

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS (SECOND REPORT)

Commonwealth Bank of Australia

CBA85QW:

In 2006 Mr and Mrs Ryan had been separated for at least 6 years. Mrs Ryan lived in the jointly owned matrimonial home with their two children and Mr Ryan lived with his mother. Both the Ryans were long time customers of the CBA which held all of their accounts.

Despite accepting that the Ryans lived separately, with a stated combined gross income of \$50,000 per year, in March 2006, the CBA provided a Viridian Line of Credit for \$50,000 and then, in August 2006, being 5 months later, the CBA increased the limit by a further \$50,300. In 2007, the CBA then advanced a \$25,000 'home loan'. In total, the CBA advanced the Ryans \$125,300.

The loan applications reveal that the Ryans had neither savings nor superannuation. They also reveal that the CBA required no documents (such as bank statements, tax returns, profit and loss statements) whatsoever from Mr Ryan to check if his small business was profitable, which it was not.

The CBA sought no information nor supporting documentation to demonstrate the Ryans' capacity to service the loans. It contacted neither of them during the approval process.

After the Consumer Action Law Centre complained to the Financial Ombudsman, in 2016, the Financial Ombudsman found that none of the loans should have been made because the Ryans could not afford to pay them.

What has the CBA done since to change its misapplication of the responsible lending laws?

Answer:

The description above does not provide a complete picture of the circumstances in which the loans were advanced. We also note that this loan was processed as a 'low doc' home loan in 2006, prior to the introduction of responsible lending laws which became effective in 2011.

Since 2006, and consistent with responsible lending laws, improvements have been made in our lending policies and procedures. For all home loans originated, our process includes:

- asking the customer about their requirements and objectives for the loan;
- verifying the customer's income;
- making enquiries of the customer as to their fixed and variable expenses;
- verifying the customer's stated living expenses against accepted industry benchmarks (taking into account the higher of the customer's stated expenses and the industry benchmark amount); and
- conducting an assessment of the customer's capacity to repay the loan including some allowance for changes in circumstances.