



Abacus
Australian Mutuals

Association of Building Societies and Credit Unions

2 January 2009

Mr David Cramsie
Privacy and FOI Policy Branch
Department of the Prime Minister and Cabinet
1 National Circuit
Barton ACT 2600
By email david.cramsie@pmc.gov.au

Dear Mr Cramsie

Regulation of Credit Reporting Information

Thank you for the opportunity to comment on the Department of Prime Minister and Cabinet's proposed approach to the regulation of credit reporting information.

Abacus – Australian Mutuals is the industry association for credit unions, mutual building societies and friendly societies. We have 163 member institutions with total assets of \$70 billion and more than 6 million members. Abacus is a member of the Australasia Retail Credit Association.

Abacus seeks a high priority for the implementation of the Australian Law Reform Commission (ALRC) recommendations on more comprehensive credit reporting. We are calling for credit reporting reform to be implemented in 2009 rather than 2010.

The ALRC recommends the addition of the following categories of personal information to credit information files:

- (a) the type of each credit account opened (for example, mortgage, personal loan, credit card);
- (b) the date on which each credit account was opened;
- (c) the current limit of each open credit account; and
- (d) the date on which each credit account was closed.

The ALRC also recommends, subject to a condition, the addition of information about an individual's repayment history, including:

- (a) whether, over the prior two years, the individual was meeting his or her repayment obligations as at each point of the relevant repayment cycle for a credit account; and, if not
- (b) the number of repayment cycles the individual was in arrears.

The ALRC's recommendation on repayment history was conditional on the introduction of an "adequate framework imposing responsible lending obligations."

The Government has since announced that providers of credit will be subject to responsible lending obligations in legislation to be in place by mid-2009.

The Minister for Superannuation and Corporate Law, Senator Nick Sherry, says the responsible lending requirement is a key element of phase one of the Government's action plan on credit.¹

"The Government is moving to give consumers a new level of protection by including, for the first time, a requirement for lenders to lend responsibly, and for finance brokers and lenders to be licensed," Senator Sherry's statement says.

Clearly, the ALRC's condition for allowing repayment history information on credit files will have been met by mid-2009. Credit providers will be regulated by a new national licensing regime that, Senator Sherry says, "will require licensees to observe a number of general conduct requirements including responsible lending practices."

We urge PM&C to recognize, rather than attempt to duplicate, this new responsible lending obligation on credit providers. This will avoid regulatory overlap and complexity.

More comprehensive credit reporting will assist credit providers to meet their obligation to lend responsibly and preferably should be implemented at the same time as phase one of the national consumer credit reforms.

Credit unions and mutual building societies have a long tradition of responsible lending and are making a specific, binding commitment to lend responsibly in the new Mutual Banking Code of Practice. The new Code's commencement date is 1 July 2009.

The relevant provision says:

"We will always act as responsible lenders. We will base our lending decisions, including decisions to extend existing credit facilities, on a careful and prudent assessment of your financial position. We will periodically review our credit assessment procedures and criteria for the products we issue.

"We will generally only lend amounts to you that we believe, on the information available to us, you can reasonably afford to repay."

More comprehensive credit reporting will not only improve lending practices, it will be positive for competition in the lending market.

The House of Representatives Standing Committee on Economics supported more comprehensive credit reporting in its November 2008 report on competition in banking.²

The Committee noted Treasury's view that the current negative reporting model may 'represent a barrier to competition as they prevent new entrants and smaller existing lenders from obtaining comprehensive information on a prospective customer's ability to service a loan' and that only a 'customer's existing lender...has access to the borrower's repayment history'.

The Committee also noted that a positive credit reporting model may assist people who are on low incomes to obtain lower interest rate credit products.

The Committee concluded:

¹ *National Consumer Credit – Single, standard, national regulation of consumer credit for Australia.*

² *Competition in the banking and non-banking sectors. November 2008.*

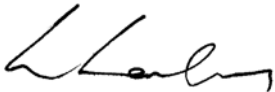
"The proposal for Australia to adopt a positive credit reporting model has advantages for both the business and the consumer.

"The committee supports the findings of the Australian Law Reform Commission's report and urges the government to implement the report's recommendations on reforming Australia's credit reporting system."

Abacus believes that the benefits of more comprehensive credit reporting should be introduced without delay.

Thank you again for the opportunity to comment. If you have any questions, please contact Sean Johnson, on 02 8299 9033 (sjohnson@abacus.org.au) or me on 02 6232 6666 (llawler@abacus.org.au).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'L Lawler', written in a cursive style.

LUKE LAWLER
Senior Adviser, Policy & Public Affairs