



***Comments on the exposure draft of the
National Consumer Credit Protection Bill 2009***

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Introduction

The Cash Store Australia Holdings Inc. (The Cash Store) operates 25 payday advance branches in the States of Victoria, Queensland, New South Wales and Tasmania, under the banner The Cash Store. The Company is publicly traded on the Toronto Stock Exchange, Venture Exchange (TSX-V), under the symbol “AUC”.

This presentation provides a brief overview of our company. We outline our commitment and approach to consumer protection and provide specific comments about “not unsuitable” and “capacity to repay” aspects of the exposure draft of the *National Consumer Credit Protection Bill 2009*.

About our company

The Cash Store was founded in 2003 in response to a high level of consumer demand for small-sum short-term loans. This high level of demand is globally well entrenched within capitalist democracies and widely dispersed across all income categories.

Consumer trends within Australia have mirrored those of the United States, Canada, the United Kingdom and other European countries where the payday

advance industry is already developed. The U.S. currently has approximately 22,000 payday advance locations. There are 1,300 in Canada.

The Cash Store primarily acts as a payday advance broker on behalf of income earning consumers seeking short term advances from willing third party lenders. We also broker mortgages and provide cheque cashing services.

In respect of a payday advance, customers are not required to provide a credit history or security on the loan, as is generally required by traditional banks. A first time loan can usually be arranged within 20 to 30 minutes of application.

In addition to our quick and easy application process we offer convenient locations and extended hours of operation, beyond what a bank would typically offer.

Although there has existed within Australia for some time a robust micro-finance industry, we believe that our payday advance product is differentiated from typical micro-finance products. We advance amounts that are smaller than a typical micro-finance loan and require a shorter repayment period.

Payday advances are primarily utilized for unforeseen emergency expenses like groceries or car repairs.

Unlike a credit card, line of credit or other forms of micro-finance, a payday loan is not a revolving facility designed to hold a borrower in a position of longer-term indebtedness.

Borrowers are required to repay their loans, in full, on or before the due date. Further credit cannot be advanced until these payments are made.

The relationship between the borrower and the lender or intermediary is typically short-lived, given the duration of the loan. While securing repeat transactions from customers is clearly a business necessity, the constant acquisition of new customers is a primary element of the business model as existing customers will inevitably outlive their need for short-term financing. A typical borrower will use a payday loan six times.

The bulk of our revenues come from a one-time brokerage fee secured from the customer immediately after the loan has been advanced. This is in contrast to a commonly held view about payday loans that the primary revenue stream is from hidden or undisclosed penalty or interest charges that customers incur after securing the loan.

Should a customer have second thoughts, they may rescind the loan within 24 hours of receipt, at no cost.

Overall, borrowers have responded favorably to this offering. The Company has been growing slowly since 2003, as we have been testing the waters to measure customer response.

We now believe that consumer demand is sufficient to warrant a major expansion. On May 20 we publicly announced our intent to grow to 300 branches across Australia within five years. We clearly favour fair and sound regulation because we think it is good for business.

Notwithstanding, as outlined in detail below, the proposed *National Consumer Credit Protection Bill* requires some amendment.

About our Commitment to Consumer Protection

Since inception the Cash Store has taken seriously its commitment to consumer protection. We believe firmly that protected customers are happy customers, and happy customers are good for business.

The Cash Store believes firmly that consumers have a right to demand full disclosure and transparency from service providers. Disclosure obligations should be comprehensive and appropriate, but not so detailed as to overwhelm

or confuse the customer. We believe that we have achieved this balance in our documentation.

Our associates are trained to be knowledgeable about the products that we provide. Before the conclusion of any agreement, our associates clearly explain to our customers the features and benefits of each product and the associated costs.

The Company practices full and accurate disclosure in all of its contracts. We do not impose hidden or undisclosed penalty or interest charges.

With respect to a payday advance, should a customer have second thoughts, they may rescind the loan within 24 hours of receipt, at no cost.

The bulk of our revenues come from a one time brokerage fee secured from the customer immediately after the loan has been advanced.

We are an active member of the National Financial Services Federation and subscribe to the Federation's Code of Practice.

We are a member of an External Dispute Resolution body with which customers may register grievances.

Our comments about the exposure draft of the *National Consumer Credit Protection Bill 2009*.

As a recent market entrant with ambitious growth plans we favour a well-regulated environment.

A licensing regime coupled with clearly articulated rules that are fair to lenders, intermediaries and borrowers, fairly administered by a central market-oriented oversight body are all necessary features of a well regulated market.

The Commonwealth's efforts to centralize the development, implementation and administration of consumer protection rules are welcome. Also welcome is the Commonwealth's objective of minimizing costs for businesses.

The turning over of administrative authority to an established market-regulator like ASIC should go a long way in this respect, providing certain aspects of the proposed Bill regarding *onus* are removed.

More specifically, the "not unsuitable" requirements appear to place too much onus on the lender for determining whether a loan is in the borrower's best interest or whether or not the borrower has a capacity to repay.

This is particularly the case in regards to payday loans, as the only form of “security” against the loan is a borrower’s pay cheque. No assets are put forth as a security against the loan. No assessment regarding a borrower’s debt-equity ratios are performed. No credit checks are undertaken.

Thus, the impact of the “not unsuitable” requirements will be two-fold.

First, administrative requirements for issuing a loan will be increased substantially, adding cost for the consumer.

Second, risk for the lender will be further restricted, reducing the flow of available credit. This will also increase the cost of available credit by forcing the lender to recoup costs over a smaller number of loans.

It is wholly unreasonable to expect a lender or agent of a lender to make a determination in a consumers’ best interest, particularly with respect to their capacity – or willingness to repay.

This determination can only be made at the precise moment that an advance is made. How a borrower behaves after the fact cannot be foreseen. Thus, as is contemplated by the exposure draft, “unsuitability” or capacity to repay is not an objective measure. A borrower’s capacity to repay is entirely based on the

subjective decision-making of the borrower, not the underwriting criteria of the lender.

The key mitigating factor in any transaction involving the advancement of credit to a borrower from a lender is the level of risk that the lender is willing to take and the price that a consumer is willing to pay for the lender's risk tolerance.

The lender's risk tolerance is developed through historical experience with categories of borrower, the rates of delinquency and default within that category of borrower and the overall capacity of the lender to recover initial loan capital within a reasonable period at an efficient cost. Underwriting standards and the identification of targeted borrower groups are constantly refined to arrive at an appropriate risk-reward balance.

Payday loans are characterized by two key features: they are quick and easy to apply for and arrange. From a lenders' perspective, the risk of default is substantially higher than for a standard unsecured bank loan but substantially lower than for a credit card.

Risk is mitigated by the fact that the loans are very small and notionally secured against an immediate revenue stream, the customer's next pay cheque. The overall amount of loan capital advanced is dispersed in small and differing amounts across a wide population of borrowers in a range of income categories.

Given the small sum nature of the loans involved and the short periods for which they are advanced, the high cost of the product relates primarily to the cost of administration, not the level of risk.

From a borrower's perspective the risk is also low. The small-sum nature of the loan involved presents no major threat to his or her financial health. The size of the loan is of insufficient magnitude to put a consumer into bankruptcy.

The fact that a loan must be repaid in full before a further loan can be advanced represents a form of discipline that borrowers welcome. Relative to a credit card, the potential for debt accumulation is mitigated by this disciplinary feature.

From a lender perspective, based on historical experience, the underwriting standards to support this model are basic. A customer must have: employment or a regular source of income; a permanent address; a bank account; a form of government-issued photo identification; references. How a customer chooses to spend his or money is at their discretion.

The small sum nature of the advance renders as both irrelevant and costly specific inquiries about how the money will be spent or repaid.

Any requirement that a lender or agent of a lender conduct credit checks or in-depth inquiries about consumer intentions will significantly drive up the administrative cost of the product. This cost will have to be borne by the consumer.

Further, the restrictive nature of the “not unsuitable” requirements will elevate the lenders’ risk because the risk of offending regulators will be high.

At present, consumers clearly have no issue with the risk profile of the product. However, because of the risk of offending regulatory requirements, lenders will significantly reduce the amount of capital advanced to consumers.

This is a much-needed, in-demand form of credit. But the cost of this credit will go up because lenders will have to recover their costs from a smaller number of loans advanced.

On this basis we recommend that the not unsuitable requirements be removed; or, in the alternative, that any provisions for civil penalties in respect of unsuitable transactions be removed.

Conclusion

The Cash Store is a proponent of centralized, fairly administered consumer protection rules for all financial services providers. These rules must take into account variations in credit product offerings. They must not have as an unintended consequence the penalization of payday advance providers. The small sum short term nature of the payday loan product precludes the use of extensive underwriting criteria or systems. Imposing such requirements on the industry will significantly elevate the cost of the product and restrict its availability to consumers.