

Introduction

- 1.1 There have been substantial changes to the practices in, and the structure of, the housing lending market over the past decade. At the same time there has been continued growth in Australian households' debt levels.
- 1.2 These developments have concerned some groups and commentators, who argue that credit is too easily available and that many Australians are overcommitted and facing financial hardship. Others are less concerned and maintain that the new lending practices are generally sound and that the increasing debt burden is more than manageable for most.
- 1.3 The committee deemed it appropriate to examine some of the issues surrounding housing lending, given its fundamental importance to the Australian community and economy.

Conduct of the inquiry

- 1.4 On 10 May 2007 the committee resolved to undertake an inquiry into *home loan lending practices and the processes used to deal with people in financial difficulty*. The committee initiated this inquiry through its power to inquire into aspects of the annual reports of agencies which stand referred to it. The annual reports used to initiate this inquiry were those of the Reserve Bank of Australia and the Australian Prudential Regulation Authority.
- 1.5 From the outset the committee determined that this would be a short term inquiry to ensure a report could be tabled before the dissolution of the 41st Parliament.

- 1.6 Given the short term nature of the inquiry, the committee did not seek public submissions, nor did it undertake an extensive public hearing program. Instead, the committee targeted key industry and government stakeholders, requesting a short submission and attendance at a roundtable public hearing. The chosen format enabled the committee to gather evidence within a short time frame.
- 1.7 The roundtable format is one that the committee has used to good effect on several occasions. It enables key stakeholders to come together to discuss and debate important issues. It also enables dialogue between government bodies and industry participants.
- 1.8 The 26 submissions received by the committee as well as the transcript of the roundtable are available on the committee's website: <http://www.aph.gov.au/house/committee/efpa/banklending/index.htm>.

Readers' guide and structure of the report

- 1.9 This report has been structured in an easy-to-read format. In discussing each issue, evidence and other relevant material is provided, followed by the committee's conclusions, and then, in some cases, a recommendation.
- 1.10 Chapter 2 of the report provides an overview of recent changes to the mortgage market in Australia. This includes the proliferation of new lenders and the changed lending practices of all lenders.
- 1.11 Chapter 3 discusses the effects of these changes. The effects are measured by looking at the data on loan arrears, house repossessions and personal bankruptcies.
- 1.12 Chapter 4 looks at why people get into trouble with their mortgages. A range of factors are discussed, including inappropriate lending, excessive consumer debt and lack of financial literacy.
- 1.13 Chapter 5 examines the regulation of credit and the protection offered to borrowers. In particular, it focuses on possible options for the reform of credit regulation.
- 1.14 Chapter 6 considers what implications changing lending practices might have for the financial system and the economy. It also considers what lessons Australian lenders and governments can learn from the troubles experienced in the US sub prime mortgage market.