PROVIC

provic
PROVINCIAL FINANCE GROUP
ABN 93 558 486 414

Senate inquiry into competition in the Australian Banking Industry

Submission on behalf of the Provic Group Inc and its members (**Provic**).

Provic welcomes the opportunity to make a submission to the Committee's enquiry into competition in the banking sector. We limit our comments to those aspects of the terms of reference directly relevant to our businesses and our own knowledge. In particular, the relative disadvantage suffered by regional customers in relation to banking facilities, which indeed was the basis of the formation of our original companies at the behest of senior Regional leaders and indeed members of state and federal parliament.

EXECUTIVE SUMMARY

1. The following document, in our view, highlights a number of disadvantages suffered by our companies as distinct from the major banks. This in turn disadvantages the regional economies which have come to rely upon the members of our group.

2. We demonstrate in this submission the impact of a number of government and regulatory decisions which place our members at a serious disadvantage.

3. Unlike most other financial institutions, our members are required to state in their advertising, that investors **"risk losing some or all of their principal and interest".**

4. The renaming of debentures issued by our members as Unsecured Notes is misleading.

5. The importance of these Provic companies has been repeatedly acknowledged by community leaders, politicians and regulators.

6. Provic companies are restricted to lending at 70% of valuation or in the case of residential property, up to 80%.

7. Provic companies have a self imposed, third tier of regulation via a code of conduct which is overseen by an internal regulatory committee.

8. Provic companies are well placed as vehicles for the investment of trust monies, superannuation funds, Farm Management Deposits (FMD's) (currently restricted to ADI's) and other like funds.

Background – THE HISTORY OF PROVIC AND ITS CURRENT MEMBERS

History

Provic, and the member companies, originated in country towns and regional centres in Victoria over 40 years ago in response to a demand in the local communities for more flexible lending and borrowing arrangements and the desire that investments be utilised within local community.

Historically, most of the companies have been associated with regional legal practices which had operated their mortgage businesses for in excess of 100 years, firms of long standing and which had historical and traditional lending mortgage practices.

Member companies issue debentures to investors, who are predominantly local people. The funds are then on lent to predominantly local borrowers who, for many reasons, are seeking an alternative to the traditional banking sector. For reasons of their own, traditional banks have not always supported regional business and farmers.

All member companies are unlisted public companies who hold an Australian financial services license.

All companies are governed by:

(a) their own internal procedures and policies;

(b) the regulations of Provic;

(c) the terms of their Trust Deed with an approved trustee;

(d) the terms of their own prospectus, which in turn is annually lodged with ASIC; and

(e) the *Corporations Act* 2001 (Cth).

The member company Trust Deeds provide a fixed and floating charge in favour of the approved trustee company over the assets and undertaking of the company and are supported, where applicable, by wholly owned subsidiary guarantees.

All member companies are based in regional Victoria and South Australia and New South Wales. The various regional centres which include member companies are:

Ballarat	Geelong
Bairnsdale	Bendigo
Hamilton	Yarrawonga
Benalla	Echuca
Colac	Forbes
Warrnambool	Sale
Wangaratta	Warragul
Casterton	Lakes Entrance
Mt Gambier	Daylesford

Due to the location of each company and the history of the group, Provic members are generally experienced lenders to regional borrowers, including the farming community.

Members lend predominantly against the security of real estate up to 70% of the value of the property and in the case of residential property, up to 80%.

The Provic Group are soundly based with a long history of secure investment and lending to members of regional communities.

PROVIC GROUP CONCERNS AND SUGGESTIONS

Introduction

The main issues of concern to members of the Provic Group are the advertising requirements and the proposed renaming of their debenture products as unsecured notes. We therefore seek your assistance to avoid unintended fallout with our companies, and offer our assistance by way of suggestions to help improve the situation. We have met with the Chairman of ASIC on these matters and are pleased to acknowledge that our concerns are under consideration.

We believe that the objective of the relevant regulatory guide -- RG 156, has been lost in its application, where it does not inform the investor of the real risk level, but purposefully warns them away from such products for investments. In this situation it is not achieving the real objective, and our companies are being harmfully disadvantaged.

The same can be said for the impact of changing the name of our debentures to unsecured notes. This potentially offers an over-warning for a product that, when described as an unsecured note, will misinform retail investors that there is - no security or less security than those of debentures.

Summary of Events Impacting on Provic Group Companies

The Provic Group of companies now consist of 10 individual member companies, down from twelve in 2008, which have had average deposits fluctuating as per the following table:

Average deposit funds per company member:

June 2007	$125.9 million
June 2008	$117.5 million
June 2009	$74.06 million
June 2010	$80.32 million

Debenture issuing companies have been impacted on severely by a number of Government initiatives and other events in the financial environment, which can be summarised as follows:

1. 2006, the Australian Government announces incentives, by way of tax concessions for the public to invest in superannuation funds. This legislation had a significant impact on all institutions (other than superannuation funds) which included debenture issuing companies, by way of withdrawal of funds, and thereby reducing liquidity levels. This had the impact on pouring funds into an overheated share market. It also severely disadvantaged our member companies notwithstanding the level of security and nature of our business.

2. 2006-2007, the collapse of Westpoint, and other so-called debenture issuing companies (ACR, Bridgecorp, Fincorp, etc) resulted in adverse media for all debenture issuing companies and not just the risk taking unsecured note issuing and risky end of the securities issuing market. ASIC'S Chief Economist, Mr. Alex Erskine, presented in Melbourne at a finance conference on "Recent Developments in Australian Financial Markets" on 2-3 June 2008, and reported in a paper titled; The Unlisted, Unrated Debentures Market, **"There were a number of common features of these failures: the failures were of property development companies involved mainly in residential property development and funds were raised from retail investors through the issue of debentures".**

   The resulting adverse publicity had limited impact on the level of investments in Provic member companies at the time, but it paved the way for the negative spin on debenture issuing companies, and that has impacted.

3. In 2007, the Australian Securities and Investment Commission react to the failure of companies like Westpoint, Fincorp, Bridgecorp and Australian Capital Reserves, by introducing a new compliance regime contained in RG 69 that identify 8 benchmarks for unlisted, unrated debenture issuing companies. These benchmarks, presented few problems other than introducing confusion to the retail investor, particularly with respect to disclosure of credit ratings, which become further confusing after the global financial crisis, where AAA credit rated companies collapsed whilst unrated companies have survived.

4. Along with the new RG 69 Compliance Regime, RG156 was introduced by the ASIC to promote investor understanding of debenture products and reduce the risk of miss-selling, by setting standards for issuers when advertising these products to retail investors. This required that all the advertisements for debentures should include a prominent statement to the effect that investors '**risk losing some or all of their principal and interest'.** Debenture advertising must state that debentures are 'not bank deposits', and should not suggest that they compare favorably to a bank deposit, or that there is little risk of the investor losing their principal or not being repaid. Advertisements for debentures should not state or imply that the investment is suitable for a particular class of investors. ASIC also decreed that it is misleading for debenture issuing companies to use words like **'secured', 'deposit'** and worse still '**no fees'** in their advertising. Many of these terms are excluded from use on the grounds that people may confuse them with banks, even after they are required to state prominently that they are not a Bank. This is discriminatory and restrictive as to the use of the English language.

   These policies have impeded the ability to raise funds by the issue of debentures for the members of the Provic Group because it deters rather than encourages or informs investors, especially where they have to display an advertising warning that investors are **'at risk of losing all or part of their principal and interest'**.

5. In 2008, the Federal Government offered guarantees for deposits with ADI'S (Banks, Credit Unions and Building Societies) but excluded other institutions, like debenture issuing companies under that guarantee, which contrasted to the broader guarantee offered by the New Zealand Government to their financial institutions including debenture issuing companies. This policy had a significant impact on reducing the funds deposited in debenture issuing companies. The members of the Provic Group saw the average deposits in their companies fall from <u>$118 million in 2008</u>, to <u>$75 million in 2009</u> as a result of the global financial crisis and being excluded from the government guarantee (only being offered to ADI'S, unlike in New Zealand).

   It would be appropriate for the government to announce that all other institutions may be considered to come under the government guarantee, as the New Zealand Government did.

6. In October 2009, the ASIC produced a <u>Consultation Paper 123</u> and <u>Report 200</u>, which identifies further proposals for changes, where in an effort to improve disclosure, an approach was taken to inform retail investors as to the safety levels of investing in companies that do not comply fully with any of the benchmarks. This consultation paper further proposes to change the nomenclature (naming) of the debenture issuing companies which will further confuse the retail clients. This renaming is based on the interpretation of the term, '*tangible property*', when it is applied in the context of S283BH of the Corporations Act. On this occasion, ASIC has chosen to offer a different definition of **'tangible <u>property</u>'** to that offered to ADI'S and in the international accounting standards, who treat all mortgage loans as '**tangible <u>assets'</u>** for their accounting purposes.

   The changing of the naming of the security from **'debentures'** to **'unsecured notes'** will undoubtedly put further doubt in the investor's minds with respect to the level of risk, which will ultimately make it more difficult to attract investor funds into debenture issuing companies. Many of the debenture issuing companies have been issuing **'debentures'** for 30 or 40 years, and it is believed that changing the naming of the security from **debenture to unsecured notes** would only confuse the investors, while implying a negative spin.

   The naming of our Debentures as Unsecured Notes is not an accurate description of our security as the company assets, including mortgages and cash at bank held by our companies, are charged in favor of our Trustees, with a first ranking charge, and the total of these assets are not exceeded by our liabilities.

<u>Summary</u>

The collective net impact of these government policies, and furthermore, the potential impacts of new Government initiatives identified, will have damaging effects on some debenture issuing companies which have a significant role to play in regional Australia and particularly, with rural lending where mortgage funds are required by borrowers, who do not meet the lending criteria of ADI'S and other major financial institutions, yet offer sound investments for mortgage loans.

Our main concerns

(a) Advertising

Regulatory Guide 156 was issued to impose advertising standards on issuers of unlisted debentures, with the intention of 'promoting investor understanding and minimising the risk of miss-selling'. The advertising standards for debentures are expected to give realistic impressions of a debenture, its features and risks, and in doing so are consistent with its prospectus. The following is a summary of advertising standards imposed by ASIC:

- All advertisements for debentures that are offered to retail investors should include a prominent statement to the effect that investors risk losing some or all of their principal investment. To do otherwise, will be considered to be misleading.
- Advertisements for debentures should state that the debenture is not a bank deposit, not state that a debenture compares favourably to a bank deposit, or say that there is no or little risk of the investor losing their principal and not being repaid.
- Should not state or imply that the investment is suitable for a particular class of investor.
- Statements in advertisements for debentures should be consistent with the corresponding disclosures of the subject matter in the prospectus.
- Statements made in response to enquiries (including telephone) are subject to the same regulation, regarding misleading and deceptive conduct, as the advertisements.

Even though a prominent statement has to be made to the effect that they are **`not a bank'**, and that the product is **`not a bank deposit'**, debenture advertisements should avoid using the following terms: 'secure', 'secured', 'guarantee', 'safe', 'deposit', 'first ranking', and 'no fees'.

This restriction can be seen as being oppressive for this segment of the industry, when they are common terms in the English language and not just identified with the banking industry. This is particularly so when **no other** segments of the finance industry, are restricted to the same advertising compliance, regardless of the comparative levels of risk.

Section 734 (6) of the Corporations Act relates to informing the retail investor by focusing on the importance of reading the issuers prospectus/disclosure document that contains information about risk management policies. This section of the act contrasts with the regulatory guide, RG 156 produced by ASIC, in relation to what would be described as misleading advertising. Given that regulatory guides are ASIC'S interpretation of the Corporations Act, does that mean that these interpretations then supersede the act? If this is the case, then it would seem not to be consistent with Section 734 of the Act, that simply stipulates, the availability of the disclosure document etc.

(b) Naming of Debentures

Section 283 BH of the Corporations Act prescribes the conditions on which a product can be called a ‘debenture’. Under the generic name of debentures (the corporations act defines a debenture as 'chose in action that includes an undertaking by the body to repay as a debt money deposited with or lent to the body’ in s9, where a chose in action is a right or tangible thing that is legally enforceable), there are three permitted descriptions for debenture-type products. These are: -

Mortgage Debentures ‘where first mortgages over land are made for loans to a maximum of 60% of their value, and the mortgage is made in favour of the trustee’.

Debenture **‘**if complies with mortgage debentures or, the repayment of debenture money has been secured by a charge in favor of a debenture trustee over ‘tangible property’ of the issuer, and where the value of the ‘tangible property’ that makes up the security for the charge must be sufficient to repay the debentures and any other liabilities of the issuer that rank in priority or have equal priority to the debentures’.

Unsecured notes ***or*** ***unsecured deposit note*** ‘if the above mentioned tests cannot be satisfied. It is interesting that here, ASIC are being seen to encourage the use of the term ‘deposit’, in describing a security which cannot be avoided in any advertising, yet on the other hand, they are asking issuers of debentures to avoid the use of the term ‘deposit’ in their advertising, as per RG 156. There appears to be an inconsistency here’.

As a part of the campaign by ASIC to improve retail investors understanding about the risk profile of various types of debentures, they have examined the naming of the various debenture products. This was done in a hope, to ensure that issuers correctly labeled certain retail products which are not secured by land or tangible property.

Five years ago, ASIC (refer to report 38) undertook a course of non-action over the interpretation of the definition of the term ‘ tangible property’, as it is applied to the qualification of the type of security that can be called a *Debenture*, as opposed to an *Unsecured Note*. At that stage, ASIC identified a divergences of views about the meaning of ’*tangible property’ (*which is not defined in the Corporations Act). On the narrow view, it means only assets having a physical existence and excludes ‘chooses in action’ like money, a receivable, a leasehold interest and even a mortgage over real property (but not the real property itself). On the wider view, tangible property is taken to be equivalent to the accounting concept of ‘*tangible assets’*, which broadly means all assets except intangibles. The wider view treats cash and receivables as tangible property.

Butterworth’s Guides, Legal Terms, 1998, define **‘property’** as “A word which can be used to describe every type of right (that is, a claim recognised by law), interest, or thing, which is legally capable of ownership, and which has a value.” Therefore, it does not just relate to real property as something that can be touched.

After five years (refer Consultation Paper 123) of no-action and deliberation, ASIC decided to accept the narrow view of the definition of tangible property, even though the international accounting standards, (that these companies are bound to), treats cash and receivables as tangible property/assets. There now appears to be two standards applied to this definition, which will only add to the confusion for the retail investor who needs a much more simplified nomenclature (naming), in order to allay any confusion.

ASIC accepts (refer to Report 38 - February 2005), that excluding the value of property as security, merely because it is not “capable of being touched” can lead to some peculiar results. It means, for example, that an issuer that on-lends to creditworthy borrowers (on a fully secured, first ranking basis) to finance the purchase of equipment, vehicles and even land, could not call its debt offerings ‘*debentures*’, because the issuer’s assets would only consist of the receivables and security interests created by that on-lending. In their view, this reduces the usefulness of the term *‘debenture’* as an indicator of the type of security behind it. Given that the definition provided by ‘Butterworth's Guides’ is clear and unambiguous, it is reasonable that we question as to how ASIC arrived at their interpretation. This approach also appears inconsistent with long held accounting standards.

ASIC (consultation paper 123) now considers, that a charge in favor of a debenture trustee over a loan receivable by a debenture issue, does not constitute a charge over the ‘tangible property’ of the issuer. This is confusing and difficult to accept when these companies hold security over land by way of first mortgage, and as a condition of the loans made to borrowers, there is a 30 day call up clause. From the point of view of providing security and comfort to a debenture holder/investor, this should offer less risk than what is being implied by ASIC’S insistence on using the term Unsecured Notes/Unsecured Deposit Notes, to describe debentures that hold security over real property as first mortgages, but do not comply with the definition of ‘mortgage debenture’. These companies contrast dramatically with those companies that are truly offering unsecured notes who hold no registered mortgages or security against their loans and, in many instances, their trustee does not hold a first ranking charge on behalf of investors.

ASIC has recently issued mandates, that Debenture issuing companies holding security of first mortgages over real property, and that have given the Trustee a fixed and floating charge over all of the assets of the company, where these securities or part of their tangible assets/property compliance, then they must refer to their product as an ***Unsecured Note*****,** and that this must be identified in their prospectuses, by July 2011. This description (of an unsecured note or unsecured deposit note/debenture) is not an accurate one for such products and is misleading to the investor, by overstating the perceived risk, and it is unfair and unreasonable for the issuer of such securities, because it disadvantages them in the marketplace. It disadvantages them by falsifying their true risk status and puts them in a market niche, where there may be an expectation to pay higher interest rates to attract funds, which they would have difficulty in lending in their style of business.

Essentially, these products will be called unsecured notes when they are actually secured against property.

Curbing the Uncertainty

While s283BH of the Corporations Act, and ASIC'S vigilant enforcement of it appears to have retail investor's interest in mind, it would seem that in certain circumstances the Acts requirement to use the word 'unsecured' in the description of debt products, apart from the potential to mislead, undermines investor confidence in financial products that do provide a degree of security. This would put ASIC in conflict with its own role as identified in section 1 (a) of the Australian Securities and Investment Commission Act of 2001.

The use of the term, debenture to offer a blanket description of the nature of the contract offered by the securities 'mortgage debenture', 'debenture' and 'unsecured notes', offers confusion to the ill informed investor by its own naming system. Chapter 2L of the Corporations Act is headed "Debentures", which describes the whole operation of these companies, and is predicated on the issue of debentures. The description of products in section 283 BH, incidentally, is headed "How debentures may be described", which seems at odds with the premise of the Chapter.

Given that retail investors are still going to be none the wiser, as to implied risks with the naming of products, it may be time for ASIC to reconsider how such descriptions ought to apply so that both issuers and investors know exactly what is being offered.

The renaming of debentures as unsecured notes, when they actually have the security of real property, will disadvantage those issuing companies by having to carry the negative description of 'unsecured notes', while they are actually secured.

Recommendations

1. Expand the institutions that qualify to accept superannuation, trust fund, and other deposits that are restricted to ADI's

2. . Improved nomenclature of securities issuing companies should assist the regulator to identify those more risky companies which have received media coverage as failing companies. This should also assist regulators to educate consumers.

3. ASIC have reviewed their benchmarks outlined in RG 69, and have indicated changes to some of the Benchmarks (for example Credit Ratings). This will assist in alleviating the confusion associated with the retail investor.

4. The restrictive requirement of the ASIC advertising regime identified in Regulatory Guide 156 has isolated debenture issuing companies from other financial institutions in an unfair way. In fairness, the playing field could be leveled in one of two ways. The first and most fair way, would be to remove the restrictive and negative advertising requirements, but still ensuring that investors are informed of the risks associated with all of their investments. Alternatively, it might be appropriate to implement the second suggestion, which is to expand the warnings to investors across all financial institutions and to possibly even include the ADI'S, regardless of the

different level of risk between them. Perhaps the most appropriate warning that retail investors should be given, is that ‘the higher the interest rate, the higher the risk. Therefore, familiarise yourselves with the disclosure statements.’ The current advertising constraints placed upon debenture issuing companies is dramatically skewed against them, given that other financial institutions, which include the stock exchange by direct or indirect trading in shares and/or derivatives etc, have caused greater financial grief to retail investors (and in particular to retirees and people contributing to superannuation funds) in recent times. This advertising requirement would serve well to offering caution, to the retail investor when considering their return for risk on their investment.

A stay should be placed on the advertising requirements for debenture issuing companies, until such time that all financial institutions are brought in line and/or the playing field is leveled, or a new risk rating or warning system is implemented. We believe that a risk rating system could be implemented, where the level of risk is identified with the type of business, to which investor funds are put. Clearly, developers have been identified as failing companies in recent times, so it seems over reaching to have included all other debenture issuing companies carrying the same risk profiles.

5. The Federal Government could rectify the imbalance that has disadvantaged Debenture issuing companies, and therein prevent the potential carryover effects of the government guarantee, by including those financial institutions that have survived the global financial crisis, such as Debenture issuing companies, like those in the Provic Group. It would add confidence to our financial industry. Alternatively, the government could announce that future guarantees may consider including other financial institutions such as debenture issuing companies, just as New Zealand did during the recent global financial crisis.

6. * The confusion that is predicted by the renaming of debentures (identified in consultation paper 123) as ‘unsecured notes’ can be prevented by a simple change in, or amendment to the Corporations Act s283BH, to include all ‘**choses in action**’ (which includes receivables including mortgages, as defined by Butterworth’s Guides), as **tangible assets** for the purpose of accounting and defining debentures. This would overcome the dilemma that ASIC have in interpreting the meaning of the Corporations Act since 2005 when they chose a no-action position in relation to the naming interpretation under s283 BH of the Corporations Act. The definition of a' chose in action ', in the Act, contrasts with the interpretation by ASIC, which makes it unclear and quite ambiguous.

   * Alternatively the definition could be changed to substitute the term **‘tangible <u>property</u>’**, with the term ‘**tangible <u>assets</u>**’, which would be defined according to the International Accounting Standards, where all mortgages and real property/money, receivables are identified as **<u>tangible assets</u>**, for the purpose of the definition of debentures under s283 BH of the Corporations Act. This section of the act now defines a security as a debenture if:- “(a) the repayment of debenture money has been secured by a charge in favour of a debenture trustee over **‘tangible <u>property’</u>** of the issuer and the value of the **tangible <u>property</u>** that makes up security for the charge is sufficient to repay the debentures and any other liabilities of the issuer that rank in priority or have equal priority to the debentures.”

* Another option would be to create a new division of security within the debenture classifications. It would be appropriate to offer a new category of debenture called **‘Mortgage Notes’ or ‘Secured Notes’ or ‘Secured Investment Notes’**, instead of a ‘debenture’ or ‘unsecured note’. This would be an appropriate description for the security type offered by the Provic Group, where the investment is secured by a charge in favor of the trustee and in addition, the predominant activity is lending against the security of mortgages over real property. It would be misleading to call such securities, unsecured notes, as they do not fit the definition as provided in common searches such as Google, financial dictionary, and Lexicon. These resources distinguish the differences between debentures and unsecured notes in the following terms:

- unsecured notes are not secured by the assets of the issuer
- unsecured notes offer higher rates of return than debentures
- unsecured notes have less security than debentures.

Further comment

The Australian Securities and Investments Commission Act 2001 -- section 1, states that in performing its function and exercising its powers, ASIC must strive: to

(a) “maintain, facilitate and improve the performance of the financial system and the entities within the system in the interests of commercial certainty, reducing business costs, and the efficiency and development of the economy; and

(b) promote the confident and informed participation of investors and consumers in the financial system; and

(c) administer the laws that can flow functions and powers of it effectively and with a minimum of procedural requirements.”

Regulatory guides are produced by ASIC to give guidance to regulated entities by explaining when and how ASIC will exercise specific powers under legislation (primarily the Corporations Act).

The implementation of Regulatory Guides, 69, 156 and Consultation Paper 123, are certainly within the bounds of clause (b), but it might be argued that it has little to do with the functions identified in clause (a), above.

Further clarification

For clarification, Regulatory Guide 156 refers to debenture advertising, and contains an oppressive requirements for debenture issuing companies to warn investors that ‘they are at risk of losing all or part of their principal and interest for their investment’, when advertising or promoting debentures. This requirement makes it very difficult for existing debenture issuing companies to advertise their products, and makes it almost impossible for a start-up company to gain any traction in the market by attracting investors. This burden implies that no new companies should be allowed to establish themselves. Competing financial institutions are not required to provide these warnings, despite the fact that they expose investors to risk of losing part or all of their investment. This has skewed the market place in favor of other institutions, while reducing competition for retail investors in the market, and producing a detrimental effect on a segment of the industry (debenture issuing companies), who are important to regional economies.

ASIC appropriately identified that those companies that failed (eg.Westpoint, Fincorp, Bridgecorpe and ACR) were companies that:

raised the money for their own ventures (not at arm's length);
raised the investor funds as seed capital for risky developments;
generally exposed more than 70% of the raised capital to the risk.

The causes of the problems were identified as above, however ASIC have over reached in their corrective processes as identified in Regulatory Guides, 69, 156, and as expressed in Consultation Paper 123.

A member of this committee identified to the Chairman of ASIC at the Senate Economics Estimates hearing on Tuesday, 1/6/2010 (Hansard, pages E126 - E130), that companies within the Provic Group surviving the global financial crisis, were prudent in their operations and they have a third tier of regulatory responsibility to adhere to, and that those companies that have survived, should be treated as less risky, particularly where, as Mr D'Aloisio suggests, the type of security is in the form of real estate. It is hoped that this enquiry could greatly assist industry and competition by reviewing some of the matters identified above.

The vehicles made available to the Banks for raising funds from the public should also be made accessible to Provic companies, by giving access to Trust Funds, Registered Superannuation Entities, et cetera. The exclusion of our entities suggests that regulators do not consider such entities as safe havens, in which case, they should be questioning our operation. Alternatively, they should accept the prudential guidelines of our company operations, and allow them to be included as deposit takers in areas that they are now excluded from. This will increase competition for raising funds in the marketplace, which will in turn benefit consumers.

It needs to be noted also that the Provic model is one offering security with no unsecured lending, which compares favorably with the banks. Additionally, Provic companies only lend to a maximum level of security as previously referred, LVR, as distinct from the Banks, Credit Unions and Building Societies. This would clearly support a case to become RSE'S ("Registered Superannuation Entities"), and entities to hold FMD's and Trust Fund deposits. There may even be other types of deposit taking facilities that organizations, such as Provic, should be able to provide offering further competition in relation to the banks and for the benefit of competition and business generally.

We appreciate your consideration of the above matters, and will make ourselves available to elaborate, if required.

PROVIC Group Inc.

President: Neville Smith
Vice President: John Stephenson
Treasurer: Hugh Macdonald
Secretary: Tony Ruvolo
Email: **ajr@winsec.com.au**

P.O. BOX 1221
WANGARATTA VIC 3676

Telephone: **0357215200**
Facsimile: **0357214200**

Attached: Annual Report 2010