Submission on discussion document: Consumer Credit Regulation Review

Your name and organisation

Name	Terry Roper
Organisation	Acorn Finance

Responses to discussion document questions

Regarding the excessive cost of some consumer credit agreements

1	Do you agree that the problems identified with high-cost lending (even where it is compliant with the CCCFA) are significant? Do you have any information or data that sheds light on their frequency and severity?
	To say the problems caused by high cost lending are significant, when considering the entire cross section of borrowers, is to over-state the severity and seems to be based on opinion not data. *Undoubtedly there are some people who get into financial difficulties when they take out a series of short term loans with high interest rates, but in our experience, this is only a small percentage of the people who use this kind of borrowing.* *It appears a lot of the opinion that high interest loans are harmful is anecdotal and mainly from stakeholders who work in the budget advisory and consumer sectors who only see the small percentage who have problem debt. Is there any data that supports this opinion over the entire sector? Even the document "Review of Consumer Credit Regulation" June 2018 on p10 concedes there is little data on the extent of problem debt in NZ. And from the table showing types of debt held by Housing NZ tenants (p11), it can be seen there are more types of debt than just lender debt.* *The claim that rates are uncompetitive is misleading. The reason the interest rates are high for short term loan is because lenders need to cover costs and make a reasonable profit. For example, an interest rate of 500% pa applied to a loan for just 7 days, results in only 9.6% return to the lender. It follows that the cause of problem debt is not solely caused by high interest rates per se, but a multitude of factors.*
2	Do you support any of the extensions of Cap Option A? What would be the impact of these extensions on borrowers, lenders and the credit markets? Do you have any information or data that would support an assessment of the impact of these extensions?
	Option A seems reasonable as it stands. *Since "high-cost lenders" remains an undefined term, it's difficult to determine the impact of any cap extensions. It's also difficult for lenders to know what is an acceptable interest rate to charge. The only guidance we can find is in the Glossary of the Responsible Lending Code*

	which indicates high-cost credit agreements are those which charge an annual interest rate greater than 50%. *It's interesting to note that many mortgages with a 30 year term will pay more in interest than 100% of the original loan amount. This implies that the loan term is also an important factor in determining the cost of a loan.* *The extension to restrict further borrowing or have cooling off period would affect a significant number of borrowers as well as being difficult to manage from a lender perspective. A lender could easily comply with a stand-down period for current customers, however, at the time a borrower makes a request it would be difficult to know if they have a loan, and/or are in default with another lender. Even with the ability to review recent bank statements, it is not easy to determine if the applicant has other current loans. Would a national register of loans be a help here?* *Our experience indicates borrowers use short term loans to help them through a period of cash shortage and then cease borrowing. They realise this is an expensive way to borrow money, but it suits their needs for a season. To support this, our data indicates that 86% of our borrowers take out 3 or fewer short-term loans over the period of a year. Of these borrowers, the median number of days between the last payment of one loan to the start of a subsequent loan is 7 days. Because the median is the half way point of term length, it means that half of our clients who take out 3 or fewer short-term loans per year want to borrow again within 7 days. Having a stand-down period of greater than several days would significantly impact this type of customer because it often takes several months to work through a difficult financial situation which is the reason for borrowing in the first place.* *In addition, borrowers could easily modify their borrowing behaviour to work around any stand-down period e.g. alternating borrowing with several lenders or using family members to get loans on their behalf.*
3	Do you agree with our assessment of the costs and benefits of the options for capping interest and fees? Are any costs or benefits missing? Do you have any information or data that would help us to assess the degree or estimate the size of these costs and benefits?
	Option B would make it difficult for borrowers who want to borrow a small amount of money for a very short time because when the fees and interest rate are combined to form an EIR, this can make providing small loans for short periods uneconomic for the lender. *For example, assuming an EIR of 250%, a $200 loan for 1 week yields an income $9.59 or for 1 fortnight yields $19.64. Great for the borrower but they may struggle to find a lender who is prepared to provide such loans for the small return.* *Under an EIR capped regime, lenders would likely structure their loans to have higher fees and lower interest for very short-term loans and move to lower fees and higher interest for longer loans, all the while staying within the EIR cap.* *Option B to cap using an equivalent interest rate (EIR) is a weak concept because it combines both fees and interest together when they each serve different purposes. Fees are one-off charges that don't increase with the term of the loan, unlike the interest payable which*

increases as time goes on.

Capping the repayments at 100% of the principal amount would not have had any impact on customers in our business. We no longer charge interest over 50% pa, however, in the past we applied a voluntary cap for loans with interest rates set at 456%. The cap was based on restricting the payments to not exceeding the sum of the original total repayment amount plus 15% of the cashed advanced.

Example:

- *Client borrows $400 to be repaid over 6 weekly instalments*
- *Total of scheduled repayments is $572.88*
- *Calculate cap amount - 15% of $400 is $60*
- *Therefore, the total repayment cap is $572.88 + $60* ***= $632.88***

4 Do you have any suggestions for the design of options for capping interest and fees? If so, what would be the impact of your proposed design on borrowers, lenders and the credit markets?

Establishment fees should be capped separately from interest rates as in most other countries. The good thing about establishment fees is they are a one-off charge and don't get any larger as time goes by. Compare this to interest costs which continue over time and can become costly if the loan payments become overdue. In other words, the borrower is better off if the costs are split between fees and interest compared to solely interest and no fees, particularly if the loan payments become overdue.

A capped EIR would drive lenders to offer larger loans for longer periods by providing artificially low establishment fees and high interest rates. From a lender perspective, it's more profitable to have lower fees and higher interest for loans with terms over 4 weeks.

A lower EIR does not necessarily result in lower cost for the borrower. For some people needing temporary cash flow help, two consecutive smaller loans are a better option than one larger loan over a longer period.
For example, compare the costs of borrowing $1000 over 12 weeks with two consecutive $500 loans, each for 6 weeks. The $1000 loan with no establishment fee and 250% pa interest and 12 weekly instalments would cost the borrower $338.25. Compare this to a two consecutive 6 weekly loans of $500 with an establishment fee of $50 and the same interest rate of 250%. The total cost in interest and fees would be $291.76 - cheaper for the borrower, greater flexibility, less debt and a saving of $46.49.
The point is, the EIR for the $500 loans is 263% but cheaper for the borrower, verses 250% for the $1000 loan which ends up costing more.

To further illustrate the benefit of separating fees from interest, use the example of Option B in the table called "How would the caps work in practice?" on page 15. Compare 2 scenarios, the first with interest only costs of 250% pa and no fees, versus, the second scenario with an establishment fee of $50 and an interest rate of 44% (EIR 250%). If the borrower did not make any payments for 3 months, the outstanding balance for the first scenario would be $820. However, for second scenario, the outstanding balance would only be $601 – much cheaper.

Thus, if there are caps, they should apply to fees and interest rates separately. They need only *apply to small loans, such as in Australia where the rules apply to loans under $2000. This makes it possible for lenders to operate with reasonable returns. And by doing this, responsible, registered lenders are able to meet the market need for small loans without excessive costs to the borrower. The consequence of making small loans (under $1000) unprofitable for lenders will be a lack of registered, ethical lenders and will force borrowers to use black market lenders.*

5	Which interest rate cap options, if any, would you prefer? Which interest rate options would you not support? Please explain how you made your assessment.

Option A is best provided the potential extensions such as a limit on the number of loans and a cooling off period are not applied. These extensions would be difficult to control. If they are to be applied, Option B would be preferred instead.

Option B could be workable provided the cap on interest and fees are applied separately. The EIR option has flaws as outlined previously.

Option C is not viable because lenders of small loans still need to be profitable. There are virtually no current alternatives for borrowers who need small loans, especially if banks won't give them credit cards or overdrafts because of their previous borrowing defaults – poor credit rating. This means there needs to be options where people can borrow small amounts of money. In other words, don't shut down short term loans without providing an alternative.

Overall comment - a more prescriptive lending regime has merits compared with the current principle-based legislation because the ground rules are set and there is no guessing where the lending boundaries lie. There is limited clear guidance at the moment – only the 50% interest rate as defined in the Responsible Lending Code. It's illegal for lenders to collude to determine amongst themselves and reach consensus on what are reasonable interest rates and fees – thus lenders depend on guidance from the Commerce Commission, and there needs to be more specific guidance.

Regarding continued irresponsible lending and other non-compliance

6	If directors have duties to take reasonable steps to ensure that the creditor complies with its' CCCFA obligations, should any duties apply to senior managers?

Senior managers should be subject to the same or similar obligations as directors. In many cases, senior managers have control over the day to day operations and set the operating standards for lending.

7	If there are to be more prescriptive requirements for conducting affordability assessments, what types of lenders or loans should these apply to?

Affordability assessments should be carried out by all lenders regardless of the type of loan. Each type of loan has its own requirements and it's not just high cost loans that need careful

	affordability assessments. *Short term loans are just that – short term. Borrowers may be able to accommodate higher repayments by restricting other discretionary spending for a short time but not able to sustain the payments over a longer period.* *For longer term loans, a greater allowance needs to be made for change in circumstances. This means the regular repayments should be a lower % to income amount to allow for future unforeseen circumstances. The borrower needs to be able to demonstrate they can afford the repayments over several years for longer term loans.* *Before increasing a credit limit or the amount a borrower can borrow, a new affordability check should be carried out by a lender, not just reliance on their previous payment history. Circumstances can change for borrowers and these need to be taken into account.* *By capping the interest and fees many of the affordability issues identified in the discussion paper will disappear for higher cost loans. There will therefore be less harm to borrowers overall. For example, the need for prescribed affordability assessments would no longer be required.*
8	Should there be any change to the requirement that lenders can rely on information provided by the borrower unless the lender has reasonable grounds to believe the information is not reliable? What would be the impact of such a change on borrowers, lenders and the credit markets?
	Lenders should always validate the information provided by the borrower when assessing a loan application regardless of their circumstances. Borrowers are naturally inclined to present information is a way that supports their application and may distort some of the facts. Therefore, it is in both the borrower's and lender's interests to verify information provided and look for supporting information. *Changes to the current requirements would make it more difficult for borrowers to obtain easy credit. Lenders may have to increase fees to cover the cost of greater due diligence.* *Online lending is increasing and along with this is the ease of obtaining information about the borrower, especially bank statement information. There are providers in the market selling a service to lenders and borrowers that enables borrowers to easily send bank statements to lenders, with the bank statements summarised by spending category.* *Requiring more information from the borrower would have no impact on our business because we do this anyway. While we ask the borrower for information about their situation, in the end place more trust in independent sources such as bank statements and credit scores. And probably the same applies to many lenders.* *The other impact would be to borrowers with marginal credit records and/or who have evidence of poor money management. They are more likely to have difficulty obtaining credit if lenders were forced to gather prescribed information from independent sources.*
9	Do you consider there should be any changes to the current advertising requirements in the Responsible Lending Code? If so, what would be the impact of those changes on borrowers,

	lenders and the credit markets?
	The current advertising requirements seem adequate. If anything, direct marketing via emails and texts could more prescribed. We observe some loan brokers sending weekly invitations to prospective clients, encouraging them to apply for a loan whether they need money or not. *Language. Our business is concerned about the need to provide other language options/translator if loan applicants request it. This could be a burden on us and other lenders. If a language option is requested, it should then be reasonable that the lender refuses a loan to someone who has poor understanding of English, and for that reason alone.* *Third party advertising – our business is seeing an increasing trend of loan brokers advertising in the short- and medium-term loan market and then selling these leads to lenders. Since they are not lenders, they are not covered by CCCFA. We have noticed this trend more so in Australia. Loan brokers and other third parties should also be covered by the CCCFA advertising requirements. If not, it makes it more difficult for registered lenders to compete as the playing field is not even.*
10	Do you agree with our assessment of the costs and benefits of the options to reduce irresponsible lending and other non-compliance? Are any costs or benefits missing? Do you have any information or data that would help us to assess the degree or estimate the size of these costs and benefits?
	Most of the costs and benefits seem reasonable, further comment follows - *<u>Registration Option C,</u> comprehensive creditor licencing system would be quite costly and bureaucratic for not much benefit, especially when compared to Options A or B which provide similar benefits. E.g. Phoenix companies would be eliminated under Options A or B* *<u>Enforcement Option C</u> – substantiation obligation for lenders. Costs are likely to be significant for lenders, even if they currently have sound processes in place. It's one thing to have an internal process, but quite another to have to demonstrate this to people outside the company. Much more care is needed to be sure everything is done correctly. It also opens the door for rejected applicants to challenge the reason why the loan was declined and attempt to make adjustments to our assessment with a view to changing our mind.* *Furthermore, it will make lenders more risk averse for fear of making a mistake resulting in less lending to marginal borrowers. It's not uncommon for borrowers to plead with our staff for a loan after they have been turned down. It's not pleasant being tough and declining requests, especially if we want to help the borrower but decide not to because of their financial situation.* *<u>Enforcement Option D</u> – increase industry levy. Considering the number of lenders is quite low and could become lower, an additional levy would need to be high in order to generate sufficient funds to make it worthwhile.* *Good lenders would be subsidizing the cost of enforcement of bad lenders. It may not have much effect on compliance, just create more bureaucracy.* *<u>Enforcement Option E</u> – work with consumer advocates. By the time a consumer advocate is involved, the borrower is likely already in financial difficulties. Therefore, no impact on irresponsible lending.*

	<u>Responsibility Option A</u> – more prescriptive affordability assessments. A cost would likely be fewer borrowers would have access to funds when they need it. Creating a prescriptive regime to cover all lending segments would be difficult and invariably block some lending and make other types easier. A higher level, principle-based guideline would be more practical and fairer than a prescriptive option which would struggle to cover all situations.
11	Do you have any suggestions for the design of options for reducing irresponsible lending and other non-compliance? If so, what would be the impact of your proposed options on borrowers, lenders and the credit markets?
	<u>Registration Option A</u> – Commerce Commission ability to deregister. There would need to be another level of arbitration before a court review. Otherwise there is too much power with the Commerce Commission. An appeal process and/or the ability for lender to work with the Commerce Commission to become compliant is needed before deregistration. *<u>Enforcement option E</u> - working with consumer advocates. Consumer advocates would need to be registered or licensed so lenders would know if they are dealing with a bona fide advocate. Otherwise any small, irresponsible organisation could claim to represent a borrower and force the lender to provide information breaching privacy and other potential issues.*
12	Which options for reducing irresponsible lending and other non-compliance would you support? Which would you not support? Please explain how you made your assessment.
	<u>Registration options</u> A and B seem reasonable, although how to prove a person is fit and proper needs to be clarified. *Option C is more onerous but has merit. It should apply to all lenders, otherwise there will be a market advantage to certain types of lenders. It's unlikely this option in itself will make much difference to either benefit or detriment borrowers. Greater impact would occur through other proposals to lending such as capping fees, affordability tests etc. Most of the preamble in the review of consumer credit focuses on harm due to high cost lending, irresponsible lending and high fees. Strengthening by licencing lenders won't have much further impact after options A and B are implemented. Just add more bureaucracy.* *<u>Enforcement Options</u>* *Making the failure to test for affordability or suitability a criminal offence seems severe considering these assessments are somewhat objective and based on the current circumstances and the information (or lack of it) presented by the borrower. The lender can make reasonable inquiries but may not be able to find out all the pertinent information.* *The danger of pecuniary penalties is the lower level of proof needed to convince the court of irresponsible lending. The lender may comply in all respects except one and be prosecuted for this one offence. A better solution is to have an arbitration mechanism to sort out disputes between lenders and borrowers, not unlike the current complaints process. Modify the*

	legislation to allow complaints organisations such as FSCL to make recommendations on interest and fees.

Regarding continued predatory behaviour by mobile traders

13	Do you agree with our assessment of the costs and benefits of the options for covering additional credit contracts under the CCCFA? Are any costs or benefits missing? Do you have any information or data that would help us to assess the degree or estimate the size of these costs and benefits?
14	Do you have any suggestions for the design of options for covering additional credit contracts under the CCCFA? If so, what would be the impact of your proposed options on borrowers, lenders and the credit markets?
15	Which options for changes to cover additional credit contracts would you support? Which would you not support? Please explain how you made your assessment.

Regarding unreasonable fees

16	If prescribed fee caps were introduced, who should they apply to, and what process and criteria should be used to set them?
	Fee caps, if introduced, should apply to all lenders and third parties such as loan brokers. It would not be fair if only some lenders had fees capped and others did not. Since it is unclear which types of lenders are likely to have unreasonable fees, the rules need to be applied to all lenders. *Fee caps could be expressed as a percentage of the loan principal and have breaks according to the principal amount. For example, 4% for loans under $2000, 2% for loans between $2000 and $10,000 etc, and capped at a fixed amount, say $500. A table could easily be prepared by the Commerce Commission.*
17	Do you agree with our assessment of the costs and benefits of the options for capping interest and fees? Are any costs or benefits missing? Do you have any information or data that would help us to assess the degree or estimate the size of these costs and benefits?
	The concern that fees may rise to the caps is misplaced. If there are a range of credit providers, consumers could shop around for lenders who provide a lower fees and interest combination. Market forces would drive the costs down. Unless, of course, any new legislation

	is too restrictive and forces many lenders to exit the market which becomes less competitive because there are only a few lenders.
18	Do you have any suggestions for the design of options for reducing unreasonable fees? If so, what would be the impact of your proposed options on borrowers, lenders and the credit markets?
	Our suggestion to reduce unreasonable fees is to find the lending segments where unreasonable fees are a problem and focus there. It appears the Commerce Commission has limited information about where unreasonable fees are a problem, and so the question must be asked - who does know where the problem is and is it even an issue? *The current legislative requirement to set fees based on closely related costs is not onerous once the process is set up. Our business has created a spreadsheet to calculate the various fees based on our costs and loan volumes. This data takes only a few hours to update each time fees are reviewed. If the Commerce Commission provided a template, lenders could work these out easily and regularly.* *The current plethora of fees is in some way driven by current legislation which requires fees to cover only closely related costs. Since lenders can only apply costs that relate to that fee, a number of fees are introduced to cover costs of various processes. Hence there are default fees, direct debit fees, account admin fees, contact fees, fast payment fees etc which are implemented to cover the costs of various lending activities.* *A good example is default fees. The cost to advise a borrower and attempt to recover any overdue payments should be borne by the offending borrower, not spread over all borrowers. These costs are not permitted to be included other fees, for example in establishment fees.* *Third party fees – there is an increasing number of loan brokers advertising in the loan market, mainly online, and selling their leads to lenders. Since these brokers are not lenders nor closely related to any lender, nor covered by CCCFA, they can charge any fee they like without justification, and with no responsibility to properly assess potential borrowers. Thus, loan brokers need to be covered in any new legislation.*
19	Which options for changes to fees regulation would you support? Which would you not support? Please explain how you made your assessment.
	Our business supports Fees Options A requiring lenders to substantiate the reasonableness of fees. Guidelines to do this would be helpful *Option B – regulated fee caps should apply to all loans, and especially for smaller loans e.g. loans under $2,000* *We don't support Option C to disclose an EIR. In principle it seems good, but it is difficult to implement in practice. The EIR is dependent on the term of the loan if there is a fixed establishment fee. Advertising using an EIR is only valuable to consumers if all lenders advertise using the same loan term. To illustrate this point, consider a $5000 loan at 25% pa interest rate and $200 Establishment Fee has an EIR of 38.7% for a 6 month term, compared to 32.6% for a 12 month term. This makes it difficult for a borrower to determine which is the best option. The 32.6% looks cheaper but because of the longer term, it is more expensive.* *To make it easier for borrowers to compare lenders, the cost of credit needs to be clearly shown to potential borrowers. A loan calculator tool should be displayed on each lender's*

	website using a template or model approved by Commerce Commission. These tools are readily created and available for use by any lender. This would make it easy for borrowers to compare different lenders. Unfortunately, using a simple tool like EIR is not the answer because the EIR changes with the term of the loan.
20	Have you seen issues with excessive broker fees, or other unavoidable fees charged by third parties, being added to the loan? If so, are there any specific changes that should be made to the regulation of third-party fees? What would be the impact of these changes on lenders, borrowers and third parties?
	Third party fees – as mentioned in section 18, there is an increasing number of loan brokers advertising in the loan market, mainly online, and selling their leads to lenders. Since these brokers are not lenders nor closely related to any lender, nor covered by CCCFA, they can charge any fee they like without justification, and with no responsibility to properly assess potential borrowers. Thus, loan brokers need to be covered in any new legislation. *If third party fees are excluded from the lender's interest and fee caps, lenders will likely prefer to use loan brokers instead of paying for their own advertising, thus reducing their costs. Therefore, the broker's full cost, plus profit can be passed directly on to the borrower.* *The third party may even provide a financial incentive to the lender without contravening any law.* *Because loan brokers have expertise in finding potential borrowers, and with large scale, they could dominate the loan advertising market. (to see the trend, check out online loan advertising in Australia to see a significant portion of Google search results are loan brokers). Smaller lenders may choose to stop their own advertising and rely solely on leads from brokers. The lender will be able to pass on the cost of the lead directly to the borrower. By doing so it makes the cost of the loan more expensive to the borrower and the lender can capitalise the broker fee and earn more interest – more profitable for the lender.*

Regarding irresponsible debt collection practices

21	Is this an accurate picture of the problems for consumers experiencing debt collection? Do you have information that confirms or refutes these issues, or sheds light on how widespread or severe they are?
	It's difficult for us to assess how widespread or severe debt collection problems are. In our experience most defaulters want to settle their debts and it's just a matter of reaching a mutually agreed payment schedule. *However, there are borrowers who have no intention of paying back their loan and there needs to be sufficient means of coercion to encourage payments. Mostly this is the threat of higher costs, threat of a bad credit rating and eventually the use of a debt collector or court action.*
22	What information should be provided to borrowers by debt collectors? When and how

	should this information be provided?
	The borrower needs to be provided with a breakdown of the debt including principal, interest and itemised fees, including debt collecting fees. The borrower should also be entitled to a copy of the original credit contract if they have misplaced it. *This information should be available to the borrower on request at the time the debt is handed over to a debt collector. At the same time, information outlining the borrower's rights should be provided. Often this is difficult to do because the borrower does not respond to contact attempts using their preferred contact method. Other contact information such as address and phone number can change too making contact impossible.*
23	Do you agree with our assessment of the costs and benefits of the options for addressing irresponsible debt collection? Are any costs or benefits missing? Do you have any information or data that would help us to assess the degree or estimate the size of these costs and benefits?
	Option C – specifying contact limits between debt collector and borrower needs to be fair to both parties. If not frequent, the borrower can choose to ignore the debt. A certain amount of regular follow-up is needed to put pressure on the borrower. *Option D – debt collectors subject to CCCFA. This would significantly increase the costs of compliance for debt collectors at little benefit to the debtor* *Option E – collection fees to be cost based.* *Requiring the debt collector to earn income by charging the creditor instead of the debtor would be huge burden on the creditor. It would virtually take away any incentive to use debt collectors and subsequently encourage borrowers to default on loans and suffer no consequences. This is not a good option for the lending industry.* *Debt collectors play a valuable role in the business of recovering bad debts. Because they cover a large range of credit providers and other market players, they have much greater reach and a much greater ability to find and make contact with debtors than any individual creditor would have. Debt collectors should be able to earn a reasonable profit and the defaulting party should pay for debt collection costs.*
24	Do you have any suggestions for the design of options for addressing irresponsible debt collection? In particular, what is an appropriate frequency of contact with debtors before (and then after) a payment arrangement is entered into? Please state the likely impact of your proposed options on borrowers, lenders and the credit market.
	Regarding affordability assessments by debt collectors to determine payment amounts - when borrowers initially set up a repayment plan, they can put together a case where the payments are minimal based on inflating their spending just before an assessment is made. There needs to be provision to review affordability assessments regularly, say every 6 months with a view to increasing repayments.
25	Which options for changes to the regulation of debt collection would you support? Which

	would you not support? Please explain how you made your assessment.
	Options A and B are reasonable. *Option C could be OK if there remains reasonable contact frequency, say weekly.* *Option D is unnecessary* *Option E should not be contemplated.*

Regarding other issues

26	Are you seeing harm from loans to small businesses, retail investors or family trusts as a result of them not being regulated under the CCCFA?
	We have no experience in this sector except to add that we receive occasional loan applications from people who are self-employed.
27	Do you think small businesses, retail investors or family trusts should have the same or similar protections to consumers under the CCCFA? Please explain why/why not.
28	Are there any other issues with the CCCFA or its impact on vulnerable people that are not addressed in this discussion paper? If so, what options should MBIE consider to address these issues?

Any other comments

	We welcome any other comments that you may have.
	Consumer advocacy groups do a great job and need to be encouraged. However, like the Commerce Commission, they usually only see the bad stuff. Some of the clients they see may be victims of irresponsible lending, however, the numbers involved are unlikely to be representative of the majority of loans and lending practices. Because of their work advocacy groups are likely to have a biased view of lending practices. More data is needed to find the level of irresponsible lending in the market place – how big is the problem? It is likely there is a small number of lenders who do not lend responsibly creating extra regulation and compliance costs for all lenders. The best approach is to find the problem areas and target those, rather than attempt to regulate and control every aspect of all lending. *<u>Prescriptive affordability assessments.</u>* *Being too prescriptive could limit genuine borrowers from obtaining a loan. Reviewing bank*

statements considers only historical activity and does not take into account future income and expenditure. Generally, people need to borrow money because they don't have enough for their needs at that time. Therefore, a lender would not expect to see much of a surplus based on the borrower's historical accounts. If there is a large surplus, in theory, a loan is not required - just use the surplus. Some spending is discretionary and could be reduced to use the money to pay for loans. For example – living expenses such as luxury food, branded clothing, entertainment could be curtailed for a period to enable loan repayments. The point is, any prescriptive affordability test needs to take many factors into account and not just the recent past financial performance.

Borrower breaches – needs to be some method of ensuring borrowers supply correct information and not omit anything relevant. The police seem to not have enough resources to prosecute fraud. While it's difficult for us to be certain, we estimate we receive at least one fraudulent loan application per month. Further to this, 2.7% of our borrowers never make a payment on their loan with us. They do not respond to our efforts to contact them, or take up any offer we make to reduce payments. In our opinion, such borrowers never had any intention of making any repayments.