

Key Issue Brief

Reporting Financial Hardship

Credit providers should be informed that a consumer is in financial hardship in order to meet responsible lending obligations.

In the proposed comprehensive credit reporting environment five new positive data sets will be included in a consumer's credit report.

The five new data sets are:

1. the type of each active credit account,
2. account open date,
3. account closure date,
4. account credit limit(s), and
5. credit repayment history.

The inclusion of repayment history will subject to conditions, including that the credit provider be subject to responsible lending conduct requirements which apply with the enactment of the National Consumer Credit Protection Act 2009 ("NCCP"). This national credit regime includes responsible lending obligations that require a credit provider to make reasonable enquiries about a consumer's financial situation and take reasonable steps to verify that situation.

Financial hardship is a term used to define consumers who are unable to meet their obligations under a lending contract because of illness, unemployment, or other reasonable causes.

- A consumer can make an application to a credit provider to change the terms of their contract to allow them to recover from their financial difficulties.
- The credit provider then agrees or disagrees to the change and advises the consumer of their amended contract terms.

ARCA believes that credit providers should be informed that a consumer is in financial hardship in order to meet their responsible lending obligations. Credit providers can not simply rely on a consumer disclosing this information, and therefore disclosure of financial hardship through comprehensive credit reporting provides the transparency needed to make a better, more

informed and fairer lending decision.

NCCP provides a clear definition of financial hardship which could be recorded through the introduction of comprehensive credit reporting. Credit could be flagged as being in financial hardship from the time an application is received from the consumer until either the credit provider has advised the consumer they do not agree to the change, or the terms of the arrangement ceases or is broken.

The proposed approach ensures effective protection of the consumer during a financial hardship arrangement. When credit providers are aware of the fact that a consumer is in financial difficulties, they can take appropriate action to ensure the unique circumstances of the consumer are taken into consideration for credit decisioning.

About ARCA

ARCA brings together the talent, energy and perspectives of its members and staff to bring about positive change.

Combining experience and insights, expertise and passion with industry collaboration, ARCA promotes the effective use of consumer analytics and data sharing to improve responsible lending practices and promote better lending decisions.

Access to responsible credit is a fundamental part of today's modern economy.