

## News Release

30 May 2008

### **NAB to pilot fair loans in the fringe lending sector**

National Australia Bank (NAB) today launched a small loans pilot designed to introduce fairer lending into the fringe credit market in Australia.

Working with alternate credit provider, Mobile Finance Pty Ltd (trading as Money Fast), the pilot aims to demonstrate the break-even costs of offering short-term, small loans in the fringe credit market and to draw attention to the high interest rates and charges prevalent in that market.

The NAB Small Loans Pilot is not a commercial venture for NAB, but an extension of the bank's microfinance programs that aim to address financial exclusion by helping Australians access fair and affordable financial services.

Under the pilot, NAB will provide up to \$1 million in loan capital to Mobile Finance to fund small personal loans of between \$1,000 and \$5,000 on a break-even basis for a term of one year.

NAB Managing Director and CEO, Mr Ahmed Fahour, said that NAB believed there was a need for greater debate about the cost of providing small loans to people excluded from mainstream financial services.

"Many Australians cannot access credit through mainstream financial institutions due to their employment status, income levels, or poor credit history. People are often forced to seek finance from alternative sources such as fringe credit providers and pay-day lenders," Mr Fahour said.

"The fringe lending market has increased significantly in size and visibility in the past few years and has been rightly criticised for exploiting borrowers with high rates and charges.

"In states where there are no regulated interest rate caps such as Tasmania, Western Australia and South Australia; fringe lenders can charge annual interest rates as high as several hundred per cent," he said.

In addition, in States where interest rates have been capped at 48% pa<sup>i</sup>, some fringe lenders exploit regulatory loopholes that enable them to continue providing credit at great cost to their borrowers.

During the NAB pilot, loans will be provided and managed by Mobile Finance and offered for terms of 12 months at a break-even, nominal annual interest rate of 28.25%<sup>ii</sup> (comparison rate of 28.25% pa) via telephone and internet Australia-wide.

The break-even interest rate on offer by Mobile Finance is significantly less than the interest rate caps in place in some states and has been set so that the costs of providing the loans are effectively covered by interest income. On a \$1,000 loan, total payments over a year will be \$1,159.50, including interest payments of \$159.50.

NAB has released a breakdown of forecast costs and revenues used to calculate the break-even interest rate and will monitor and publish progress for duration of the pilot. The pilot will also be subject to a formal evaluation.

"We hope that this pilot will spark some debate about the true costs of fringe lending," Mr Fahour said.

An independent advisory group has been formed to monitor and report publicly on the pilot and comprises:

- Queensland Department of Justice and Attorney-General
- NSW Office of Fair Trading
- Consumer Affairs Victoria
- Good Shepherd Youth & Family Service

- Consumer Action Law Centre
- Griffith University
- Australian Financial Counselling and Credit Reform Association
- RMIT University
- Foresters ANA Mutual Society.
- CHOICE (Australian Consumers' Association)

### **Statement from the small loans pilot Advisory Group**

The Advisory Group supports the NAB Small Loans Pilot and its intentions to expose the costs of fringe lending; to draw attention to the high interest rates and charges prevalent with fringe credit; and to increase product diversity in this market.

While we support the NAB Small Loans Pilot and its intentions, our participation in the Advisory Group does not represent endorsement of fringe lending, Mobile Finance (trading as Money Fast) or Mobile Finance's loan product. Our role as an Advisory Group is to monitor the pilot and its performance and to report quarterly with our views and findings for the duration of the Pilot.

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More information including a profile of Mobile Finance, loan product details, a detailed breakdown of forecast loan costs and revenue, a report by Infosys on the fringe lending market in Australia, and the Advisory Group members and terms of reference is available at [www.nab.com.au/smallloanspilot](http://www.nab.com.au/smallloanspilot).

NOTE: The pilot will only look at one segment of the fringe credit market – loans between \$1,000 and \$5,000 for a term of 12 months. NAB notes that a high proportion of lending in the fringe credit market is, however, for payday loans of less than \$350 for short periods of two to four weeks.

### **Media contact:**

Kerrina Lawrence  
National Australia Bank  
T: (03) 8641 3409  
M: 0417 034 738

### **Background - NAB's commitment to microfinance**

NAB is committed to ensuring that Australians have access to fair and affordable banking services. In April 2006 NAB announced an investment of \$30 million over three years to further develop not for profit microfinance programs in Australia, to assist low income earners gain access to affordable credit and insurance.

NAB provides capital support (a \$10 million commitment to loan capital) for the No Interest Loan Scheme (NILS®), a community based program that provides interest-free loans between \$800 and \$1,200 for 12 to 18 month terms for individuals or families living on low incomes to purchase essential goods and services. NILS® was developed 26 years ago by Good Shepherd Youth & Family Services.

With Good Shepherd Youth & Family Service, NAB also provides Step UP loans, a low interest personal loan designed for people living on low incomes. The loans have a fixed interest rate of 7.24% pa (comparison rate 7.24% pa<sup>iii</sup>) for amounts between \$800 and \$3,000 and are available for terms of up to three years. Step UP is a not-for-profit program, first launched in 2004, it currently has over 800 loans written to the value of \$1.5 million.

NAB also offers microenterprise loans to help start up or support existing businesses for people on low incomes who have few or no avenues to access affordable business credit. This program was launched in March 2007 and currently has over 80 loans written to the value of \$1.2 million.

These microfinance programs are delivered on a not-for-profit basis as part of NAB's corporate responsibility. They carry subsidised interest rates and costs for the financial literacy support for recipients.



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<sup>i</sup> The annual interest rate cap of 48% includes fees in NSW and ACT, but in Victoria excludes fees and is for an unsecured loan. The Queensland Government has passed an Act to introduce a 48% cap, including fees.

<sup>ii</sup> The NAB Small Loans Pilot has been designed to operate with a "breakeven" interest rate where interest income effectively covers the costs of providing the loans.

This rate can only be determined by forecasting the cash inflows and outflows for a portfolio of loans. The rate is sensitive to the number of smaller loans in a portfolio.

When quoting interest rates, comparison rates are required to be quoted based on certain loan values and terms. 28.25% pa is the comparison rate based on a loan of \$2,500 over a term of 2 years with monthly repayments. Comparison rates take into account all interest and other fees and charges (other than government fees, charges or duties) payable during the life of the loan which are known at the date the comparison rate is calculated. WARNING: this comparison rate is true only for the example given and may not include all fees and charges. Different terms, fees or other loan amounts might result in a different comparison rate.

<sup>iii</sup> Step UP loan comparison rate based on a loan of \$2,500 over a term of 2 years. A comparison rate schedule is available from the community microcredit worker when you go for an interview. WARNING: This comparison rate is true only for the examples given and may not include all fees and charges. Different terms, fees or other loan amounts might result in a different comparison rate.

