MEDIA RELEASE

More False & Misleading Claims by Consumer Activists

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Consumer activists have again been caught out making false claims about annual percentage rates of more than 100% on small loans, this time on a Nimble small loan.

NCPA Chairman Michael Rudd said the sector always welcomes debate on the value of financial products however it should be based on facts rather than emotive rhetoric for a headline.

The government's response released in 2016 to the small loans review said in Recommendation 22 … ***the Government does not consider it appropriate to require disclosure of an APR for SACCs***.[1]

The fact that consumer activists continue to use annual percentage rates for small loans is false and misleading and designed only to get a headline.

An Annual Percentage Rate (APR) does not become meaningful until more than 12 months as it is calculated annually. Small Amount Credit Contracts (SACCs) are payable between 16 days and 1 year – therefore there is no meaningful annual percentage rate.

APR values are distorted for SACC loans, which are all repaid under 1 year.

If you compare annual rates in other industries, you'll get the picture. The hotel and parking sectors don't advertise an annual rate for their services. Imagine if consumers were quoted annual rates when paying for a hotel room - instead of $195 per night it would be $71,175 per annum.

And what if consumers were quoted annual rates when paying for parking - instead of $13 per hour it would be $113,880 per annum.

Consumer activists are misleading consumers and they should be held accountable. If as they claim, they are concerned about financial products that cause consumer harm, why aren't they dedicating the same amount of attention to highlighting the true costs of credit cards.

[1] https://ministers.treasury.gov.au/ministers/kelly-odwyer-2016/media-releases/government-response-final-report-review-small-amount

According to the Commonwealth Bank credit card calculator[2], paying back a $5,000 credit card making minimum payments of $100/month at an interest rate of 20.4 per cent, it will take you 9 years and 3 months to pay off the debt and you will pay $6,082 in interest. That's without taking into account any annual membership fees which might be applicable or any penalty fees for late payment etc.

Compared to a small amount credit contract or small loan, which is the only fully consumer protected financial product in Australia because unlike a credit card, a SACC loan is capped on all fees and charges and has a regulated credit period of no more than 12 months.

It also requires that full Responsible Lending Obligations are carried out for every application made for a SACC loan. This highlights the rigorous protections available to consumers who take out small loans as opposed to those who take out credit cards or continuing credit contracts whereby there are far fewer responsible lending obligations and assessment checks required.

A SACC (payday) loan is a small loan up to the value of $2000, must be repaid within 12 months, has a maximum establishment fee of 20% of the loan value with a maximum monthly credit fee of 4%.

Loans are regulated to ensure that for example if you borrow $100, the most you can ever repay is $200 including all fees and charges. The credit fees applicable to SACC loans also show that if consumers were to take out fewer and larger loans over a longer period that their cost of credit would increase dramatically.

This unintended consequence of the proposed legislative changes that the consumer activists are pressuring the government to enact is why the NCPA has been working to ensure all MPs are better informed about how the product works.

NCPA Chairman Michael Rudd said the industry has come a long way since the regulations were put into place in 2013. He is confident that ASIC now has the powers to better police any rogue companies who do not comply with responsible lending obligations and offer unregulated products which are not SACC (payday) loans.

Mr Rudd welcomes the government's desire to ensure whatever changes are made to the legislation this time around will ensure not only better protections for consumers, but also doesn't create greater financial exclusion and increase the cost of credit for everyday Australians who need more choices, not less.

These are the facts regardless of how many times those ideologically opposed to the small loans industry distort the numbers to suit their own agenda. SACC providers are regulated nationally and follow responsible lending laws to provide assistance for up to 3 million financially excluded Australians.

For more information please contact Michael Rudd, NCPA Chairman on 0401 695 030

[2] https://www.commbank.com.au/digital/calculators/credit-card-repayments/how-long