

GET INTO FINANCIAL SHAPE

The first phase of Open Banking has been implemented without much fanfare, discussion or debate on the 1st of July 2019. The main banks have subscribed to sharing their clients' transactional data with each other once their clients consent. The next phase is February 2020, when all mortgage accounts will be shared amongst the banks as well. The full phase of the rollout will take a few years but it will provide an unprecedented opportunity for banks to 'cherry-pick' the exact type of clients they want and to identify the ones they deem too risky, not transparent or unprofitable.

The impact of Open Banking can be highlighted by comparing two customers who walk into a bank and they may both be on identical incomes, live in the same suburb and have the same number of children.

An example could be, Customer A who has been saving regularly and paying off the credit card in full each month, may be able to get a \$15k personal loan at 5.99% but customer B will be stuck with 21.99% as a result of being overdrawn on his limit, making cash advances on credit cards and betting on online sports gambling.

Mortgage accounts will become available for sharing in February 2020, in addition to transaction accounts. This provides even more insight for banks to see what type of client you are, how you prioritise paying back loans on time and if you have a casual attitude to paying your repayments on time every time.

So, as a consumer, you have got time to clean up your act to and establish a 'recent history' of being the type of customers banks would want and hopefully allow to access cheaper rates and more favourable lending conditions.

The more information banks can access in regards to their prospective clients, the more they can tailor the type of product and pricing they may want to offer to these clients to leave their existing bank. This in-depth spending analysis will also better equip banks to predict a clients' propensity to default on payments and their ability to repay loans without being caused substantial hardship.

Spending Habits

It's now time to be conscious of your spending habits if you are considering a mortgage in the future. The impact of your spending habits will extend to the rates you will be eligible for as well as whether the banks actually want you as their client. Making repayments on time, not gambling or spending exorbitantly on luxury items you may not be able to afford as a percentage of your income, will impact your ability to borrow money in the future. Developing a responsible spending history will allow banks to accept you as a good prospective client and eligible for better products, lower fees and interest rates.

The aim of Open Banking is to extend the negative reporting regime used in Australia to a more balanced positive and negative one. The previous negative information was available to lenders to consider whether you would be a good or poor credit risk. Their decisions were based on any black marks on your credit history, such as defaults, arrears, court judgements or bankruptcies. Comprehensive credit reporting gave lenders access to 24 months of customer repayments history on credit cards and utility bills.

Lenders will be better able to monitor perceived problem areas like cash advances on credit cards which are indicators of financial stress and gambling activity.

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Credit Card Use

Having a credit card can help to improve customers' borrowing profile as long as they pay it off in full each month. Being financially responsible with credit cards is one of the best things a customer can do.

Lenders have traditionally used risk predictors such as postcodes to assess customers' borrowing capacity. This is likely to change under open banking where decisions can be based specifically on the individuals' spending habits and situation rather than people who generally fit a certain profile. This will obviously benefit some people and disadvantage others.

Easier to refinance

Open Banking should make it quicker and easier for customers to refinance home loans. This will allow clients banks value to continuously chase better deals and delays to the refinancing process will be significantly reduced. Clients who have easy to read tax returns with fixed incomes and expenses will be easily assessed via open banking. Clients who are self-employed, have commissions, bonus' or less straight forward financial situations will still be better served applying for their mortgages via experienced and independent finance brokers like Chocolate Money.

Customers who can demonstrate consistent and solid savings will also be able to improve their chances of refinancing or obtaining a home loan, as well as by cancelling unused credit cards and reducing credit card limits.

Even though Open Banking is not implemented in its entirety yet, brokers can help you analyse your spending habits and give you feedback as to better preparing for open banking's full implementation. Red Flag spending items are Pay Day lenders, gambling, taking cash out at casino venues, TABs or other gambling institutions or taking cash out without clear explanations as to their use.

Open Banking is clearly a double-edged sword creating premium clients for banks and labelling non-premium clients for all lenders to be able to identify those perceived to be bigger risks. Therefore, charging those under financial stress even more fees and charges than those with plenty of money.

Impact of Brokers

Open Banking will force banks and lenders to better differentiate themselves so as to attract the type of clients they want to lend to. Therefore, matching borrowers' situation perfectly with lenders' requirements will become essential for borrowers. Independent and experienced finance brokers who have an expertise in an industry and have insight into lenders' policies will become invaluable members of business' finance teams as well as to borrowers who want to access the best finance deals, they are eligible to.

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