.

3.11 **Retirees had no idea their hard earned funds were being loaned to pensioners a**nd low income families who could never afford the first payment.

3.12 Lender driven promotional material suggested "quality" borrowers and stringent lending policies.

3.13 Months later mortgages registered over a pensioner's only asset were re-packaged and in some cases, on-sold to overseas investors. Mortgagors now find **someone from overseas "owns their home**, despite only one mortgage contract being signed with the Australian Trustee/Lender.

3.14 MMC's role by agreement with the Lender was to conduct due diligence on the original Loan Application Forms, in preparation for Loan Approval process.

3.15 MMC must initially contact the bank's perspective client by phone to verify identification of income and asset details recorded on the Loan Application Form **("LAF")**.

3.16 MMC's agree to conduct personal interviews with each of the Lender's prospective clientele regarding the signing of the Mortgage Contracts.

3.17 Lenders relied upon outsourced Law Firm to prepare complex mortgage contracts and agreements to secure assets and have regard for the Lender/Trustee's interests. The contracts were sent to the borrowers via Australia Post.

3.18 Lenders arranged for the Trustee's Mortgage Settlement Service agencies **("MSS's")** to settle on the advanced loan monies, on approval of the loan.

3.19 Lenders arranged for a Service Programme Manager **("SPM")** to oversee correct lending procedures to look after the interests of the Trustee Funds.

3.20 Each Lender had their own BDM in each state to source new Introducers, who were then offered lending facilities via the MMC's .

3.21 Lenders, MMC's and AGG's are holders of an Australian Financial Services Licences, registered by ASIC.

3.22 Each Lender signed an Agreement to **independently <u>audit</u> the client files** of the MMC, ever month to ensure prudent lending practices were being adhered to.

No-one it seems was protecting vulnerable consumers from predatory lending practices, despite the presence of the three pillars: ASIC, APRA and ACCC, and the ATO.

The average loss currently rests at around $500,000 per family.

The MMC's also signed agreements with Introducers previously known as "Mortgage Originators." Those agreements stated: <u>"we will never phone YOUR client…"</u> giving the Introducer the authority to conduct the "personal interviews."

Amongst other alarming facts uncovered by BFCSA, these Agreements directly contravened the Agreements made at the same time between Lender and MMC.

The passport photos of persons aged 70 plus did not deter unconscionable bank officers from approving a <u>30 year loan</u>, knowing the product to be a risky and expensive one. Victims signed an application form whilst being informed the loan was only for a few months. Many believed the Low Doc Loan to be a temporary loan."

Several clients were given the false impression that another document signed was not a registered mortgage.

The BDM's, on Lender letterhead, announced *"Good News to Brokers, you can now use ABN numbers for one day and still stay within the current lending criteria."*

4. A COMPLEX LABYRINTH

At this point we hope we have not lost the reader in absorbing the complex labyrinth of players. We believe the idea behind the Network and Outsourcing appears to be a thinly veiled attempt to sever a direct link between Lender and Borrower: a notion resoundingly dismissed by the Courts. Judges who have examined some of these cases have found the borrower is in fact the client of the lender by virtue of the mortgage contract.

Letters between Lender/Trustee and their MMC's contain statements sent to their clientele in direct contravention of the latest round of court findings in cases such as these. These letters aim to intimidate the client into believing there is no defence.

Lenders' feeble attempts to suggest the borrower is the client of the Introducer have been rejected by the Courts on several occasions, yet the Lenders persist with the lie.

However, it is important for the Committee Members to note: <u>six alarming observations:-</u>

1. The complexity of the Lender-manufactured <u>structure</u> is matched only by the <u>complexity</u> of <u>the high risk product</u> intentionally being offered to vulnerable members of the public: pensioners and low income families

2. To demonstrate the effort required for effective **Consumer Protectionism** we need to understand the sheer volume of companies (hence the use of acronyms) whose services were utilised for the approval of one loan.
3. Our Model demonstrates just how many "middle" people were being paid handsomely via a lucrative commission structure and thereby ensuring the LDL was indeed a very expensive product. Over 15 institutions are involved in the delivery of this Model.
4. **Retiree funds are being channelled into the pockets Pensioners!**
5. Borrowers are oblivious to the volume of players all feeding from the same LDL product.
6. **Banks failed ARIP borrowers** we have interviewed, failed their shareholders and failed the Retiree investors by:-

    a. Never fully informing the clients of the complex structure detailed above
    b. Never informing clients of the inherent risks.
    c. Never informing clients of the flawed strategies used to coax people to consider proposals promoted by the BDMs : asset lending.
    d. Never giving the client a chance to receive all of the information that ought to have been provided in order for them to make an informed decision.
    e. Failing to provide a copy of the crucial (yet fraudulent) Loan Application Form.
    f. Denying the right of clients to view a copy of the crucial Lender/MMC agreements.
    g. Failing to check verification phone call records re the "Confirmation of Conversation" forms, from the MMC prior to approval.
    h. Failure to recommend legal advice re the Mortgage Contracts – sent via Australian Post.
    i. Failure to inspect personal interview "records" from the MMC .
    j. Failing to properly examine the auditor reports each month in relation to client files. The client file audit reports ought to have exposed the fact that none of the above was being carried out.

5. OUR INVESTIGATIONS AND FINDINGS

One phone call – a specific condition of the Lender/MMC agreements – would have resulted in the immediate rejection of the loan application as follows:-

Bank Officer: "What is your annual income?"
Borrower: "We are both pensioners."

We have uncovered evidence of this occurring on two or three occasions and in each instance and within days, the same LAF that had been rejected the day before, was resubmitted by the Introducer to another MMC lending facility.

BDM's are direct employees of the bank and already face serious allegations as to their relationships with the Introducer.

No phone call was made to the client by the second MMC and the loan gained immediate approval. The MMC's had handed out lending facilities to large armies of AGG's and their introducers. Some AGG's had multi channels of sourcing loan monies.

Had each of the Lenders/MMC's carried out the conditions of the agreements, it is safe to say none of the offending loans would have been approved.
Introducers often had up to <u>twelve BDM's</u> working part time from the offices of the Introducers. The BDM's role as a condition of their employment was to upload enthusiasm for volume of contracts, governed by industry Quotas as to commissions. In simple terms, the prime role of BDMs was to "gee-up" large volumes of business, for the banks.

6. THE CRITICAL LOAN APPLICATION FORM

- **A Three Page Deception**

The Loan Applications presented as evidence (in all cases we have investigated) have been presented as a <u>three page document</u>. We discover the 16 page document after default and ONLY when BFCSA (Inc) intervenes on behalf of its members. Lenders failed to send their clients a copy of the original LAF.

The clients who come to us are initially unaware of the existence of this vital document. No-one it seems has a copy of the document in their files. See "K**ey Indicators"** Schedule "A."

We called in the Police (in a few states and NZ). The LAFs were reluctantly handed over as a <u>six page</u> document….. We again complained. Eventually in each case, persistence assists in the recovery of the FULL DOCUMENT: a copy of the <u>ORIGINAL LOAN APPLICATION FORM**.**</u>

The Introducer's copy is often incomplete and contains less detail. The copy of the original is proof of the fraud: exaggerated incomes and assets, forged signatures on "inserted" pages, manufactured ABN's which are one day old, erroneous statements of the borrower being a "professional investor." In one case a deckhand was described (by persons unknown) as being a ship's captain.

Most incomes are massaged as being at least 10 – <u>15 times greater than the actual income</u>, (eg $20,000 true income, yet fraudulently inserted on missing pages as $350,000 as evidenced on the copy of the bank statement provided. The victims were totally unaware of the Model being used, or the deception and all agreed to report the matter to the Police in various states.

The True Loan Application Form is in fact comprised of 16 pages:

- A two page introducer's comments and recommendation front cover;
- The 11 page LAF containing 3 signatures.
- The four pages of attachments as mentioned above.

All of those we have interviewed can only recall a "three page document" at best and only signing once or twice. Police have uncovered "tracing" or copying of signatures – obvious forgeries on key pages noted as "*being made aware statements….."* created by the banks and not seen by their customers.

Victims stated in Police statements that the "signature looks like mine", yet they have never sighted that page…….the risks were never explained, the application form presented for signature was no more than 3-4 pages . We are collectively aware of Police Officers and Courts being given a three page document by Lenders.

Insurers were only privy to a "three pager," yet banks provided the courts with a complete document package as if the borrower had sighted all pages in the 16 page document.
The Banks have indeed been acting strangely, falsely suggesting to authority that the three pages provided are in fact a complete document.

One bank has suggested via email: "the original has been lost…." We brace ourselves for more of that one as has occurred in the United States of recent times.
Several agencies have admitted: "there are indeed multiple copies…." There is several people's handwriting involved on each page in some cases.

We have managed to keep most people in their homes, despite the loan being in default 2 – 5 years.

7. THE AUSTRALIAN TAXATION OFFICE SURVEY 2005

These sub-prime activities are by no means "isolated instances" or confined to the activities of one introducer. Interestingly, the Introducers are not usually known to each other (there are exceptions), yet the 15-20 Banks and Non-Banks involved are in communication with each other and we have found evidence which suggests a collusive nature to their relationship. None can boast, in our view, a consumer protection focus.

Bank Executives given the task of unravelling the default trail, readily admit: "***there are hundreds and possibly thousands of these."***

In 2005, the Commissioner of Taxation publicly announced an investigation into bank loans. The Tax Office conducted an investigation, examining the cross correlation of conflicting income details between Loan Application Forms and Tax Returns: eg Income stated as $400,000 on the LAF and income of $20,000 - $50,000 on the tax returns.

Investigators announced that out of 800 Low Doc Loan files examined: ***"we have found several hundred of these….."*** What has become of this vital information?

The Tax Office initially thought the LAF income was correct and that these people were cheating the taxman. In a meeting convened soon after the television interview, our President pointed out that the tax return reflected the true income: ie a low income as stated. She provided the investigators with the proof gathered at that time. The false income statement was contained in the bank's copy of the Loan Application Form.

She also provided documentation that the average loan approved for these people was between **$300,000 and $800,000 – the equity in their homes**. In other words: "asset lending" to people on low incomes, who had zero ability to meet the first payment.

Later advice suggested the results of the Tax Office findings had been passed on to ASIC, as being their specific jurisdiction.

8. THE EXTENT OF THE DAMAGE

The same Model applies for victims in all states of Australia and New Zealand, whom our President has personally dealt with and examined documents.

Victims of these crimes are often being threatened with foreclosure, some of whom are in their eighties. Together we have managed – with truth as the best weapon – to keep the banks at bay for up to five years, in some cases. Some institutions have agreed to hand back the title in line with recent similar cases now being heard in various Supreme Court jurisdictions. The Courts have found in favour of the victims. The funds which were on loan to these people have vanished into the pockets of various companies linked to the players.

The Judges are suggesting these are "unusual cases" as each Judge has only had the privilege of overseeing one case of similar ilk. Cleverly the horrified members of the judiciary are ensuring the details of the Agreements be made public by quoting from the 100 page document in their reasons for decisions.

During the past seven years of watching these loans in the banking sector, the "target market" on low incomes have rarely ever enjoyed enough funds to fight back. Certain agencies and outside interests have funded the few cases heard to date. Nor do the low income victims have the necessary funds to engage any assistance on what to do.

Regulators to date have failed to take action against the banks and the other players. Yet if those same people took up robbing banks for a hobby, all services would spring into action, crying "this is criminal."

Lenders are simply waiting for some of these people to die, and then intend to reclaim the asset by holding on to the mortgage. In other cases the mortgage has been securitised and on sold and the victims are left dealing with another round of players. BFCSA has developed workable "pro forma" letters for each of the Chairpersons of the institutions involved.

9. QUESTIONS:

When we questioned a senior executive of one particular MMC, with an over-representation of these sub-prime loans, we received in writing: "*The contention that a credit provider should phone a prospective customer to check details on a self-certified loan application form is not standard industry practice."*

a. How did all these introducers KNOW to follow the same pathway?
b. How did so many banking institutions create the same Model using identical Low Doc Loan products and target the same ARIP "new market," during the same time period?
c. How did the Lender/MMC know what was common as "industry practice?"
d. So what happened to the "Confirmation of Conversation forms?"
e. After 2002, Lenders had decided "no checks" needed. How did this decision materialise?
f. Why did the MMC ask for attached identification documentation if none of this information was going to be checked? Was it a pretend mechanism?

g. Why did Lenders pay auditors for monthly audits on client files? Did they contemplate fraud and to what extent?
h. Was the "self certification Model" which became "industry practice," in direct breach of the Lender Agreements?
i. Why are regulators failing to run test cases?
j. Were the Agreements a smoke-screen for the deluded and greedy bankers, intended to absolve the Creators from responsibility, yet gathered in hundreds of thousands of new customers in a "new ARIP driven market?"
k. It could prove helpful to consumers if the Committee could ask the Chairpersons and CEO's of these banking institutions (and a few non banks):
l.
    a. **What is your current exposure to Low Doc Lending?**
    b. **What is the breakup of the SBO loans vs ARIP's?**
    c. **How wide widespread are these toxic loans in Australia today?**
    d. **Are these loans a ticking time bomb of a need for future taxpayer funded bail-outs?**

I seem to recall one institution as suggesting 60% of lending business in 2006, was derived from Low Doc Lending.

Had the Lender/Trustee's officers checked the attachments to the LAF they would have discovered the following:-

1) *The Rate Notice showed clearly a <u>pensioner concession</u>.*
2) *The bank statement had "<u>Centrelink payments</u>" clearly marked as only source of income.*
3) *The drivers licence showed a Date of Birth suggesting a <u>thirty year loan approval</u> was monstrous.*
   Passports also verified age of perspective clients with <u>no suggestion</u> that these people were "professional investors."

10. OUR NEXT STEP

Our intentions are to:-

1. Answer the remainder of the Terms of Reference set by the Committee of Inquiry.

2. Bring about an end to predatory lending practices by taking part in this Inquiry.

3. Have the committee examine evidence of <u>unconscionable conduct</u> between at least one of the fifteen institutions and bring an end to <u>unjust contracts</u> already in existence.

4. Point out the impact of <u>little or no enforcement of law</u> on competition in the banking sector.

5. Ask for a freeze on all loans found to be in the category as described in our Model.

6. Reduce the instance of people losing their homes by a asking the Parliamentarians for a united effort in tightening up of lending practices.

7. Asking the Australian Federal Government to ensure via process and good policy that enforcement of law must be considered a major priority in the interests of effective and proactive Consumer Protection.

8. All Title Deeds to be handed back to the victims of these pernicious lending practices.

9. Empower consumers of banking products by enabling self-protection warnings to be made public by exposing the instances of unfair mortgage contracts and the known abuse of lending policy guidelines.

10. Suggest an easy understanding of simple safeguards to be made available to consumers in order that our discoveries can be utilised in a positive way.

11 OUR RESEARCH AND OUTCOMES

Our team has taken the trouble to list <u>only the major issues</u> associated with unacceptable practices and conduct, in one financial product.

Our research is thorough and has contributed greatly to significant court cases being won in favour of the consumer/victims.

Consumers, who would never understand complex financial products, <u>trusted the banking sector</u> and believed the $10,000 income “strategy”. They were encouraged by the employee network of the Lenders to “try the idea” for a short fixed term. These strategies were presented by the Introducers as a low risk amid a “try it and see” campaign.

The Introducers were paid commissions via a complex structure generated by the Lenders. The BDM’s were paid employees of the Lenders.

Consumers were spruiked by the Introducers, usually via centres of influence, such as church groups and charities and also in shopping malls.

The “spruiked” clients paid no-one for advice and were unaware of the commission structure at the time. The Lender/ Trustees provided the contracts, suggesting integrity of the banking system which in all of the above, was plainly not present.

Some of these ‘toxic loans’ have been on-sold to overseas interests, according to our searches of the mortgage securities.

12. REGULATORY ISSUES

Our aim is to highlight some of our findings and alert the Committee to the detail of The Model being used within the banking sector. Systemic issues of bad lending practice have been surfacing 2004-2010 and are urgently in need of Federal attention.

It is <u>not our intention</u> to name the banks involved for the purpose of the Inquiry. Those who have an over-representation of LDL defaults will immediately recognise the Model. The defaults have been buried for some time as the banks, once notified display a reluctance to hand out writs.

FOS AND COSL: Dispute or a Crime

I can also reveal that FOS and COSL, the consumer's only remedy for dispute resolution, is faced with several conundrums.

For example: A Lender/Trustee is registered with FOS yet their appointed MMC is registered with COSL. Conversely the same Lender can be registered with COSL and a different MMC is registered with FOS and perhaps all dealing with the same AGG and Introducer.

Victim complainants are passed back and forth, ensuring greater confusion as to who is the culprit and ultimately who is responsible for the chaos.

Further difficulties are evident:

1. The DRP's (FOS and COSL) are restricted by limits to investigate up to $500,000 complaints yet provide cogent resolutions to a maximum of $280,000 when most of the losses referred to are in the **$300,000 - $800,000 bracket.**
2. If the Lender is with FOS, then the MMC is registered with COSL, making a complete investigation hopelessly compromised: only viewing one side of the deception.
3. <u>If fraud is obvious</u>, then both agencies tell us: "<u>we have no powers to look further</u>", as their primary role is to resolve disputes between two parties: there are five parties involved in each LDL file (six including the victim).
4. The fraudulent nature of the LAF cannot be resolved by COSL or FOS. Yet both admit there are multiple variations of the same document in existence in each instance.

These frauds are not isolated instances. It is the <u>systemic nature</u> that is most disturbing. Both agencies have admitted receiving a large number of these types of complaints and both admit there are no copies of the LAF in the client files, unless if course BFCSA are advising the victims to demand a copy of the complete document.

These are <u>systemic issues of a very serious nature</u> affecting our banking system and the lives of all those who have been left unprotected for too long.

13. THE COURTS & JUSTICE FOR SOME

We have refrained from formal referencing of documents on hand to limit the chance of identification of the participants. We are available to appear as witnesses before the committee and produce a sample of these documents.

All of the above has been well documented by the judiciary in three states, who for the past four years have been increasingly alarmed that so many players were involved in these loans and The Courts have predominantly found in favour of the ARIP victims, ordering the Lenders to "release the title deeds," and to **negate the loans without any further costs.**

The Judges are telling us via the courts, that **"this is an unusual case….."** The reason this expression is oft used is due to the fact that the Pensioners and Low income families, who have been targeted, **rarely have access to funding to take the Lender/Trustees to court**.
It is state government agencies and private funding organisations that have been able to break down some of these barriers to justice.

Lenders expected to argue in Court: "we have loaned the funds in good faith, we have in our possession as evidence, a signed a mortgage contract, the loan is in default and therefore there is NO DEFENCE."

The average loans are between $300,000 and $800,000 dollars: 100% asset lending

The argument of agency prevails. The victims are the clients of the Lenders by virtue of the contractual arrangements regarding the mortgage. The Judiciary have suggested that if the Lenders wish to recoup their losses, then they are free to take action against the MMC and the Introducers who, when discovered, eventually declare bankruptcy.

All of the consumers I have come across in Australia and New Zealand have key indicators of fraud in common within their files and/or the files of the Lender.

14. THE LENDER/TRUSTEES

Currently, the Lenders (who are banks, trustees, non banks) are less forthcoming as to how many of these loans are on their books. One bank suggested in a 2005 interview as having a 60% exposure to Low Doc Loans.

We have found lenders co-operative and easy to deal with in keeping the victims in their homes, yet one wonders how long that situation can continue for.

There is a further complication in that conflicts of interest are prevalent between banks and developers and introducers. This explains the ease with which lending facilities were granted. Commissions were paid through every part of the Structure, including selling of the "investment" properties which were invariably over-valued – a significant con in the "three-tier marketing scams" of the nineties, involving a significant number of Australian Banks.

The obvious and immediate solution is for the Lenders to take heed of the recent court decisions and hand back the residential titles, forgive all fees and charges and wear the losses.

Where blocks of (over-valued) land were purchased with the loan monies, we have encouraged consumers to sign-over title of those blocks to the banks in order to affect a sensible solution. In other words the pensioners are put back in a situation as if they had never made contact with the Introducer, the MMC or the Lender /Trustee.

It is not unusual for Lenders to initially choose to sit on the assets "until death" of the aged pensioner for obvious reasons. These assets are not producing income. One bank even suggested the victims "pay one third of their pension in rent!" We rejected that proposal immediately.

The Lender/Banks, as the Creators of the Model, understand the rules of engagement. Void of any conscience, they write to the complainant consumer advising them there is no defence. Such assertions are patently false.
However forcing these banks to hand back the titles, cannot be achieved for most victims as they have no funds to fight these cases in our privileged justice system and are therefore denied justice.

Those we have achieved success for have revolved around a few years of correspondence, combined with the eventual efforts of the media. In those cases the title has been handed back and pensioners or low income families are extremely grateful for the assistance.

However the banks then insist on confidentiality agreements, so the actual crime becomes lost in the system and the offending institutions are never investigated. Documents are shredded and the game plays on.

COLLUSION

Collusive Nature of these activities in the banking sector amongst the key players: -

Letters to the bank's clients authored by the Creator Lender/Trustee was sent out from a number of MMC's on their own individual letterheads. Did these offending and identically worded communiqué suggest that all the players dreamed up the same letter on the same day?

The Trustees drew up a Chart contained in a letter of explanation as to structure, showing the flow downwards to the Introducers. The unsuspecting clients had no chance of protection. BDM's sent out letters on bank letterhead to explain to Introducers: "*Good News you can now use ABN numbers for one day only and still stay within standard lending criteria."*

Agreements between MMC and Introducer with the MMC stating: "*we will never ring your client."* This Agreement was signed close to the time an Agreement was signed between MMC and Lender/Trustee: "*MMC to telephone the clients and record details of a Confirmation of Conversation Form."*

The MMC agreed they would conduct phone call interviews, and in particular record the answers given to specific questions: ie; not tick-a-box answers, but **verbatum answers** written down by the MMC officer making the call.

A <u>lucrative commission structure</u> could ensure all players in the "system" would continue to "sign-up" the target market.

Lawyers for the Lenders would be asked to prepare mortgages deemed by the court s as <u>unfair contracts.</u> Lawyers are obviously instructed never to contact the client, but rather they would "post" the contracts to the intended customer with instructions to sign *"where yellow flags indicate and return by mail."*

The Lender Agreements specifically alluded to the fact that "**personal interviews must be conducted by the MMC**." The participants also agreed via the Agreement: "a (specific) Confirmation of Conversation Form will be utilised…."

The Lenders KNEW there could *never be* personal interviews conducted by the MMC, due to the fact most MMC's had a "no shop front business." Therefore personal contact was an obvious impossibility.

The Lenders KNEW the personal interviews were NEVER conducted and neither were the Phone Calls conducted (Confirmation of Conversation Forms) by the MMC**,** due to the fact that Lenders <u>paid the Auditors monthly, to audit the MMC client files.</u>

The provision in the Agreement for Auditors to examine the files was supposedly to ensure strict <u>Lending Policy Guidelines</u> were being adhered to in order to protect the interest of the clients, the lenders and their shareholders.

Shareholders may have been unaware of this particular risk and could present a looming time-bomb if thousands of loans were processed in this manner.

15. EMPOWERING CONSUMERS IN NEED OF PROTECTION

The largest number of complaints in one particular network of loans, in fact comes from one of our main banking institutions. Every one of these victims deserved and expected protection. Specific neglect of consumer interests contributed greatly to the millions of dollars of loans that have been infected by the lowering of banking standards in Australia.

To ignore the practice, would be to condone the appalling conduct uncovered to date.

16. OUTCOMES SOUGHT BY VICTIMS OF FRAUD

In line with recent decisions of the NSW Supreme Court on similar cases to the ones subject of this letter, the outcomes sought are as follows:

Freeze all equity loan mortgages, where asset lending is proven. Those toxic mortgages should then be negated, including all fees and charges surrounding those loans, and further:

a) **The titles handed back to those who are caught in the Low Doc scandal.**
b) **A Royal Commission into the Banking Sector is formed immediately, in order to avert the predictable greater loss of Australian homes.**

BFCSA members believe we need to send a clear message to members of the Banking Sector, that such bad conduct will not be tolerated. The victims of these banking scandals deserve to be left in peace, enjoying the security of their own homes.

Banks and Non Bank Lenders involved in these scams do not deserve taxpayer funded Government Bail Outs. We wish to make it clear that this Model was never an accidental or unfortunate lapse in procedure, evidenced by the large number of players involved.

17. SUMMARY

Creators of the Product
Lenders created the product, strategies, targets, contracts, commission structure (for five outlets), the network, BDM's as employees, the agreements they knew to be unattainable, the lack of copies being given to the clientele, the no personal interview format, the audits and in some cases the worthless developments offered as investments.

Most of the funds on loan that we have investigated have long vanished, usually within days of the "investment" being suggested.

Standard Industry Practice
One Lender refers to specific component as being *"standard industry practice."* Any one of the Lender generated response letters we have received is an appalling indictment of conduct and attitude to "good faith" in some parts of our banking sector.

Congo Line of Commission driven
These complex, risky, immoral products on offer to the public were driven by a congo-line of commission driven players. Retirees, Pensioners, Shareholders, Investors and Taxpayers are left being threatened by the very banking institutions that set up the entire structure, naming ARIP's as the target "new market."

Too Big to Fail
Regulations already in place, including under the Banking Act 1959, have been ignored by agencies responsible for taking action against institutions that are being labelled "too big to fail." Yet we have unearthed the same systematic decline in lending practices, specifically in Low Doc Lending products here in Australia, as has occurred in the US, the UK and many other countries.

18. RECOMMENDATIONS

Test cases need to be run in each state and the Federal Government ought to adopt into Federal legislation all of the unjust contract and unconscionable contract provisions as contained in the NSW Contract Review Act (1980), as a matter of urgency.

A Public Warnings to be issued as follows via Consumer Protection websites:-
WARNING: Persons, who have signed up for a Low Doc Loan since 2004, ought to look in their file and see if they have a copy of the original LOAN APPLICATION FORM.

If your answer is: " <u>no copy located</u> in the file", then contact the lender/ bank and demand the <u>bank's copy</u> of the LAF. The only person, who can identify the fraud, is YOU the victim – a client of the bank. You are entitled to a copy of this document.

We further recommend:

a) Uniformity in truth in lending practices via national legislative provisions, mirroring the Contract Review Act NSW (1980).
b) Investigations to take place immediately through a Royal Commission into Bank and Non Bank Lenders and Trustees,
c) Financial Products created as defective, deceptive and designed as an overall strategy to hide risk from vulnerable consumers, to be immediately <u>withdrawn from sale</u>.
d) Product Manufacturers of faulty financial products be ordered to compensate the victims where fraud can be established.
e) All documentation, including Lending Policy Guidelines, Agreements and complete copies of the original Loan Application Forms (the Lender's copy) LAFs relating to the client's file and any other documentation relating to the actual processing and approval of the lending facility, immediately be made available to the client.
f) Low Doc/No Doc products to be abolished as being open to collective industry abuse.
g) That our list of Key Indicators be furnished online to all those who are thinking of purchasing any financial product.
h) New Ministerial Policies governing a standard that can truthfully represent Consumer Protection in Australia today.
i) <u>A release of statistics</u> on the exposure of each Banking Institution to Low Doc Lending and possible toxicity of assets.

Over 15 banking institutions decided to mirror the same Model as defined in our Low Doc Loan Model: detailed on Page 3 and again in the KEY INDICATORS in Schedule "A" on Page 26.

The collusive nature of the banking activities as profiled in our KEY INDICATORS and warrants an immediate and thorough Royal Commission into the Australian Banking Sector.

We are prepared to name "the worst offender," and hope that a Royal Commission is finally agreed upon by all Parliamentarians.

19. IN CONCLUSION

Imagine if you will, purchasing a faulty washing machine from a retail outlet, (monitored by a regulator) only to find that you are then being *blamed for being silly enough to buy* the regulated product?

Blaming the victim makes no sense at all. As a Nation, why are we reluctant to uncover the truth?

One phone call would have immediately resulted in the pensioner explaining his/her true income and therefore the loan would never have reached approval and low income families saved from the agony of losing their home. Some can never recover from this trauma.

Borrowers had no idea of the trickery used nor the enormity of the scam until investment fell over and the mortgage fell into default.

Consumer Protection can only be achieved if and when we insist on independent scrutiny of banking products and services and the banking industry is brought to account.

Every Australian must ask ourselves why the Banks created these devious products in the first place, and whose interests were they truly representing?

Your parents could be targeted next…..induced by a "free ticket" in the mail.

If world standards have dropped, it does not follow that the Australian Banking Sector can legitimately follow suit in the name of competition.

There is a cancer in the Banking Sector with too many authorities avoiding the issue. The time has come for tough decisions to be made if we are truly to suggest on an international level, that we really do present Consumer Protection as the centrepiece of our Financial Markets.

Banking and Finance Consumers Support Association (Inc) was formed after many consumers complained about the specific lack of consumer protection in the banking sector. Investigations at grass roots level are not being carried out.

Every Consumer is capable of making an intelligent decision (particularly those who own their own home) providing they are given all the information necessary to protect themselves from wrong choices.

To date the only ones suffering punishment are customers of dishonest officers who inhabit our banking sector.

However our members are victims of predatory lending products and they will be the next key drivers in the market place. We aim to empower and enlighten Consumers who are prepared to fight back and expose these banking scandals, as a preventative measure for the future of all Australians.

Answering selected TERMS OF REFERENCE

a) **<u>Current level of competition between bank and non-bank providers;</u>**
Competition can only benefit consumers if products and contracts on offer are fair and equitable, and all institutions operate on a level playing field. Therefore our regulatory authorities must be more pro-active in policing and taking action against the major offenders whom we have identified as the "Creators of the Model."

There are those who suggest that deregulation or industry self-regulation increases competition, yet the above Low Doc Lending activity demonstrates not only the vulnerability of ordinary citizens to the greed-driven nature of certain players in the banking and finance sector, but it highlights the need for regulators to protect the innocent from those who would take advantage.

The current level of competition is restricted and should remain so, until the matters raised in (m) are addressed. Confidence in the market place is of paramount importance and consumers need to be reasonably trusting that the market is rigorously policed and those who break the rules are dealt with by being excluded.

There has to be an active enforcement of law.

Too many traders in the market place can be a good thing in terms of pricing, yet too many in the banking market place can lead to unconscionable conduct.

b) **<u>The products available and fees and charges payable on those products;</u>**
It is the commission structure that was widely canvassed in the Ripoll Inquiry into financial products and services. Commission driven products have wrought havoc on thousands of ordinary citizens who dared to own their own home and worked a lifetime to do so. If as a community we cannot respect that specific part of our Australianism, then we need to rethink this particular Term very carefully. The heartache will last for many years to come.

The fees charged in relation to Reverse Mortgages for example are utterly criminal. Consumers are desperately in need of correct information in order to make wise choices, yet the product sellers are treating consumers in a sub-moronic fashion and the regulators with distain.

c) **<u>How competition impacts on unfair terms that may be included in contracts;</u>**
An over-supply of Competitors can in fact foster unfair terms to be included in contracts and impact unfairly on the consumer, the taxpayer, the shareholder and investors. If left unchecked as has occurred in Low Doc Lending, the market becomes flooded with unacceptable contracts and conduct which may take years to repair the damage. Such conduct lowers the integrity of the market and consequently lowers confidence.

Bad practices that we have uncovered show how systemic bad behaviour can become the norm on a global basis and cause a monstrous crisis.

d) <u>The likely drivers of future change and innovation in the banking and non-banking sectors;</u>

The likely drivers are definitely going to be consumers. The ease of communication in the modern age, lend itself to consumers taking charge of their own markets.

e) <u>The ease of moving between providers of banking services;</u>

Once again it is the providers who have been developing unconscionable products and rules to prevent competitors from pilfering their client base. This is something of ease that the Government can fix and should do so sooner rather than later. It should also be made retrospect. Why wait?

f) <u>The impact of the large banks being considered 'too big to fail' on profitability and competition;</u>

As occurred in 2008 in the United States, the US Government had to get heavy with 200 bankers to demand they purchase each other's toxic loans. When that idea faltered the taxpayers were then asked via the Parliament to come to the rescue. The Congressmen and women realised they had no choice – the chaos could crush their economy. The losses were far more **trillions of dollars** than they had ever visualised, as truth bubbled to the surface.

The biggest impact is Taxpayers under-writing the four major banks' businesses. Financial stability is the key factor on the minds of most Australians.

The impact of considering that banks are **"Too Big to Fail"** falls upon everyone in our society. TBTF is a forerunner of corruption. All banking institutions have to play by the same set of rules as the Small Business Operator. To allow special privileges is to tear down any hope of profitable and sustained businesses being able to compete fairly and honestly in the market-place. **Cheating promotes unfair competition**, resulting in the creation of an endless stream of flawed products. Have we not learned that lesson as yet?

g) <u>Regulation that has the impact of restricting or hindering competition within the banking sector, particularly regulation imposed during the global financial crisis;</u>

The reason we have a Global Financial Crisis (which is still present) is because we all had similar de-regulation policies, yet laws that were in place were not being enforced and the bankers knew this and took advantage.

"While the cats away…." Regulation is only a hindrance and costly compliance issue if we enter into a "self regulation regime." Why have any regulations in place if laws created by our Parliamentarians are rendered meaningless : unlikely to be enforced?

The reasons we have developed regulations over time and created criminal sanctions was to send clear warnings that flawed products and foul-play and anti-competitive behaviour would not be tolerated. Yet they are being tolerated by laissez fait regulators and Government Policies which suggest the "free markets" are king.

The regulators at the behest of political pressure have managed to de-criminalise that which Parliament had deemed to be criminal behaviour. In the banking and finance sector consumers need to be warned it's a "free-for-all."

Why advise Consumers they are protected and have rights, when such a statements is false due to the impotency of application. We need tighter regulations, regular policing of banking products on offer and effective law enforcement.

"A few bankers thrown over the bonnet of the car and handcuffed, dragged off to jail – on nightly news –could be most effective. Only then can competition be viewed as being fair and equitable. Remove the major offenders from the market place."

h) **<u>Opportunities for, and obstacles to, the creation of new banking services and the entry of new banking service providers;</u>**
Yes indeed create new banking services, but before that can take place we need to clean out the dishonest as a keen priority otherwise we have simply doubled the instance of fraud and deceit and consumers will never trust ever again.

Already there are generational factors in play. There are those who were children in the depression who never trusted banks – their entire lives. Now there are families of the pensioners and retirees who have been targeted in more recent times.

To ignore this thought is to condone sub-standard lending practices and products and start from where <u>the bar has already been lowered</u>. We can then all move forward to GFC Mark II.

i) **<u>Assessment of claims by banks of "cost of capital:</u>**" Banks ought to start evaluating the <u>cost of homelessness</u>, when they attempt to issue writs to recover homes on defaulting mortgages. They have no-one to blame but themselves for the "cost of capital" situation.

j) **<u>Any other policies, practices and strategies that may enhance competition in banking, including legislative change;</u>**
To enhance competition in the banking sector we need a policies and strategies that make things crystal clear that predatory lending practices will not be tolerated and those found to be creating such strategies be removed from the industry.

Clear messages need to be delivered or the new entrant to the market-place will use the line we received from one banking luminary: "this was standard industry practice."

If Government Policies allow even one business to act outside the law, others will surely follow and consumers, whilst being the last to know, always pay the highest price: stress, illness, death, loss of home, loved ones.

Mr Stephens has admitted competition heavier than the nineties.

k) <u>The role and impact of past inquiries into the banking sector in promoting reform;</u>

Fanny Mae and Freddy Mac loomed larger than life in submissions during the last few years. Those comments need to be heeded as a matter of some urgency.
The very reason taxpayers have had to pay for 4 inquiries into this sector in the past ten years is because there are just too many complaints and little enforcement of law. ASIC prosecutes only a handful of small operators per year and no bankers appear on that list.

I lobbied for an Inquiry into the banking product and financial services sector in 2003. I lobbied again up until 2005, when the Senate held the Property Investment Advice Inquiry. The then Opposition promised Consumers a broad inquiry would be held into these banking/finance activities. A pre-election policy was formed.

This promise was based upon the collapse of Westpoint and the "Dirty Dozen" which turned out to be over 50 companies indulging in similar practices with linked banking facilities and hefty commission structures, directly and indirectly funded by the banking sector.

In 2009, two years after the election, the Ripoll Inquiry was announced to coincide with the collapse of Storm Financial and Opes Prime. The irony being that Westpoint victims lobbied for this inquiry, yet the Committee were not given enough time to look into the "Others," or even call witnesses in relation to other collapses.

Despite that effort, the Banks were only added on to the Terms of Reference as a reaction to public distain. The public perception is that we have never had an opportunity for a proper examination of the banking sector.

Australia has not enjoyed a strong Consumer Protection regulatory regime. ASIC is under constant criticism for its lack of consumer focus. There are few face-to-face discussions between consumers and ASIC, whilst bankers are taken out to lunch.

These criticisms may be seen as unfair and Commissioners may have been constantly speaking to Government on these issues. Yet that specific neglect of consumer protection is precisely the reason Australian taxpayers have had to fund <u>four inquiries in ten years i</u>nto the banking and finance sector.

These systemic issues need to be addressed as a matter of urgency. I note that less than 0.5% of submissions are from consumers or consumer groups. Most consumers are unaware that this Inquiry is taking place.

A Royal Commission into the Banking sector is inevitable as there will be so many more vulnerable people losing their homes in the foreseeable future.

Appendix "A"

KEY INDICATORS of Sub Prime Lending:

1. Loan Application Forms ("LAF") signed, contain exaggerated incomes and asset details added to the document *after the signature was obtained and without the borrower's knowledge or consent.*
2. *NO COPY OF LOAN APPLICATION FORM IS LEFT WITH THE BORROWER.*
3. Borrowers discover the fraudulent nature of the LAF only after demanding Lenders hand over a complete copy of the original – up to two or three years later.
4. According to Police statements, of the three signatures on the document, at least one is a (photocopied/traced) forgery on a critical "advice statement." The rest of the pages have never been seen before.
5. Initially, Lenders when asked for a copy unconscionably told their clients to "ask the Introducer." The Introducer's copy is incomplete. The Lender's copy is where the fraud is found.
6. There are multiple versions of the LAF document, according to agencies and authorities who have investigated these claims. This is due to the faxed copies to-ing and fro-ing and being <u>massaged, during the approval process</u>, by up to three persons "unknown."
7. The loans arranged were approved for at least <u>90% equity</u> of the residential home, the subject of the mortgage contract. Nervous elderly people were told to borrow the maximum for 12 months only – try it out.
8. The funds borrowed were immediately "invested" in conflict of interest projects and ultimately producing losses of upwards of 150%.
9. In other cases the funds have simply vanished within five days after being placed into "investments" recommended by the Bank funded Introducers.
10. Trickery has been used in relation to valuations similar to three tiered marketing.
11. **In all cases examined to date Low Doc Loans are being utilised as "the vehicle."**
12. The loan often falls into default within two months of funds being released.
13. Introducers paid by AGGs, explained they were under instructions re "shortcuts" from the Bank's Business Development Managers as evidenced in emails.
14. **Asset Rich Income Poor** were the predominant target….those with only one asset – their home. Most are pensioners and low income families.
15. All of the loans examined are for **THIRTY YEARS**, yet victims aged 60 plus were maliciously told their loan was an easy 12 month personal loan.
16. The Mortgage Contracts were sent via post by the Lender's lawyers and no advice was given as to seeking independent legal advice. "Simply sign where the yellow flags, have a witness sign and post back."
17. **No personal interviews** took place, contrary to Lender Agreements.

18. **No phone calls** were received after application submitted to the Mortgage Manager Company, to ascertain the true income earned by the client, despite the Agreement conditions as top prudent lending standards.
19. In some instances (evidenced by statements) the Introducer was paying the payments for the Lender's client and being recorded on the internal statements of the MMC.
20. MMC's have channelled hefty commissions into client accounts to hide the fraud.
21. **Breaches of Lending Policy Guidelines:** prevalent to the point of being the "norm."
22. Loans were classified as "self certification" unknown for two years by the customers.
23. Finally, the attached identification documents which were given to the Introducer and passed on to the Mortgage Manager Company include: "Rate notice" (which shows the pensioner concession), the drivers licence (the age of the consumer), **and bank statements verifying the customer's income as being a welfare recipient.**
24. The passport photos depicting people aged 60 and over, did not deter unconscionable bankers from approving a 30 year loan. Victims signed an application form whilst being told the loan was "only short-term" to try out the strategy for a few months.
25. Over 15 banking institutions decided to mirror the same Model.
26. The collusive nature of the above key indicators warrants an immediate and through Royal Commission into the Banking Sector.

END OF SUBMISSION