



Action Cash Franchise Pty Ltd
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13/10/2011

The Committee Secretary,

RE: Submission for the Parliamentary Joint Committee on Corporations and Financial Services.

I am writing this letter as a Smiles Turner Delegation supporter, and that the Delegation will be presenting a major detailed submission, which my Franchise Group Company supports, but I would like to emphasise particular concerns my company has:

(a) My Company Action Cash Franchise Pty Ltd has established over a 7 year period, a franchise group of nine "Dad and Mum" small business owners whom have borrowed against their homes in many instances to obtain working capital to fund their operations. These nine small business owners (some with 5 years experience) have been successfully trading without a customer complaint, to some three thousand clients a year, and now under the current amendments proposed by the Government, their very livelihood is threatened.

These small business owners have had to endure without complaint, numerous changes over the past 18 months to become licensed and to comply to the new NCCP Act 2009, that makes our industry one of the most regulated in the country, and to ensure the most vulnerable consumers in the Australian society are protected by responsible lending guidelines and high penalties for those who don't comply. Yet the Government now believes it hasn't gone far enough and intends to regulate the profit earnings of these individual small businesses, to the point where the business model proposed will not make it viable for my group of franchisees to continue in supplying the service that our clients expect and appreciate.

(b) The provisions in the Bill, if left unchanged, will cause my franchise group most grief: My small group of Franchisees consists of 20 senior adults (in partnership) and another 6 support staff (many other outsourced contributing service providers such as accountants, insurance brokers, training and compliance managers) whom all face the bleak outcome of losing their employment or business security because the industry could be made unviable for us, as it now proposed for future trading.

Section 124B: The prohibition of more than one contract with all lenders, at any one time: It is our responsibility under the current Act to ensure the loan is not unsuitable for the client or we suffer the consequences under the present threat of high penalties for breaches – we should be afforded the judgement ASIC has assessed us as possessing

in issuing us a credit licence as responsible managers, and capable of assessing when a client under current guidelines has sufficient income to service more than one loan, just the same as any Bank Management staffer does.

Section 124C: The prohibition on being able to give, or suggest an increase in the credit limit on an existing contract. **Again**, we are fully regulated, unlikely to be irresponsible under the conditions of our credit licence to avoid penalties and loss of licence – why issue a licence at all and set regulations and have licensees educate themselves by completing certificate 1V in Finance and Finance (Credit Management) if the opposite is deemed to be true?

Section 133CC: The prohibition on even one rollover, and no refinancing: Answer **same as above**.

Section 31A: Is my Franchise Group of companies able to break even on lending up to \$2,000, for up to 2 years, with a gross income of 10% of the approximate credit granted, plus 2% of that same credit amount per month, or part thereof, for the term of the loan: If my franchisees were to lend \$500 on a 6 months term for a return of \$110 in profit for their professional service, which will take a minimum of 4 hours of work over the term of each loan (Application forms need manual completion, credit checks and assessment time /costs of an application, entering data into control software and printing out numerous pages for the credit guide, disclosure and loan documents; sitting down with the client to disclose and sign the contracts, writing letters or communicating with clients in default of payments, entering or adjusting direct debiting payments, keeping the clients accounts and finalising end of term statements), for \$27.50 an hour, with 6 months to wait for the final profit return and with the many additional costs of doing business (over and above your Jim's Mowing franchisee earning \$50 an hour) - what other small business professional service provider with specialist qualifications, worth their salt, would expect less than \$80 to \$115 an hour.

Section 32A: The ability of our company to survive on an all-inclusive 48%, charged for all other contracts: **A contract of \$2000** (our maximum loan amount offered to keep the risk from default loans low) over 26 weeks will give a gross profit of 13% and over 39 weeks a gross profit of just 19%. The product we offer our clients is money, which in most cases is borrowed capital, the same as many other retailer use to run their business. I don't know of any profitable retailers outside of the massive turnovers of banks (with cheaper borrowings) or Supermarkets, who can make a sustainable small business living on less than a gross profit return of 25%.

(c) The capacity of your local LILS and NILS' schemes, to lend more than they are currently lending: nabs' latest \$34 million offering through their community banking scheme are only able to approve lending to 6% of total applicants. That is a lot of unsatisfied clients screaming for second chance finance if they have in the last 5 years, a small blemish on their credit file or are discriminated against because they don't have any assets or savings. Who will save these people – **We'll SAVE them!** (your short term credit lender)

(d) *The desperate and vulnerable:*

- We regard any person receiving less than \$260 a week as desperate and vulnerable. Our responsible lending experience and many loan assessments done for

Centrelink clients and low income earners; we have concluded that only under special circumstance such as a single person living at home with their parents, without motor vehicle expenses or the need to pay board, can support a loan over \$300, earning less than the above amount. Some of these people receiving less than the above income stated, will be a single person on unemployment benefits, New Start recipients, Aus Study students, some casual and part time employees who will be supplemented up to or below the above income, by Centrelink, depending on their age.

- *How many of our customers get in a debt trap?* Nil because our 90 day assessment for a potential loan, eliminate them as suitable loan customers, or if after receiving a loan from us they get into that situation through further borrowing from else where (which is less than 2%) they will no longer be a client of ours or should be a client of any other responsible lender whom assess them in the future.
- *Our franchise group has a minimum income/disposable income policy of \$260 a week and after assessing a clients' uncommitted income, only 2/3 of that uncommitted income can be used to service a loan.*
- *The proportion of our custom who successfully get involved in debt consolidation, would be less than 3%.*
- *Rollovers will end debt spirals because all licensed credit lenders need to make sure any rollover amount issued is suitable for the client or otherwise beware of the umpire (ASIC).*
- *The difficulty we find in making enquiries in regard to previous loans is because of the negative credit reporting regulations on Credit Agencies such as Veda Advantage, because if a client is desperate they will **not** always be truthful in declaring which loans they were successful in obtaining out of those shown in their credit history report or how much is still outstanding on any individual loan hidden.*
- *The proportion of consumers that lie is about 3%*
 - *We believe avoiding multiple small short term contracts will encourage low income earners to access alternative sources of credit, including illegal sources. It is far better for a responsible licensed credit lender to be assessing and controlling the number of loans issued and the finance limit of any loans a client receives, than forcing them into the hands of less scrupulous lenders.*

Yours sincerely,
Richard Moorman (Managing Director)
Action Cash Franchise Pty Ltd.
(Group of Franchisees).