



Commercial Asset Finance Brokers Association of Australia Limited

ACN 129 490 133

National Professional Body of the Equipment Finance Industry

12 February 2008

**Senior Project Manager (Credit)
Policy & Strategy Division
NSW Office of Fair Trading
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PARRAMATTA NSW 2124**

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Dear Sir or Madam,

RE: National Finance Broker Regulation

The **Commercial Asset Finance Brokers Association of Australia Ltd (CAFBA)** welcomes the opportunity to comment on the National Finance Broking Scheme Consultation Package.

CAFBA represents Finance Broking firms whose principal activity is securing credit for the acquisition of an asset (other than real property) for use in the customer's business or the business of a related body corporate. This market is referred to in this submission as the "Equipment Finance" market, and CAFBA is the only professional body in Australia which is specific to Equipment Finance brokers.

CAFBA is the result of a recent merger between the **Australian Asset Finance Association (AAFA)** and the **Australian Equipment Finance Association (AEFA)**. Since 1981 these two state-based bodies have respectively comprised the significant Victorian and NSW based broking firms in the Equipment Finance industry. Now represented by **CAFBA**, member firms conduct the majority of their business in the fields of commercial equipment and vehicle financing (not UCCC car loans). CAFBA now represents more than sixty member firms, comprising approximately 400 individual business writers. The combined annual volume of Equipment Finance transactions arranged by CAFBA members is approximately \$4 Billion per annum.

CAFBA has studied the “National Finance Broking Scheme Consultation Package” released by the Ministerial Council on Consumer Affairs in November 2007, and for reasons detailed below, believes Equipment Finance Brokers should be specifically excluded from the proposed legislation.

In support of that view, we note the following:

- Both the Draft Bill and preceding discussion paper dated October 2004 are concerned with market failures which occur outside the Equipment Finance Industry.
- Virtually all references to “Brokers” in the draft Bill relate to the provision of home loans and the activities of Mortgage Brokers. Case studies and market failures cited in the paper are all specifically drawn from the Mortgage industry, and bear no relevance or similarity to the Equipment Finance Broking profession.
- Remedies proposed for the Mortgage Broking industry would have adverse cost and time implications to Equipment Finance brokers, which would only serve to constrict commerce within the small to medium business sectors without delivering any corresponding benefit.
- There is simply no substantial market failure in the Equipment Finance market, and therefore no justification for the impositions associated with the draft Bill. In support of this claim, we attached a letter from Amanda Smith of Insurance Advisernet confirming that there have been no successful Professional Indemnity insurance claims against CAFBA members since the inception of our own Professional Indemnity Insurance scheme.
- The draft Bill proposes that a minimum education (Certificate IV) standard be required by brokers. However CAFBA already applies a minimum education standard to Equipment Finance Brokers and runs a number of relevant, approved courses in partnership with Omega Performance. Details of these courses are contained in this submission.
- The draft Bill proposes mandatory Professional Indemnity (PI) Insurance for brokers. However CAFBA already operates its own, industry specific PI scheme, details of which are contained in this submission.

The major distinctions between Mortgage Brokers and Equipment Finance Brokers are as follows:

- The October 2004 discussion paper noted that there is no ongoing relationship between the Mortgage Broker and client (Section 2.7.1) and that Brokers may average one loan per client per seven years. This is true of Mortgage Brokers, however ongoing relationships are integral to the Equipment Finance Broker’s business. To properly act on

a client's behalf it is common for Equipment Finance Brokers to arrange and manage multiple credit facilities as instructed by clients, where the ability to settle immediately is critical to the client's business.

- Equipment Finance Brokers generally become an ongoing service provider and confidante of the client, whose ability to arrange ongoing Equipment Finance facilities is integral to business operation and growth.
- Equipment Finance Brokers generally have career backgrounds in Banking and Commercial Finance. By necessity they have a strong understanding of the general business, taxation and accounting principals relevant to Equipment Finance. Without these attributes they would fail in the commercial finance market. CAFBA's anecdotal observation is that there is a far wider competence range in the Mortgage industry, and that Mortgage Brokers are not always drawn from relevant careers. Many employment advertisements for Mortgage Brokers boast "no experience necessary".
- Further, Equipment Finance Brokers' clients are generally business operators who possess the necessary business, taxation and accounting acumen necessary to understand the commercial finance agreements they are entering into. By contrast, property borrowers seeking assistance from Mortgage Brokers often do so because they do not understand the principals or obligations relevant to them, and are more reliant on advice from the Mortgage Broker.
- Importantly, within the Equipment Finance Broking profession there is no identified market failure, and there is clearly no requirement for remedies designed for Mortgage Brokers.

In order to exclude fringe operators from the Equipment Finance Broking profession, CAFBA and its predecessors have adopted a self regulatory approach to maintaining ethical and probity standards. Accordingly the following initiatives and customer protection mechanisms are already in place:

1. Members are subject to a strictly enforced Code of Conduct and membership requirements including police and credit checks.
2. CAFBA has initiated and successfully set up a Professional Indemnity Insurance scheme specifically for Equipment Finance Brokers, which attracts far lower premiums than Mortgage Brokers as participating underwriters have concluded Equipment Finance Broking presents fewer risks.
3. CAFBA has an established Disciplinary and Ethics Committee.

4. As mentioned previously, CAFBA has an established Tertiary Education Program in partnership with Omega Performance. Details of programs are included in attachments to this document.
5. In response to Anti Money Laundering (AML) Legislation, CAFBA has procured Anti-Money Laundering and Counter Terrorism Financing training to ensure member compliance with the AML/CTF Act 2006. CAFBA members will have to complete this training to maintain their CAFBA membership.

It is because of this level of probity that regulators have largely been unconcerned with the Equipment Finance Broking profession. Indeed from CAFBA's enquiries to the Victorian Department of Justice, it has become clear that complaints against Equipment Finance Brokers are either non-existent or so infrequent that the Department had virtually no knowledge of our industry.

If enacted in its current form the draft Bill will have the following detrimental implications on Equipment Finance Brokers, and their commercial customers:

- Unlike Mortgage Brokers, who have weeks and months to arrange settlement, Equipment Finance transactions often need to be discussed, approved, documented and settled within a matter of days (sometimes within one day). The disclosure requirements of the draft Bill (as proposed) would be logistically impossible in most instances, and impose time delays and costs, which would be to the detriment of the commercial borrower.
- While CAFBA notes the draft Bill's Exemption for Big Business (Section *7 (2)), our research suggests that 96% of businesses will fall outside the big business exemption, which in turn means virtually every Equipment Finance transaction will be subject to the draft Bill's disclosure provisions, both before and after arranging each Equipment Finance settlement
- Equipment Finance Brokers meet the business community's need for prompt service, and the imposition of Finance Broking Contracts or two added stages of disclosure would double the time taken to arrange each transaction, destroying the Lease Broker's business and actually disadvantaging the client who relies on the Lease Broker's service.

COSTS

- Every Equipment Finance transaction involves five separate processes, being Application, Approval, Documentation, Execution, and Settlement. Compliance with the draft Bill's disclosure requirements will add two further processes to every transaction. These additional processes relate to disclosure both before and after settlement.
- CAFBA has fully costed the impact of these processes and believes the cost of every transaction will increase by a minimum of \$250, which by necessity will be passed on to customers.

- Based on the number of Equipment Finance settlements handled by CAFBA members annually, the aggregate cost to business would be in excess of **\$15,250,000 per annum**. CAFBA simply cannot absorb that cost, which would be passed on to business operators and subsequently passed on to consumers.
- Further, the draft Bill proposes compulsory membership of an External Dispute Resolution Scheme (EDR). Based on application and annual membership fees, CAFBA's member firms would face an average EDR compliance cost of \$7,260 in the first year, and \$3,906 for every subsequent year.
- CAFBA's Professional Indemnity insurance providers are yet to calculate the cost impact on PI premiums, however they advise that any increase in the compliance burden of Equipment Finance Brokers can only increase the risk to insurance underwriters and premiums would increase accordingly.
- Most importantly, in the absence of any existing market failure, all of these imposts would provide **no corresponding benefit** to either business operators or consumers.

In conclusion, CAFBA recommends that Equipment Finance should be clearly excluded from the draft Bill, and respectfully submits the attached "Proposed Draft Exemption - Equipment Finance Brokers" for inclusion in the Bill.

CAFBA would be very pleased to offer its expertise on any amendments relevant to the commercial Equipment Finance industry. The current contacts for further discussion are:

President	David Gandolfo	Phone (03) 8420 9612
Vice-President	Terry Moody	Phone (02) 9439 6699

Yours faithfully,

Commercial Asset Finance Brokers Association of Australia Ltd

Original Document signed

Original Document signed

David Gandolfo

Terry Moody

President

Vice-President

Ph (03) 8420 9612

Ph (02) 9439 6699

Attachments:

- 1. Proposed Draft Exemption - Equipment Finance Brokers**
- 2. Letter from Insurance Advisernet re CAFBA PI Scheme.**
- 3. Notes Re CAFBA Education Programs**

Proposed Draft Exemption

Finance Broking Bill 2007

Schedule 1 – Exemptions

Paragraph 6: Asset Finance Broking Services

1. This Act does not apply to the provision of asset finance broking services. A person provides an asset finance broking service if, in or from this jurisdiction, the person:
 - (a) provides advice or assistance to another person (customer) or;
 - (b) acts as an intermediary between a customer and a credit providerfor the purpose of securing credit for the acquisition of an asset (other than real property) for use in the customer's business or the business of a related body corporate.



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AUSTRALIAN FINANCIAL SERVICES LICENCE NUMBER: 240549
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7th February 2008

Commercial Asset Finance Brokers Association of Australia Limited
Attention : Mr David Gandolfo - President
2/230 Church Street
RICHMOND VIC 3121

Dear David,

Re : CAFBA Members Professional Indemnity Insurance

Following is an overview of CAFBA (formerly AAFA & AEFA) member's professional indemnity insurance.

The insurance facility was established in Victoria (AAFA) in March 2005 and in NSW (AEFA) in August 2006. Following the consolidation of both Associations to form CAFBA, the members insurance policies have now been aligned to a common due date of the 31st March 2008.

Vero Insurance Limited has continued to support the member's insurance arrangements since established in 2005. The insurer's policy coverage is of the highest quality, being one of the broadest policies available in the insurance market and their premiums are extremely competitive due to their expertise in this area.

Over the last 3 year, both the members and the insurer have been extremely satisfied with the arrangements. Following is a brief outline of the insurance history:

Level of Cover:

- Professional Indemnity Insurance
- Limit of Indemnity - \$2,000,000 any one claim

Year	Number of Insured Members (AAFA & AEFA)	Claim Notifications	Successful Claims
2005	33	Nil	Nil
2006	84	2	Nil
2008	109	3	Nil

There have been several notifications of potential claims from member's as detailed above. As a result some legal costs incurred by the insurer however all matters have been finalised in the members favour. Vero Insurance Limited have confirmed that they will be continuing to support the members insurance for the forthcoming year based on the current premium rates as per the prior years.



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If you have any queries or would like to discuss this matter further, please do not hesitate to call.

Kind regards

AMANDA SMITH

Adv. Dip. Fin. Serv. (Broking), QPIB
Authorised Representative No: 291226

NOTES RE CAFBA EDUCATION PROGRAMS



CAFBA and its predecessors have already addressed education standards within the Equipment Finance Broking profession, and imposed minimum education and experience requirements on members.

In its 2005 broker legislation response, AAFA provided information on the Diploma of Business (Asset Finance) course provided by Swinburne University of Technology. The Swinburne course was only available on campus, and so only members located in the Melbourne area were able to take up the course. CAFBA has now comprehensively updated and replaced this course with an online training program delivered by Omega Performance.

Omega Performance was established in 1976 and is endorsed by the Australasian Institute of Banking & Finance, and the International Association for Continuing Education and Training. The CAFBA program comprises four courses:

- * Asset and Equipment Finance (AEF)
- * Business Lending Fundamentals (BLF)
- * Financial Accounting for Lenders (FAL)
- * Commercial Loans to Business (CLB)

The program has been designed to allow flexible study patterns and cater for the geographic spread of course participants. The three accounting and lending modules are broken down into units of study to allow for flexible study and assessment.

Omega Performance courses are recognized by Universities in Australia and students can apply for advanced standing at the undergraduate and postgraduate level upon successful completion of the courses.

Course information below

CAFBA is very aware of its responsibility to provide relevant and comprehensive industry training to its member base. As further evidence of this approach, CAFBA has procured Anti-Money Laundering and Counter Terrorism Financing training to ensure member compliance with the AML/CTF Act 2006. CAFBA members will have to complete this training to maintain their CAFBA membership.

Asset Finance and Equipment Module Content:

Module No.	Module Title	Module Overview	Module Description	Suggested Study Time
	<i>Introduction to Asset and Equipment Financing</i>	This introduction session provides participants with a brief overview of the changes in the financial markets over the last several years and the difference in product groupings. It also touches on the competitive marketplace and the types of asset and equipment products that will be covered in this module.		15 minutes
1.	<i>Industry Organisations and their Roles</i>	This unit introduces the major federal regulations in which the financial system in Australia operates. Participants will learn about the Reserve Bank of Australia (RBA), the Australian Prudential Regulation Authority (APRA), the Australian Securities and Investment Commission (ASIC) and the Australian Competition and Consumer Commission (ACCC) and how these bodies influence the finance sector		15 minutes
2.	<i>Asset & Equipment Financing Products</i>	<p>Section 1: Finance Lease</p> <p>Section 2: Novated Lease</p> <p>Section 3: Commercial Hire Purchase</p> <p>Section 4: Chattel Mortgage</p> <p>Section 5: Escrow Finance</p> <p>Section 6: Rental/Operating Lease</p> <p>Section 7: Marine Finance</p> <p>Section 8: Aviation Finance</p> <p>Section 9: Small Ticket/Lo doc Loan</p>	<p>Each of the product sections includes :</p> <ul style="list-style-type: none"> - Key features and benefits of the product - Payment structure and implications - Ownership Status - Security and guarantees - Taxation benefits - Who should use the product - Comparison with other products - Practice exercises and answers 	Up to 30 minutes per product
3.	<i>Educating the Client</i>	Provides the participants with a brief overview of strategies to effectively prepare for the client contact, how to conduct a successful meeting		Approx: 30 minutes

		following a process and account management.		

Business Lending Fundamentals Module Content:~

Module No.	Module Title	Module Overview	Unit Description	Suggested Study Time	
				Online	Print
1.	Learning About the Business <i>Member Price: \$120</i> <i>Pre Test Cost: \$35</i> <i>Post Test Cost: \$35</i>	Addresses how to conduct a preliminary assessment of the business and the loan opportunity, including forms of business organisation and key information to gather during the initial contact	Unit 1: The Borrower's Business Unit 2: Gathering Information	1 hours	1.5 hours
2.	Understanding Business Borrowing Needs <i>Member Price: \$120</i> <i>Pre Test Cost: \$35</i> <i>Post Test Cost: \$35</i>	Features fundamentals of business financial statements. Participants learn to probe into the real reasons behind a borrower's loan request and to think beyond the stated purpose	Unit 1: Financial Statement Fundamentals Unit 2: Asset Conversion Cycle Needs Unit 3: Timing Difference and Financing Needs Unit 4: Sales Growth and Financing Needs Unit 5: Borrowing Caused by Purchasing Fixed Assets	3 hours	4 hours
3.	Accounting for the Operating Cycle <i>Member Price: \$120</i> <i>Pre Test Cost: \$35</i> <i>Post Test Cost: \$35</i>	Focuses on understanding how business growth stages affect risk and teaches a systematic approach to evaluating the business and management in key functional areas	Unit 1: Business Growth Stages Unit 2: Business and Management Review	2.5 hours	3.5 hours
4.	Fundamentals of Financial Statement and Tax Return Analysis <i>Member Price: \$120</i> <i>Pre Test Cost: \$35</i> <i>Post Test Cost: \$35</i>	Teaches how to calculate and interpret basic financial ratios and measures to evaluate the performance of a business	Unit 1: Financial Statement Analysis Unit 2: Business Tax Returns Unit 3: Business Activity Statements	3.5 hours	4.5 hours
5.	Understanding and Communicating Credit Solutions <i>Member Price: \$120</i> <i>Pre Test Cost: \$35</i> <i>Post Test Cost: \$35</i>	Helps participants match appropriate loan structures to needs and to understand the basics of loan support including collateral and guarantees	Unit 1: Business Credit Facilities Unit 2: Conducting Conversations with Business Borrowers Unit 3: Communicating Credit Decisions	2 hours	3 hours
				Total study time = 12 hrs	Total study time = 16.5 hrs

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## Financial Accounting for Lenders Module Content:

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| Module No. | Module Title                                                                                                                                                       | Module Overview                                                                                                                                                                                                                             | Unit Description                                                                                                                                                                                                                                          | Suggested Study Time             |                                  |
|------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------|----------------------------------|
|            |                                                                                                                                                                    |                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                           | Online                           | Print                            |
| 1.         | <b>Financial Reporting</b><br><br><i>Member Price: \$145</i><br><i>Pre Test Cost: \$35</i><br><i>Post Test Cost: \$35</i>                                          | Introduces the primary financial statements and the notes and identifies the connections among these                                                                                                                                        | <b>Unit 1:</b> Introduction to the Primary Financial Statements and Notes<br><b>Unit 2:</b> Financial Reporting Guidelines and Level of Assurance                                                                                                         | 4 hours                          | 5 hours                          |
| 2.         | <b>Introduction to Accrual Accounting</b><br><br><i>Member Price: \$145</i><br><i>Pre Test Cost: \$35</i><br><i>Post Test Cost: \$35</i>                           | Concentrates on the fundamentals of accounting for business activities over time                                                                                                                                                            | <b>Unit 1:</b> Accounting for Business Activities<br><b>Unit 2:</b> Accrual Accounting Basics<br><b>Unit 3:</b> Understanding Business Cash Flow<br><b>Unit 4:</b> Connecting the Statements<br><b>Unit 5:</b> The Accounting Process and Journal Entries | 3 hours                          | 11 hours                         |
| 3.         | <b>Accounting for the Operating Cycle</b><br><br><i>Member Price: \$145</i><br><i>Pre Test Cost: \$35</i><br><i>Post Test Cost: \$35</i>                           | Illustrates the operating cycle as a model for getting behind the numbers to understand business activities and risks                                                                                                                       | <b>Unit 1:</b> Operating Cycle Insights<br><b>Unit 2:</b> Revenue, Expenses and Accounts Receivable<br><b>Unit 3:</b> Inventory and Cost of Goods Sold<br><b>Unit 4:</b> Direct Debits and Credit to Equity and Other Issues                              | 5 hours                          | 11 hours                         |
| 4.         | <b>Accounting for the Capital Investment Cycle and Other Assets</b><br><br><i>Member Price: \$145</i><br><i>Pre Test Cost: \$35</i><br><i>Post Test Cost: \$35</i> | Introduces the capital investment cycle as a model and the impact of the capital investment cycle on cash flows related to fixed assets, their long-term assets including goodwill and other intangibles, and depreciation and amortisation | <b>Unit 1:</b> The Capital Investment Cycle, Fixed Assets and Depreciation<br><b>Unit 2:</b> Other Investments, Goodwill and Other Intangible Assets                                                                                                      | 4 hours                          | 6.5 hours                        |
| 5.         | <b>Accounting for Liabilities and Equity</b><br><br><i>Member Price: \$145</i><br><i>Pre Test Cost: \$35</i><br><i>Post Test Cost: \$35</i>                        | Examines various types of long, and short-term liabilities including information and disclosure of commitments and contingencies and other potential obligations                                                                            | <b>Unit 1:</b> Current and Non-Current Liabilities<br><b>Unit 2:</b> Equity<br><b>Unit 3:</b> Taxes                                                                                                                                                       | 4 hours                          | 6.5 hours                        |
|            |                                                                                                                                                                    |                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                           | <b>Total study time = 20 hrs</b> | <b>Total study time = 40 hrs</b> |

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Commercial Loans to Business Module Content:

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Module No.	Module Title	Module Overview	Unit Description	Suggested Study Time	
				Online	Print
1.	Opportunity Assessment <i>Member Price: \$155</i> <i>Pre Test Cost: \$35</i> <i>Post Test Cost: \$35</i>	Includes an introduction to commercial lending and the asset conversion cycle and provides a framework for comprehensive risk analysis	Unit 1: The Lending Environment Unit 2: The Decision Strategy Unit 3: Assessing Opportunities Unit 4: Preliminary Assessment	3 hours	5 hours
2.	Borrowing Causes <i>Member Price: \$155</i> <i>Pre Test Cost: \$35</i> <i>Post Test Cost: \$35</i>	Teaches participants to probe into the real reasons behind a borrower's loan requests	Unit 1: Borrowing Caused by Sales Growth Unit 2: Borrowing Caused by Slowdowns in the Operating Cycle Unit 3: Borrowing Caused by Purchases of Fixed Assets Unit 4: Borrowing Caused by Other Factors	4 hours	7.5 hours
3.	Industry Risk Analysis <i>Member Price: \$180</i> <i>Pre Test Cost: \$35</i> <i>Post Test Cost: \$35</i>	Addresses changes in the environment in which the borrower operates by examining the economic, market, demographic, and other forces that are generally outside the borrower's or the lender's control	Unit 1: Industriess Unit 2: Industry Risk Characteristics	3 hours	5 hours
4.	Business Risk Analysis <i>Member Price: \$180</i> <i>Pre Test Cost: \$35</i> <i>Post Test Cost: \$35</i>	Helps participants analyse how well a borrower's management team is dealing with the risks inherent in the industry	Unit 1: Business Analysis Perspective Unit 2: Components of Business Risks	3.5 hours	5 hours
5.	Financial Statement Analysis <i>Member Price: \$180</i> <i>Pre Test Cost: \$35</i> <i>Post Test Cost: \$35</i>	Teaches participants how to interpret financial statements as a reflection of the entire range of a company's operations, from sales and distribution to purchasing	Unit 1: Understanding the Profit and Loss Statement Unit 2: Understanding the Balance Sheet Unit 3: Assessing Financial Positions and Performance	7 hours	13.5 hours
6.	Cash Flow Analysis <i>Member Price: \$180</i> <i>Pre Test Cost: \$35</i> <i>Post Test Cost: \$35</i>	Describes how lenders cancel the effects of accrual accounting to see a company's cash dynamics—its cash inflows and outflows—as an important component of repayment source analysis	Unit 1: Principles of Cash Flow Analysis Unit 2: Three Cash Flow Formats Unit 3: Financial Drivers of Cash Flow Unit 4: Non-financial Drivers of Cash Flow	7 hours	13.5 hours

7.	Projections <u>Member Price: \$180</u> <u>Pre Test Cost: \$35</u> <u>Post Test Cost: \$35</u>	Teaches participants to integrate their historical industry, business, and financial statement analysis information into a forecast of future cash flow available for loan repayment	Unit 1: The Logic and Use of Projections Unit 2: Scenarios and Hypotheses Unit 3: Sensitivity Analysis	5 hours	7 hours
8.	Loan Structuring <u>Member Price: \$120</u> <u>Pre Test Cost: \$35</u> <u>Post Test Cost: \$35</u>	Helps participants decide how and under what conditions they would be willing to lend money to the customer	Unit 1: The Decision Unit 2: The Credit Facility Unit 3: Support and Pricing for the Credit Facility Unit 4: Conditions of the Credit Facility	3 hours	3.5 hours
				Total study time = 35.5 hrs	Total study time = 60 hrs