MEDIA RELEASE

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Revised payday lending Bill puts profits before people

The Consumer Action Law Centre has condemned the Federal Government's proposed amendments to its *Credit Enhancements Bill*, calling them a cave in to industry lobbying and lamenting a lost opportunity to protect thousands of financially vulnerable Australians.

Consumer Action said that, although the Government was dressing these changes up as a compromise, there was no hiding the fact that the new proposal doubles the amount lenders can charge compared to what the Government originally proposed. This is devastating news for the over 50 consumer and community agencies that pledged their public support for the original reforms—and worse news for our clients.

'Consumer advocates have long said that a comprehensive cap on the costs that can be charged by lenders is the most effective way to protect payday loan borrowers,' said Catriona Lowe, Co-CEO of Consumer Action. 'But of course it's all about where you set the cap.'

'An effective cap should force change in the business model of lenders, making very short-term loans unviable and encouraging lenders to offer loans on terms that are more reasonable and affordable. It is short-term loans that are given to pay for essentials, like rent, bills or food, that lead vulnerable borrowers into a debt cycle. After one loan is repaid, often through direct debit on the day income or benefits are received, a borrower is caught short, and so returns to the lender for another loan.

'Unfortunately, the Bill will now allow lenders to charge establishment fees of 20% of the amount of credit and monthly fee of 4% of that amount. This is exactly what Cash Converters, Australia's biggest payday lender, was calling for in submissions to last year's parliamentary Joint Committee. Far from a compromise, this looks to us like an effective endorsement of an unsafe product and a business model that harms vulnerable consumers.

'Research has consistently showed that the bulk of payday loan borrowers have a low income and that the purpose for borrowing is for everyday living expenses. Clearly, if a person doesn't have enough to meet basic living expenses, taking out expensive credit does not help. Indeed it does the opposite. It is completely false to think that a short-term loan today can help improve the longer-term financial situation of cash-strapped individuals and families. These loans not only delay the inevitable, they actually make things worse.

'The Minister has asked for feedback on their current proposal and we'll certainly be taking that opportunity', said Ms Lowe.

In its response to the revised Bill, Consumer Action will be advising the Minister that if the revised 20/4 cap is enacted, robust complementary measures including a hard cap on the number of loans a borrower can take out each year must be introduced, if this reform it is to provide any meaningful consumer protection.

‘A limit of the number of loans per year would require a database that records all loans across the industry. Lenders would have to check the database before making a payday loan, to ensure borrowers do not exceed the number of loans allowed. When such reforms were introduced in some US states, the amount of payday loans lent fell by almost 70 per cent in a year. If the Federal Government isn’t willing to introduce an effective cost cap, this and other complementary measures must be considered.

‘Last year Minster Shorten said he had “*a problem with pay-day lenders who think it’s OK to prey on the weak and exploit people with outrageously exorbitant interest charges*” and that “*that sort of business model needs to be broken because it’s simply not fair*.”[1] We agree. We want to continue working with the Minster to refine this Bill because, as it stands, it does little, if anything, to curb these unfair business models and thereby protect the vulnerable and disadvantaged,’ said Ms Lowe.

END

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[1] ‘Screws turned on loan sharks’, Sydney Morning Herald, 28 August 2011

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