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LOW DOC LOANS: OVERHAUL NEEDED

Law firm Slater & Gordon has commended the corporate regulator for initiating legal action against a Canberra mortgage broker over low document loans.

The ASIC prosecution, involving two loans to a teenager who could not repay them, is the first of its kind in Australia.

Lawyer Ben Hardwick from Slater & Gordon says the area of low doc loans is a minefield.

"Low doc loans allow people who can't meet ordinary lending requirements to get finance, usually at a higher interest rate," Mr Hardwick said.

"Problems are inevitable.

"A current example is the Money for Living case in Melbourne, where a number of inadequately resourced borrowers were able to borrow millions of dollars to acquire retirees' properties.

"In most cases investors were able to borrow 80% of the value of the retirees' properties.

"As this type of loan proliferates in the market place, it is inevitable that the number of defaulting mortgagors and foreclosures by banks will increase."

Mr Hardwick says an industry overhaul is required.

"As well as the brokers, the lenders must also be examined and held accountable," he said.

"Lenders who obtain the business benefit of low doc loans will also have to accept the risks and fallout as the volume of defaulting borrowers increases."