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Australian Banks hit by hundreds of Chinese home loan frauds backed by fraudulent Chinese income documents, manufactured by dodgy mortgage brokers.

## AUSTRALIAN BANKS HIT BY HUNDREDS OF CHINESE HOME LOAN FRAUDS

ANZ Banking Group and Westpac Banking Corp have discovered they have each approved “hundreds” of home loans backed by fraudulent Chinese income documents, which were allegedly manufactured with the help of dodgy mortgage brokers.

“Westpac staff undertake verification for foreign income including obtaining pay slips and bank statements in both the relevant foreign language as well as getting those documents translated,” Westpac spokesman David Lording said in response to inquiries from The Australian Financial Review. “We have identified an issue with some loans that we are currently investigating.”



Date: May 9, 2016 06:00pm  
Published by: Australian Financial Review  
Reporter: Christopher Joye

ANZ spokesman Paul Edwards confirmed the bank had experienced problems “with the income documentation of a small percentage of borrowers who rely on foreign income”.

“Policy changes have been made to address this and we are also reviewing a number of brokers,” Mr Edwards said. The Financial Review understands that mortgage brokers associated with the spike in fraudulent Chinese income documents have been suspended by the banks pending further investigation.

ANZ and Westpac have also informed regulators and the police. Surprisingly, the repayment performance of the fraudulent borrowers is better than both banks’ average home loan, as is their equity or security coverage.

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“Our delinquency rate on foreign income loans is lower than the portfolio average, and a large proportion of these loans are ahead on repayments”, Mr Lording said. “Overseas borrowers are also well-secured with the [starting] loan-to-value ratios (LVRs) on these loans 70 per cent.”. A standard Australian borrower can get much higher LVRs up to 90 per cent or more. ANZ’s Mr Edwards said loans backed by fraudulent income documents were “performing better than the portfolio average”.

The Reserve Bank of Australia says the 90-day default rates on Australian home loans are among the lowest in the developed world and a fraction of comparable arrears rates on residential mortgages in the US, Britain and Europe despite Australia’s higher mortgage rates.

The AFR’s investigation suggests the total value of ANZ and Westpac loans afflicted by fraudulent income information is likely to be less than \$1 billion, or 0.12 per cent of their combined \$837 billion of residential mortgages. Fewer than 0.4 per cent of these loans are more than three months behind on repayments.

Other banks, however, are likely to have been caught in the Chinese income scam. “All our analysis to date indicates the issue is relatively small and there is no material credit risk issue involved,” Mr Edwards said. Mr Lording said Westpac had “no tolerance” for fraud. “When fraudulent activity is discovered we take action against those involved, including the broker, which normally results in termination,” he said.

Rumours of the spike in Chinese frauds have run rife across the banking and broking markets and may have contributed to recent decisions by several major banks to stop lending to foreigners. Another drawback of foreign borrowers is that they typically only have one product with the bank and are not attractive for cross-selling purposes.

Asked whether the Chinese frauds had influenced Westpac’s decision to withdraw from foreign lending, Mr Lording said “while foreign income verification is more operationally difficult, the primary driver of our decision was the changes in capital and funding requirements”.

Under the final Basel 3 global credit rules, banks lending to borrowers reliant on foreign income will be slugged with larger capital charges, which will reduce returns on these products. ANZ’s response to these regulatory changes has been to adjust product pricing.