Submission to the:

SENATE ECONOMICS COMMITTEE

With regards to the:

CONSUMER CREDIT AND CORPORATIONS LEGISLATION AMENDMENT (ENHANCEMENTS) BILL 2011

Dated:

14 October 2011

First Stop Money welcomes the opportunity to provide a submission to the Senate Economics Committee in relation to the Commonwealth Government's *Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011* amending the *National Consumer Credit Protection Act 2009 (NCCP Act)*.

First Stop Money was a strong supporter of the NCCP Act and in particular the introduction of responsible lending obligations, most of which were already standard best practice for First Stop Money.

First Stop Money believes it is unfortunate that the impact of the introduction of responsible lending obligations has not been given the time to make significant impact nor has any review of its impact been released.

With significant experience in consumer credit and micro lending both in Australia and overseas, First Stop Money hopes to be able to offer that experience to the Committee Members with examples of current practice and considerations not only of the proposed amendments but some other options.

Contents

Summary

The *Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011* (hereafter the Bill) is intended to provide greater protection to consumers, particularly those who may be considered vulnerable or disadvantaged.

First Stop Money will be directly affected by Schedules 1, 3 and 4 of the Bill and has consequently considered these without reference to other sections.

First Stop Money by and large supports the enhanced transparency and improved areas of consumer care introduced by the Bill although some clarification is required.

Indeed, First Stop Money already follows many of the proposals, including but not limited to:

- The use of high impact statements
- Flexibility with the consumer in the event of financial hardship
- Debt spiral control

Fundamentally, First Stop Money agrees with the need to protect vulnerable consumers but, as stated by all parties, including the Minister and Consumer Protection Groups, a *viable* industry is required.

Schedules 3 and 4 of the Bill, however, pose threats to First Stop Money's business and that of most micro lenders with the introduction of unworkable restrictions of the Bill on the supply process for multiple loans and economically unviable restrictions on pricing.

Three Areas of Concern

First Stop Money has a number of concerns for the consumer and the credit providers over the restrictions on multiple loans, believing a number of unintended consequences will arise, including:

- Consumer exclusion from credit at times of greatest need
- Businesses only offering longer term loan products which would otherwise be unsuitable
- A decrease in competition in a market which is already under competitive

First Stop Money – while believing a rate cap is not the way forward – is realistic enough to understand that some form of cap will be introduced by the Bill. It believes a tiered approach is the best mechanism suggested although not at the quantum put forward by the Bill. First Stop Money proposes minor structural changes to the tiered structure in Table 4. These changes include:

- Inclusion of a third tier to allow market competition for people earning above the Henderson Poverty Line i.e. those who are not financially vulnerable
- A reasonable fee structure to allow businesses to operate at a commercially acceptable profit

First Stop Money and its directors have a duty of fiduciary care to investors, staff and consumers and therefore urges the committee strongly to take heed of the proposals in their entirety and comments hereafter. Schedules 3 & 4 of the Bill will jeopardise First Stop Money's future, leading not only to consumers excluded from credit but also significant financial losses for investors and unemployment for staff.

Throughout this submission, First Stop Money will refer to the Explanatory Notes accompanying the Bill for greater clarification and understanding of the intent of the Bill, not just its wording.

About Us

First Stop Money Ltd is an online short term lender, Australian Credit Licence holder 390999.

Founded in 2009, First Stop Money now services in excess of 2,500 employed consumers each month.

Collectively, the management team has over 60 years experience in financial services, particularly consumer credit including not only Australia but also the USA, UK and New Zealand.

First Stop Money is a board member of the NFSF, a member of the FAA and a supporter of the Smiles Turner delegation.

Due to the complexity of the variable State rate capping alternatives, First Stop Money operates a number of brands to meet each State's requirements. Regardless of the brand, First Stop Money provides high impact statements about the cost of credit on the home page of all websites.

First Stop Money believes transparency is essential in customer care and includes all fees whether or not ascertainable clearly across all websites.

First Stop Money consumers are:

- Employed
- Taking home a minimum of $1,000 per month net of tax and other deductions at source
- Only repay a maximum instalment of 30% of their disposable income per pay period (net income minus all fixed outgoings and existing debts including any other short term lenders)
- Limited to a maximum repayment of 200% of principal lent including any default fees and charges
- Able to change their mind and return the loan principal within 48 hours of borrowing without charge

In the last 12 months, First Stop Money has undertaken in excess of 300,000 transactions regarding consumer loans.

Out of these, just 2 have been referred to COSL, both of which have been referred back to First Stop Money. 1 is already settled and the other is pending conclusion.

Detailed Responses

Schedule 1, Part 1
Details: Protection of Debtor in Cases of Hardship
Section 72 of the National Credit Code is amended to allow a debtor to provide notice of his or her self -considered inability to meet the obligations. A credit provider then must give a response within 21 days as to whether or not they agree to negotiate a change to the credit contract
First Stop Money's Thoughts:
Current practice at First Stop Money is to refer a customer stating hardship to the Collections Manager for a basic oral assessment to discover what the customer feels they are able to pay. If this is reasonable then this is accepted with no requirement for evidentiary proof from the customer. If not, further investigation will be required with a pause on payments for up to 21 days for the customer to provide proof of current income situation, bank statements and other useful documentation to assess the customer's situation. It is not First Stop Money's policy to refuse to negotiate as it is in no one's interest to enter into an impasse.
Summary:
First Stop Money wholeheartedly supports this enhancement, however believes the onus should be shared with the debtor to provide documentary evidence within 30 days of requesting hardship.
Recommendation:
Proceed as proposed with the additional requirement for debtors to provide documentary evidence of their financial situation to support their claim for hardship

Schedule 1, Part 2

Details: Remedies for Unfair or Dishonest Conduct by Credit Service Providers

Part 2 provides a framework for courts to determine and make orders to remedy unfair or dishonest conduct be credit service providers

First Stop Money's Thoughts:

First Stop Money agrees that such a framework should be in place. However, there are a number of consequences – both intentional and unintentional – which should be considered in greater detail.

Section 2.44 of the Explanatory Notes describes the purpose of this provision to consider:

"where a plaintiff either had, or considered themselves to have, no other choices they are at greater risk of entering into transactions that exploit this vulnerability"

Section 2.45 states that:

"A credit service provider may have contributed to this belief [that the customer has no other alternatives] *by, for example, representing that they can arrange credit or a consumer lease irrespective of the circumstances of the consumer, in order to attract potential clients who would then be prepared to accept whatever terms are offered, irrespective of the cost"*

This has potential risks for businesses that are prepared, for example, to accept customers with blemishes on their credit history as their current circumstances are not those which resulted in previous financial difficulties.

It is virtually impossible and commercially insensible to advertise all the different underwriting requirements prior to the point of sale **but** by removing the explanation that a "bad" credit history is not an impairment to credit, consumers with such histories may risk further exclusion simply by believing themselves to be so impaired.

Summary:

- There needs to be clarification as to what is considered a *"representation that they can arrange credit"* as the unintended consequence is for consumers to believe themselves to be credit impaired when certain circumstances are not clearly identified as being not unsuitable to an individual lender

Recommendation:

Remove the potential for courts to consider that promotion of basic eligibility tests could be unfair or dishonest conduct

Schedule 1, Part 3

Details: Representations about eligibility to enter credit contracts, consumer leases etc. without assessing suitability

Section 2.57 of the Explanatory Notes explains that:

"Sections 125 and 128 of the NCCP Act are amended so that a credit provider is prohibited from representing to the consumer that they are eligible to enter into a credit contract… unless the credit provider has made an assessment that the contract… will be suitable in accordance with the requirements of section 129".

2.58 of the Explanatory Notes states that:

"The effect of these amendments is to prohibit credit providers from making representations to consumers that they are eligible to enter into a contract, or have their credit limit increased irrespective of, for example, their personal circumstances or credit history".

First Stop Money's Thoughts:

There are a number of issues here:

1. Providing simple "eligibility" requirements, for example a consumer must be over 18, Australian resident and earning an income in excess of $1,000 per month could be construed as making a representation that all such consumers are eligible whether or not disclaimers are added. Consumers are best served when given some idea of the likelihood of success so that they do not waste their time on applications which are bound for failure based on the underwriting and credit policies of an individual business

   Indeed, this is likely to see an increase in applications which has two unintended consequences:

   a. Business costs will be increased running credit checks and assessments on consumers who would not meet even the most basic of criteria. These costs would need to be passed on or make business more economically unviable
   b. A consumer may apply multiple times to multiple lenders whilst not realising, for example, that their age (17) excludes them for credit. Such enquiries may show on credit agency reports, hindering the consumer's ability to qualify for credit in the future, particularly in the absence of positive credit reporting

2. Due to the lack of positive credit reporting, credit history is not always a good indicator of the customer's current circumstances. Indeed, a customer may have a blemish free credit history and be beginning to struggle which will not show on a credit report and not necessarily be evident on bank statements or investigation based on documents provided by the consumer. Conversely, a consumer may have had genuine issues in the past but have resolved them and be a good credit risk now.

   With this in mind and the lack of useful real time information, many companies may choose not to do a credit reference check as it is unrepresentative of the consumer's current position. This is particularly likely if an oppressive cap is imposed which will see lenders cutting costs wherever possible. With this in mind, it is not unreasonable to represent to consumers that their credit history is irrelevant to any lending decision.

3. First Stop Money's business model provides for an initial offer of credit based on the information provided by the customer in the application form meeting a number of criteria and affordability checks. This is then followed up by a review of various proofs of income and expenditure including all other debts. The offer then may be reduced or rescinded if the information provided by the customer in the application from is not supported by the investigation and evidentiary support.

   Some clarification is required as to whether or not this initial offer of credit would be considered a *"representation without assessing unsuitability".*

   It is First Stop Money's opinion that this is an initial assessment based purely on the information provided by the customer with offers being subject to verification of that information.

Summary:

Unintended consequences will lead to customers who do not meet the basic criteria for a credit provider to apply without regard to their chance of success. This will increase costs to the credit provider and potentially increase the number of credit reference checks which may well impair future access to credit for the consumer which could have been prevented by simple representations of eligibility

Recommendation:

Either provide hard and fast rules as to what representations should be prohibited or remove and leave as per the status quo

Schedule 1, Parts 4 – 7

First Stop Money has no comment

Schedule 3 – SMALL AMOUNT CREDIT CONTRACTS
Details: Subsection 5 (1)
Defines a *"small amount credit contract"* as being one where: *a) The contract is not a continuing credit contract; and* *b) The credit provider under the contract is not an ADI; and* *c) The debtor's obligations under the contract are not secured by a mortgage; and* *d) The credit limit of the contract is $2,000 (or such other amount as is prescribed by the regulations) or less; and* *e) The term of the contract is 2 years (or such other number of years as is prescribed by the regulations) or less; and* *f) The contract meets any other requirements prescribed by the regulations.*
First Stop Money's Thoughts:
The only issue here is the lack of parity between an ADI and other credit providers. Why should ADIs be allowed to offer the same products but without the same prescriptions?
Summary:
The ADI discrepancy is unfair and unreasonable in competitive credit markets
Recommendation:
Remove part b of the definition

Schedule 3 – SMALL AMOUNT CREDIT CONTRACTS
Details: Part 3-2C – Licensees that are credit providers under credit contracts: additional rules relating to small amount credit contracts
133CB – Credit Providers must not enter, or offer to enter into, a small amount credit contract if the licensee knows, or is reckless as to whether, the consumer is a debtor under another small amount credit contract
First Stop Money's Thoughts:

4.32 of the Explanatory Notes states that:

"A licensee will be prohibited from entering into, or offering to enter into, a small amount credit contract if the licensee knows or is reckless as to whether the consumer is already a party to a small amount credit contract":

1. By providing such a restriction, consumers are excluded from accessing credit, **irrespective** of their personal circumstances. This directly conflicts with the Bill's purpose and the responsible lending requirements of the existing NCCP Act that decisions should be based upon the consumer's personal circumstances.

   A consumer who is more than capable of affording the repayments on two or three small amount credit contracts is therefore prevented from accessing credit which may help them out of short term financial distress thereby snowballing into long term hardship.

   An unintended consequence here is that people will simply request and borrow as much as they can to ensure that there is less risk in case they do require another small amount credit contract. The analogy for this is the consumer who orders two drinks at the bar for themselves at "last orders" just in case they don't get back for the second before the bar stops serving.

   This provision takes a very narrow view and stereotypes all users of short term credit as those already experiencing financial hardship. As responsible lenders many of these people would not be eligible for such credit anyway.

4.33 of the Explanatory Notes states that:

"The licensee will have a defence where they reasonably believe that the consumer is not a debtor under a small amount credit contract":

2. The burden on the lender to establish the consumer's current outstanding small amount credit situation is, in the face of non-existent positive credit reporting, impossible and relies purely on the honesty of the consumer. Unfortunately, Veda, Australia's leading credit reference agency, states in research that *"1 in 10 Australians have misrepresented their financial status when applying for credit"*.

   For example:

   a. A consumer applies to Lender A for a small amount credit contract. His bank statement shows a payment to Lender B. Lender A then rejects the customer without further investigation to avoid the risk of multiple contracts. That payment however was the final payment to Lender B and the consumer is excluded from credit, despite having no outstanding small amount credit contracts

b. A consumer applies to Lender C for a small amount credit contract. His bank statement shows a payment to Lender B. Lender C asks the customer if he has further instalments payable to Lender B and he confirms then that he does. Lender C is then required to assess his application as unsuitable based on the multiple contract prohibition

c. Having been rejected by Lender C, the consumer applies to Lender D. Lender D asks the same question but, having been rejected by Lender C for that reason, the consumer advises that there are no further payments due. It is not possible for Lender D to verify that information and therefore a further loan is issued without taking into account the other payments. This makes the credit unaffordable and puts some distress on the consumer. Here, Lender D is justified in having made reasonable enquiry yet the protection has not worked for the consumer.

3. The only way to prevent this is for multiple contracts to be viable but for lenders to take into account payments to other lenders when assessing affordability. If repayment of a loan is affordable (a) without creating undue distress AND (b) purely from the consumer's income, exclusive of other credit facilities; then it is reasonable that a lender may feel justified in completing reasonable enquiry and believing the product to be suitable for the consumer.

4. There is a lack of parity here between small amount credit contracts and other credit contracts. Having multiple long term contracts has as much, if not more, potential to see consumers entering into a debt spiral with more severe consequences.

Summary:

This provision has a number of unintended consequences for the consumer, including credit exclusion; the risk of overindebtedness as a result of an inability by the credit provider to investigate the status of the consumer's indebtedness to other small amount credit contract through impartial and objective means; and restricted market competition

Recommendation:

Remove this section and allow Responsible Lending Obligations to base potential borrowings on suitability and affordability

Schedule 3 – SMALL AMOUNT CREDIT CONTRACTS
Details: Part 3-2C – Licensees that are credit providers under credit contracts: additional rules relating to small amount credit contracts
133CC – Credit Providers must not refinance credit provided under a small amount credit contract
First Stop Money's Thoughts:
4.34 of the Explanatory Notes states that: *"A licensee will be prohibited from entering into, or offering to enter into, a small amount credit contract if some or all of the credit provided under the contract would refinance some or all of the credit provided to the consumer under another small amount credit contract".* The aim of this is to prevent "rollovers" – an area which is perceived to be a cause of potential debt traps. Complete prohibition will: • Restrict consumer access to credit • Put additional stress on consumers when payments are due that they may have trouble meeting • Due to the embarrassment many consumers feel in pleading hardship, the ability to rollover can provide them with additional time to resolve their issue without having to "self-exclude" by claiming hardship whereby a responsible lender will not lend to them again • Create additional costs to the consumer using unauthorised overdrafts • Increase the likelihood of default and impact on the consumer's credit record • Increase the likelihood of consumers "borrowing from Peter to pay Paul" and deliberately misleading lenders to open up a new credit account • Reduce the opportunity to a consumer to "shop around" Research from the UK quoted by John Lamidey, the CEO of the UK's Consumer Finance Association on Lateline on the 6th of October showed that while UK consumers "rolled over" (refinanced their short term loans) twice a year, they also go into unauthorised overdrafts six times a year or incur default fees on credit cards 4.3 times a year – both significantly more expensive than covering those shortfalls with a small amount, short term loan. First Stop Money currently limits the number of rollovers a customer may request to 3. A consumer may not rollover without having paid at least 50% of the original repayments. Any further requests lead to the consumer being provided with a repayment plan.
Summary
Complete prohibition will have a huge negative impact on the consumer and reduce their options when borrowing. Restrictions should be imposed which allow some consumer flexibility.
Recommendation
Do not prohibit but restrict to a maximum of 3 times for any loan and only allow after 50% of the original repayments have been made.

Schedule 3 – SMALL AMOUNT CREDIT CONTRACTS
Details: Part 3-2C – Licensees that are credit providers under credit contracts: additional rules relating to small amount credit contracts
133CC – Credit Providers must not increase the credit limit of small amount credit contracts
First Stop Money's Thoughts:
As considered above, prohibiting credit limit increases will impact the consumer as consumers, aware that there will be future restrictions on borrowing, are likely to request more than they require at any one particular time so as to have money left in an emergency and lenders are, according to affordability and other investigation, likely to provide this. In all likelihood, most borrowers will use up the total amount borrowed within a very short period, potentially on unnecessary purchases, leaving them without cash or options when an emergency does occur. Larger loans create greater indebtedness, have greater potential for issues due to the longer term of the loan and the inability to reborrow in the event of an emergency will create additional hardship for the consumer. Similar to the restrictions for Small Amount Credit Contracts not applying to ADIs, in this case there is a lack of parity between this product type and continuing credit contracts which is unfair and unjust.
Summary
Complete prohibition will have a huge negative impact on the consumer and reduce their options in the event of future emergencies. It may lead to greater indebtedness and the unintentional offering of unsuitable loans due to the customer providing different reasons to borrow higher amounts rather than those actually required at the time.
Recommendation
Remove and retain status quo

Schedule 4 – Caps on Costs etc. for credit contracts

Details: 31A Restriction on fees and charges for small amount credit contracts

- *"A small amount credit contract must not impose or provide for fees and charges if the fees and charges are not of the following kind:*

  a) A fee or charge (a ***permitted establishment fee****) that reflects the credit provider's reasonable costs of determining the application for credit and the initial administrative costs of providing the credit under the contract;*
  b) A fee or charge (a ***permitted monthly fee****) that is payable on a monthly basis starting on the day the contract is entered into ;*
  c) A fee or charge that is payable in the event of a default in payment under the contract;
  d) A government fee, charge or duty payable in relation to the contract

Maximum amount of permitted establishment fee

- *The amount of a permitted establishment fee that may be imposed or provided for under a small amount credit contract must not exceed 10% of the adjusted credit amount in relation to the contract.*

Maximum amount of permitted monthly fee

- *The amount of a permitted monthly fee that may be imposed or provided for under a small amount credit contract must not exceed 2% of the adjusted credit amount in relation to the contract*

First Stop Money's Thoughts:

Section 1 (a) specifies that the establishment fee *"reflects the credit provider's reasonable costs of determining the application from credit and the initial administrative costs of providing the credit under the contract".*

Section 2 specifies that the *"amount of a permitted establishment fee… must not exceed 10%of the adjusted credit amount in relation to the contract".*

First Stop Money does not understand how 10% of the adjusted credit amount can reflect the reasonable cost of determining the application for credit and the initial administrative cost of providing the credit and would welcome the opportunity to see how the Government reached these figures and covered all true costs.

The cost for First Stop Money to assess and administer a loan is approximately $81.00.

First Stop Money's average loan amount is $320.00.

A 10% establishment fee would then be $32.00, $49.00 less than the costs.
First Stop Money's costs are consistent with the figures provided by both Cash Converters and the NAB Small Loans Pilot (section 11.120 of the Explanatory Notes)

The following table demonstrates how the proposed cap would affect lenders over a variety of loan and repayment terms:

Table 1 – Actual Costs compared with Proposed Revenue

Loan Amount	Loan Term	Establishment Fee	Monthly Fees	Cost to First Stop Money	Lender P/L
$200	3 weeks	$20.00	$4.00	$81.00	-$57.00
$300	3 weeks	$30.00	$6.00	$81.00	-$45.00
$500	3 weeks	$50.00	$10.00	$81.00	-$21.00
$1,000	6 months	$100.00	$120.00	$81.00	$39.00
$1,500	6 months	$150.00	$180.00	$81.00	$99.00

This clearly shows that is economically unviable to provide loans less than $1,000 and for less than 6 months with this charging structure.

What this will mean is a limitation in the range of loan values available to consumers with lenders only offering larger amounts over longer terms. Lenders will be less likely to take the same risks over longer terms, therefore excluding consumers from access to credit.

Under responsible lending obligations, this may not meet the actual needs of the consumer who require smaller amounts and wish to repay them quicker to stop debt hanging over them.

These costs are based on the following information:

- Assessment cost based on staff cost of $35.00 per hour and an average of half an hour per assessment
- A blended marketing cost per loan of $33 per loan
- 4 Veda credit checks to achieve one loan (based on a 25% success rate)
- A cost of capital of 20%
- Cost of EFT disbursement at $1.10 per payment
- Cost of DD collection at $1.10 per EFT (averaging 4 per loan)

They do not include any default losses.

The total of standard fees does not contribute to debt spirals with responsible lending. All this will do is provide larger amounts of longer term debt, more likely to cause economic stress on the consumer.

Summary:

The quantum of this cap is unfeasible and will cause many businesses to close, leading not only to unemployment and greater strain on the welfare system but also, more appropriately in context, excluding consumers from this form of credit. With these restrictions on fees, First Stop Money's business will be unviable.

Recommendation:

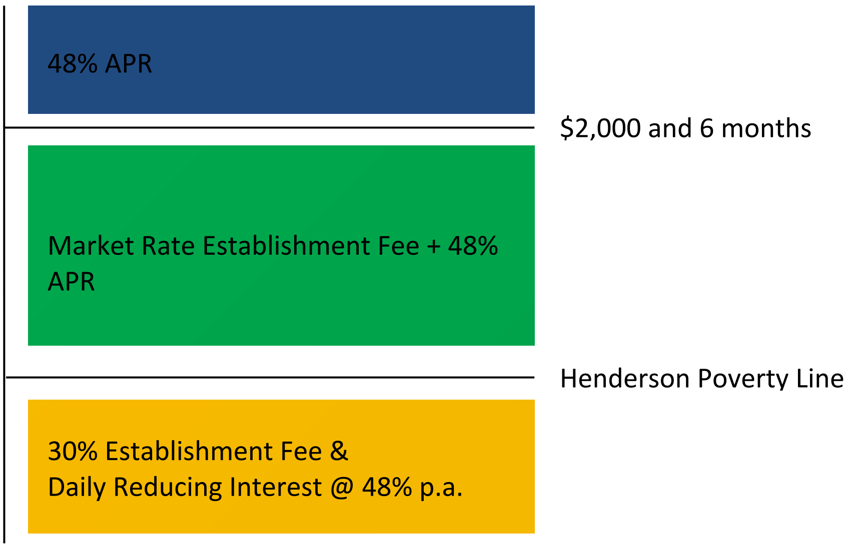
First Stop Money acknowledges that having no cap is politically unrealistic.

Of the Options offered in the Explanatory Notes, First Stop Money supports Option 1.3 – the implementation of a tiered rate.

The tiered rate, with the tiers and quantum of charges proposed in economically unviable for most lenders including First Stop Money.

First Stop Money recommends a tiered structure as follows:

- Loans to consumers whose annual income is on or below the Henderson Poverty Line to be capped at an establishment fee of 30% (based on the findings of the NAB's Small Loans Pilot) and industry costs and daily reducing interest of 48% per annum
- Consumers whose income is over the Henderson Poverty Line but whose loan amount is less than or equal to $2000 and whose loan term is less than or equal to 2 years to be subject to market driven establishment fees and 48% APR
- Loans greater than $2000 and/or longer than 2 years subject to 48% APR

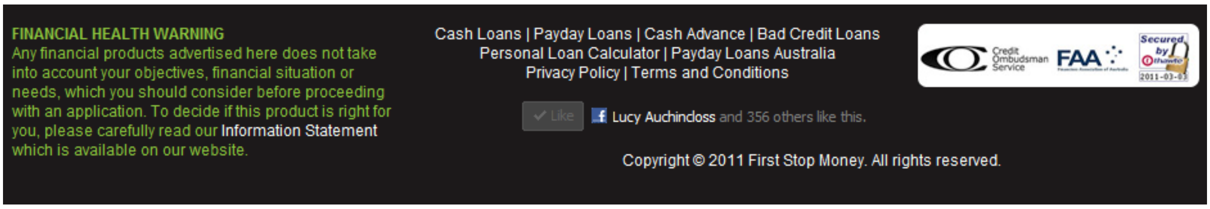


These proposals:

- Limit the costs to financially vulnerable consumers while allowing credit providers to cover their realistic costs
- Define financially vulnerable consumers definitively so there is no room for error
- Allow market rate competition for consumers who are not financially vulnerable but use the micro lending sector
- Maintain a 48% APR for all other forms of credit.

Other Things to Note

First Stop Money has no issues with additional disclosure and high impact statements. In fact a review of any First Stop Money brand demonstrates that this is already in place. The following screenshot is from the CA$H2GO website's home page:



With reference to the availability of alternative low cost loans provided by Centrelink and the like, it is worth noting that not all consumers – and none of First Stop Money's customers - would be eligible for other schemes provided by Centrelink as their personal situation is not "desperate and vulnerable" but instead they have good incomes and a need for a short term top up.

Commencement Date

Schedule 4 is currently set for a schedule date of July 2013. There is no logical reason for such a delay should a capping regime be imposed.

In fact, it is likely to have a detrimental effect as lenders who decide they will not, for economic or other reasons, continue after the introduction of the new caps, may well decide to profiteer, maximising income and profits while still in business to the considerable detriment of the consumer.

First Stop Money suggests that a viable cap, based on the model suggested in this submission, be implemented alongside the other enhancements in July 2012. Companies who are able to switch to such a business model prior to that date should be allowed to without censure from the current State regimes.

Table 2 – Summary of Recommendations

Area for Consideration	Recommendation
Protection of Debtor in Cases of Hardship	Proceed as per the recommendations of the Bill with the additional requirement for debtors to provide documentary evidence of their financial situation to support their claim for hardship
Remedies for Unfair or Dishonest Conduct by Credit Service Providers	Remove the potential for courts to consider that promotion of basic eligibility could be unfair or dishonest conduct
Representations about eligibility to enter contracts… without assessing suitability	Either provider hard and fast rules as to what representation should be prohibited or remove and leave as the status quo
Definition of a small amount credit contract	Remove exclusion of ADIs
Prohibition of multiple small amount credit providers	Remove and retain status quo
Prohibition on refinancing small amount credit contracts	Do not prohibit but restrict to a maximum of 3 times for any loan and only allow after 50% of the original repayments have been made
Prohibition on increasing credit limits	Remove and retain status quo
Restriction on fees and charges for small amount credit contracts	Add new tier; define vulnerable based upon the Henderson Poverty Line; and use economically viable fee levels: 1. Tier one – loans greater than $2,000 and over a duration greater than 2 years – 48% APR cap 2. Tier two – loans less than or equal to $2,000 and over 2 years or less to consumers earning more than the Henderson Poverty Line – market pricing 3. Tier three – loans to consumers earning less than or equal to the Henderson Poverty Line – maximum establishment fee of 30% and daily reducing interest capped at 48% per annum
Other Suggestions	
Introduce mandatory cancellation period	Consumer able to advise credit provider within 24 hours of borrowing and return principal only within 48 hours at no charge
Implementation Date	Allow companies who are able to respond quickly to a viable cap to do so immediately without censure from the States' capping regimes

Conclusion

First Stop Money is well positioned to comment upon the proposed enhancements set out in the Bill based on the experience both in Australia and globally of its management team.

Prohibitions on multiple loans and refinancing are onerous and impossible for credit providers to satisfy with 100% accuracy. They reduce responsible lending by restricting access to credit and increasing emphasis on trust in the consumer's word over documentary evidence.

With the inevitability of there being a national rate cap, a tiered approach is the best option. However, the proposed fee structure of a 10% Establishment Fee and a 2% Monthly Fee is unworkable and economically unviable.

Imposing a viable rate cap of 30% Establishment Fee and a 4% Monthly Fee for vulnerable consumers under the Henderson Poverty Line and allowing market forces to drive price based competition for all other consumers will allow access to small amount, short term credit; protect the financially vulnerable; and increase competition in the market place.

It is First Stop Money's considered opinion that there will be no micro-lending industry should the proposals be maintained in their current format in the Bill. Implementing First Stop Money's proposals as a package will maintain viability and protect consumers. The proposals are there to work together and may not be as effective taken separately.

One final thought: First Stop Money is unaware of any action taken by ASIC with regards to systemic failures under the responsible lending obligations and therefore contend that the introduction of this Bill has either not given ASIC the opportunity to police the responsible lending obligations sufficiently to provide feedback of their flaws; or that ASIC has had no concerns with the responsible lending obligations as they are working without the need for further regulation.

First Stop Money thanks you for considering this submission and welcomes the opportunity for further comment.

For further information, please contact:

Name	**Position**	**Telephone**	**Email**
Tim Dean	Chief Executive Officer	08 9322 6666	tim.dean@firststopmoney.com.au
Lucy Auchincloss	Commercial Director	08 9322 6666	lucy.auchincloss@firststopmoney.com.au