

# Case study

## Disclosure on both sides is important

A single-parent needed to borrow funds for several expenses and Christmas gifts. Unfortunately, the normal avenues of lending were not available to her and so she approached a more flexible non-bank lender. The borrower completed a loan application which included questions about income, current debts and expenses. After conducting checks, the lender agreed to grant a \$5,000 loan.

Over the next few months the borrower regularly paid the monthly repayments and both parties were happy with the arrangements. After 4 months the borrower decided she needed another \$5,000 loan and approached the same lender. She was again asked to complete an application form, which she did.

This time there was additional income declared from a new job that was not listed on the original application. The lender was presented with bank statements which showed the new income source. After undertaking an analysis of all the information provided, the lender granted a further \$5,000 loan. This was added to the existing loan so that the monthly payments did not increase.

All was well for a few months, but then the borrower fell behind with the payments and the lender started to demand repayment. Through a budget adviser, the borrower raised a complaint with the lender. Unfortunately, the complaint was unable to be resolved and was referred to Financial Dispute Resolution Service.

We obtained all the information from the borrower and met with her and her budget advisers. A budget was provided which indicated that the loan should not have been granted as there was insufficient income to service the loan.

The lender declined to resolve the case and asserted it had followed correct procedures in the lending process. It was decided the matter was best dealt with by way of formal adjudication and in this case, a hearing was undertaken with all parties present.

At the hearing two very important things happened. Firstly, the lender produced documents that had not been previously provided to FDRS which showed a far more rigorous process had been undertaken than had been previously presented. This supported the lender's process as being compliant and in line with the responsible lending code.

Secondly, the borrower admitted to the adjudicator that she had lied to the lender about her employment status. The full-time work disclosed in the second application was in fact only a part-time role that concluded after a few weeks (and only covered the period in the provided bank statements).

In this case the adjudicator found in favour of the lender.

