

14th October 2011

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

**Reference: Consumer Credit and Corporations Legislation Amendment
(Enhancements) Bill 2011**

Dear Committee Secretary

Please find attached a submission from Community Sector Banking in response to the Inquiry into Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011.

I would welcome an opportunity to discuss any issue relating to this submission should you require.

Yours truly,

Mr Greg Peel
Chief Executive Officer
Community Sector Banking



SUBMISSION

To

Corporations and Financial Services Committee

Regarding

**Consumer Credit and Corporations Legislation Amendment
(Enhancements) Bill 2011**

14 October 2011

**Contact: Peter Quarmby, Executive Director, Community Sector Banking
Greg Peel, Chief Executive Director, Community Sector Banking**

Community Sector Banking (CSB) welcomes the opportunity to submit comments on the proposed Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill.

Community Sector Banking (CSB) was established by twenty community sector organisations and Bendigo Bank to enhance the capacity and capability of the community sector to better achieve its objectives. CSB's major objective is to assist in the delivery of greater social outcomes through the establishment of a sector specific banking facility and the better utilisation, management and creation of capital. Since its inception, CSB has grown to be one of Australia's most successful and significant social enterprises.

At the core of CSB's activities has been the provision of banking products and services, together with the development of strategies (such as aggregation models) specifically designed to enhance the contribution the community sector makes to the social development of Australia.

The broad goal of CSB has been to engage in activities that result in building and enhancing the capacity of the sector by making a positive contribution to its economic growth and prosperity, which in turn results in the advancement of social, cultural, economic and environmental development.

CSB is Australia's only banking service owned by and operated for the community sector.

In February 2011, CSB was awarded a contract by the Commonwealth Government to conduct a pilot of Community Development Financial Institutions (CDFI). A national pilot program aimed at helping Australia's most vulnerable individuals end the debt cycle and build financial wellbeing.

CSB is conducting the pilot program in a partnership with seven Not-for-Profit organizations those being:

- Anglicare South Australia
- The O Group, Tasmania
- Access Community Group, NSW
- St Luke's Anglicare, Victoria
- Centre for Aboriginal Enterprise and Independence, Queensland
- Kimberley Employment Services, Western Australia
- Traditional Credit Union, Northern Territory

The pilot scheme funded under the Federal Government's Department of Families, Housing, Community Services and Indigenous Affairs (FaHCSIA), aims to improve the financial knowledge and resilience of vulnerable individuals and their families.

CDFI offers fair, affordable and appropriate loans and advice to people who have difficulty being serviced by the traditional banks and are at risk of falling into a debt trap. The personal loan program has an upper limit of \$3,000.

CDFI also provides tailored, appropriate financial education, helping people make sound financial decisions.

CSB believes that the strength of the CDFI model is the partnership with local Not-for-Profit organisations who have a successful track record in assisting vulnerable people in their communities.

CDFI is part of a long-term strategy to assist vulnerable Australians out of the poverty cycle.

Kate Ellis MP Federal Member for Adelaide said at the launch of one of CSB's CDFI projects "There are many aspects to breaking the poverty cycle. We believe CDFI can make a real difference in getting people on the right financial path and thereby improve their prospects for employment, housing and building overall self-esteem."

CSB applauds any move to circumvent any unscrupulous and predatory behaviour by providers of small value loans.

CSB believes that micro credit should by its nature be a vehicle which assists those who face financial exclusion and ensure people are not caught in a poverty trap.

While the proposed legislation is designed to restrict the activities of payday lenders, it also has the ability to restrict microcredit loans to people on low incomes and in fact contribute to a state of financial exclusion. The Bill does severely restrict what payday lenders have been traditionally doing by:

- Doing away with refinancing an individual's current debts;
- Making claims on a website that are misleading and do not comply with legislation; and
- Increasing the credit limit of individual loans.

However, we believe that the legislation as proposed will adversely impact on the ability of microcredit providers such as CSB and partner Not-for-Profit organisations to provide affordable, transparent loans in a sustainable manner.

There appears to be a very myopic view of microcredit as it tends to assume that **all** microcredit provision is predatory. There appears to be no allowance for a supportive, educative model that assists individuals to escape the poverty trap and financial exclusion.

CSB believes there needs to be provisions that allow exceptions where organisations established to assist the disadvantaged of our communities can provide microcredit support in an environment of trust.

CSB believes that Not-for-Profit organizations are well positioned to provide microcredit to their clients; they are able to make some critical decisions as to the benefit of loans to individuals based on their knowledge of and experience with their clients, for example:

- Does the client have the capacity to service a microcredit loan based on their current indebtedness and their credit history;
- Would access to financial education assist this client to not repeat their financial mistakes;
- If this client is supported through the loan period by a relationship manager/case worker, will there be a greater chance of successfully paying out the loan; and
- How can the client's self-worth be enhanced by assisting them to be in control of a debt and not constantly fall victim to a debt?

All of these are critical decisions, and as so many successful government sponsored programs already work through Not-for-Profits, there is no reason why regulated programs from the public, but more preferably, in partnership with the private sector could not address microfinance for those who meet a set criteria.

Payday lenders often profit from an individual's lack of knowledge of real alternatives when those individuals are excluded from mainstream banking.

If Microcredit loans became the domain of Not-for-Profits with reasonable returns for the lender and delivered in a supportive atmosphere there would be far less chance of financial victimisation and far more chance of people understanding the financial landscape and growing because of that knowledge.

CSB believes the current affordability criteria for servicing a loan is based on criteria that addresses risk at a level that is far beyond those on low incomes. The assumption that people on low incomes operate on the same expenses ratio as those on middle to upper incomes restricts lending from mainstream banking and currently is forcing people to visit payday lenders. If the payday lenders are restricted – as they should be – where will the low income earner go then?

CSB believes that all Australians should have access to the financial system and should be able to participate in a way that does not disadvantage them. We believe that the legislation requires greater balance to ensure that those who practice predatory and unscrupulous behaviour are excluded from the system but providers who act in a transparent and just manner are not precluded from assisting people due to a “one size fits all” approach to the legislation.

CSB would welcome the opportunity to present further evidence to the Committee in person.