

**The issue that is never discussed in understanding the Small amount credit industry is the WHY. Why do people seek small amount credit?**

Ms Danielle Press

Chair of the Review of the Small Amount Credit Contract(SACC) Laws

Dear Danielle,

As Company co-founder, former managing director and a continuing major shareholder in Money3 (MNY) I want to explain how I believe the community is better served by providing credit options to all Australians and not just the fortunate 75% who, for whatever reasons, have access to financial and social opportunities that our client base have been denied or have limited access to.

I have been involved in this conversation since June 2000 when I opened a "payday" lending franchise in Northcote VIC. After 6 months operating the chequexchange franchise I helped coordinate a mass termination of 54 of the 64 franchise agreements and set about creating a fair, sustainable model of providing small amount credit to those unable to access traditional credit. This venture became the listed entity Money3 Corporation Limited which operates 66 branches, an online lender, Cash Train and a secured division that provides vehicle loans to credit challenged Australians.

I am still a strong believer in the small amount lending of MNY and also understand why the board of MNY is moving away from small amount lending which:

1. contributes less than 25% of EBIT to MNY,
2. has caused the withdrawal of Westpac from banking MNY and
3. has institutional fund managers being influenced by their investors to not invest in the demonised "payday lending".

These outcomes from guerrilla activism by a well coordinated group of consumer advocates(activists) is troubling to a well constructed democratic system providing legal products and services in a civil society.

The research and enquiry informing the Credit Enhancement Bill(2012) was extensive and detailed and the outcome was balanced in that each of the "sides" so to speak were equally unhappy. Many small players have exited the industry unable to function profitably under the caps and regulatory requirements, and now MNY is also likely to exit small amount loans.

Even though consumer complaints are as low as .05% and compliments are continuous the relentless press and misrepresentation of the small amount credit industry as "payday lending" by consumer activists ably assisted by ASIC with at least 20 references to the term "Payday" in their March 2015 review rather than the government defined "small amount credit" is a witchhunt to demonise a legitimate industry with huge demand.

See article by Senator David Leyonhjelm <http://davidleyonhjelm.com.au/why-we-shouldnt-demonise-short-term-lenders/>

## 1. THE CONCERN – WHY DO PEOPLE SEEK SMALL AMOUNT CREDIT?

Extensive research on the topic uncovers the obvious reasons like, car repairs, utility bills, household necessities, celebrations like weddings, christenings and even funerals.

But why do **you** use credit? Is it the “thing” you spend the borrowed money for like the shopping at safeway paid by credit card or did you have to use the credit card because you spent your savings on the kids school?

The fact is the shortfall of cash between what you earn and what you spend is the reason we all use credit. And the small amount credit users are the same it's just that they may have made poor choices in their life or haven't had the same opportunities others have had or haven't used them well. Albeit the amount of credit is generally less.

Any way we look at it there are 4.5M Australians who have credit defaults against them, 3.9M Australians who have less than 1 weeks saving in the bank, there are about 2.9M Australians who are financially and often socially excluded and of them 54% cannot access \$3,000 for an emergency. Using ABS statistics FY14 it states that over 25% of Australian households receive majority of income from Centrelink and out of a total adult population at the time of 11.5 million, 4.6 million people - 40% - were receiving a government payment.

The WHY is simple. Life is complex and wants and needs and feeling secure and able often comes from having access to credit. Many customers feel a sense of worth when they can be like others who make their own way, often by borrowing. The SACC customer generally doesn't own their home and are delighted to borrow to pay the bond on a rental or furnish the kids bedroom! To buy a \$6k car and avoid catching 2 buses to get to work was a real time saver for a couple in Geelong. It helped their self esteem also.

Often times people don't take the education in school and may not receive orders well from authority and one thing for sure they are many and varied and have want and needs and must be treated as able participants in society.

“He who has a **Why** to live for can bear almost any **How.**” quoted in “Man's search for meaning” written by Victor Frankel.

## 2. THE CONCERN – INDUSTRY BEHAVIOUR

Fifteen years ago there was negligible controls over “payday” lending with each state's consumer affairs monitoring haphazard rules. Practices were unregulated and greed saw excessive charges and debt spirals common.

The Victorian govt review of 2006 introduced regulation including membership of external dispute resolution (EDR) and responsible lending obligations(RLO) and interest rate caps with flexible establishment fees. In 2002, and further strengthened in 2005, NSW and ACT oversaw draconian introduction of the 48% APR which created industry compliance models which were sometimes not in the interests of consumers. The

advocates in tandem with NSW govt effectively were driving prohibition of small amount loans or causing compliant workarounds.

While the workarounds may not have been in the spirit of the legislation they were a better option compared to the unpleasant black market supplying the demand.

The Credit Enhancement Bill(2012) embraced and improved protection mechanisms for consumers, many put forward by industry and set interest/credit charges at a barely viable level. Evidence of the slim margins are the exit of the smaller participants and the compliant models and excessive default charges by some industry participants to make ends meet.

Fortunately for consumers many of the recalcitrant companies with poor practices including The Cash Store have been taken over by Money3 and much improved standards applied.

### **3. THE CONCERN – THE IDEOLOGICAL POSITION AGAINST SACCs**

In Victor Frankel groundbreaking book entitled “Man's search for Meaning” retelling his experience in Auschwitz and the importance of respecting man's drivers, it becomes clear that others cannot save man from himself and in fact “those held in highest esteem are neither great artists, sportsmen nor statesmen but those who master a hard lot with their heads held high”.

Instead of focussing on providing options and training to further enable the human spirit in SACC customers, consumer activists focus on their ideological position that it is wrong that consumers have access to SACCs.

Having said that, the work from Good Shepherd MicroFinance is excellent at providing credit, advice and budgeting for a restricted group of consumers. Their number of loans in 10 years is similar to Money3 loans in 1 year.

Exacerbating the consumer advocates ideological position is the lack of impartiality from the regulator, ASIC. In their recent review, ASIC bias was evidenced in their use of the provocative, emotive term “Payday” over 20 times when the legislation and the Minister's office officially describe SACC industry. Further to that, ASIC in dealing with industry enquiry including MNY, lead with letters of accusation and presumption which once dealt with through legal process are reversed.

The Public Relations exercise by the consumer activists including rehashing pre-Credit Enhancement(2012) Regulation breaches is stunning in its contempt and brilliant in its effectiveness was equally as difficult for ASIC in catching it unawares of some industry bad behaviour exposed on 4Corners. The strategists at the consumer activist campaign have successfully demonised a legitimate industry.

### **4. THE CONCERN – THE SOLUTION (DO WE WANT ONE?)**

In ending hunger the world wide organisation “The Hunger Project, (thp.org) sees the hungry as the solution not the problem. They create an environment where people who want to end their own hunger come up with the solutions.

As Victor Frankel also said, it is not the circumstances one finds themselves in it is how they manage them. Few in Australia suffer the conditions of Auschwitz or third World poverty and neither they should. It is a matter of society providing options to people and empowering them to increase their capacity to manage those options. This is best achieved by having them discover their "Why".

MNY and others have invited the Not for Profits to partner with profit companies to provide a full range of options for these consumers including thinking, budgeting, financial counselling and a full suite of credit options from short term, consolidation, vehicle and home finance. It is working together with all our resources and having the consumer front of mind that will deliver sustainable options to an empowered group of consumers.

This solution requires altruistic capitalism and open mindedness and empowering people to think for themselves.

The short term profit view of capitalists and the righteous view of ideologues currently driving this debate is self serving and once again neglects the very consumers who are unable to access traditional credit.

## To Change Your World Change The Conversation - Money3 Breakthrough Training and launch of "Centres for Financial and Social Inclusion"

As my tenure at Money3 was concluding we ran the first training program for staff and customers to incubate the concept "Centres for financial and social inclusion". The event at its core has Breakthrough training to have people start Thinking for themselves and would be followed up with seminars at each region. In the lead up to the event we produced the following clip to enrol people in the value of managing their conversation.

<https://www.youtube.com/watch?v=dH9O9QwSkxl&feature=youtu.be>

About 170 staff, partners, financial counsellors and customers participated. The clip below is 4 minutes of customer/staff expectation and results from the event. Interestingly one of the customers interviewed is now employed with Money3. Once self esteem and confidence is improved people will find the options to pursue financial and social mobility.

<https://www.youtube.com/watch?v=j-aCZEfsMyl&feature=youtu.be>

### **Response to Discussion Questions**

#### **1. Competing Objectives:**

The need for regulation is clear. Many of the customers accessing SACCs are not price sensitive or understanding of compounding cost effect. For many, the delayed gratification that comes with saving or even buying cheapest wholesome food from cheapest sources is not in their thoughts. Some even smoke cigarettes (as do 2 of my sons??). Thinking for people is not the aim of regulation I suspect

Ensuring people have options and understanding the importance of those options and how the people think about and use those options is critical. Ensuring that the vast majority of those people are not disadvantaged or exploited by greed is the question. And finding the balance is the key.

The protections provided in the enhancement Bill(20012) such as Protected Earnings Amount, (80% of gross income) is excellent. This complements the responsible lending obligations. Capping repayment of SACCs to the total amount at 200% of cash advanced works and needs to include penalty fees excluding govt/legal charges. The worst form of exploitation of these customers is making a wrong assessment (and they default) and impacting their future by overzealous/uncontrolled charges.

The establishment fees of 20% and 4% per month are too low and proving unviable especially for loans less than \$500. This deprives consumers of important access to credit. It is harmful to them, not helpful.

There are clear benefits that SACC customers derive from access to credit. Analysis shows the correlation between decision making and cash flow. Up to a minimum annual cash flow, say about \$20K, decision making is ill thought out and poor, once cash flow is above that level and even including some debt then better choices are made. Then if debt levels compensating cashflow is too high then decision making deteriorates again.

There are also significant social and financial benefits derived from access to SACCs. All SACC lenders have evidence to demonstrate customer benefits like self esteem from getting a job after borrowing for petrol to get to the interview or repairs of teeth to look presentable or providing support to a family members funeral expenses. The list is much longer and life changing than the easy to sell negative stories that feature in the media. See 4 customers explaining the benefits they gained at [www.good4me.com.au](http://www.good4me.com.au)

## **2. Complexity**

The one size fits all product offering with a SACC(up to \$2,000) has at its premise that each SACC is a New loan and needs a full application and associated contract, with credit guides etc. The experience of a customer borrowing a small amount regularly to manage cash flow(like typical credit card usage)is different from a loan to buy an item like furniture or whitegoods or even car repairs.

I have complied with the regulations and also realise that a 14 page contract etc for a \$50 loan needed for 2 months is inappropriate. The customer borrowing less than a weeks wage(up to \$1,000) is in need of line of credit to drawdown(like a credit card) not a loan to be fully assessed.

## **3. Sanctions**

It seems appropriate to have a range of sanctions. The real issue is the sanction for those not licensed or those working around jurisdiction in the digital space to be brought to account.

#### **4. Bank Statements**

I think the use of and training customers in their financial position ascertained from bank statements is integral in providing a mature SACC industry. The availability of 90 days of bank statements is sometimes not possible and some flexibility is required. Once a customer understands what's happening on their bank statement their decision making improves. For example getting cash from a non bank ATM may cost them \$2.50 per withdrawal and they may withdraw \$20 10 times in a month. \$25 per month wasted expense on shows up on their bank statement. Other lenders are on their statement, gambling is on the statement.

For small amount loans the notion of seeing other loan contracts or more detailed info to substantiate RLO would be impossible. Bank statements for review are important.

#### **5. Restrictions on repeat borrowing**

This is the biggest predicament and farcical limitation caused by SACC regulations. The issue for customer over indebtedness is not the number of loans a person has or even if they are in default.

At some stage every customer in the SACC regime has had a default. What matters is how are they going to manage their cashflow going forward. These customers are in a precarious situation and many times a desperate situation when requesting a SACC. Determining if they are worthy of another chance and can they pay the money back is the critical point.

Be assured however, if strict limits on the number of loans per 90 days is limited a larger amount of money will be given to customers in the first instance and for many their cashflow management will deteriorate. More importantly if customers are given a larger loan to comply with this rule they end up paying more for the use of that money. eg \$600 loaned as 6 x 1 month SACC. 6 x \$100 loans each month for 6 months would cost 6x\$20 plus 6 x \$4 = \$144 OR \$600 for a 6 month SACC would cost 1 x \$120 plus 6 x \$24 = \$264 The customer has the money upfront and pays an extra \$120.

I will repeat that customers borrowing less than a weeks income are in need of drawdown on a line of credit, not a loan. And so many \$100 loans in a 90 day period may be much better for a customer than a \$600 once off loan. The lenders actually are taking some responsibility by advancing smaller amounts of money more often.

I will cite the case of a company several years ago who complied with the 48% APR and advanced \$1000 to \$5000 to customers for 2 to 5 years. The customers spent the money quickly and the debt built rapidly and the default and customer damage was horrific. The company Amazing Loans no longer exists.

The use of benchmarks for small amount loans especially under \$1000 won't work. Customers on low incomes often manage their money(income and expenses) better than those on higher incomes. They also have smaller hurdles to overcome in paying back a small loan. They WILL earn or get a small amount needed to repay a small loan. Trading on ebay, working for cash, renting a room etc. is in their toolkit. Necessity is the mother of invention!

## 6. Ban on Short term credit contracts

For consumer lending I suggest the minimum credit contract be 30 days. A customer can always chose to pay earlier however defaults cannot be charged before the 30 day expires. Having said that the affect of the (Protected Earnings Amount)PEA stops the PAYDAY lending impact of all of loan being paid back at the next pay date which causes a person to HAVE to borrow immediately. In tandem PEA and minimum month term protect customers from debt spiral.

## 7. Warnings

The warnings are valueless and an insult to proprietors and customers. Embrace the demand from customers and provide education in store and online. While the assertion that a loan is predatory and the people using it is stupid we will never change behaviour and deliver better outcomes to customers.

## 8. Caps on Costs

The expense to business of establishing a loan under the current format cannot be determined on a linear scale. High volume Low value loans are not providing Money3 with the required ROE. Like the banks, Money3 have indicated they will exit some low value loans. Based on my understanding of the industry I would not be surprised if companies like Money3 exits lending under under \$500, given the high cost of transacting those loans.

To manage the administration required for responsible lending obligations, credit guide and contracts and dealing with financially challenged customers is substantial. An increase of 5% to the establishment fee would see earned income increase by about \$3.8M for the 178,491 loans under \$2,000.

Table below is MNV FY2015 number of loans and EBIT

Loan Type	no. of Loans	% of Loans	\$ Cash Out (Millions)	% of \$ Cash Out	Duration of Loan
SACC* < \$500	101,791	51.33%	\$21.6	11.80%	2 mths 20% + 8%
SACC* \$501 - \$1000	57,573	29.03%	\$36.1	19.66%	4 mths 20% + 16%
SACC* \$1001 - \$2000	19,127	9.65%	\$24.5	13.36%	8 mths 20% + 32%
AOC* / MACC*	10,750	5.42%	\$29.9	16.32%	2 yrs <48% APR +\$400 Application
Secured loans*	9,066	4.57%	\$71.3	38.87%	3 years <48% APR
<b>GRAND TOTAL</b>	<b>198,307</b>	<b>100%</b>	<b>\$183.5</b>	<b>100%</b>	

SACC\* Small Amount Credit Contract

MACC\* Medium Amount Credit Contract

Secured/AOC\* All other Credit

EBIT FY2015	Total	9,066 loans	
		Secured	Unsecured
	\$23,442,257	\$17,365,853	\$6,076,404

## **9. Protection for Centrelink customers**

The PEA works well and if extended to all government benefit recipients would be simpler and beneficial to business and customer.

## **10. National Database**

If the unworkable and illogical mechanism of limiting a number of loans in a 90 day period is replaced with emphasis on responsible lending obligations then a SACC database is not needed.

## **11. Additional Provisions**

I don't see any need to find more provisions other than allowing costs such as credit checks and third party costs associated with assessing a loan be allocated to customers.

## **12. Anti-Avoidance**

The first anti avoidance to be managed is ensuring all lenders are licenced.

## **13. Documentation of suitability assessments.**

What is not unsuitable about a loan for a cash flow crisis?

Like a credit card a SACC below \$1000 is not necessarily what the customer has put down as their purpose. Assessing their requirements and objectives when they're embarrassed about why they need \$100 to buy food is very difficult to write down and impossible to verify. Cash flow crisis is cash flow crisis and what caused it is irrelevant. The only exception for this would be where the money is being borrowed for inappropriate goods, such as alcohol or gambling or drug use. Beyond this, it is not reasonable to judge what is appropriate for consumers. Each person has their own view of what is valuable one size does not fit all. It is arrogant to suggest that one purpose is acceptable and another is not.

Whether the loan can be repaid without hardship can be determined by interview or questions on the application form and verifying income with employer/centrelink.

Having said, that a thorough review of 90 days of bank history, employment and income verification and a verified application form demonstrating an understanding of term of loan required and how long the benefit of the loan will last allows for joint responsibility for lender and customer.

## **Consumer Leases:**

I am not experienced in consumer leases however it is not an unsecured loan and has no connection with the SACC industry. As product, distribution and warranty etc is involved the regulations for consumer leases are totally different.

## **Conclusion**

As stated earlier: This solution requires altruistic capitalism and open mindedness and empowering people to think for themselves.

The short term profit view of capitalists and the righteous view of ideologues currently driving this debate is self serving and once again neglects the very consumers who are unable to access traditional credit.

There is a large portion of neglected Australians being lectured to by well meaning bureaucrats and advocates about what they should be doing rather than being included in a dialogue to determine what they themselves want and get benefit from.

To quote Robert Kyosaki from "the Conspiracy of the Rich", money is knowledge. The key to shifting the behaviour of these neglected Australians is to give them more options and while they are there provide education.

Yours sincerely,

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