

## Accountants to decline 'capacity to repay' requests

by [Annie Kane](#) • 5 Jul 2022

The leaders of CPA Australia, the Institute of Public Accountants (IPA), and the Chartered Accountants Australia and New Zealand (CA ANZ) are advising their 240,000 members not to complete requests for 'capacity to repay' certificates - citing concerns that some lenders may be relying on these certificates for serviceability purposes.

The issue largely focuses on requests for accountants' letters - a document prepared by an accountant attesting to an individual's or business' financial situation - that include a capacity to repay certification or other similar declarations.

This can reportedly place the liability of the lending decision on the accountant, rather than the lending institution.

While still only impacting a small proportion of loans, these are currently most commonly used by non-bank lenders offering low-doc loans to SMEs. As such, brokers will sometimes request these certifications from accountants in loan applications.

CPA Australia's general manager media and content Dr Jane Rennie stated "Accountants can only make a call about someone's ability to repay based on the information they receive. If that information is incomplete or faulty, their assessment may be off, but that shouldn't mean they're on the hook."

While ASIC had issued alerts to accountants reminding them of their legal obligation to ensure there was a reasonable basis for providing the certification in 2018 (particularly when being used for loans covered by responsible lending obligations), the use of these statements in lending has reportedly risen.

"Accountants could be in breach of the National Consumer Credit Protection Act by signing a 'capacity to repay' certificate unless they hold an Australia credit licence. This could put them at risk of legal action," she said.

Ms Rennie added: "Irrespective of whether it's a bank, broker, landlord or real estate agent who needs it, we're advising our members to decline requests to provide accountants letters."

Instead, the accountancy associations are recommending that accountants look to limit their declarations to those regarding their client's historical financial circumstances based on information they have personally audited or reviewed.

### **Lenders and broker associations advised of change**

Given the increase in requests for these types of statements, the accountancy associations recently wrote to lenders and broker associations to reiterate their view on the matter.

“Open Banking coupled with the Responsible lending obligations will mean accessing data to verify a prospective borrowers ability to afford a loan will change in the near future and will not require letters from accountants”, according to Harry Pontikis from Chocolate Money. Harry also stated that it's imperative to use an experienced finance brokerage firm that ensures that all parties to a loan are protected and operate well within the bounds of legal obligations; this includes the borrower, the lender, the accountant and the broker; in all cases, all transactions should involve a win-win outcome.