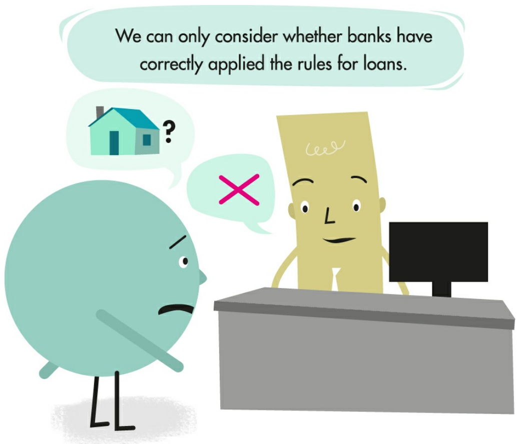
Concerns about lending decisions

We can look into whether banks correctly evaluate loan applications, but the outcome of applications is a commercial matter beyond our scope to investigate.



We receive complaints about banks both refusing to lend and allowing customers to borrow when the customers say they could never have afforded the repayments.

Lending decisions are usually a matter of commercial judgement for banks, something beyond our powers to investigate. We can, however, investigate administrative errors in the lending application process. This includes complaints about a refusal to lend and also what is sometimes termed "irresponsible lending".

How banks evaluate applications

In considering a lending application, a bank should take into account, among other things, the customer's income and whether it is secure, what other debt the customer has, and the customer's credit rating.

Banks rely on getting honest, accurate information. Usually, a customer is required to sign a declaration confirming the information he or she has given in support of an application is accurate. Banks should make further enquiries if the application is incomplete or something in it suggests the information is incorrect.

Banks must provide credit or increase a customer's credit limit only when the information they have available leads them to believe the customer will be able to meet the terms of the lending.

Banks must consider all relevant information available to them from throughout their various departments when making a lending decision. For example:

- it may not be enough for a bank to consider only credit card department information when other departments also hold information relevant to a loan application
- the fact a customer has previously met payments on a current credit facility may not in itself establish that the customer can repay a higher level of debt; a bank should check other information it holds on the customer.

Our approach to lending complaints

In order to conclude that a bank lent to a customer who lacked the means to meet loan repayments, we must be satisfied the bank knew, or should have known, the customer could not afford the loan repayments when he or she requested or drew down the loan. This applies to any type of lending, whether secured or unsecured, including mortgages, personal loans, business lending, credit cards and overdrafts.

In order to conclude that a bank acted incorrectly in refusing lending, we must be satisfied an administrative failure occurred in the bank's assessment of the application.

Factors we weigh up

When considering complaints about lending, we look at:

- what information the bank asked for and what information it received about the customer's ability to repay the loan

  whether the bank considered all information available to it

  whether the bank complied with its own policies and procedures on credit assessment
- whether anything should have prompted the bank to seek more information
- whether the bank waived a particular policy requirement, and if so, why.

Generally we are unlikely to find in favour of a customer who was subsequently unable to service a loan if the customer:

- actively sought the loan
- was not affected by any disability at the time
- met, or almost met, the bank's usual lending criteria, and the bank made appropriate enquiries.

We are also unlikely to find in favour of the customer if:

- the bank asked all the right questions, and they were appropriately worded
- the customer gave incomplete information about his or her financial position or gave inaccurate responses.

However, if you are experiencing hardship or financial difficulty, you can approach your bank and ask it to provide you with some assistance. The bank may be able to extend the term of your loan, adjust repayment amounts or give you a mortgage repayment holiday, that is, temporarily halt repayments. For more information, please refer to our **Hardship and financial difficulty quick guide.**

When we uphold lending complaints

Generally, we recommend a bank writes off some or all of the interest and charges associated with a loan if we find it has lent to someone who was unable to meet loan repayments and who benefitted from the loan (for example, by buying a property he or she wants to keep). This is because the customer should not have to bear the total cost of the borrowing.

In most cases, the customer will still be responsible for repaying the borrowed amount, and we will generally encourage the bank and customer to come to a repayment arrangement the customer can afford.

We may suggest a bank writes off a debt if there is no possibility of the customer making any repayments. In such cases, the bank may make an adverse credit listing against the customer to ensure all potential future lenders are aware the customer has previously defaulted on lending.

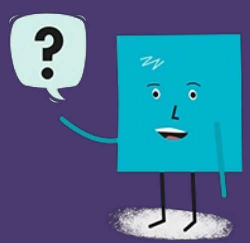
When we uphold refusal-to-lend complaints

We will ask a bank to reassess an application if we find that it made an administrative mistake in assessing a lending application (for example, by wrongly calculating an applicant's income). We cannot make a bank approve a lending application because that is a matter of commercial judgement for the bank, but we do expect banks to follow an appropriate administrative process in assessing applications.

Loan-to-value ratio restrictions

Banks may decline more low-deposit home loan applications as a result of the Reserve Bank's loan-to-value ratio restrictions. These require banks to restrict residential mortgage lending exceeding 80 per cent of a property's value to a maximum of 10 per cent of all new mortgage lending.

For more information, see the Quick Guide on Loan-to-value restrictions. See also the Quick Guide on Guarantees. This has information for those considering guaranteeing someone else's borrowing. The **Reserve Bank website** also has information about loan-to-value lending restrictions.



Provide complete and accurate information about your financial position when applying for lending.

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