

# Access Economics Report

## ***“The benefits of broadening access to credit via comprehensive reporting”***

### **Key findings:**

Access Economics found comprehensive reporting can:

- **Allow more people access to mainstream, better priced credit** for credit cards and personal loans, without increasing the default rate.
- **Decrease the rate of mortgage defaults.**
- **Increase the ability to accurately assess risk** when deciding on credit-worthiness.
- **Create more competitive interest rates** as lenders compete to attract people with sound credit profiles.
- **Enable more competition amongst financial institutions.** The success of a new player in a credit market rests on the ability to effectively assess risk. Comprehensive reporting better identifies high risk and low risk borrowers, creating a more level playing field.
- **Increase spending power of Australian households** by an estimated AU\$1.7billion in net present value.

### **Boosting the Economy**

Access Economics modelled the changes and found household buying power would be boosted by \$1.7 billion.

This follows from improved risk assessment leading to a reduction in lenders losses, a more competitive credit market with lower interest rates and consequent increase in household buying power.

### **Increased acceptances/lower default rates**

Access Economics examined a 2003 Barron and Staten study on credit cards and personal loans, comparing the result if 10 million United States credit files were to have had their application for credit assessed against Australia’s negative only regime.

It found comprehensive reporting can lead to:

- More people getting credit - without increasing the rate of default; or
- a decrease in the default rate – without decreasing the level of acceptances; or
- a combination of the above (the most likely outcome).

Access Economics state that any medium to long term increase in acceptance rates on credit cards/personal loans is moderated by a lack of pent-up demand in the Australian economy (5.1).

Access Economics found the people most likely to benefit from increased access are those low-risk individuals who are currently viewed as high-risk.

“...Overwhelmingly these tend to be low to middle income earners with limited track records with financial institutions...[and] new to bank customers, where often declined applications are often as much the result of poor information as the financial status of the applicant.” (5.1)

*Under comprehensive reporting, maintaining a target default rate increases acceptances:*

<b>Target default rate for all types of credit (%)</b>	<b>% of acceptance under comprehensive reporting</b>	<b>% of acceptances under negative only reporting</b>
3	74.8	39.8
5	88.9	84.6
7	93.5	95

**Source: Barron and Staten**

*Similarly, maintaining a target acceptance rate decreases defaults: (4.1):*

<b>Target approval rate for all types of credit</b>	<b>% rate of defaults under comprehensive reporting</b>	<b>% rate of defaults under negative only credit file system</b>
40	1.08	2.92
60	1.90	3.35
75	3.04	3.07

**Source: Barron and Staten**

## **High risk borrowers**

Numerous studies are cited by Access Economics showing comprehensive data can reduce the number of high risk borrowers mistaken for a low risk one.

Access Economics supports reducing financial stress is best addressed by increased financial literacy, responsible lending obligations for lenders and support for financial counselling.

On a cautionary note, Access Economics note any healthy, accessible financial system has to have a level of defaults and conclude by noting regardless of comprehensive reporting, households using credit are vulnerable to influences outside their control, like unemployment or extended sickness.(7.0)

## **More competition, lower interest rates**

Access Economics found comprehensive reporting will increase competition between financial institutions. Currently established lenders have a clear advantage in assessing the risk of existing customers:

“The acceptance rate for new customers is often nearly half the rate for existing customers and that around 50% of this difference can be attributed to the relative quality and quantity of information available.” (2.0)

Access Economics expects the increased acceptance of new customers will also increase competition, with overall interest rates declining and greater use of varying interest rates matched to individual's risk profiles.