MONEY3

MONEY3 Corporation Limited Unit 4, 60-70 Mahonys Road, Thomastown, Victoria 3074 Tel 03 9469 8200

Committee Secretary
Parliamentary Joint Committee on Corporations and Financial Services
PO Box 6100
Parliament House
Canberra ACT 2600

Sent via email: corporations.joint@aph.gov.au

13 October 2011

Dear Sir/Madam

Submission to the Inquiry into the Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011

I am pleased to submit Money3 Corporation Limited's response to the Inquiry into the Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011.

Money3 believes that this is an important time to achieve meaningful changes to this industry and welcomes this opportunity to present to the Parliamentary Joint Committee on Corporations and Financial Services our position on this proposed legislation.

Kathy Miller, a Money3 employee and former customer, and I will be pleased to brief the committee in person during the upcoming hearing in Canberra.

If you have any questions or queries regarding this document or our organisation, please do not hesitate to contact me directly for further information.

Yours Sincerely

Robert Bryant
Chief Executive Officer

About Money3

By way of background, Money3 is a publicly listed company on the ASX, operating a 24 branch network throughout Greater Melbourne, country Victoria, New South Wales, South Australia and Tasmania. We have a centralised secured loan centre in Melbourne and a web-based and branch lending business in Singapore. In 20010/11 financial year, Money3 had a revenue of $13.5 million and a net profit after tax of $2.45 million. We served over 25,000 customers. Money3 specialises in the provision of short term credit between $100 and $20,000 over periods up to 36 months, with a focus on fast approval.

Money3 is well regarded as a responsible and ethical player in an industry where, without doubt, there has been questionable behaviour from some less reputable organisations in the past. For this reason, we have been active in expressing our position independently. Money3 is committed to bringing about change that will allow transparency and viability for providers as well as encourage behavioural change in customers who cannot access traditional modes of credit.

We are all aware of the loss of opportunity and social exclusion that can come with not being able to access credit. It is Money3's belief that our services support people to move out of disadvantage. We believe that people are the best managers in their own lives and our role is to work together to enable that.

Market need for short term credit in the credit industry

There have been acknowledgements by key stakeholder groups, including government, that there is a legitimate need for a short term lending market. The Centre for Social Impact report for NAB in May 2011 entitled "Measuring financial exclusion in Australia" found that 15.5% of the adult population, or 2.65 million people, in Australia are fully or severely financially excluded.[1] Of that group, 54% are unable to raise $3000 in the case of an emergency.[2]

2.65 million people in Australia are fully or severely financially excluded.

Currently, our industry cash advances $800 million and serves 500,000 customers annually. Money3 supports the No Interest Loan Schemes (NILS) and Low Interest Loan Schemes (LILS) supported by the welfare agencies and major banks. We welcome directing customers to these services. In the 2011-12 budget, Federal Government committed $60.6 million over 4 years to the programs and banks have committed to make philanthropic contributions. However, these schemes provide just 15,000 loans annually and in reality cannot fill the gap created if micro-lenders were to exit the industry.

Customers who use short term credit

Money3 customers are drawn from most walks of life. Doctors, bankers, painters, boiler makers, sales people, ministers, lawyers, dentists, tradesmen, labourers and even the local court registrar are represented. Contrary to recent reports, Money3's experience is that over 60% of the customers are employed. Unfortunately the bad press is about unemployed and benefit customers and sad stories around them and their issues. This is the area where our industry, consumer advocates and government intention can work well together jointly offering programs.

The "Caught Short" interim report released in August 2011 found that over 60% of short-term credit customers have a poor credit rating.[3] There are many causes for financial exclusion, including lack of education, behavioural and relationship issues. Money3 finds

1 The Centre for Social Impact for NAB, *Measuring financial exclusion in Australia*, May 2011, p8
2 The Centre for Social Impact for NAB, *Measuring financial exclusion in Australia*, May 2011, p27
3 Marcus Banks, RMIT University, *Caught Short Interim Report*, August 2011, p4

that its customers are very strong willed, independent and self-determined. In the past, these customers may have not taken responsibility for a bill or have had negative experiences around accessing credit.

There are many reasons why customers choose to access short-term credit however most are taken out to supplement their irregular and regular needs and expenses. The principal reasons include car repair costs, food and bills.[4] Despite popular beliefs, most customers are not repeat borrowers. A report by Consumer Law Action Centre found that 46.4% of the borrowers had only had one loan in the past 18 months and a further 27.5% had just two.[5]

Despite popular beliefs, most customers are not repeat borrowers.

Unintended consequences of the legislation

Money3 believes that the Bill in its current form misses the opportunity to create a transparent, viable and regulated environment for Australian consumers. We believe that the proposed policy is an impractical model which although well intentioned, will deliver unintended consequences for the industry and its customers. To put it simply, businesses cannot operate under the proposed establishment cap of 10% of adjusted credit amount plus 2% per month for credit under $2000 or 2 years duration. Or the 48% cap which includes third party fees and charges for all other credit.

A study conducted by University of Queensland with NAB and Good Sheppard also found that a 48% cap is not viable: “a small loan pilot was initiated in 2008 by the National Australia Bank (NAB). The NAB Small Loans Pilot, found that for loans between $1,000 and $5,000 an annual percentage rate of 32.8 per cent (or $18.70 per $100) was the minimum required to enable the lender to break even. For smaller loans the breakeven rate would be even higher, due to the need to recoup fixed administration costs. The conclusion was that for smaller loans it would be not be possible for lenders to operate legally within a 48 per cent cap.”[6]

Another NAB pilot project report released in March 2010 further supports this: “Based on the economic insights we have gained from the pilot, we do not believe it is possible to place a 48% cap on loans under $2,900 with loan terms a year or less. As such, given the clear demand for fringe credit, NAB believes the imposition of a 48% interest rate cap on all forms of fringe lending may in fact lead to the disappearance of many forms of fringe lending, or make it partially a ‘black market’ industry.”[7]

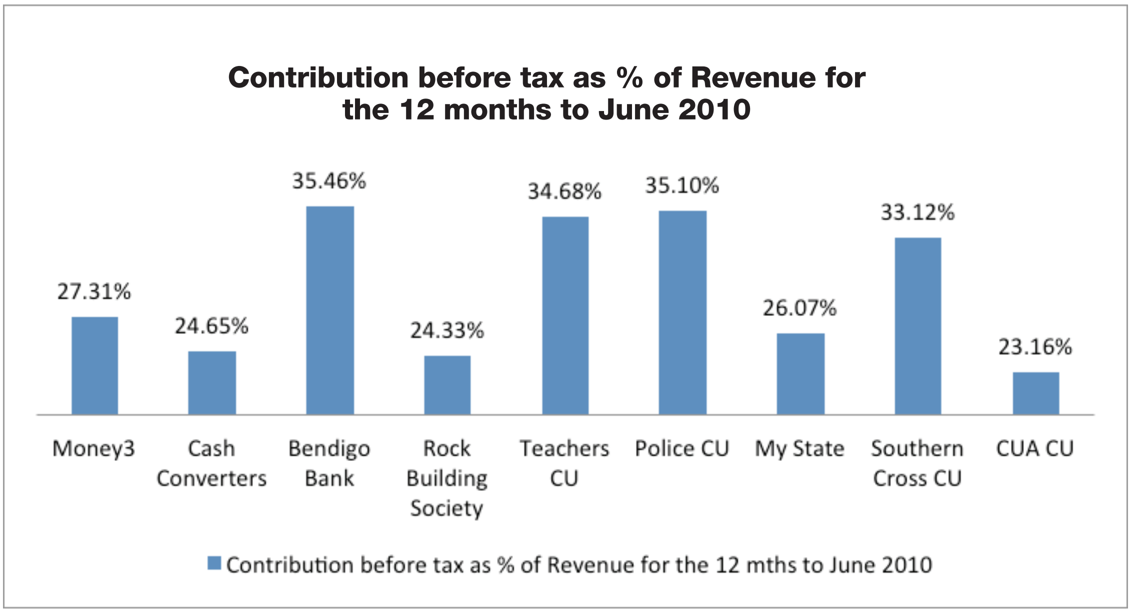
The ultimate proof of this research is that the commercial web only lender, Money Fast who lend between $1000 and $5000 for 1 year, received subsidised capital from NAB, has this year changed its name to Fair Loans and become a not for profit organisation most likely as a result of their operation not being commercially viable. In research that set out to prove small loans could operate under 48% cap has proven the opposite.

Money3 has been advised by its financial advisors that we will have no choice but to withdraw from the small lending market for loans below $5000, leaving behind 15,000 customers and 45 employees. We have transposed the proposed legislative model across the Money3 products and revenue is reduced from $13.5million to $8.4 million. Under this scenario, Money3 will make a loss of $1.5 million. Over the last 5 years, Money3 has made on average a contribution before tax of 25.31% of revenue. Last year Bendigo Bank made a contribution before tax of 35.46% of revenue.

4 Marcus Banks, RMIT University, *Caught Short Interim Report*, August 2011, p15
5 Zac Gillam and Consumer Action Law Centre, *Payday Loans Helping hand or quick sand?*, September 2010, p8
6 Gregory Marston and Lynda Shevellar, University of Queensland, *The Experience of Using Fringe Lenders in Queensland: A Pilot Study*, July 2010, p69
7 NAB and the Small Loans Pilot Advisory Group, *Do you really want to hurt me?*, March 2010, p41

Below is a comparison table of contributions before tax (FY2010) as a percentage of profits of many lenders including Cash Converters and Money3.

Notwithstanding the potential losses from these regulations, Money3 will survive and look to expand other parts of its business. This will include focusing more on our offshore operation. Unfortunately, customers will be the ones that suffer because they will miss out on access to short term finance through reputable companies like Money3. If a company of Money3's



size cannot operate under the proposed legislation, it is likely that other responsible larger players in the industry will also exit the small amount lending market, leaving smaller players with less transparency and dubious business practices to fill this space.

If a company of Money3's size cannot operate under the proposed legislation, it is likely that other responsible larger players in the industry will also exit the small amount lending market...

Further, Money3 believes that the proposed caps system simply will not work as it does not address the impact of a loan that must be repaid in 1 payment or as soon as 1 week.

A survey report released in March 2011 by the Queensland University of Technology, led by Professor Stephen Corones supports this. It was titled "Phase Two of the National Credit Reforms Examining the Regulation of Payday Lenders". In the report, the investigators note that "An all-inclusive cap may also have the effect of further reducing the range of credit products in the credit market and thus further limiting competition. Given that the mainstream lending market does not provide credit for small loans repayable over a short period, the cap would be likely to have the effect of excluding some low-income consumers from the market or leading others to take out larger loans than they need."[8]

As an alternative, they suggest that "The more preferable regulatory response appears to lie in the adoption of the responsible lending regulations, together with the associated licensing, conduct and disclosure obligations, to prevent credit being extended to those who cannot afford to repay it."[9] It is unfortunate that this report was not viewed by Treasury prior to the

8 Professor Stephen Corones (Chief Investigator), Queensland University of Technology Survey and Report, *Phase Two of the National Credit Reforms Examining the Regulation of Payday Lenders*, March 2011, p55

9 Professor Stephen Corones (Chief Investigator), Queensland University of Technology Survey and Report, *Phase Two of the National Credit Reforms Examining the Regulation of Payday Lenders*, March 2011, p55

release of this draft legislation. Money3 recommends the joint committee members to review this comprehensive report before reporting back to the Minister as it provides a detailed explanation of why a cap system will not work for this industry.

Money3 welcomes government regulation of the industry and Part 1 of NCCP is seeing improved outcomes for consumers. Further strengthening of ASIC monitoring will assist in assuring responsible lending obligations are met.

Part 1 of NCCP is seeing improved outcomes for consumers.

Money3 urges that the most important safeguard for consumers is to have minimum repayment term 1 month., This is not in the current legislation but it is crucial. This safeguard will prevent consumers having to repay loans fully in their next pay which is often an impossible condition to fulfil. They face punitive default charges if they are unable to.

Consumer Experience

This credit segment is unique. It is not understood by people who have access to traditional credit. From those who use it and have transformed their life circumstance in using our services or at least knowing they have access to our services we have hundreds of letters of appreciation.

Through our external dispute resolution organisation (COSL) we have had 2 complaints since joining COSL in 17th July, 2008. COSL referred both complainants back to us to be processed through our internal dispute resolution system. Both cases were resolved to the complainants' satisfaction.

The feeling of social inclusion, worthiness and confidence are the most common held views expressed by the thousands of customers using short term credit.

Money3's proposed alternative

A simple, effective solution to protect Australian consumers and allow a viable and transparent industry is possible with these amendments to the Bill:

1. For small amount credit contracts, the loan amount would be less than $500 and contract term less than 6 months;
2. Regulate establishment fees at 30% and 2% per month (Viable for short term loans);
3. Regulate repayments, including loan amount and all fees including default fees, to twice the credit amount;
4. Minimum contract term of one month. (Stops payment coming from 1 pay only& ensuring reasonable time to repay)
5. All other credit to have an establishment fee set by the market and an interest rate cap at 48% pa with 3rd party fees part of the establishment fee;
6. Prohibit rolling loans into another loan unless initial loan is 75% paid.
7. Allow a 24 hour cooling off period after settlement of funds for customers to reconsider the loan and include recommendations to alternatives such as counselling and NILS or LILS schemes.

These proposed mechanisms will prevent unethical practices in this industry while allowing 500,000 Australians access to much required credit.

The future for the industry

Money3 believes this is a great opportunity to achieve meaningful reform. All stakeholders can work together to ensure the short term financial needs of many Australians can be met, whilst at the same time safeguarding the most vulnerable members of our community

To this end Money3 supports the formation of a Short Term Credit Forum similar to the UK model where industry bodies, consumer organisations, government departments and consumers are brought together to work out the best outcomes.

Thank you again for this opportunity to submit Money3's views to this important inquiry. Money3 is committed to finding a transparent alternative which will be beneficial for Australian consumers and viable for the industry.

Appendices Following

Appendix 1	Statement from Kathy Miller ex customer
Appendix 2	Financials by product for last 5 years Money3
Appendix 3	Understanding Financial Exclusion: Consumer Stories
Appendix 4	Moving on… (DVD): Consumer Stories (See mailed hardcopy version)

APPENDIX 1

Statement from Kathy Miller:
Money3 Employee and Former Customer

Being a single mother with financial trouble in the past led me to believe that I would never be anything more than a bad risk and no one would ever lend to me again.

On the 14 September 2004, my life started to change when Money3 gave me a loan of $500 over 3 months and away I went.

Not only did Money3 lend me money, they did a lot more for me than they think.

Those things were:
- I was able to purchase much needed furniture for my house;
- Easy structured repayments;
- Trust and understanding – to be trusted to repay the money and understanding my situation;
- Personal service – dealing with someone who knew my name and actually asked how my new couch was going;
- Built up my credit with Money3 and was able to borrow $1000 to buy a computer. This was the icing on the cake and I have never looked back;
- Re-educated me about my finances and taught me how to budget my money to ensure I could pay back and also live;
- Never too busy to answer my questions; and
- Made me feel 10 feet tall.

If I could have started my adult life borrowing from a place like Money3, I believe I would never have gotten into so much financial trouble.

Since then and as a result of the support I have received, I have:
- Gotten out of financial debt
- Gotten married
- Bought a house – from a bank
- Purchased shares
- Changed careers

What more could I ask for?

I ask for the regulation to the industry to enable the continuation of short term lenders like Money3 because I feel everyone deserves a second chance. That's exactly what I got and I want to pass that on.

APPENDIX 2

Money3 Financials

	Actuals	Actuals	Actuals	Actuals	Forecast	Cumulative
	12 mths ending June 2007	12 mths ending June 2008	12 mths ending June 2009	12 mths ending June 2010	12 mths ending June 2011	
Profit and Loss						
LOC Income	609,984	1,679,650	1,811,575	2,173,258	2,191,634	
LOAN Income	5,834,805	4,887,234	4,180,995	5,582,331	6,971,203	
LRC Income	589,226	1,426,185	1,977,216	2,465,998	4,418,560	
Cheq Cashing Income	114,408	568,871	858,300	759,068	777,297	
Other (dish, def rev, int, arrears Moneygram, etc.)	(748,603)	(756,003)	185,727	20,117	(674,480)	
Revenue	6,399,820	7,805,937	9,013,813	11,000,772	13,684,214	47,904,556
General and Admin	824,924	651,883	765,487	985,540	965,480	
Employment	2,109,306	2,930,168	3,286,724	3,963,500	4,815,159	
Advertising	398,873	335,077	405,005	289,737	361,696	
Occupancy	442,367	499,202	727,004	994,167	1,053,009	
Bad debts	573,637	1,130,740	1,417,093	1,216,450	1,908,685	6,246,605
Other expenses	134,645	144,319	245,240	184,344	421,401	
Deprec & Amort	190,371	229,398	238,790	252,295	254,206	
Interest exp	10,568	84,174	103,727	110,801	182,624	
Exp excluding bad debts	4,111,054	4,874,221	5,771,977	6,780,384	8,053,575	29,591,211
Capital advanced for loans and LOC	15,279,943	17,881,058	18,657,892	23,246,108	26,241,490	101,306,491
costs as a % of capital advanced	**26.90%**	**27.26%**	**30.94%**	**29.17%**	**30.69%**	**29.21%**
bad debt as a % of capital advanced	**3.75%**	**6.32%**	**7.60%**	**5.23%**	**7.27%**	**6.17%**
bad debt as a % of revenue	**8.96%**	**14.49%**	**15.72%**	**11.06%**	**13.95%**	**13.04%**
Profit before tax	1,715,129	1,800,976	1,824,743	3,003,938	3,721,954	12,066,740
	26.80%	23.07%	20.24%	27.31%	27.20%	25.19%
Tax	503,008	601,516	790,817	853,715	1,116,586	
Net profit after tax	1,212,121	1,199,460	1,033,926	2,150,223	2,605,368	8,201,098
Net profit after tax as % of revenue	18.94%	15.37%	11.47%	19.55%	19.04%	17.12%
Loans						
No of LOC	28,889	30,656	32,939	43,040	43,131	
No of loans	5,468	5,993	6,684	10,609	11,027	
No of Loan Centre loans	131	266	463	586	653	
Avg LOC size - unsecured	206.52	207.79	212.73	188.75	177.06	
Avg loan size - unsecured	1,703.30	1,920.76	1,743.09	1,425.41	1,687.19	
Avg loan size Loan centre - secured	9,285.87	11,041.21	7,510.37	7,674.20	10,582.64	
Avg Loan size branches - unsecured	1,517.18	1,497.14	1,313.85	1,060.08	1,127.25	
Capital advanced						
LOC	5,966,286	6,369,971	7,007,102	8,123,881	7,636,891	
Loans	9,313,657	11,511,087	11,650,790	15,122,227	18,604,599	
Cheques	4,564,264	7,527,052	11,658,286	9,306,513	8,266,152	
Total	19,844,207	25,408,110	30,316,178	32,552,621	34,507,642	
Loan centre cash advanced- secured part of Loans	1,216,449	2,936,961	3,477,301	4,497,082	6,910,461	

APPENDIX 3

Anyone can find themselves in a tight corner.

15.5% of the adult population in Australia, or 2.65 million people, are fully or severely financially excluded.

2.65 million people... that's equivalent to the entire combined populations of Western Australia and Northern Territory.

Financial exclusion can be caused by many things: bad health, business problems, low incomes, a divorce or separation, or even something as simple as a shared student house and a forgotten electricity bill.

People who access short term lending are not a special 'type of person'. They are ordinary Australians from all walks of life who want, and need, a range of credit options. Over 60% of Money3 customers are employed.

2.65 million people? That's a lot of different people...

Kathy: I was naïve and it sounds terrible now, but I had no sense of responsibility. I got into financial trouble. When you're 19, everybody wants to give you money. They're throwing you credit cards, phone plans. Suddenly I was 22 and a single mum. I couldn't borrow from anywhere until I got $500 on a short term loan. My life just went up from there. To be honest, it wasn't so much the money they lent me, it was that they believed in me. They believed I could pay them back.

Kathy has moved on to other forms of credit. She now owns her own home and is manager of a Money3 branch in a regional centre.

Neville Walsh: I unload ships for a living and you only work when the ships come in. It can be scary without work. What do you do? Can you go to a bank and say, 'Can I borrow $100 for a fortnight?' Not at all. You could ask your friends but they probably won't have it either. The most I've borrowed from the short term lender is $500; I won't ever go so high that I muck myself up. I'll borrow just enough. The girls in the office help you work it out too, so you are okay to pay it back and survive at the same time.

Neville has one child and lives in regional Victoria.

… with a lot of different stories.

Roy Burgess: I used to be a tow truck driver but I'm a full time carer now. 24 hours a day, 7 days a week. I'd never use credit cards. One, because they cost too much and two, the banks wouldn't give me one anyway. Once you're on a pension, they won't even look at you. I'd rather go where I know I'll get treated well and get help. My first short term loan was five years ago and it was for $100. It's a small amount of money but it makes an incredible difference. Petrol, food, a toy for the kids…

Roy cares for his wife and daughter in outer Melbourne.

Wendy Cowley: I have the most gorgeous family: two daughters, three grandchildren and my son-in-law. We all live together. Last year, I got hit by a car and it threw me off my scooter and I smashed my femur in 80 places. While the bathroom was being modified, we were moved out of my house and sent to stay in a motel. What they didn't tell us was that we needed to pay $300 ourselves before we could move in. I didn't know what to do. So I went to see Emma, she didn't hesitate. We moved that day.

Wendy is now back home in suburban Melbourne.

The importance of options…

What would *you* do if you didn't have immediate savings to cover…

… a broken tooth?
… urgent car repairs?
… an unexpected gas bill?
… a great opportunity?
… a fridge that finally packed it in?
… a new pair of school shoes?

Maybe you would use a credit card? Or perhaps borrow from a friend or family member? Or take out a personal loan from a bank or credit union?

Now imagine what you would do if none of these options were possible. Imagine you couldn't get the funds anywhere or you couldn't secure them quickly enough.

How would you move past the difficulty then?

Every year in Australia, 500,000 people access $800 million in short term credit facilities. They borrow either because they have no choice. Or because it is their choice. Either way, they are exercising an option and moving on.

What does it mean to you having Money3 as an option for credit?

That if I need something for bub I can come get a loan

What would it mean to you if options for credit like Money3 were not available?

I will have to loan money of my nan and I dont like doing that.

Australians need more options, not less, to move through periods of financial exclusion.

Responsible lending enables people to manage their own lives.