

-
-
-
-
-
-

Dealing with debt

Lending perspectives & creditor responsibilities

Chris Gration

30 October 2008



□ | Credit stress is rising...



In September 2008

- 79% worried about meeting debt payments over the next 12 months (up from 75% in March)
- 44% owe less than they did 12 months ago (up from 41% in March)

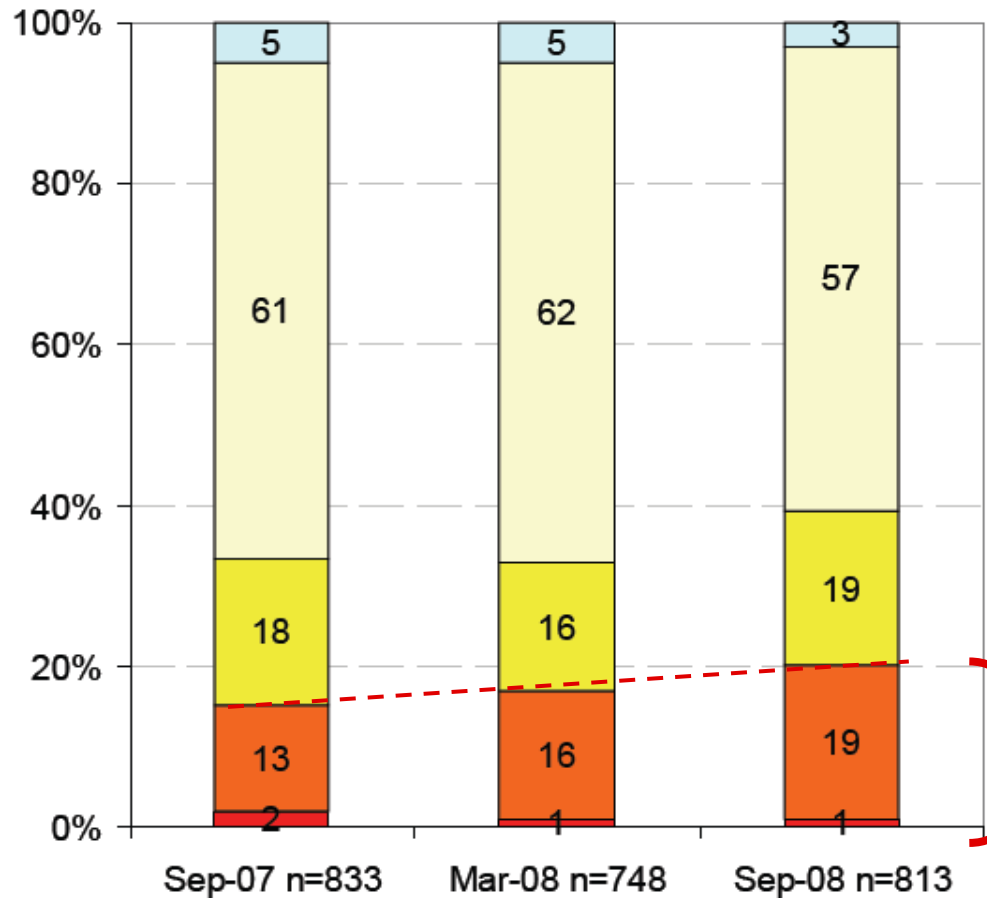
In March, 2008

- 2.9 million or 31% of Australians lived in households spending more than 30% of income on debt payments
- 1.8 million or 19% used more than 40% of household income
- 1.3 million or 14% used more than 50% of household income

Only 20% of those in difficulty had sought professional advice

Source Galaxy research for Veda Advantage, 2007 and 2008

□ | The number finding it difficult to meet payments is rising...



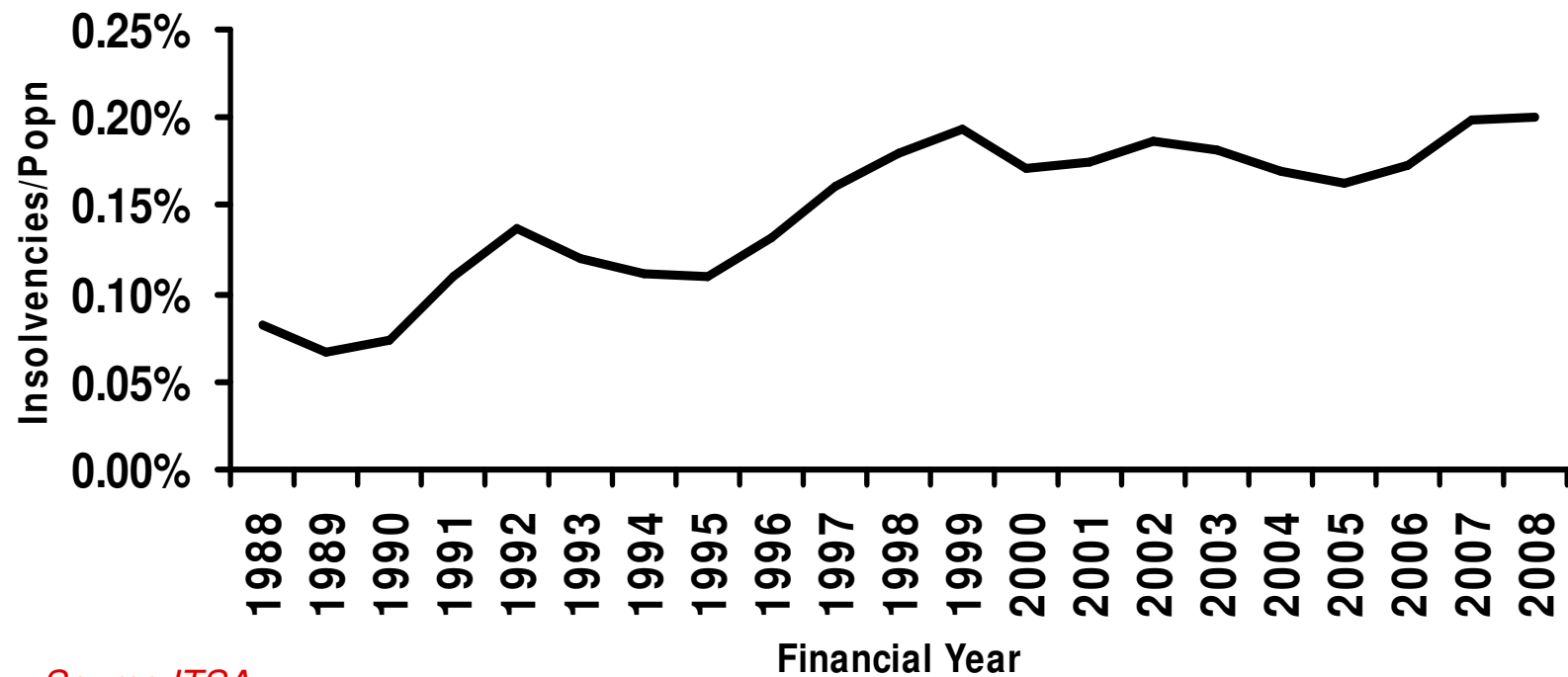
- 20% are finding it difficult but can cope or don't know how going to make next payment
- Much higher level of difficulty in low income group:
31% of <\$40,000

Source Galaxy research for Veda advantage 2007 and 2008

□ | The insolvency rate is at an all time high



Ratio of Insolvencies to Population 1988 - 2008



Source ITSA

□ | Credit demand is slowing rapidly



- For the most recent quarter (July – September 2008) compared to last year:
 - Personal loan applications fell **4.9%**
 - Credit card applications fell **2.2%**

- Yet of the 20% who are finding it difficult to meet repayments now:
 - 37% owe more credit than they did 12 months ago
 - 34% are likely to apply for additional credit in the next 12 months

Source Veda Advantage; Galaxy Research for Veda Advantage 2008

□ | The over-committed often seek more credit...



- **95% of bankrupts** admit seeking more credit after they knew they were over-committed
- **57% of bankrupts** have no default in prior 24 months
- **18% admit lying on** an application to get credit

Yet only the bad news counts. So how can lenders always lend responsibly?

Source Veda Advantage; Galaxy Research for Veda Advantage 2007

□ | The problem...poor information



Under the current credit reporting system only the bad news counts.

Personal Identifying Info

Inquiries (not
acceptances)

Defaults
Bankruptcies

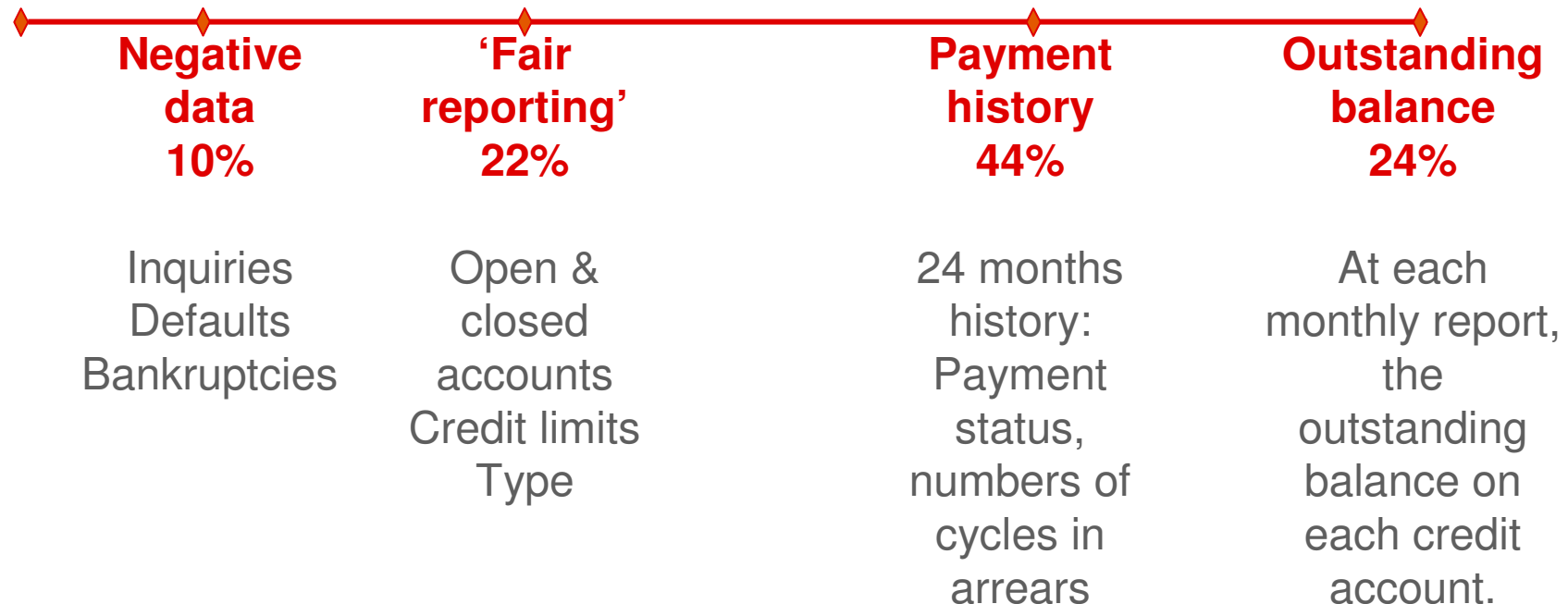
Personal Identifying Info

Inquiries
Accounts & credit limits
Payment history

Defaults
Bankruptcies

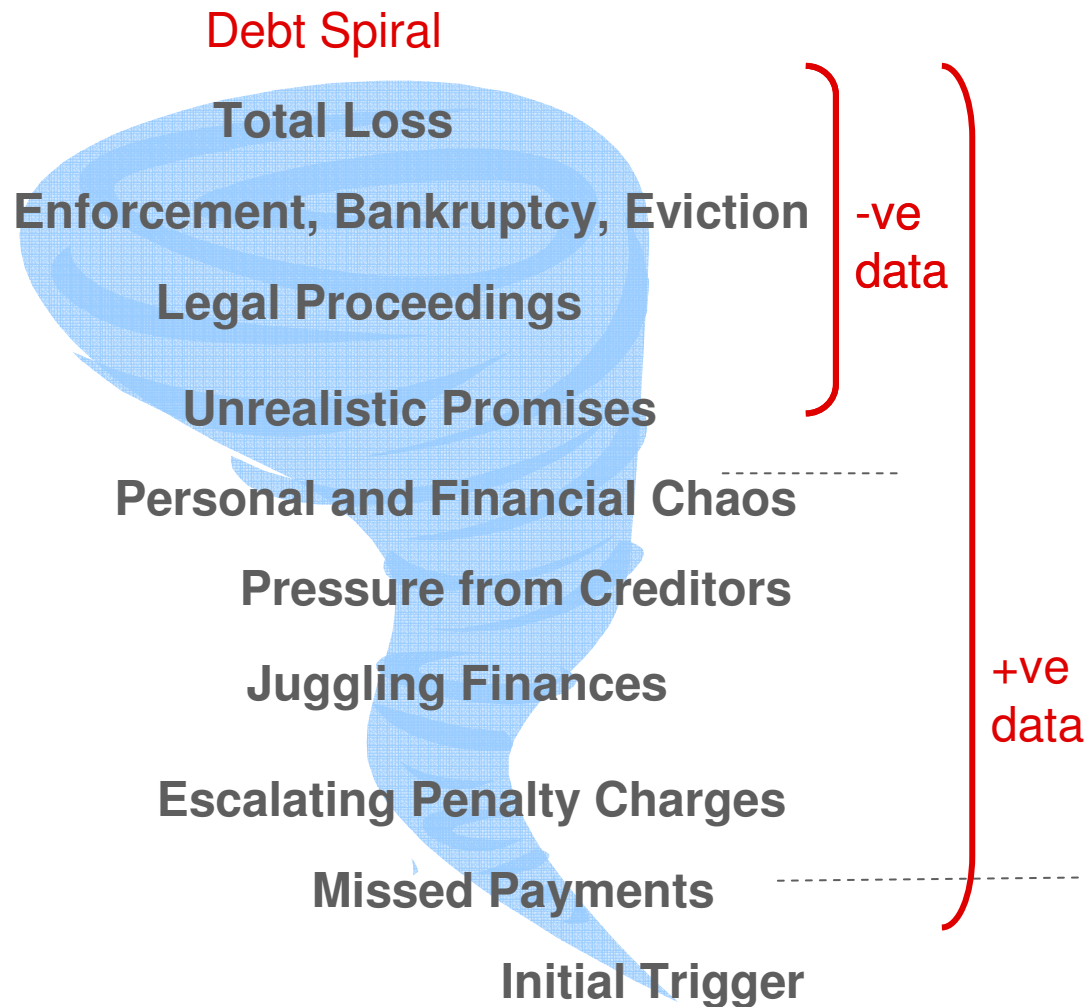
- In the last 5 years, Belgium, Greece, India, Brazil, Hong Kong, South Africa and Spain have adopted positive reporting.
- After 20 years, Australia is one of only 3 countries in OECD (France, New Zealand)

□ | Best information helps better decisions



Source ARCA Submission to ALRC Nov 2007

□ | Best information helps borrowers and lenders



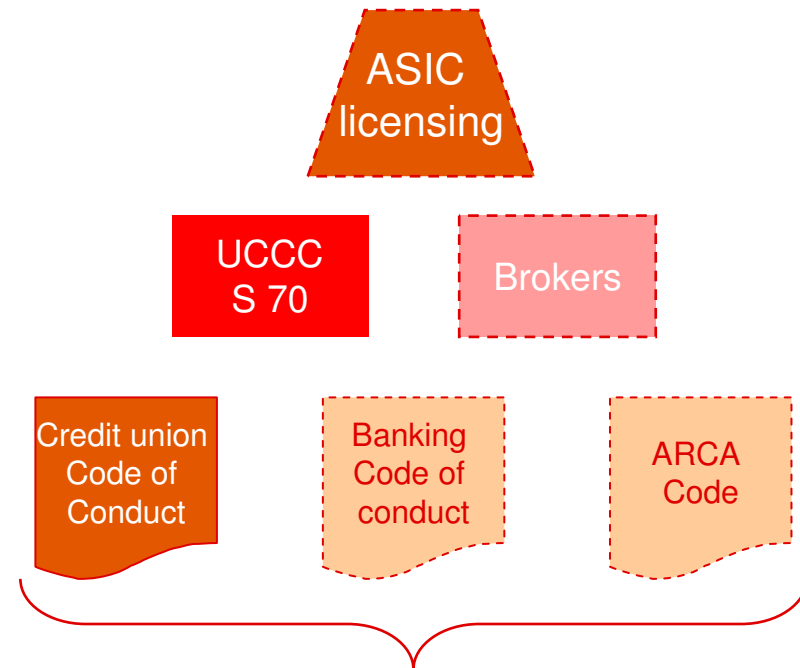
- Identify over-committed borrowers earlier
- Lend to those with a good credit history who have been unfairly denied credit (13%)

□ | Best information and responsible lending



COAG credit decision

- By June 2009
 - all credit licensed by ASIC
 - responsible lending obligation
 - EDR
- 2010
 - Review of marketing of credit



“Adequate framework imposing responsible lending obligations in Commonwealth, state & territory legislation”