SMALL LOANS BiG NEED
Small amount loans explained

Promoting Responsible Consumer Lending

PRESS RELEASE

29th October 2015

NEW RESEARCH REVEALS THE TRUTH ABOUT THE SO-CALLED PAY DAY LOANS INDUSTRY

Summary:

- The most comprehensive statistical review of small amount credit consumers, products and providers ever undertaken over a two year period proves the need for Small Amount Credit Contracts (SACCs), historically known as 'payday loans' across Australia.
- Despite the negative publicity of targeting the unemployed and vulnerable, more employed Australians use SACCs.
- Only **4 out of 10,000** consumers make contact through a consumer advocacy group to report a problem with their SACC.
- This research has been conducted by **CoreData**, an independent research and consulting business and commissioned by peak industry body, the **National Credit Providers Association** (NCPA).
- Association criticises those who use out of date data to draw conclusions about the industry.

For the first time, new research has revealed the facts and figures for the small amount lending industry historically known as Pay Day Loans; with nearly **two million consumers** completing an application for small amount loans between 2014 -2015, the need for this highly regulated small amount financial product remains staggeringly high for everyday Australians.

Small Amount Credit Contracts are unsecured loans up to $2,000, repaid between 16 days to one year. It is the only credit product that has debt spiral protection and capped fees in Australia.

Released by peak industry body, the National Credit Providers Association (NCPA) and conducted by CoreData, an independent research and consulting business, this new research is the most comprehensive statistical review of small amount credit consumers, products and providers ever undertaken over a two year period.*[1]

The results discover **more employed consumers use small amount credit contracts (SACCs)** than those claiming government benefits, despite the fact that it is widely reported that the industry targets the vulnerable, who may be out of work. Furthermore, SACC usage is on the increase – over **1.3 million contracts** in 2014-15 were entered into, which was up by an estimated 200,000 contracts from 2013-14.

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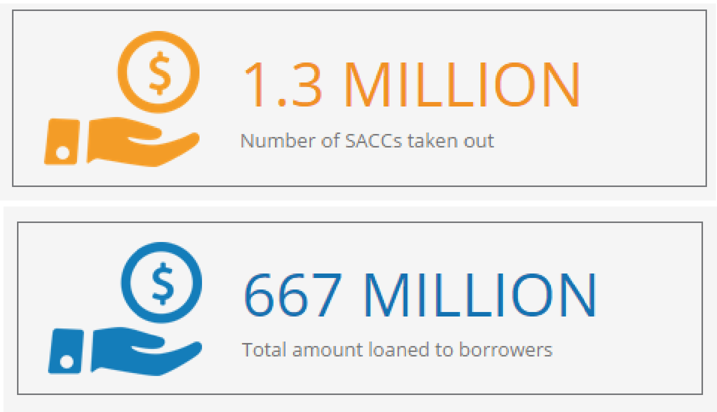

From 2014-2015, **credit advanced to consumers was $667m**, with the average loan amount being $502 and paid back in 117 days - this is a contradiction to the popular belief that the majority of small loans are either taken out of the next pay, which is illegal, or unpaid over very long periods of time.

This new research comes at a pivotal time; ahead of the Government Review of small amount credit contract laws, to ensure the effectiveness of the law relating to SACCs. NCPA commissioned CoreData to discover the truth about the industry, so the government would have the real facts and data available to make educated recommendations for the SACC review.

Contrary to popular belief, the industry is not as profitable as what people believe. In 2015, SACCs do not generate sufficient profits for long term viability, to ensure supply by lenders, as the cost of compliance is now too high. SACC lenders are barely in the black, with the big four SACC company providers only remaining profitable through the other products they sell.

The association is hoping that these new statistics demonstrate the real need for the short-term financial product, especially for those who can't access typical forms of credit, such as credit cards and have a need for it. In actual fact, consumer issues with SACCs are relatively small, compared to the demand. It is reported in the research that an estimated **4 out of 10,000 consumers make contact through a consumer advocacy group – that's just 0.04%!**

In the hope to educate and inform the general public, and to urge the government to understand the truth about the industry before making crucial decisions, NCPA today launched their '**Small Loans, Big Need**' campaign that clearly explains the facts and truth about short term lending and the need in Australia.

Phil Johns, CEO of NCPA, said: "The small amount consumer lending industry is often in the line of fire and highly criticised, despite the fact that it's already highly regulated, since the commencement of the National Consumer Credit Protection Act in 2010 and additional new legislation was in 2013[*2]

"This new research is crucial as it not only shows how the industry stands today, but trend information by quarter since 1 July 2013. The association has found it frustrating that the actions of the past affect the future and there's a lack of understanding of who SACCs help. We hope the new research and dedicated **Small Loan, Big Need** campaign offers an insight into the industry and how it works, to comply with the law and advocate responsible lending and borrowing."

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Phil Johns continued: "The facts speak for themselves and show the demand for SACCs. It's important that consumers who need this type of product have the choice of safe financial inclusion from an ASIC licensed lender, so as not to go without essentials, which would be the real crime."

3 million

or 16.9% of the adult population in Australia are either fully excluded or severely excluded from financial services in Australia*

<u>Call to use new data</u>

The Government Review is currently underway, with stakeholders' submissions and recommendations completed on Thursday 15 October. The review Committee will now start to meet with key bodies to discuss further before putting forward its recommendations. However, the NCPA is the only organisation to provide The Review committee with new data and research taken directly from 2.4 million SACCs*[3]. Other reports submitted contain old data from before pay day loans were abolished or 'best estimate' modelling.

Mr. Johns says: "It is a significant concern that the SACC Consultation Paper for the Review referenced ASIC's report 426: *Payday lenders and the new small amount lending provisions,* no less than seven times as the basis for issues in the market place, without acknowledging that ASIC observed those concerns just a mere seven weeks after the new legislation commenced in 2013 – approximately two and half years ago - hardly relevant to the Review."

"Yes, ASIC Report 426 provides historical insight, but it does not represent how the industry operates today and should have never been used in the current consultation paper, due to subsequent and significant events since August 2013, such as many regulatory updates and issuing of a most significant update to ASIC's RG209 on responsible lending obligations in November 2014."

"The role of the review is to examine the market place two years after the implementation of the amendments and ascertain if the new legislation is working effectively post 1 July 2015, specifically whether the legislation can sustain a viable industry sector and provide a safe consumer financial product into the future."

Further information on the small amount consumer lending industry can be found at:
www.smallloansbigneed.com.au

References:

*[1] It is estimated that the survey represents approximately 80% of the SACC industry's total gross

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revenue. NCPA approached ASIC to provide its support to encourage all SACC lenders holding an Australian Credit License to provide responses to CoreData, who conducted the research independently, however they declined to be involved.

*[2] Pay Day Loans, renamed "Short Term Credit Contracts" by Treasury in the current Act, were abolished by the government in March 2013 and new legislation was enforced in July 2013, capping the charges on small amount loans.

*[3] The 2.4 million is the actual number of SACCs entered into over 2013-2015 and not the applications

Please note, all breakout box statistics refer to between 2014 – 2015

- ENDS -

Interviews with Phil Johns, CEO, NCPA are welcomed upon request.

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Notes to Editors:

Key Statistics

2014 -15

Completed applications received from new and existing customers: **2 million**
Contracts entered into: **1.3 million**
Credit advanced to consumers: **$667 million**
Number of consumers: **988,000**
Average loan amount: **$502**
Average loan length: **117 days**
Average male age: **37 years old**
Average female age: **36 years old**

- The CoreData research project of over 2.4 million SACCs showed that in the quarter ending June 2015, 64.5% of SACCs were taken out by consumers whose main source of income was employment, up from 59.7% in the quarter ending September 2013. Conversely, in the quarter ending June 2015, 35.5% of SACCs were taken out by consumers who received 50% or more of their income from government benefits, down from 40.3% in the quarter ending September 2013.
- Nine in 10 expected repayments were met, with a continued repayment uptrend. Matched by declining approval rates and increased loan completion success rates.
- Multiple contracts are not a problem. Only 6.8% of contracts were written where the

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consumer had an existing SACC. 95% of lenders, as a matter of policy, do not loan to a consumer with a SACC in default.

For more information about Small Loans, Big Need visit: www.smallloansbigneed.com.au

Additional Information on NCPA:

- The National Credit Providers Association (NCPA) is a mutual not-for-profit industry association, governed by a board of industry leaders. The NCPA represents the non-deposit-taking Australian Credit License holders, operating from nearly 300 retail locations or from dedicated online platforms.
- NCPA's diverse membership covers franchisors, franchisees, private and ASX listed companies, independent operators, small and large entities, who offer consumer credit under the NCCP Act. They all hold the same Australia Credit License as a bank and are also regulated by ASIC. The amounts lent range from $50 to $50,000, for terms from a number of weeks to several years. Some members provide just the one type of loan, some provide a range of loan services and other financial products, such as brokerage for commercial and home loans.
- For more information visit: www.ncpa.net.au