

## HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

### REVIEW OF THE FOUR MAJOR BANKS AND OTHER FINANCIAL INSTITUTIONS

#### Commonwealth Bank of Australia

**CBA84QW: Business loans**

(a) Are you required to follow responsible lending laws for loans that are predominantly for a business purpose?

(b) Is that requirement different if the family home is being used as security for the business loan?

**Answer:** (a) A range of legislative and regulatory provisions govern our lending to small and medium-sized businesses, including prudential obligations that guide our approach to managing risk.

We have obligations under the Banking Code of Practice that apply to both small businesses and consumers. If we are considering providing a small business with a new loan or an increase in a loan limit, we are required “to exercise the care and skill of a diligent and prudent banker”. To do this we are required to assess whether the customer “can repay the loan by considering the appropriate circumstances reasonably known to us about ... (their) financial position; ... or account conduct”.

The *National Consumer Credit Protection Act 2009* (“the Act”) and the *National Credit Code* do not apply to lending that is predominantly for a business purpose. This means that the consumer responsible lending obligations in Chapter 3 (including the specific obligations to assess unsuitability and not enter into an unsuitable contract) do not apply to lending that is predominantly for a business purpose.

(b) The requirements are not different if the family home is being used as security. It is the purpose of the loan that determines whether it is regulated by the Act or not. Where we are lending to a small business, we are still bound by the Banking Code of Practice obligation to exercise the care and skill of a diligent and prudent banker. There are also specific Banking Code of Practice requirements applicable to small businesses and consumers about enforcing a loan and taking and enforcing a guarantee. These requirements set out high standards of behaviour and service and are enforceable rights for small business customers.