Westlawn FINANCE LIMITED
[redacted]
ABN: 19 096 725 218   Australian Credit Licence No 387844

24 May 2013

Mr Neil Grummitt
General Manager, Policy Development
Policy, Research and Statistics
Australian Prudential Regulation Authority
GPO Box 9836
SYDNEY NSW 2001

Email   exemptiondp@apra.gov.au

Dear Sir

Re: Discussion Paper; Banking Act exemptions and section 66 guidelines

Thank you for the opportunity to make a submission on APRA's Discussion Paper on Banking Act exemptions and section 66 guidelines.

As a general proposition, Westlawn Finance Limited (WFL) welcomes the introduction of reasonable regulations and reforms that might strengthen industry participants and provide additional protection for investors.

By way of introduction, WFL is an RFC that has been in operating in Northern NSW for over 45 years, with our head office located in Grafton. Presently WFL has on issue approximately $164m in the form of unsecured notes, $20m of which is on an "at-call" basis. WFL has never defaulted on any of its obligations under its trust deed and has always satisfied all payments of principal and interest to its investors on a timely basis as required.

At-call products

APRA's paper proposes that all debenture offerings would be required to have a minimum initial maturity period of 31 days and would not be able to be redeemed for 31 days from the date they are invested.

The ability to offer an unsecured note which is available at-call is an important part of WFL's business model and funding strategy. We oppose this change on the basis that it will remove the ability to access a cheaper source of funding which in turn generates stronger profits and better investor protection. The additional cost upon the removal of at-call funding would not be recoverable from other sources due to the very competitive nature of lending in the domestic market place.

By way of simple illustration, if WFL were required to substitute $20m of at-call funding with an alternative term debenture with an additional cost of 180 basis points (which is indicative of the current spread between at-call and term at the present time), then the additional funding cost would amount to $360,000. This cost would not be easily absorbed or recovered and would result in substantial changes to business operations including staff rationalisation in order to justify ongoing viability.

APRA's proposal also states that an RFC would be required upon maturity of a debenture to either repay an investor to an account with an ADI, or to roll the investment for a further term of at least 31 days if the investor has requested that its investment be rolled over. Under the terms of issue detailed in the company's Prospectus, if a noteholder fails to request redemption prior to the maturity date, the investment is rolled over for an equivalent term at the prevailing interest rate. This is clearly documented and disclosed throughout the Prospectus and is also detailed in letters sent to investors prior to maturity. We seek clarification as to what form a request by an investor needs to be made, and whether the long standing practice as described above would be permitted to continue.

We also seek APRA's clarification of the following examples.

Example 1
Our policy is that we allow early redemption of term investments in the cases of unforeseen or exceptional circumstances of hardship, or in the event of the death of the noteholder.

In the situation as described above, please confirm that a noteholder would be permitted to redeem their investment, notwithstanding that the funds may have been invested for less than 31 days.

Example 2
Assuming the initial investment period of 31 days has passed and the investor chooses to rollover their funds for a further 31 day term.

Given the funds in the example above have now been invested for more than 31 days, can the investor redeem (subject to the consent of the issuer) their funds within the new 31 day term of the original investment?

Transition

We note that APRA proposes that these new requirements would take effect from 1 July 2013 with a three year transition period for existing issues in which to become compliant. We also note APRA's preliminary response dated 24 May 2013 (today) noting the revised timing for at-call investments.

APRA's proposal is that from 1 July 2013 no new at-call accounts are to be accepted by RFC's and existing accounts at 30 June 2013 may continue to be operated at-call until 30 June 2014.

We take this to mean that investors that have an existing account in place as at 30 June 2013 will be able to continue to add to and withdraw from their existing at-call accounts in the manner in which they have previously done, up until 30 June 2014. Please confirm or otherwise clarify.

The issue of a discussion paper by APRA on 19 April 2013, a submission closing date of 24 May 2013, and a proposed implementation date of 1 July 2013 is an unacceptably short period of time for any business to be able to adjust its operations in such a substantial manner. We would suggest an implementation date of 12 months from the date of issue of the revised exemption order would be a more reasonable time frame given the substantial potential impact of the changes proposed.

Yours faithfully
Westlawn Finance Limited

Andrew Hayes
Director & CFO