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THE COMMITTEE SECRETARY
PARLIAMENTARY JOINT COMMITTEE ON CORPORATIONS AND FINANCIAL SERVICES

Dear Secretary,

My Company is a **Smiles Turner Delegation** supporter. This delegation will be presenting a major detailed submission to the **Joint Committee**, however I would like to emphasise my own concerns for the Micro Lending Industry.

I am the Director of a small Micro Lending Company, based in South Brisbane. I have invested over $700,000.00 into my business over the past 3 years and now face closure due to the provisions in the Bill, if passed.

The closure of my business would create obvious hardship for me and my family, as I would have to await the repayment of my loan book over 12 months while not being able to use those funds to generate other income. The closure of my business would also see 3 people become unemployed and over 600 consumers left without means of acquiring credit as readily as they did before the Legislation.

The provisions in the Bill, if left unchanged, will cause my Company to crease trading as of the day they come into effect.

In particular **Section 31A** and **32A**. My business cannot break even on these numbers. A loan of $1,000.00 over a period of 52 weeks at a rate of 48% on a reducing balance would provide me gross revenue of approx. **$258.00**.

Due to the nature of my business the banking sector seeks to charge us a premium on the funds they provide me. I currently have a Line of Credit with one of the major 4 banks in Australia. The bank has a first mortgage over my residential home where I live with my family. Because of the nature of my business the bank charges me over 10% on my Line of Credit. As I have invested my entire Credit Limit into my Loan Book my current interest charges per annum are over **$70,000.00**.

This interest charge represents a cost to my business of almost **$6,000.00 per month**. I am a small business and do not have the luxury of an unlimited client base, nor do I have unlimited funds to use for the purpose of providing credit. I can only manage to write about 50 loans per month, at an average loan amount of $1,000.00 for a period of 52 weeks. Under the constraints of a cap of 48% I could only hope to earn $12,900.00 gross income per month (as an average over the life of the loans).

The interest costs on my Line of Credit would be **46.50%** of my gross revenue. I still need to pay rent, wages, computer, stationery and advertising and of course bad debts and other expenses. To say profitability is unachievable is a massive understatement. This is why the introduction of these caps would see my business close down.

The assumption that local LILS and NILS schemes will be able to pick up any lending requirements that will exist after the Micro Lenders vacate the industry is unrealistic. These schemes will simply not cope under the weight of need that will exist within the demographic of which we deal with.

There is also the assumption that we, as Micro Lenders, employ aggressive sales and predatory lending practices. To this assumption I simply say this:

- 80% of our business comes from either repeat customers or word of mouth; and
- The funds I use are secured against the home that my family lives in. Providing credit to consumers who are in Hardship or who would be place in Hardship because of my actions is simply not true and would be a bad business practice and an unacceptable financial risk for any Company.

If the Bill intends to add protection for the ***Desperate and Vulnerable*** then there are other means by which this can be achieved.

Serviceability checks are one method I employ. I ensure the consumer can meet their living requirements and any debt servicing before considering them for credit.

In my capacity as Director of this Company for over 3 years and being associated with the Micro Lending Industry since 2004 I can state with confidence that consumers get into Debt Traps because of having multiple loans.

While we do our best to ascertain what other loans a consumer has, it would be greatly beneficial if Credit Providers had to register a loan to a consumer. That way other lenders, while performing a Credit Check, could see any other active loans a consumer has.

Although most consumers do the right thing and disclose their supporting documents in full, it is a minority that do not and this is when Debt Traps can occur. Of course Credit Providers are not perfect angels either. However the Responsible Lending laws have gone a long way to ensuring more Credit Providers are doing the right thing.

I hope that the information I have provided is of assistance to you when formulating your considerations regarding this Bill and I look only to the longevity and interests of the Micro Lending Industry and its consumers and do not wish to see these consumers driven underground when seeking to obtain credit if this Bill is passed in its current form.

Yours Sincerely

CARLO TUMINELLO
Director