

## PRESS RELEASE

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# NCPA CALLS ON GOVERNMENT TO BAN APR FOR SMALL LOANS UNDER 12 MONTHS

The leading national credit association, which advocates for responsible lending in the small loans industry, is calling on the Government to employ common sense when it comes to a new ruling regarding the use of Annual Percentage Rate (APR) as this measurement can never help consumers calculate the cost of their small loan.

Following the Government Review of Small Amount Credit Contracts (SACCs), which are incorrectly referred to as payday loans, a potential new ruling could see APR used as an ill-advised way to communicate the cost to consumers of taking out a small loan.

The National Credit Providers Association (NCPA), the peak industry body for the small loans industry, says using APR would not help consumers understand the cost of a loan. A Small Amount Credit Contract is a small loan payable between 16 days to 1 year; while APR is a unit of measurement for the cost of borrowing for more than one year, not less. Therefore, APR does not work for SACCs and will only confuse consumers.

Phil Johns, CEO of the NCPA, asserts that while it is crucial that consumers understand the cost of small loans or SACCs, a financial credit product used by almost one million Australians, using APR is not the way to go about it.

“We agree that consumers need to understand the cost of credit, but APR is perhaps one of the most confusing ways to communicate it, especially when the life of the product is always less than one year.

“Current legislation in Australia bans charging interest on small loans so it makes little sense to introduce a measurement on a product that legally cannot charge interest in the first place,” says Mr Johns.

Recent research commissioned by NCPA shows that most consumers who use this credit product repay their loan within four months.

“Why then would we choose the same measurement as that which is commonly used for high-priced items repaid over years, like cars and houses?

“Annual Percentage Rates have NEVER indicated the cost of a loan repaid in under 12 months because small amount loans are not designed for long-term use. Would you borrow money at a 365% annual interest rate? Of course not. But what if you needed \$100 today,

with a full repayment of \$101 tomorrow? That's a charge of only \$1 but expressed as an APR – well, that's 365%. That's why reports of high rates of interest are so misleading," says Mr Johns.

The NCPA urges the Government to ban the use of APR for Small Amount Credit Contracts. NCPA recommends that instead consumers are told:

1. The exact amount that will be needed to repay the loan (i.e. the total of the loan amount plus all fees and charges)
2. The total number of payments, when payment is required and how much each payment will need to be to repay the loan.
3. The difference between the total expected repayments and the amount borrowed is the true cost of the loan.

NCPA believes it is important that the small loans industry remains viable, not just for lenders but also consumers.

"Currently for a small loan the caps are set at 20% to establish the loan and a 4% monthly admin fee – the cost is not calculated using an interest rate but the establishment fee plus monthly charges. If consumers think the cost of a loan is too expensive (which would be the case if APR was quoted as above), they would perhaps feel left with no other option but to turn to an illegal lender where the outcome could be dire," concludes Mr Johns.

While SACCs or small loans are often mistakenly referred to as payday loans, the concept of lending money and repaying on your next payday was made illegal in Australia in March 2013. In reality, SACCs are small loans repaid between 16 days and 1 year; up to \$2,000; and are highly regulated with set government fees and caps. The majority of those borrowing small loans are employed and may either be excluded from traditional credit sources or just don't want to borrow from banks.

NCPA is committed to educating Government, media, and the public on the truth about small loans. For more information about small loans and the wider industry, please visit [www.smallloansbigneed.com.au](http://www.smallloansbigneed.com.au)

**- ENDS -**

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

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**Notes to Editors:**

**Key Statistics of the CoreData research project (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**
- 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 consumer had an existing SACC. 95% of lenders, as a matter of policy, do not lend to a consumer with a SACC in default.

For more information about Small Loans, Big Need visit: [www.smallloansbigneed.com.au](http://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, and small and large entities, all of whom offer consumer credit under the NCCP Act. They all hold the same Australian Credit License as a bank and are similarly regulated by ASIC. Some members provide just the one type of loan and 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](http://www.ncpa.net.au)

#### **Images:**

1. Phil Johns, CEO of the NCPA



2. Small Loans, Big Need campaign Logo



3. NCPA Logo

