Document 11

Section 22 p1, p2

Section 22

The Enhancements Bill was introduced into the House of Representatives on 21 September 2011, and gives effect to Part One of Phase Two of the National Credit Reforms, in accordance with the decision of the Council of Australian Governments (COAG).

The Senate Economics Committee and the Joint Committee on Corporations and Financial Services made recommendations in their reports on the Enhancements Bill in December 2011.

Section 22

The majority of these changes are to the regulation of small amount credit contracts (SACCs), also known as 'payday loans'. I have conducted consultations directly with both consumer groups and these lenders, and their industry bodies. My office and Treasury have also consulted extensively with them.

Therefore, I propose to make the following key changes to the regulation of SACCs:

- The cap for SACCs is to be retained at the 20/4 level – that is, it is unchanged from the cap in the draft Parliamentary Amendments. This has been accepted as a level that will allow for the continued viability of some small amount lenders (although others will be required to exit the industry).
- The definition of a SACC is to be changed so that it is a contract with a minimum term of 12 months, rather than 24 months. This has been done as the 4% monthly fee allows for too high a return after 12 months. Both consumer groups and lenders agree with this change.

Section 22

Section 22

I consider these Parliamentary Amendments provide an appropriate balance between industry concerns and consumer protections, and ensure the Enhancements Bill will meet, to a greater extent, its policy objectives.

Section 22

***Table 1 - Amendments in relation to conduct obligations in relation to small amount credit contracts (SACCs)***

| *Amendment* | *Reason for amendment* |
|---|---|
| 1. The term for SACCs has been shortened from 24 months to 12 months, | Allowing lenders to charge a 4% monthly fee over 24 months resulted in too high a charge after 12 months. |
| 2. The cap for SACCs is to apply to both secured and unsecured loans. | This reduces complexity and enables lenders to apply the same formula to all loans under $2000 (although in practice there would be very few secured loans for amounts under $2000). |

Section 22 p6, p7, p8, p9