Mr Chairman, Honourable Members of the Senate and House of Representatives,

I have spent the last year travelling almost monthly from home in Western Australia to meet with our trade federation, on whose board I sit, to meet industry delegations, and indeed Treasury, to participate and negotiate in good faith a revised structure for our industry to deliver widely agreed reforms . Until the recent bill was released I personally thought we had worked through to a framework that was broadly acceptable - a compromise that delivered a viable industry, a fact acknowledged by the Minister, The Hon Bill Shorten, and other stakeholders - only to be presented with draft legislation *so far* from the broad structure of the proposals being worked through that I frankly question whether we had all been just going through the motion, simply completing a process - but in truth with very little influence or voice .

So I would like to thank you for the chance to have our voice heard by this independent committee and hope we can articulate our concerns, highlight the consequences and lead to a balanced outcome for all parties, lenders, government, and, most critically, consumers.

First Stop Money has been an online only provider of small amount credit contracts since November 2009, servicing only consumers in regular employment.

First Stop Money operates in all states of Australia, excluding the ACT and recently New South Wales, as well as in New Zealand.

You have already heard all the philosophical arguments about why the industry should be further regulated or why it should not, I am merely going to say a little about us and what this Bill means to us.

The crux of the matter is this, under the proposed Bill, First Stop Money will most likely be out of business.

Despite the fact we don't even lend to people who rely entirely on Centrelink income; despite the fact we already have high impact statements on our website; and despite the fact we already cap the total repayment including default fees at the proposed 200% of principal, we will almost certainly be out of business.

If you look at the recommendations of the Bill, First Stop Money is proud to say we already handle hardship cases as the Bill requires; we have restricted refinancing unless over 50% of the principle has been repaid and we have for some time now provided a cooling off period for all loans.

We process over 10,000 applications each month yet we have had only 2 complaints to COSL, both of which have been referred back to us. One was settled immediately on a non fault basis, the other is pending a response from the customer.

Yet despite this, if this Bill goes ahead unchanged, First Stop Money, a company committed to best practice and responsible lending, will probably go out of business.

And for one simple reason – the proposed cap on fees is economically and commercially unviable.

Minister Shorten, in the Bill under consideration today ignores the Regulatory Impact Statement of his own department which stated: *"this data would suggest that approximately $20 to $30 per $100 is required to generate a reasonable return on providing loans up to a certain limit".*

Indeed, as Senator Cormann found out at the Senate Economic Committee's meeting on the 19th of October, the proposed cap was not based upon economic modelling.

Well, we can give you some economic modelling.

Our average loan size is $320 over 27 days.

For us, underwriting a loan requires an outlay of $81 based on:

- A minimum half hour per assessment by an employee
- On average 3 unsuccessful Veda checks for each successful loan
- A cost per capital of 20% payable to our investors
- Disbursement and Direct Debit Collection Costs
- Marketing costs

Under the proposed cap, our income would be just $38.40, a pre-default loss of $42.60.

Even though our default rate is only 5%; even at 0%, we'd be heading towards insolvency within months.

We tried loans in New South Wales at 48% APR, relying on contingent fees for rollovers, deferrals and same day payments for our income.

Even with these other sources of income, we lost $101 per loan after defaults and ceased the trial after 3 months.

And we do not even lend to the financially less advantaged, only to employed consumers with an average income of $47,500 per annum.

In addition, the prohibitions on consumers having multiple loans is procedurally unworkable while lenders do not have access to independent and mandated mechanisms of verification as to what other open small amount credit contracts a consumer may have and rely simply on their word.

If someone can have two or three long term personal loans, why can't they have two or three small amount short term loans *if they can afford it?*

First Stop Money proposes that the prohibition on multiple, simultaneous loans should be removed from the Bill.

First Stop Money proposes that the financially vulnerable are defined by the legislation, for example as those with an income on or below the Henderson Poverty Line and that, yes, a reasonable rate cap *is* put in place for their protection but that market competition should be allowed to drive pricing for those who are above it and not financially vulnerable, where the criteria should be affordability and suitability as responsible lending obligations already require.

Thus we ask the committee to take our proposals seriously, to permit a viable industry and to use responsible lending, education and economically viable pricing controls.

Once again, we thank you for the opportunity to have our voice heard and hope that we will prove helpful in creating a workable solution that allows the continuing existence of a necessary and viable industry , benefits and protects all parties involved.