

MEDIA RELEASE

9 November 2016

THE GOVERNMENTS BILLION DOLLAR CREDIT PROBLEM

The federal government will be making an announcement before the end of the year regarding the legislative review of Small Amount Credit Contracts (SACCs), often incorrectly referred to as 'payday loans', which have been banned since 2013. The SACC legislation has been successfully operating since payday lending was eliminated and tighter regulations and standards for lending were introduced.

There are concerns that while the new SACC laws have been working well and providing consumer protections, the government could accept some of the recommendations from the review that would all but **remove access to loans** for consumers wanting small amount loans without getting a credit card or other less regulated forms of finance.

Small amount loans are the most highly regulated form of finance in Australia and represent almost one **billion dollars of consumer credit** that would otherwise need to be found elsewhere, either through more credit card debt or less regulated sources to meet market demand.

While the convenient use of the term 'payday loans' continues to be used by the government and regulator, the fact is that **payday loans were abolished in March 2013**. The replacement SACC Laws created a highly regulated and successful product called a Small Amount Credit Contract (SACC), with government set fee caps balancing consumer affordability against the lenders' cost of mandatory compliance.

Since March 2013, in the post-payday lending era, SACCs have provided consumers with a much needed and highly regulated form of credit, up to a maximum of \$2,000 over a period of no less than 16 days but under 12 months.

Facts about SACCs:

- a) Just under one million consumers took out a small loan between 2014 – 2015
- b) Of which, 64.5% of SACCs were taken out by consumers whose main source of income was employment
- c) The average loan amount was \$502
- d) The average length of a loan was 117 days, where nine in 10 expected repayments were met.

These core statistics demonstrate the need for this form of finance in a properly regulated and protected environment.

A continued uptrend of repayment without problems, combined with 99.95% of consumers never having a problem with their SACC, has resulted in an incredibly low rate of 2.7 complaints per 100,000 contracts (Credit Investment Ombudsman 2014/15 report).

The ability for ordinary working Australians to gain fair and equitable access to finance forms an important part of the Australian financial inclusion principle.

So what's the billion dollar problem that will occur if Small Loan Providers are regulated out of the market?

The National Credit Providers Association, the peak body representing SACC lenders that provide an essential finance alternative to the banks is committed to high industry standards and regulation that protects consumers.

Phil Johns, CEO of the NCPA commented that the industry has been leading the reforms since 2006 and continues to look for better ways to allow for a more financially inclusive environment while having the best, most successful and most highly regulated credit products with significant consumer protections.

"The NCPA is concerned that some of the proposed recommendations from the review will create a situation where **consumers are forced to either get more credit card debt from the banks or go to unregulated sources**. This is because of the very serious concern that many of our members would no longer be able to sustain their offering to consumers and will leave the market altogether.

"There are a considerable number of NCPA members, small loan providers that could not sustain their businesses if the existing recommendations by the government were implemented as per the Final Report. I urge the Minister to consider what would happen if lenders were forced to exit – **there is no solution to meet the consumer demand for these loans and without one there would be a billion dollar credit problem,**" continued Mr Johns.

The NCPA also supports the No Interest Loans (NILS) and Low-Interest Loans (LILS) to needy consumers, however these consumers represent only around 4% of SACC consumers that could be eligible for government supported loans.

"What would Australia rather have? Highly regulated ASIC licensed lenders, which we have now or a black market providing finance to consumers?"

"The demand for SACCs may dissipate slightly, however a million unfulfilled loans will create a billion dollar credit gap in the market without supply.

"Government can legislate supply and the lenders of small loans, however what they can't do is regulate demand. There is a significant demand for SACCs in Australia from consumers that cannot, or do not wish to, access credit from the banks. It is these consumers that have to be considered," concluded Mr Johns.

The same policy outcomes can be achieved with sensible reforms

The NCPA is working with stakeholders to ensure that the SACC review process improves the current system without limiting the choice of lending products for all Australians. The NCPA also supports many of the proposed reforms, and in fact have put forward some of the suggested reforms. There needs to be a balance between regulating financial products and denying fair and equitable access to regulated products to working Australians. All Australians deserve to be given choice and have the same access to be financially included in our economy. Subsequently, the NCPA has proposed realistic, sensible alternatives that will keep consumers protected by highly regulated ASIC licensed lenders.

The NCPA and its members will continue to help consumers and government to better understand the new SACC laws and products in the post 'payday' lending era.

www.smallloansbigneed.com.au

*For the first time, new research commissioned by NCPA and completed independently by CoreData 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.

- 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

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

Images:

1. Phil Johns, CEO of the NCPA



2. Small Loans, Big Need campaign Logo



3. NCPA Logo

