

QUESTION 4 - IMPACT OF MAINTAINING THE STATUS QUO

IN BRIEF

1. Competition does exist - availability of lenders.
2. Lenders have different policies on rejection rates.
3. Payday/microlending is not a licence to print money.
4. NSW borrowers are different to Queensland borrowers.
5. Don't believe all you read in the newspapers.
6. Disrupting the status quo will not bring the banks back.

The Federation is concerned that there may be a tendency to dismiss the status quo without a careful consideration of the various elements that constitute its current circumstances. We seek to impress the Minister with a broad analysis of the many elements that constitute the status quo and which cannot be simplistically rejected on the turn of a phrase.

The following are a selection of those elements that we would be pleased to have the Minister consider.

Competition

The Federation is aware that a number of commentators are of the opinion that the status quo should be rejected because of an apparent lack of competition. The reality is competition is a significant part of the industry's landscape.

While lenders must achieve at least break even, beyond that, in pricing, business protocols and product offerings, there is considerable competition. The Federation provides the following examples of such varied competition, for the Minister's attention.

Availability of Outlets

The availability of outlets puts paid to any challenge that there is a lack of competition in the Queensland payday/microlending market. Apart from the well-advertised telephone and Internet services, the industry is characterised by high profile, High Street retail outlets, rarely shy in their use of signage. That physical presence and the variety of public and private companies, all competing for business in the same geographic area, should not be overlooked by the critics of the industry who assume limited or no competition.

A classic example is the circumstance in Woodridge. There are fifteen lending outlets within walking distance, which have no ownership connection with each other. These outlets include:

Cash 4U 2Day
Better Loans & Finance
Cash Converters
Quick Cash
Cash Smart
Ready Finance
City Finance
Fast Access Finance

New Credit
Woodridge Kingston Loan Office
(Agent for Speedy Finance)
Pawnbroker (Agent for Cash Stop)
Cash Loans Money Centre
AMX Financial Services
EZCASH

Newspaper Advertising Survey

The following publications contained advertisements for both payday and microlending companies that clearly demonstrates a competitive environment:

Advertiser, 8 Nov 2006
Albert and Logan News, 22 Nov 2006
Bayside Bulletin, 22 August 2006
Caboolture News, 22 Nov 2006
Caboolture Shire Herald, 21 Nov 2006
Gold Coast Bulletin, 23 Nov 2006
Gold Coast Sun, 22 Nov 2006
Ipswich News, 16 Nov 2006
Ipswich Queensland Times, 18 Nov 2006
Northern Times, 20 Jan 2006
North-West News, 22 Nov 2006
Pine Rivers Press, 22 Nov 2006
Southern Star, 15 Nov 2006

The survey covered 13 different territory-crossing newspapers from South East Queensland, bounding Caboolture, Ipswich, Capalaba and the Gold Coast, an area including 87 different lending outlets and 39 different and distinct lending brands.

Rejection of Loan Applications

The Industry Analysis Survey indicates a widely differing proportion of applicants for loans being rejected. This variation would suggest a significant competition factor, with some companies being very conservative and others more liberal in their application assessments.

Any assertion that the industry lends without care, and to every applicant, must be assessed against the results of the Federation's Industry Analysis Survey. Industry critics have never attempted to learn that a substantial proportion of people who apply for a loan are rejected.

The 32 companies involved in the survey reject from 10% to 90% of applicants and the average for the companies, as opposed to the number of outlets/offices, is 46.58% and 70.77% of all outlets reject 50% or more applicants.

The percentage of total number of loan applications rejected, per lending outlet or Internet/telephone lending office, was found to be:

Retail lenders

% rejected	No. Outlets
90%	2
85%	9
80%	3
70%	30
65%	2
50%	5
42%	1
34.81%	1

32.28%	1
30.2%	1
30%	1
29%	1
24%	1
20%	4
18%	1
16.82%	1
12.3%	1

Internet / telephone lenders

% rejected	No. lending offices
75	1
50	2
45	1
30	1
25	1
20	1
10	1

These competitive rates occur in a labour intensive environment.

There is a significant investment in staff time at the counter with customers, which explains why the banks are so keen to encourage Internet banking and the use of ATMs. This is another competitive factor.

The Federation's Industry Analysis Survey reveals that payday and microlenders spend up to 3 hours with a customer finalising an initial loan. Even dealing with repeat customers takes a company average of 30 minutes to process each application.

The Myth that Payday / Microlending is a Licence to Print Money

The writers, like many business and management consultants, regard 30% return on capital employed as an appropriate benchmark, when assessing whether or not to advise a client to purchase an operating small to medium company, in a high risk industry.

The Federation Industry Analysis Survey indicates that only 3 of the 32 respondent companies reached that benchmark in 2005-6; 5 companies actually lost money; 4 companies earned under 10%; and the average return on capital employed was 18.15%.

The companies involved in the survey have to set their fees and charges to reflect the following:

1. the true costs of providing and servicing the loan;
2. mark-ups considerably less than most large retailers;

3. staff time costs, where every hour costs a minimum of \$12.50 plus mandatory additions, e.g. superannuation, WorkCover etc, generally calculated at 21-25% of the employees' salary;
4. staff training costs;
5. having to cover bad debts;
6. costs per outlet, as revealed in the Industry Analysis Survey, average set up costs of \$132,000 plus, generally, around \$150,000 operating capital.

As one major lender has reported to the writers, his organisation faces:

- a. hourly costs, for a one person outlet, of \$77.20;
- b. hourly costs, for a two person outlet, of \$80.00-\$98.47; and
- c. hourly costs, for a three person outlet, of \$125.65.

It is these costs that provide the commercial platform from which to assess the competitive availability of "affordable credit" in Queensland. The challenge is that borrowers would best be able to afford credit if it came at no charge. However, as is obviously the case, the lenders would not be in business if such were the circumstances.

The question then becomes whether, in reality, the credit provided by the payday/microlenders is "affordable". The answer is yes, because the prices charged are the result of market forces and thousands of borrowers each year, in seeking and accepting payday/microloans, indicate that they have made the decision that such is affordable for them.

Note, micro-lending charges cannot be compared with a 25-year home loan, for \$400,000. The dynamics of a four-week loan for a few hundred dollars, without security, are entirely different.

Virtually no Complaints.

The significant lack of complaints should encourage the Minister to maintain the status quo.

The following chart records the sum of all answers given by the companies who responded to the Federation's 2006 Industry Analysis.

Question	Total	Per Company
In the last 12 months, how many of your short term/payday customers have complained to the Office of Fair Trading?	3	0.094
How many complaints ended in court action?	1	0.031
If lending in Queensland more than 12 months, what is the total number of customers who have complained to the Office of Fair Trading?	13	0.406

This very low level of complaints is reinforced with the results of three questions included in the Federation's Customer Survey:

Question	Yes
Do you believe that today's loan is reasonably priced?	90.54%
Were the fees and charges for your loan today clearly explained?	95.91%
Did a friend or relative recommend this lender?	33.33%

Also in the Customer Survey, customers were asked why, if they had access to other sources of credit, they didn't take out their loan of that day, with those other sources of credit. The customers' responses, indicating considerable approval of the payday/microlenders, included:

Responses	%
Convenience	22.8%
Service related	36.4%
Customer loyalty	12.1%

The customer approval, as indicated above, should be a substantial disincentive to move from the status quo. For example, banks earn nowhere near the same customer loyalty -

"6% of all respondents went further and lodged a complaint with the "Banking and Financial Services Ombudsman".

(Ref: *"End that bad marriage"*, Choice Money & Rights, No. 7, April/May 2005, at p. 4).

That meant 168 people took the trouble to complain, out of a population of 2,807 in the Choice study, in contrast to 3 out of approximately 10,638 borrowers (at any one time) associated with the 32 payday/ microlending companies who responded to the Federation's survey.

Consumer Decision-Making

The Federation is concerned that, it would appear, many industry commentators have overlooked the fact that the industry is already required to provide substantial assistance to consumer decision-making. As discussed elsewhere in this Submission, it must be remembered that the Consumer Credit Code demands a significant provision of information in all documentation.

- Section 14(5) - demands a pre-contractual statement.
- Section 14(1)(b) - provision of an information statement.
- Section 15(C) - disclosure of the annual percentage rate, or rates, under the contract.
- Section 15(F) - disclosure of the amount and number of the repayments.
- Section 15(G)(a) - disclosure of all credit fees and charges that are, or may become, payable under the contract and when each is payable.
- Section 15(G)(c) - disclosure of the total amount of credit fees and charges payable.
- Section 80 - provision of a default notice.

- Section 140(3) - where advertisements contain any reference to cost, the annual percentage rate, and any fees or charges payable, must be included.

About New South Wales and Queensland Borrowers

The following is included to demonstrate to the Minister why you cannot automatically assume the results of interstate surveys are credible for application to Queensland circumstances. This credibility may be impacted because of different sample selection techniques, e.g. talking only to borrowers who seek credit counselling, the limited size of some samples, the bias in questioning and the like.

The New South Wales Office of Fair Trading representative, at the seminar on Regulating the Cost of Credit, conducted by Griffith University Centre for Credit and Consumer Law on December 7, 2006, referred to that Office's survey.

The writers believe that it might be useful to compare the New South Wales Government's 62 person survey results with the results of three surveys undertaken by the Federation. The first, the Federation's Industry Analysis Survey, involving 32 companies, representing a total of 73 retail outlets and lending offices with, at the time of the survey, 15,500 customers, is mentioned in considerable detail elsewhere in this submission. The second, the Federation's Loan Information Survey, involves an analysis of the data of 4,330 borrowers, during recent years and the third, the Customer Survey, involves 465 customer responses taken over two weeks in late November/early December.

The comparisons are as follows:

NSW Survey - 18% derive their income entirely from employment, as opposed to the Loan Information Survey, which showed 43% and the Industry Analysis Survey, which showed 49.78%.

The NSW Survey, with 39% below the \$500 per fortnight poverty line, as opposed to the Loan Information Survey, which shows that the average weekly income, for females is \$625.68 and, for males, \$661.66.

NSW showed that 45% of borrowers had no dependents and the figure from the Loan Information Survey was 54%.

NSW - 32% of loans were motor vehicle related and the Customer Survey had 20% as vehicle related.

In NSW, 19% was for household goods, whereas the Customer Survey showed 3.23%.

13% was for food in NSW, but was 5.16% in the Customer Survey.

Comparing Comparison Rates

It is useful to note some significant differences in comparison rate of interest figures. The Federation has been concerned at the extraordinary figures, mostly taken from Internet sites and relating to North American companies, used by ill-informed journalists and payday and microlending industry critics, to justify their stories that payday and microlenders charge excessive interest rates.

There is a tendency for industry analysts to accept such figures when they appear in newspaper stories. For example, in articles on the 10th and 26th July, by Patrick Lion in the Courier Mail, an interest rate of \$1,600% was asserted.

At the Griffith University Centre for Credit and Consumer Law Seminar, on the 7th December 2006, a paper was presented indicating comparison rates, for payday and microlending of 390% to 3,390%.

This should be compared with the Federation's Industry Analysis Survey, where the 32 companies involved indicated comparison rates ranging from 121.4% to 780%, with the average being 185.86%.

Media Influencing Government

As discussed elsewhere in this submission, the Federation's 2006 Loan Information Survey identifies the Queensland payday and microlending industry as having approximately 39,800 active loans at any one time. The Federation's Industry Analysis Survey, which included an analysis of the value of the active loans, provides an indication that the total turnover of the Queensland industry is at least \$60 million per annum.

The majority of these loans were repaid without incident. It is therefore unfortunate when a disgruntled borrower makes himself available to a journalist, working for the Courier Mail, and the disgruntled borrower's story is printed under the heading "Shocking charges were hidden under layers of deceit". Significantly, this story was also extensively commented on at the recent Griffith University Seminar organised to consider regulatory change and the Queensland payday and microlending industry, on the assumption that all the "facts" included in the story were accurate and there was no more that needed to be said.

The journalist involved made no attempt to contact the lender to enquire as to his version of the circumstances. Further, there was no opportunity for the lender to present his version of events to anyone associated with the seminar, prior to, or on, the day.

The writers do not purport to take sides in regard to the circumstances of the story, but believe that it is appropriate, given very senior department officers and advisers to the Minister were present at the seminar, to provide the two versions as follows:

The Borrower	The Lender
<p>The borrower needed money to pay his car registration last December.</p> <p>He said he asked his financier six times what the interest rate for his loan would be and could not get a straight answer.</p>	<p>The borrower and his partner both signed each page of the contract in December.</p> <p>Principal and all fees and charges were clearly shown on the first page, which was signed by the borrowers, with the interest rate shown in larger print.</p>
<p>The lender's agent came to the borrower's house without a calculator.</p>	<p>The two borrowers arranged to pay the lender the \$90 per fortnight, prior to the agent meeting at the borrower's home.</p>
<p>The lender's agent indicated that the rate for the \$500 loan was \$90 a fortnight.</p>	<p>The agent indicated that the \$90 per fortnight repayment was the minimum repayment per fortnight. On the 2nd February, the borrowers requested a re-draw of \$250, for the borrower to travel to NSW to attend a family funeral and both borrowers signed the request.</p>

<p>The borrower claims that he did not know there was also \$169 in fees and charges</p>	<p>The two borrowers signed the first page, where the contract clearly stated “Maximum Amount of Credit \$500.00 (plus \$169.35 Application Fees)” and, on page two of the contract it gave a clear breakdown of those fees.</p>
<p>In February, the borrower increased his loan to \$700, over the phone, and a new contract was mailed out.</p> <p>It was then that he discovered that the interest rate was 240%.</p>	<p>The re-draw document was for \$250 and, again, like the contract, was signed by the two borrowers and faxed back to the lender. At no time did the borrowers ever contact or visit the lender to say that they were unhappy with the contract.</p> <p>The interest rate stood out as it was shown in larger print in the original contract. The borrowers still accepted the agreement, even after claiming they had now discovered the interest rate.</p> <p>In complete surprise, the lender received a letter from Legal Aid. Upon receiving that letter, the lender telephoned the borrower and was told that nothing was wrong.</p>
<p>In August, the borrower was behind in his payments and the lender took him to court in an attempt to repossess his car.</p>	<p>The lender forwarded copies of all documents to Legal Aid in April, as requested.</p> <p>In May, the borrower stopped the direct debit payments at his bank, declined to arrange alternative payments and told the lender to contact his solicitor.</p>
	<p>The lender “on many occasions” offered to make arrangements with the borrower, which were always refused.</p>
	<p>The lender now knows that the borrower had a loan with another lender, who charges similar interest rates, and the borrower defaulted on that loan as well.</p>
	<p>During earlier contact, the borrower was abusive and told the Lender that he would make sure the Lender could not get access to the car. The borrower also mentioned the fact that he had been a vehicle repossession agent for lenders in the past and knew how to stop him.</p> <p>The borrower has been bankrupt in the past and the lender believes no bank would have provided the loan.</p>

One result of the ill-founded adverse publicity regarding the payday and microlending industry, is that a growing number of “borrowers” have deliberately set about taking out a loan without any intention to ever repay. According to the publicity, all they have to do is go to a financial counsellor, or Legal Aid and they will be given every assistance to avoid their responsibilities. The circumstances concerning this Courier Mail story raise a number of other issues.

In the articles that appeared in the Brisbane Courier Mail, during 2006, there were assertions by the one journalist involved, who has attempted to contact no more than four Queensland lenders, that the specific criticisms raised were typical of the industry as a whole. If the Minister's concern is in any way constructed on a foundation involving an awareness of these newspaper articles, it would be a very flawed construction.

You Cannot Assess the Status Quo by Reference to Comparison Rates

The Federation brings to the Minister's attention, the reasons why, when applied to the practical circumstances, a comparison rate is misleading and generally rejected, by the customers, as having any value in assisting them to compare borrowing opportunities. The divergence in calculation is significant.

1. For example in regard to the comparison rate, if the loan is for \$200 with total fees and charges of \$40, repayable at the rate of \$60 per week for four weeks; the comparison rate is 401.39%. However, if repayment is made in two equal fortnightly instalments of \$120; then the comparison rate is 339.95%.
2. If the repayment is made in one lump sum at the end of four weeks; the comparison rate is 260.18%.

As discussed elsewhere in this Submission, repeatedly, the customer is conscious of a much simpler indication of cost and that is - for every dollar he or she borrows, he or she will repay \$1.20, irrespective of the number of payments made.

The problem of using comparison rates to determine cost can be further exacerbated if we use daily compound interest. In that case the weekly repayment loan would be 1,040.71% and the fortnightly one 520.36%. What doesn't change is the fact that for every \$1.00 they borrow they pay back \$1.20. It's the same loan cost, just expressed differently.

The Federation reminds the Minister that, in regard to Section 72(3) of the Code, there has been no challenges to fees, on the basis of being unconscionable, under this provision.

Comparison Rates Review, April 2006

With the above in mind, the following results obtained from a survey to which the senior management of 276 microlending outlets and agencies across Australia responded, are not particularly surprising. This Survey, undertaken for a submission arguing against a continuation of the Comparison Rate regime, included the question, *"What percentage of your customers do you think understand what a comparison rate is?"*

Response	% of outlets
Nil	65%
1% or less	33%
10%	0.4%
20%	0.4%
Unsure	1%

A second question asked, “How difficult is it for you to explain to a customer what a comparison rate is?”

Response	% of outlets
Extremely / very difficult / confusing	57%
Customers never ask	38%
Not difficult / fairly easy	4.4%

In response to the survey, a variety of microlenders offered the following comments:

(Given the customer disinterest) “I have, as a comparison, made enquiries at a number of financial institutions by asking...the tellers...for an explanation of what it is. Of those who knew that there was a comparison rate (about 75%), I got a satisfactory explanation (concerning calculation) from none”.

“Extremely difficult as generally our customers think of interest rates for long term loans such as mortgages, they are very confused about the requirement to express an interest rate based on the number of days a loan is current. This is particularly apparent if the customer has taken out loans for different periods as the term of the loan can significantly distort the comparison rate”.

“Fairly easy, but they all comment that if it does not include government or third party charges it is a waste of time and effort”.

“Difficult as employees are not mathematicians”.

“I don’t try to explain because none of them are interested”.

The respondents were then asked, “For those customers who do not use comparison rates as part of the decision-making process to borrow from you, what alternative information do they use as their PRIMARY information on which to base their decision?”

100% of the responses indicated “Repayment amount/s”.

Office of Fair Trading Complaint Level does not Justify Traumatic Regulatory Change

A significant measure of whether the status quo requires a traumatic regulatory change, is the level of complaints against the industry.

The Queensland Office of Fair Trading has rightly attracted an enviable reputation for managing compliance and promoting its availability to the citizens of Queensland. Given the constant publicity it receives, there would be few adult citizens in Queensland who would not be aware of its existence as a protector of consumer rights.

With this in mind, it is interesting to note:

- That the Office has not found it necessary or compelling to keep separate statistics on the number of complaints involving payday or microlenders. So relatively few are they, that such an exercise is not necessary. We are sure that, if there had been such a need, during Mr John Barron’s distinguished term as Chief Compliance Officer, for areas including payday and microlending, such statistics would have been quarantined.

- The Minister would be interested to note that NSW also does not have the need to keep quarantined statistics and, in Victoria, where every industry is segmented for their office's statistics, complaints concerning payday and microlending never come near the top 15 areas of complaint, as are announced by the Victorian office from time to time.

The Federation, because of its contact with its colleague Divisions in NSW and Victoria, has no reason to doubt that the Queensland industry is fundamentally any different from the industry in those two states.

This lack of complaint is powerfully illustrated by the results of both the Federation's Industry Analysis Survey and the Consumer Survey.

The Industry Analysis Survey revealed the following:

- a) The number of complaints to the Office of Fair Trading, over the last 12 months, was a total of three, one for one lender and two for another.
- b) For the whole time that the 32 lenders have been in business, a total of 123 years, the total number of customers who complained to the Office of Fair Trading has been 9. That is an average of one complaint every 13 years and 7 months.
- c) Significantly, last year no complaint to the OFT has ended in a customer initiated court case (in one circumstance, the lender initiated the court action).
- d) It must be remembered that the above figures are in the context of a combined total of 15,500 loans associated with the 32 payday and microlending companies involved. These companies were active in November, when the survey was undertaken.

The Minister is urged to ignore any suggestion that people who borrow from payday/microlenders, as a group, are reticent to complain. While, as in any group, there will always be some people who are shy and retiring, lender counter and telephone staff will quickly reassure anyone in doubt, that their customers are very capable of complaining.

Affordability Assessment

A continuing concern amongst some industry critics is the promulgation of the myth that payday and microlenders do not undertake sufficient assessment of a potential customer's ability to repay the loan. The Federation, in its Industry Analysis Survey sought information in this regard, which is reproduced in Appendix 1. As can be observed, the number of lenders participating runs across the page, with the criteria used being in the first column.

It is interesting to note that two lenders nominated two criteria, one lender nominated seven applied methodologies, five nominated 5 criteria and the average number of tests of affordability, employed by the group as a whole, was 3.74.

The Federation hopes that there will be an opportunity for a significant stakeholders' meeting with the Federation, credit counsellors, welfare representatives and the Office of Fair Trading, to explore the suitability of adopting standard criteria requirements.

Further, it must be strongly emphasised that payday lenders have a vested interest in encouraging borrowers NOT to get into financial difficulty, as a person who fails to repay a \$200 loan, generates the need for the average lender to find a further 4-7 borrowers to break even. Payday lenders also recognise that, to chase the total of \$249 outstanding, through the local court,

would cost well in excess of \$500 for debt recovery charges and legal fees. There is also a significant chance that the borrower will simply disappear, or the magistrate will make an order requiring the borrower to repay \$10 per week, providing 25 weeks during which the borrower may renege again.

It must be remembered that most payday lenders, including franchisees, are lending their own money.

Disrupting the Status Quo will not Open the Door to Bank Involvement

The Federation is aware that there are two schools of thought currently attracting attention from industry analysts and academia. The first is that banks, either with or without changes to the Commonwealth Banking legislation, will be attracted back into the payday and microlending area. Associated with that is a naïve belief that, in general, the banks are benign institutions with a caring attitude towards their customers, which is supposedly diametrically different to the payday/microlenders who are purported to have no interest in their customers' welfare.

The second school of thought embraces the naïve belief that, with government encouragement, banks will move from the limited public relations driven partnerships with a small number of non-government/not-for-profit organisations, to a substantial position of financial and other support, allowing a massive increase in the activities of these partnership schemes. This second school of thought is critically examined later in this Submissions, in response to Questions 7 and 8 of the Discussion Paper.

Banks Would Not Re-enter the Market

The UK Competition Commission, at 5.17 noted an attitude that the Federation believes is equally applicable to the Australian environment:

“we ask providers of mainstream financial services whether they would be interested in setting up a home credit (the equivalent of payday lending) operation. None said that this was an attractive option. The main reasons included: the need to develop a different business infrastructure; and new skills to manage a home collection operation and to manage higher risk borrowers. Some also expressed concerns about the impact on their corporate reputation of lending at the rates of interest which they believe they would need to charge to operate profitably ... We recognise the force of these arguments and consider entry into home credit from this source highly unlikely.”

Banks Share Price Driven

The proponents of this school of thought also overlook the fact that the banks, with their CEOs on \$7-13 million per year salary packages, are focussed on the share market price as their core motivation. Such a focus demands immediate attention to profitability because, fundamentally, the price of the shares is directly, or indirectly, a determinant for their bonuses.

No Barriers to Entry for the Banks

Given the banks' multi-billion dollar size, the Federation is concerned to emphasise there are no barriers to entry for the banks to re-enter the payday/microlending industry and compete with the existing lenders. The banks don't and don't want to, as the following analysis demonstrates.

Standard Lending Criteria vs. a Reputation for Benign Welfare Concern

The current standard lending criteria for personal loans, employed by the banks, is a major barrier excluding most of those people who take out loans from payday/microlenders. These prohibitive standard criteria include the following:

Employment Conditions	<ul style="list-style-type: none"> Full time employment Part time or Casual min. 30 hours per week Not on probation Minimum 6 months in current job Current + immediate previous employment Must be greater than 1 year Must be continuously employed for min. 2 yrs Self employed need min 12-24 months Trading results
Capacity Test	<ul style="list-style-type: none"> Must pass capacity test Can include income from all verifiable sources, including government allowances Rental income No cash income If applicant is a co-borrower on another loan then full repayment included Rental expense use % share if sharing, full if living with partner
Proof of identity	<ul style="list-style-type: none"> Driver's Licence or Passport 100 point ID verification method
Proof of income	<ul style="list-style-type: none"> 2 recent pay slips in last month Employer's letter Self-employed – ATO assessment and accountant financial statements
Credit History	<ul style="list-style-type: none"> Must not be a brand new credit line No more than 6 enquiries in past 3 months No bankrupts or discharged bankrupts or Part IX No unpaid defaults Must not have 2 or more adverse items on CRA Only 1 less than \$500 telco default will be considered

The Banks' minimum personal loan amounts

The borrowing minimum limits prescribed by the major banks are also a major exclusion factor. These limits at present are as follows:

Commonwealth Bank of Australia	\$5,000
ANZ Bank	\$5,000
Westpac	\$4,000
National Australia Bank	\$5,000
St George	\$5,000

These limits generate a number of widely acknowledged concerns.

- a. There is the exclusion of those people requiring a loan, who just cannot afford being forced to borrow more than they require, with the consequent higher repayment demands.
- b. The implied encouragement for customers to borrow more than they need.
- c. The implicit support these minimum amounts provide to the banks' preferred marketing strategy, of forcing people to take credit cards.

If wanting smaller amounts, borrowers can only get credit cards if they are otherwise eligible.

Credit Cards

However, the following indicates the everyday reality of using credit cards:

Example – Commonwealth Low Fee Credit Card

\$1,000 borrowed as cash advance -

Interest Rate: 17.9%

Annual fee: \$24

Min. Monthly Repayment (1.5% of o/s balance) – \$15 per month

Duration of repayment at minimum repayment – 20 yrs

Annual account summary -

12 x \$15 = \$180 yearly repayments

(\$173.83 in interest, \$6.17 off principal)

Balance owing - \$1,000 - \$6.17 + \$24 (annual fee) = \$1,017.83.

The debt has increased by \$17.83 and the new MMR is \$15.26

The example assumes that every payment is made on time. If a payment is missed there is a \$25 late fee, which is debited to the account.

It is also worth noting that, because the balance is constantly increasing, the client is constantly paying a premium interest rate. This is the case at the beginning of any variable rate loan.

In this example the cost of the credit card financed loan averages out to be approximately 20.57% over each 12-month period.

Credit Cards Create Payday/Microborrowers

In this context, it is interesting to note the comment included in the payday and microlender company, Better Loans & Finance's August 2003 submission to the Queensland Office of Fair Trading's "Fringe Credit Providers Discussion Paper".

At discussion point 4, paragraph 1, this Submission states:

"We regularly meet customers who have torn up their credit cards and prefer to take a micro loan at a higher interest rate but that for them has a lower overall cost because they know they are obliged to make repayments that extinguish their debt within a certain loan term at a defined price rather than go on the never-never, making only the minimum payment required on a credit card to maintain the debt at its current level...it can be the case that short term loans impose a discipline that is not present with credit

cards and which some borrowers require in order to not cost themselves too much.”

Banks Make Money Out of the Current System

Under the current system, the banks make a lot of money. The Minister would be aware that most payday/microlenders in Queensland utilise direct debit facilities with their customers’ banks to facilitate payment. While this concept is mentioned elsewhere in this submission, it is appropriate to note that maintaining a collection process in any other manner is expensive and even the real estate industry is moving towards universal payment of rent by way of such a facility.

At the Griffith University Centre for Credit and Consumer Law Seminar, on the 7th December, the principal of a prominent software supplier to the Queensland finance industry, Min-it Software presented, during the question and answer session and, later, informally to attendees, details extracted from his company’s client database for the months of October and November 2006.

This information indicated that the banks attracted greater income from totally computer generated direct debit failures, than the payday/micro-lenders, in most circumstances. The payday/microlenders charge a necessary fee for the labour intensive administration of these failed direct debits. A summary of the information provided that demonstrates this phenomena, is included in the following table:

	October	November
No. of Direct Debit failures	11,795	14,054
Average % of Direct Debits that failed	12.32%	10.44%
Value of failed Direct Debits *	\$381,000	\$561,000
Bank dishonour fees @ \$35 per failure	\$412,825	\$491,890
Bank dishonour fees @ \$40 per failure	\$471,800	\$562,160

* rounded.

As mentioned elsewhere in this Submission, direct debit can be cancelled by the customer at any time, by contacting their bank. This opportunity must be communicated to the customer, in writing, at the time of signing the direct debit authority.

Micro-Borrowers – The Banks Don’t Want to Know

It is useful to note that, in a letter to the (then) Commonwealth Minister for Financial Services and Regulation, The Hon. Joe Hockey, which the (then) NSW Minister for Fair Trading, the Hon. John Watkins quoted in the NSW Parliament, on the 10th April 2001, a criticism was expressed as follows:

“...you (the Commonwealth Government) have done nothing to counter the actions taken by banks and other mainstream lenders to force the socially disadvantaged out of their branches.”

As an example of the banking industry’s attitude, in a public statement on the 27th June, 2001, the Commonwealth Banks’ Chief Executive, Mr David Murray, threatened to *“dump poor customers if the Commonwealth Bank is forced to offer low fee accounts”* (ABC TV News).

The banks are not prepared to get involved because, when they consider the costs of potential borrower assessment and add the costs of loan administration, money holding costs, staff costs, interview time, repayment collection and much higher default rates, they see an unprofitable and insecure arrangement. As shown previously, most are reluctant to lend under \$5,000 and none lend under \$2,000. This has led to a niche market for non-bank credit providers, who have brought small business efficiency to the provision of loans under \$5,000.

Community Consultative Forum Recognises the Banks' Inhibition

A report published by the National Australia Bank Community Consultation Forum entitled "You can bank on it - an action plan for delivering financial services to low income and vulnerable consumers", at page 7 in the Executive Summary, clearly highlights the challenges faced by the Queensland Government in achieving substantial and compassionate involvement of the banks, with the sector identified as payday/micro borrowers. The report states:

"...banking institutions have recognised that they have a wide range of stakeholders, including consumers. Australian banking institutions' commitment to being good corporate citizens is represented by their extensive involvement in corporate philanthropy and attempts to provide community obligations. However, corporate philanthropy cannot resolve the problems and barriers confronted, by low-income and vulnerable people, in assessing affordable and appropriate bank services and products that contribute to their financial well-being.

Unfortunately, the banking sector's attempt at providing community obligations by offering exemptions from fees for people who are disabled are not well understood, promoted, or easily accessible. The provision of "basic" accounts with a limited number of free transactions and no minimum balance requirements are seen as inadequate and short-sighted by the participants in this research. The complexity of the structures and limited number of transactions of "basic" accounts, the lack of disclosure and the narrow and complicated eligibility criteria regarding exemptions have resulted in these measures being ineffective and creating cynicism in the broad community about the banks' commitment to community obligations.

To address the barriers to affordable, accessible banking services for low income and vulnerable consumers requires banking institutions and government to fully embrace their community obligations to their low income customers and citizens."

With this in mind the Federation notes, from its Customer Survey, that 50.55% of payday/micro borrowers have applied for and been refused a loan by a bank. When asked where the survey respondents would go if payday/ microlenders were effectively abolished, only 4.6% indicated that they would approach a bank. That means 95.4% of payday/micro borrowers do not recognise the bank as providing an alternative for their relatively small and relatively short term loans.

The Federation presents the above consideration, not with the primary objective of criticising the banks, but with the primary objective of reminding the Minister as to the substantial challenges that will be faced achieving any objective that involves considerable re-connection by the banks, in servicing the financial needs of Queenslanders who currently approach the payday/micro lender of their choice for assistance.

The Centrelink Connection

The Federation believes that it might be useful for the Minister to enquire into the application and effectiveness of any safeguards, provided by the banks, to protect low-income earners from unfair fees. The Centrelink Bulletin C0098.0304 refers to a Code of Operation for Centrelink Direct Credit payment.

It would appear from this Bulletin that an agreement exists which limits bank charges for Centrelink recipients. A number of the Federation's members are concerned that, from the information they have been provided by borrowers, this agreement does not appear to be adhered to or implemented if, in fact, it does exist.

Part IXs and Part Xs (Bankruptcy)

There is one aspect of the status quo which is most unsatisfactory and is a supplement to lending, which generates high cost. That is the opportunity for borrowers in difficulty to engage an organisation to arrange a Part IX or Part X under the Bankruptcy Act. These organisations generally charge \$3,000. The Federation believes that this constitutes a redesignation of fees paid by the customer which means that, instead of money going to the lender providing the loans to the customer in these circumstances, such money goes to an Administrator. In the majority, these Administrators collect their fees first.

In addition there is a reality that, if the Administrator does not collect their fees from the customer, they rarely chase any debtors. The end result is the debt is simply given back to the creditors, twelve to twenty-four months later, with little chance of collection, due to the age of the debt. In this context, it must be remembered that the consumer has signed a legally enforceable agreement with the lender.

[REDACTED] are excellent, not only in customer service, but their loans are much more affordable than the other lender I sometimes borrow from. [REDACTED]

If it wasn't for [REDACTED] I wouldn't be where I am now. We only started with one truck now we have 4 trucks. They are very helpful.