

## HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

### REVIEW OF THE FOUR MAJOR BANKS

#### Westpac

**WBC71QON:** The following exchange took place during the public hearing with the Commonwealth Bank and the Committee on 4 September 2020. Could you outline any data Westpac holds in regards to young mortgage holders and assistance from family members?

**Ms HAMMOND:** To what extent do you seek personal guarantees, particularly from young people, from family members or from others as a condition of providing people with loans?

**Mr Comyn:** I couldn't give you the specific proportion in terms of the number of home loans that we'd make where someone would offer a guarantee. Guarantees are a high-risk area from the bank's perspective. There have been examples in the past where people don't adequately understand the risks of providing the guarantee. We've definitely improved the process, the controls and the checks in place. Unfortunately, sometimes that can manifest itself where perhaps a parent may not have fully understood the documentation their child was providing to them and they don't understand the recourse that's available to an institution when you do provide a guarantee. I'd be happy to look into the exact numbers. I suspect it has reduced, and it's been an area of real focus for us and I think the broader industry over the last several years.

**CHAIR:** Sorry, Ms Hammond, can I just interrupt and ask a follow-up question to that because it's contextually relevant? Does the CBA have any data on young home mortgage applicants who get financial assistance from parents or other family members to support their deposit?

**Mr Comyn:** We would, Chair. It would probably understate the actual numbers. Sometimes you see survey data where people would say what proportion of their homes are being supported by the bank of mum and dad often or family members. Applicants may—obviously, we'd prefer they didn't—disclose their savings as opposed to a gift, but I suspect that parents or family members are helping a substantial proportion of new borrowers in the market at least at some point.

**CHAIR:** The data suggests that it's always underreported but, on notice, could you get us that data; and, for the secretary, could we ask that of all of the four major banks?

**Answer:** Westpac Group offers home buyers the opportunity to access the market sooner by enabling family members (a 'guarantor') to use equity from their home to guarantee a part of a family member's home loan (a 'borrower'). The guarantor is not required to give any cash to the borrower for their deposit and the guarantor can request to be released once the loan is paid down to a loan to value ratio of less than 80% to avoid paying Lenders Mortgage Insurance. Westpac also allows for a guarantor to use a Term Deposit as equity rather than using a property.

As an alternate to a guarantee arrangement, some family members may also choose to gift their children money to put towards a deposit to purchase a home. We are unable to track this type of gift however there has been some market commentary suggesting the "Bank of

Mum and Dad” is the fifth largest lender: <https://mozo.com.au/home-loans/articles/bank-of-mum-and-and-dad-report-2020>.

We have noticed the total number of borrowers under the age of 35 using a guarantor has increased marginally from the previous financial year (Oct 2018 to Sep 2019) to the current financial year-to-date (Oct 2019 to Aug-2020) from an average of 395 to 402 loans settled per month. The proportion of borrowers under the age of 35 utilising a guarantor to purchase a home also increased marginally from approximately 10% to 11% over the same period.