The AFCA Approach to financial difficulty: early release of superannuation

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We have created a series of AFCA Approach documents, such as this one, to help consumers and financial firms better understand how we reach decisions about key issues.

These documents explain the way we approach some common issues and complaint types that we see at AFCA. However, it is important to understand that each complaint that comes to us is unique, so this information is a guide only. No determination (decision) can be seen as a precedent for future cases, and no AFCA Approach document can cover everything you might want to know about key issues.
1 At a glance

1.1 Scope
This document sets out our approach regarding the early release of superannuation, when consumers are experiencing financial difficulty. The approach has been adopted from one of AFCA’s predecessor schemes, the Financial Ombudsman Service.

AFCA sometimes receives complaints in which consumers experiencing financial difficulty seek early release of their superannuation. This document relates to a bank or lender’s obligations when considering a request to support an early release of superannuation.

A consumer may ask their financial firm to support the release of superannuation by providing a letter for the Australian Taxation Office (ATO) that meets certain criteria (see below).

When deciding whether to support the release, a financial firm should:

- treat it as a request for financial difficulty assistance
- consider the request consistent with its financial difficulty obligations and hardship assessment processes.

This may identify options to help a consumer in financial difficulty, one of which may be for the financial firm to provide a letter for the ATO.

1.2 Summary
Early superannuation release to repay arrears on a loan should be considered only as a last resort. Even though the consumer may have requested a release, there will generally be other ways of better assisting them. Financial firms should ensure that they fully explore all options for assistance with the consumer.

Financial firms are best placed to make an appropriate decision and meet their obligations if the request is considered by a dedicated hardship team or staff properly trained in the financial firm’s hardship processes and code obligations.

In most cases that we have reviewed, we have found that it was not appropriate for the financial firm to support a release because better alternatives were available, or it was unlikely that a release would help the consumer overcome their difficulty. In almost all instances where a financial firm declined to support a release, we found that decision was appropriate.
2 In detail

2.1 Grounds for early release of superannuation

There are limited circumstances in which a person may apply for their superannuation to be released early to help meet their loan obligations. These are:

- severe financial hardship
- compassionate grounds of mortgage assistance.

Severe financial hardship

A person who has received an eligible government support payment continuously for 26 weeks may be entitled to an early release of superannuation on the grounds of severe financial hardship. On this basis, a person may access up to $10,000 once a year. To do so, they must apply directly to their superannuation fund. The payment can be used for any purpose and the financial firm’s support is not required.

Compassionate grounds – mortgage arrears

A person can apply for early release of superannuation on specific compassionate grounds. One of these is payment of mortgage arrears to prevent foreclosure or the forced sale of the person’s home. This process is administered by the ATO.

A person applying to the ATO for payment of mortgage arrears will need to provide a letter from their bank or lender stating:

- a payment of an amount is overdue, and
- if the overdue amount is not paid by the due date, the mortgagee will foreclose or force the sale of the person’s home.

The letter from the mortgagee must be no more than 30 days old, and must also include the following information:

- the amount equal to three months’ repayments for the loan
- the amount equal to 12 months’ interest on the outstanding loan balance.

The maximum amount that can be requested for mortgage release in each 12-month period is the sum of three months of repayments and 12 months’ interest on the outstanding loan balance. The amount released will only be the amount necessary to stop foreclosure or forced sale.

Any early release of superannuation will be treated as a normal superannuation lump sum payment for tax purposes, which means there will often be tax implications for the person.
2.2 What AFCA expects of financial firms

We expect financial firms to genuinely consider requests for financial difficulty assistance. Even where a person is asking only that the financial firm support the request for early release of superannuation, the financial firm must be willing to consider alternatives. This is because supporting an early release is an option of last resort – in many cases more appropriate options may be available if the parties work together.

To meet its financial difficulty obligations, we expect a financial firm to:

- take appropriate steps to understand the consumer’s financial position, and how their position may change in the future
- consider the consumer’s request as well as any reasonable alternatives that may help them
- decide what assistance it will provide to help the consumer (this decision should be reasonable and based on legitimate considerations)
- communicate its decision to the consumer and provide reasons if it declines the consumer’s request.

A financial firm following the above guidance should consistently meet its obligations.

2.3 Factors for financial firms to consider

When considering whether to support a consumer’s request for early release of superannuation:

- Financial firms cannot insist that a consumer apply for early release of superannuation to repay outstanding arrears.
- Financial firms should explore alternative options with the consumer.
- If it is apparent that the consumer can afford ongoing repayments but cannot clear the arrears on a loan, it may be more appropriate for the financial firm to capitalise the arrears. This will resolve the arrears on the loan as well as preserve the person’s superannuation balance.
- Where it is uncertain whether a consumer may be able to meet their loan obligations, it may be more appropriate for financial firms to offer a serviceability test or a reasonable repayment moratorium to allow time for the person’s situation to improve.
- If it is clear that the consumer cannot meet their long-term obligations, supporting a superannuation release is unlikely to be appropriate. This is because the release will merely delay inevitable default. The consumer is still likely to lose their home, and will also have lost part of their superannuation. In these cases, financial firms should consider alternatives such as offering time to sell the security property.
- Where superannuation releases have been tried in the past and have not helped to relieve the consumer’s financial difficulty, financial firms should exercise greater diligence before supporting further applications for early release.
It is never certain that a consumer’s application to the ATO will be successful. This means that even when a financial firm decides to support an early release of superannuation, it needs to consider what assistance it can provide if the consumer’s application is unsuccessful. This might include offering time to sell the security property.

2.4 Where a financial firm does not meet its obligations

Where we consider that a financial firm has not met its obligations, the usual remedies apply for a failure to meet financial difficulty obligations under the AFCA Rules. This may include compensation for non-financial loss. The consumer may also have suffered financial loss for which we would award compensation.

If a financial firm has supported an early release of superannuation that we considered inappropriate, we will generally not require the financial firm to refund the superannuation amounts received, or reimburse any tax paid by the consumer as a result of the withdrawal of those funds. This is because, in most cases, the consumer will have obtained the benefit of the funds and will have saved interest and fees on the loan.

3 Context

3.1 Case studies

The case studies below are based on determinations by AFCA’s predecessor scheme, the Financial Ombudsman Service (FOS). While previous determinations by its predecessor scheme is not binding precedents, where relevant they will inform AFCA’s approach to an issue.

Financial firm inappropriately consents to superannuation release.

An applicant had been experiencing difficulty meeting repayments on his home loans. He initially obtained two superannuation releases, with the support of the financial firm. At this stage, it was not clear that the applicant’s difficulties were long term.

The financial firm subsequently consented to three further superannuation releases. The applicant had by then become bankrupt, and the contact notes showed the financial firm had concluded he could not afford the loans. The financial firm declined to offer any repayment arrangements for this reason.

FOS found that it was inappropriate for the financial firm to support the last three releases because:

- superannuation releases had been tried in the past and had not succeeded in improving the applicant’s position.
The financial firm did not perform proper hardship assessments, and failed to consider whether superannuation releases would help the applicant overcome his financial difficulty.

Even though the financial firm concluded that the applicant could not afford the loans, it agreed to support the superannuation releases. This was likely to lead to the applicant losing his superannuation as well as his home.

When the applicant became bankrupt, his interest in his home formed part of his bankrupt estate and vested in his trustee in bankruptcy. Any surplus funds on the eventual sale of the property will flow to the trustee for distribution to the creditors. This means that the applicant’s creditors, and not the applicant, will ultimately obtain the benefit of the superannuation releases.

Under normal circumstances, superannuation is protected from creditors in bankruptcy. While it could be argued that the superannuation releases will benefit the applicant because they will reduce his liability to his creditors, this is not comparable to the benefit he would have obtained from keeping the funds in his superannuation account, where they would accrue earnings and be protected from his creditors. As a result, the financial firm’s conduct in this case caused the applicant to suffer a financial loss.

FOS decided that the financial firm should restore the applicant to the position he would have been in had the bank not breached its financial difficulty obligations and inappropriately consented to the releases.

FOS directed the financial firm to reverse the final three superannuation releases by transferring the money it received back to the applicant’s superannuation account. FOS also awarded the applicant $3,000 as compensation for non-financial loss.

**Case study: financial firm declined to support release**

An applicant had been experiencing hardship as a result of a workplace accident that left her with a spinal injury. She was also suffering from chronic pain and severe and prolonged depression.

Although she had received a compensation payout relating to the accident, that money had depleted over a two-year period and she was unable to meet her home loan repayments with the financial firm.

The applicant requested that the financial firm support her request for an early release of superannuation, in the hope of saving her home. The financial firm declined the request because it appeared the applicant’s difficulties were long term. It said that supporting the release would only be delaying the inevitable sale of her home.

The financial firm instead offered to allow the applicant four months to sell her home without taking further action, and a further period for any contract to settle. The financial firm noted that the applicant had a reasonable amount of equity in her
property, and if she were to sell, she would likely be able to afford to buy a smaller home.

In this case, we found that the financial firm had met its financial difficulty obligations and that its decision to decline to support the release was appropriate. This is because:

- The financial firm took steps to understand the applicant’s financial position and how it may change.
- The information and material the applicant provided to the financial firm showed that she could not afford the loan and her circumstances were unlikely to improve. If the release was approved, it would not prevent the applicant from eventually losing her home, and she would also have lost part of her superannuation.
- There were no other reasonable options for assisting. For example, extending the term of the loan would not have reduced repayments to an amount that the applicant could afford. In these circumstances, the financial firm’s offer to allow the applicant time to sell the property herself was an appropriate response to her request for assistance.

**Case study: Financial firm should support the release**

The applicants asked the financial firm to support their request for an early release of their superannuation. The financial firm performed a hardship assessment, and declined the request because the available information showed that the applicants could not afford the loan. The financial firm had concerns that supporting the release would just delay inevitable default.

The applicants lodged a dispute with FOS requesting that we direct the financial firm to consent to the release. The applicants were a young and well qualified couple who, although unemployed, reasonably expected to return to work.

In this case, we directed the financial firm to consent to the release. This is because:

- the applicants would have many years to rebuild their superannuation
- the amount required was a modest portion of their superannuation
- although they needed time to find work, they were very employable
- they understood the risks
- they reasonably believed that they would be able to resume their normal repayments in three months
- because there was uncertainty about their future financial position, the release would allow the applicants breathing space and increase the likelihood that they would be able to meet their long-term obligations
- the financial firm had previously provided extensive assistance, and we considered it appropriate for the financial firm to support a release to give the applicants a final chance.
Although we formed a different view to what the financial firm had initially decided and directed the financial firm to support the release, we still considered that the financial firm had met its financial difficulty obligations. This is because the financial firm followed an appropriate hardship process, and made a reasonable decision based on the information it had available at the time.

### 3.2 References

#### Definitions

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<th>Definition</th>
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<tr>
<td>ATO</td>
<td>Australian Taxation Office</td>
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<td>Complaint</td>
<td>A complaint lodged at AFCA by a complainant about the actions of their financial firm</td>
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<tr>
<td>Financial firm</td>
<td>A bank or credit provider who is a member of AFCA</td>
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#### Useful links

This document is one of a series we have produced about financial difficulty. We have also created documents which cover:

- how AFCA approaches financial difficulty, taking into consideration legal principles, industry codes and good industry practice
- dealing with common issues
- our power to vary credit contracts
- working together to find solutions.

All five documents can be found on the AFCA website¹.

#### Useful documents

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