MEDIA RELEASE

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Government reforms offer a branch to consumers stuck in high cost short term lending quicksand

The Consumer Action Law Centre has welcomed the Federal Government’s proposed cap on the amounts lenders of high cost short term loans (often referred to as 'payday loans') can recover from consumers, saying that the proposed changes would better protect consumers from lenders who currently charge effective interest rates upwards of 600 per cent per annum.

Co-CEO of Consumer Action, Catriona Lowe, said her organisation had seen too often the harm caused by pay-day loans first-hand and that greater regulation of the industry was badly needed.

“Today these loans carry enormous effective interest rates. They are given in the main to low and fixed income borrowers to fund recurrent everyday living expenses such as food, utilities and car repairs. Repayments are generally secured through direct debits, which take a first stake in a borrowers income - leaving a low income borrower without enough money for everyday living. Quite clearly expensive credit doesn't help when you don't have enough to live on - indeed it often prompts further lending and spirals of debt.”

Ms Lowe said that Consumer Action and its predecessors had been lobbying for an interest rate cap of 48 per cent, which would include all fees and charges, since high cost short term lenders appeared in Australia over a decade ago.

“Some states already have an effective cap on interest rates but the majority, including Victoria, don’t. This leads to the absurd situation where borrowers on one side of the Murray River are protected from predatory lenders, while those on the other side are not.

“Whilst the proposed approach does not have the proven track record of a comprehensive 48% cap, we’re pleased that under the new national approach, all Australian borrowers will now be afforded the same protections,” said Ms Lowe.

But while Consumer Action welcomes the proposed reforms, Ms Lowe said strong enforcement of the new rules was crucial to their success and that without it, consumers would be at the mercy of rogue lenders.

“The proposed laws are welcome but, as always, the proof will be in the pudding and if they aren’t enforced all the Government’s good intentions will count for nothing.

“ASIC really need to step to the plate because these reforms are complex and they’re unlikely to be embraced by the industry. In the past we’ve seen lenders look to exploit loopholes in legislation and if the ASIC aren’t on their toes the same thing could happen here.

“We’ll be marking the success of these new laws against two very simple measures: have they led to a reduction in harm caused by high cost short term loans, including a reduction in fees and effective interest charged and, has the overall number of these loans significantly decreased. We’re cautiously hopeful, said Ms Lowe.

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