MEDIA RELEASE

Virgin Money slams big banks for irresponsible lending

13 July 2007 – Enough is enough! It's time that the big banks took responsibility for encouraging Australia's bad debt problem.

Virgin Money CEO David Wakeley believes that lenders – especially the big banks – have to take responsibility to ensure they aren't chasing and making money out of people's bad debt. This includes people getting approved for higher loan balances than they can afford, unrealistic valuations and dangerous loan amounts.

"Customers trust that lenders are doing the right thing for them and managing their risk and there are lenders out there making a mockery of it!" Mr Wakeley said.

Buying a property is a huge decision and if people overextend themselves – because their bank has approved them for a mortgage they can't repay, it can affect their lives forever. And it's all just the big banks in their blinkered search for profit.

"We think it's an outrage that the big banks are approving people for higher loan balances than they are realistically able to repay. As a result this is getting people into serious debt.

They are only interested in signing people up and it could get them into serious debt. It's the duty of the lender to be responsible," he added.

A huge area for concern is around high loan to value ratio (LVR) loans (eg. 105% or higher). "We have researched high LVR loans with our customers and we found that there's a lot of nervousness. We believe that there are very few people that can afford high LVR loans and that there needs to be a very strict process for approval," Mr Wakeley said.

Virgin Money also believe it's incredibly dangerous to say that spending 30% of gross income to cover a loan is a realistic way to measure 'mortgage stress' levels. Simply put, it's an inaccurate measure that doesn't take into consideration a person's situation, whether they are single or have a family, any other costs, potential interest rate rises. Virgin Money looks at each person's circumstances when they apply for a loan to ensure that they will be able to make their repayments – even if interest rates go up.

"People also need to be really careful about valuations and that the value of their property is not being inflated as this is where they are likely to get into trouble. We encourage our customers to arrange the appropriate building and pest inspections on their property as a rule. We work in conjunction with our mortgage insurers on our valuations and we take the conservative view when we value properties," Mr Wakeley added.

At Virgin Money we live by our promise of being a responsible lender, we have strict lending criteria to ensure that what should be an exciting time in a person's life, stays that way.

Lenders need to take appropriate steps to ensure people don't overextend themselves by ensuring extremely solid credit criteria for approvals and stress testing customers servicing ability over a range of scenarios, such as changes in disposable income and increases in the market rate of interest.

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About Virgin Money: Virgin Money is the financial services arm of Sir Richard Branson's Virgin Group. We launched in Australia in May 2003 to do one thing – shake up the financial services industry. Today, we're well on our way to achieving that goal with award-winning products spanning credit cards, home loans and superannuation. Virgin Money products are simple, great value and transparent, and we're backed up by our world-famous Virgin customer service. There's no funny stuff, just money stuff. http://virginmoney.com.au