



Lead Ombudsman – Banking and Finance  
Australian Financial Complaints Authority  
GPO Box 3  
MELBOURNE VIC 3001

**Via email only:** [consultation@afca.org.au](mailto:consultation@afca.org.au)

### **AFCA's new draft Responsible Lending Approach**

Dear Ombudsman,

The Salvation Army appreciates the opportunity to provide input and insight into the Australian Financial Complaints Authority (AFCA) consultation on the draft Responsible Lending Approach (the Approach). Our comments have been informed by our experience as a major national provider of financial counselling services, and those of the community members we serve.

The Salvation Army's experience is that the AFCA responsible lending approach is an important element of the financial market. The Approach is well designed and has taken considerable care to clearly describe and explain the AFCA processes. The inclusion of examples is also helpful for maximising the usability of the Approach for community members.

The Salvation Army has chosen to respond to the below questions posed by the AFCA consultation paper.

#### [Comments about the proposed approach to assessing the reasonableness of inquiries and verification steps](#)

The Approach discusses that “[a] financial firm may need to make more detailed inquiries, undertake further verification steps ... where there are factors indicating there will be higher risk of consumer harm if the credit contract is unsuitable.” This falls short of what is necessary.

Verification ought to be a primary consideration of all lenders in ensuring loan suitability. It is critical that the community members' claimed expenditure information is checked against information shown in bank statements. This reasonable verification process should be considered part of the unsuitability assessment, as it speaks to the income, other loans, and expenses of the community member.

The Approach references financial abuse as an additional consideration which the lender ‘should be mindful of’. This is insufficient. The lender ought to be assured that the loan is entered into willingly and is not furthering a pattern of financial abuse, including coercive and controlling behaviours, as a matter of paramount consideration for all debt products.

### Comments about the proposed approach to considering the reasonableness of applying interest rate buffers to loans

The Salvation Army supports the consideration of interest rate buffers to loans. There may, however, prove to be unintended consequences, where these interest rate buffers act as an excessive obstacle to community members accessing reasonable lines of credit. It is our opinion that the protection these buffers will have outweighs these concerns, and that the credit market will not be negatively impacted by this cautious approach.

### Comments about the proposed assessment of a complainant's loss

The Approach considers loss and benefit aside from non-financial loss, which is addressed in "The AFCA Approach to non-financial loss claims". However there appears to be little consideration of the need for an active disincentive for lenders to provide 'unfair' loans. The principle of the Approach is not to punish, but a disincentive for unscrupulous actors could provide a lasting bulwark against unjust outcomes. This disincentive may take the form of a financial penalty, but some form of publicising the unjust lending practices of lenders should be considered.

### Other feedback

The Approach is silent on the issue of credit scores and credit listings. The Approach should clearly state that where possible the negative credit implications of a community member who has experienced unfair lending should be fully expunged.

The Salvation Army also hopes that a future Responsible Lending Approach will include provisions for responsible Buy-Now Pay-Later (BNPL) lending. We appreciate that the current draft Approach is not able to do so, but legislative reform to ensure that responsible lending applies to BNPL is necessary to protect community members from irresponsible lending in that sector.

The Salvation Army again thanks AFCA for the opportunity to provide input on the Approach, and looks forward to its finalisation and implementation. Further information can be sought from The Salvation Army's Department of Government Relations, at [government.relations@salvationarmy.org.au](mailto:government.relations@salvationarmy.org.au).

Yours sincerely,



Peter McGuigan, Major  
Head of Government Relations  
The Salvation Army Australia

**11 September 2023**

### \*Lily's Story

Lily\* is a 28-year-old woman, who recently left a 7-year relationship in which she experienced psychological, verbal, sexual and financial abuse, including manipulation, controlling and stalking behaviours.

During the relationship Lily's ex-partner obtained various loans in her name without her knowledge or consent. She discovered this as a result of accessing an email account unused for years. Lily continues to find new debts in her name. The debts currently total over \$50,000, in addition to previous debts totaling tens of thousands of dollars in her name.

These debts have severely affected Lily's credit rating and she is unable to purchase a car, which she needs for transport for her children and her medical appointments.

The Salvation Army has assisted Lily to contact all creditors and to provide the police with information. It is a slow process and Lily is still experiencing trauma.

*\*Name changed*