Money Centre Fortitude Valley

SUBMISSION to:

Corporations and Financial Services Committee

Regarding

Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011

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Background: I've spent most of my business life actively farming in livestock and horticulture. When I retired six years ago I bought a Small-Loans business in Brisbane. Since then our industry has become embroiled in media scandal and a proliferation of mass misinformation by consumer groups and certain government departments. Unfortunately too many politicians have been influenced by these sensational allegations without investigating the facts:

1. The small loans industry provides a vital service to hundreds of thousands of consumers.
2. The alleged 'high interest rates' are a gross and deliberate distortion of the truth.
3. There is a false assumption that only the financially impaired and desperate use our services.
4. The percentage of consumer complaints against our industry is in fact very low.
5. The industry isn't very profitable compared to other service industries.

On the positive side, the recent mandatory licensing of lenders and the associated ASIC regulations have already squeezed many of the rogues out of the industry, (or driven them underground) and has given ASIC the firepower to pull some others into line with the 'responsible lending' criteria.

Interest rate caps

The issue of interest rate caps has become quite farcical and distorts the reality of the cost of a loan in dollar terms.

1. The original interest rate cap struck in England 100 years ago was 48% p.a. flat rate.
2. England abandoned it 30 years ago because it was a clumsy tool that didn't work.
3. Some Australian states adopted the 48% figure but converted it to a 'daily reducing' calculation which in effect reduced the 48% to approximately 26% flat rate.
4. NSW, ACT and Qld then decided that the interest rate calculation had to include all fees and charges. This reduced the profit to lenders to a <u>minus</u> figure in dollar terms.
5. Victoria, who had done by far the most intensive and credible research amongst lenders and consumers, refused to be a part of this illogical farce. (They have a 48% interest rate cap but do <u>not</u> include fees and charges, having stated that they want to retain a viable loans industry.)

Payday lending

- This service attracts a high level of criticism which in my view is often justified. However it shouldn't be abandoned because if used prudently by consumers it can help them through a genuine short-term crisis.
- Effective policing by ASIC of the new 'responsible lending' criteria would control the misuse of this financial product and stop unnecessary serial borrowing.

Small amount short-term lending.

- This is the sector that I service. I would loosely define it as loans of from $500 to $3000 repayable over 3-9 months.
- All our loans are <u>unsecured.</u>
- Prospective customers must be employed and earn a minimum of $450 nett per week.
- They must have a genuine need for the loan; e.g. rental bond, car repairs, medical expenses.
- In their application they must fill in a weekly budget, which we verify against their recent expenditure in their bank statements.
- We use Veda to do credit checks.

I consider myself to be a responsible lender. In reality a large proportion of my customers have good incomes. (Many over $60k)

- Some customers may have a past history of credit impairment, (not always their fault).
- Others have been caught in the credit card trap and have cut their card up to control impulse buying.
- Some qualify for a personal loan at a bank but are disgusted to find that they have to borrow a minimum of $3000-$5000 repayable over 1 to 5 years when all they want is perhaps $800 and they want to clear the loan up within 3 months so they will be out of debt entirely.
- Some use us simply because we are trustworthy and offer a quick and friendly service.

Lenders like myself are the 'convenience stores' of the loans industry. And like convenience stores we have to charge higher prices because we are dealing in small amounts of product. The customers know that. They choose to use us because or product suits their needs.

The draconian measures proposed by government would put lenders like me out of business overnight and leave our customers stranded. Why?

- The banks don't service the requirements of our customers.
- None of my customers qualify for the NILs and LILs.
- We are completely transparent about the total cost of the loan.
- If a customer loses their job or runs into financial difficulty we reduce their repayments or even put the repayments on hold indefinitely <u>without imposing any further interest or fees.</u>

What could be fairer than that?

Summary

1. The proposed legislation will force hundreds of lenders to close their doors forever.
2. The legislation is a vast overkill; ASIC now has sufficient power to ensure responsible lending.
3. Competitive market forces <u>without caps</u> would ensure the most efficient cost structure for the industry and the consumer.
4. If caps are a must, examine the successful Victorian model.

Be careful what you wish for…

- For far too long consumer advocates and the media have had a field-day bashing our industry with scant regard for the consequences to legitimate borrowers and lenders.
- But it's the Government who will suffer the backlash if the consumer's right to access the financial product of their choice is denied because of this ill-conceived legislation.

Brian Capamagian