Mission Incomplete

A snapshot of consumer experiences of short-term loans post the national consumer credit reforms

Consumer Action Law Centre

Amended July 2011

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About this publication

Mission Incomplete provides a snapshot of consumer experience of high-cost short-term loans following the introduction of Phase 1 of the Commonwealth credit reforms, and in particular responsible lending laws. The case studies suggest that as anticipated in *Payday loans: Helping hand or Quicksand?*, responsible lending laws are ineffective in addressing the particular dynamics that are involved in this type of credit provision.

In September 2010, the Consumer Action Law Centre (Consumer Action) published a report into the experience of payday loan borrowers called *Payday loans: Helping hand or quicksand?* It updated empirical research published in a 2002 report by the (then) Consumer Law Centre Victoria.

Payday loans: Helping hand or quicksand? provided a detailed examination of the high-cost, short-term lending industry in Australia, assessed the international experience and discussed the policy and regulatory debates around the issue. It concluded that the most effective consumer protection tool was a comprehensive interest cap of 48%, inclusive of all fees and charges.

Since then, Consumer Action has continued to provide legal advice to individual consumers, and to financial counsellors assisting consumers, who have sought help after finding themselves financially overcommitted through their use of payday loans.

The ongoing demand for help from our financial counselling and legal advice services prompted Consumer Action to assess whether the issues we had long identified had changed in light of regulatory reform which took effect from 1 July 2010. We were disappointed, but not necessarily surprised, to find the problems remained and consumers - especially low income and disadvantaged people - still struggle with high-cost, short-term loans.

Our examination of the experiences of people who have recently used high-cost, short-term loans suggests that:

- Excessively high loan costs are being charged in States and Territories where there is no comprehensive interest rate cap;
- The total amounts to be repaid, and short-term repayment schedules themselves, are still causing hardship as consumers struggle to repay loans;
- Loans are still being provided to fund recurrent, day-to-day living expenses. Consumers are obtaining loans when their financial issues are not short-term or

minor, and they should be referred to utility hardship programs and free financial counselling services;

- Repeat borrowing continues to cause problems, with loans being given for the purpose of paying off other payday loans. Self exclusion requests are being ignored;

- Lenders are providing loans despite the provision of evidence - such as bank statements - showing multiple existing loans, clearly indicating existing financial distress; and

- Users of these loans are often vulnerable and disadvantaged, and in some cases may not be able to understand the consequences of using these loans.

About these case studies

Consumer Action has direct experience with payday lending practices through both our legal practice and our financial counselling practice, MoneyHelp.

Mission Incomplete illustrates the experience of 12 clients who have used high-cost, short-term loans since July 2010. The cases are very much about the impact of using high-cost short-term loans on the individual. They suggest that responsible lending laws have not been effective in curbing high-cost short-term lending that contributes to and exacerbates consumer hardship.

We sourced cases from our own client base, and from the broader financial counselling sector, who we asked for recent examples of clients who had sought their help.

Financial counsellors were asked to use the same template[1] used by us to collect case studies in 2009 to inform the *Payday loans: Helping hand or quicksand?* report. Client cases are described by individual case workers. The style, tone and content of each story varies accordingly.

Respondents were not asked to indicate the date the client took out the payday loan; where this was unclear, we have sought this information separately to ensure they were all taken after new responsible lending provisions came into effect on 1 July 2010. Cases were reported from all States and Territories except the Australian Capital Territory (which has a comprehensive interest rate cap), the Northern Territory and Tasmania.

To protect the identity of clients, some details have been removed. The State in which the financial counselling practice is located is noted, but not the name of the referring agency. Some of the case studies have been edited for brevity and/or for typographical or grammatical errors that affected clarity.

Case studies of loans taken out prior to the new responsible lending provisions have not been included. Cases quoted can be found at *Appendix A*.

[1] A copy of the template is Appendix B

Changes to the regulation of high-cost short-term loans in 2010

Consumer Action's 2010 report *Payday loans: Helping hand or quicksand?* examined in great detail the regulatory reform options to reign in predatory payday lending practices.

The report advocated strongly for the introduction of a national, 48% comprehensive interest rate cap as the only effective means of minimising the harm experienced by individuals who use payday loans.

At the time of writing the 2010 report, the full impact of the new *National Consumer Credit Protection Act* (the NCCP Act) was yet to take effect. The NCCP Act introduced two particular reforms that were touted by some as relevant to addressing some of the long-identified problems associated with aspects of high-cost, short-term lending.

Firstly, the NCCP Act required that high-cost, short-term lenders (like all other credit providers) be licensed (or be registered and have applied to ASIC for a license) by 1 January 2011. Secondly, credit licensees were required to meet responsible lending conduct obligations, which mean that a credit licensee must not suggest, assist with, or provide a credit product to a consumer unless they assess that it is 'not unsuitable' for that consumer.

Before a credit licensee suggests, assists with, or provides a new credit contract or lease to a consumer, they must:

- make reasonable inquiries of the consumer about their requirements and objectives in relation to the credit contract;
- take reasonable steps to verify the consumer's financial situation;
- based upon these inquiries, assess whether the credit product is unsuitable for the consumer and only proceed if the credit product is not unsuitable; and
- give the consumer a copy of the assessment if requested.

A contract will be unsuitable if the consumer would be unable to repay it without substantial hardship or it will not meet the consumer's requirements or objectives. The requirements also apply where the credit limit on an existing contract is being increased[2].

Payday loans: helping hand or quicksand? welcomed the reforms in relation to consumer lending generally, but noted that the nature of high-cost short-term lending and the circumstances of the typical high-cost short-term borrower made it unlikely these reforms would have a significant effect on this type of lending, for several reasons:

- the small amounts lent out as high-cost short-term loans, at least when assessed in isolation, are unlikely to fail the test imposed to meet responsible lending requirements – that they are 'not unsuitable' for the borrower;

[2] Media Release: *ASIC releases guidance for credit licensees about responsible lending obligations* (26/02/2010) online at : http://www.asic.gov.au/asic/asic.nsf/byheadline/10-32AD+ASIC+releases+guidance+for+credit+licensees+about+responsible+lending+obligations?openDocument

- the dynamics of the high-cost short-term lending industry – where the majority of consumers are driven by financial desperation and borrow to meet basic needs – greatly increases the probability that borrowers will mislead lenders in order to obtain a loan (and lenders may be unusually inclined to be misled); and

- the reforms rely on individual complaints and a case by case approach by the regulator, a more costly and labour intensive method of regulation than the 'bright line' of a comprehensive interest cap. It is also likely that few high-cost short-term loan consumers will lodge complaints, with the sum of any one loan unlikely to justify the time and effort required by the consumer to pursue a complaint. This rational inertia may be exacerbated by a disadvantaged background and the need to deal with other financial and life pressures and difficulties[3].

[3] Z. Gillam and the Consumer Action Law Centre, *Payday loans: helping hand or quicksand? Examining the growth of high-cost short-term lending in Australia, 2001-2010* (2010), pp18, 212-213.

Have responsible lending requirements helped consumers?

The cases reported to Consumer Action after the responsible lending reforms were enacted show great continuity with the experiences described in the 2010 report.

Cases highlighted the following issues for high-cost short-term loan users:

- Excessively high loan costs are being charged in States and Territories where there is no comprehensive interest rate cap;

- The total amounts to be repaid, and short-term repayment schedules themselves, are still causing hardship as consumers struggle to repay loans;

- Loans are still being provided to fund recurrent, day-to-day living expenses. Consumers are obtaining loans when their financial issues are not short-term or minor, and they should be referred to utility hardship programs and free financial counselling services;

- Repeat borrowing continues to cause problems, with loans being given for the purpose of paying off other payday loans. Self exclusion requests are being ignored;

- Lenders are providing loans despite the provision of evidence - such as bank statements - showing multiple existing loans, clearly indicating existing financial distress; and

- Users of these loans are often vulnerable and disadvantaged, and in some cases may not be able to understand the consequences of using these loans.

The cases cited herein do not claim to be representative or of a statistically significant number.

They are, however, the lived experience of case workers who assist vulnerable and disadvantaged consumers struggling with a burden of financial over-commitment brought on or exacerbated by taking out high-cost, short-term loans.

Excessively high loan costs are being charged in States and Territories where there is no comprehensive interest rate cap.

Many of the cases reported to us referred to high rates and fees being charged[4]. This is particularly evidenced in Cases 1, 2 and 4.

Interest rate regulation is currently inconsistent across the country. Queensland, the Australian Capital Territory and New South Wales all have a comprehensive interest rate caps of 48% per annum. A comprehensive interest rate cap is a cap on the total cost of the credit per annum, taking the fees and charges into account in calculating the overall interest rate or cost.

Victoria has interest rate regulation but because it is not comprehensive, it has little value because it does not effectively limit the amount charged on a loan - the cap on the annual interest rate is easily circumvented by simply charging higher loan fees.

Female (26) Victoria - Full-time employment[5]

From September to December 2010 she paid a minimum of $350 in fees - in total she paid $950 in fees for the $600 loan over 6-7 fortnights. She'd go in to pay off the loan and sign new contract at same time.

She stopped going in December and owes them $1000. She has now seen a financial counsellor and is doing a payment plan of $200 a fortnight, but Cash Store are demanding $267 or threatening to go to collections.

Female (age unspecified) Victoria - Disability Support Pension[6]

In April 2011 the client entered into a loan with the assistance of The Cash Store. Under the agreement the client received $260.00 in her account and was obliged to make one repayment of $421.81 in 14 days. The cost of the transaction included a brokerage fee[7] charged by The Cash Store of $136.31 and interest charged at 47.5 % per annum.

The client received $670.90 per fortnight from a Disability Support Pension, and the loan repayment, had it been made, would have left her with $249.09 for all housing and living expenses over a fortnight.

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[4] It is important to note that due to the style of the questionnaire, cases reported did not consistently report the repayment terms or APR or even necessarily the specific financial figures for each case.

[5] Case 1

[6] Case 2

[7] Brokerage fees are often extremely high relative to the principal loaned. They are charged to the borrower in addition to other fees and interest levied as part of the loan. It is not a brokerage in the conventional sense because the customer isn't presented with a choice of loans or lenders - rather, it is just another fee levied that adds to the total amount they need to repay.

Male (49) - South Australia - Disability Support Pension[8]

Client had originally taken out a loan for $300, which was to be repaid from his Centrelink benefit over two fortnights. The annualised interest rate was 300%.

[8] Case 4

The total amounts to be repaid, and short-term repayment schedules themselves, are still causing hardship as consumers struggle to repay loans

The lack of nationally consistent regulation around the costs of high-cost short-term loans - that is, high fees, brokerage charges, default penalties and interest rates - allow massive fees and charges to accrue. This is evidenced best in cases 1, 3, and 7.

Payday lenders continue to make loan repayment amounts far beyond what we consider to fit within responsible lending provisions, and are failing to provide necessary consumer protection.

Female (age unspecified) Victoria - Full-time employment [9]

She doesn't have a great credit rating. Her son was having an 18th birthday party and the family was coming to visit – so the pressure was on to entertain.

She was given $600 from Cash Store, as half of her assessable income. Virtually all her next fortnight pay went to paying it off.

Female (26) Victoria - Full-time employment [10]

Client is 26 and full time employed woman . She is a single mother with 5 kids under 6. It takes 2 hours to get to work on the bus so she wanted to buy a car...

Went to payday lenders to get deposit on 2 March 2011 and paid back $980 2 weeks later – for a $660 loan.

Then she realises she has no money for the rest of the fortnight – then and there they offer her another loan.

They 'assessed' 50% of her income is what she could afford. In reality its like – they're assessing on the original amount and prior to tax. Which is more like 75-80%.

Male (65) Victoria - Unemployed on aged pension[11]

In late December 2010 he presented with the following debts:

Cash Converters advance	$120 Repayment of $81/fortnight
Cash Converters Loan	$600 Repayment of $50/ fortnight
Cash Store debt	$207 Repayment of $56/ fortnight

[9] Case 1
[10] Case 3
[11] Case 7

Centrelink debt $800 Repayment of $65/ fortnight

All debts had been obtained round about the same time due to a health crisis. He is very unwell, smokes and drinks heavily. The repayments above almost exceeded his income after rent, leaving him with little for food and other essentials. He was very distressed and needed food vouchers.

For people on low, fixed incomes - particularly those in receipt of government benefits as their sole source of income as many of our clients are - large repayment amounts over a short-term are simply unmanageable and create a cycle of payday dependency, as new payday loans are taken out to cover existing ones.

Loans are still being provided to fund recurrent, day to day living expenses. Consumers are obtaining loans when their financial issues are not short-term or minor, and they should be referred to utility hardship programs and free financial counselling services

As our 2010 report showed, people overwhelmingly use high-cost short-term loans to meet basic needs.

That research found that 22% of users of high-cost short-term loans used the money to pay for car repairs or registration. The next most common reason was to pay utility bills (21%), followed by food or other essentials (18%) and then rent (11%)[12].

Payday loans are touted by lenders as a financial solution to a short-term financial shortfall, but in reality they are still used by people to meet recurrent costs. The result for those on low incomes is that, after repaying a loan with such high interest, the borrower is again left without enough money to pay for basic expenses. Borrowers frequently return the next fortnight for another loan to pay off the previous one, and enter an ongoing cycle of debt

Cases 2,4,7, 8, 9, 11 and 12 illustrate these points.

Female (age unspecified) - Disability Support Pension[13]

The Financial Counsellor says that the funds were used to pay a utility bill, which may have been better dealt with by a hardship variation or Utility Relief Grant.

Male (49) South Australia - Disability Support Pension[14]

...He presented with overdue accounts for gas, phone, rent and had also taken the Advance Payment from Centrelink...

Male (age unspecified) Queensland - income source unspecified[15]

In August 2010, Mr S was struggling to meet his household bills. He attended the offices of Financial Company A who offer loans. He sought a loan of $300.

Female (age unspecified), New South Wales (income unspecified)[16]

My client had presented because she and her adult daughter who lived together could not make ends meet. The daughter had been borrowing from short-term lenders and was now in trouble. The daughter did not present with the client and had forbade the client from telling me about the short-term loans.

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[12] *Payday loans: helping hand or quicksand?- Summary - February 2011*, at http://www.consumeraction.org.au/downloads/Summary-HelpingHandorQuicksand-Mar2011.pdf

[13] Case 2

[14] Case 4

[15] Case 8

[16] Case 9

Financial counselling clients usually present with multiple debts and financial problems, and payday loans are part of the mix of creditors. Uncapped interest rates and charges mean that consumers are vulnerable to paying back this credit at extremely high rates, which compounds their financial problems. Many people who use payday loans are desperate and as our 2010 report showed, only 9% make any claims to choose based on the price of the loan.

These cases show consumers with multiple debts to a large number of creditors, who clearly should have been referred to utility hardship programs, information about low or no-interest loan schemes, or financial counsellors rather than given a payday loan.

Male (65) Victoria - Aged pension[17]

... We wrote to all lenders (except Centrelink) to explain his extreme financial and personal hardship. Safrock wrote off the $600 loan. But Cash Converters and Cash Store have even contacted him direct despite our letters.

We have spoken to them since and they keep wanting to get even a small repayment that we have refused because we know that he cannot afford and may be moving to supported accommodation soon.

They do not seem to understand or accept "judgment proof"[18], saying that writing off the debt would set a dangerous precedent for other borrowers. I may have now got Cash Store to back off after severely expressing my concerns on Monday.

Male (59) Victoria - Newstart[19]

Client has a large rental arrears of over $6000, a phone debt and utility debts. He has engaged in repeat payday borrowing (monthly) for between 6 months and a year.

He was in full time employment until a few years ago, and retired with several hundred thousand dollars. In his own words he 'was stupid' with money and gambled. He started to have problems paying rent when he ran out of savings and now can't afford his rent on Newstart.

He started taking out payday loans and couldn't pay them off and then couldn't pay his utility bills. He has some work, and has sold his car to pay out the payday loans but not his rent and bills. He has been to VCAT [Victorian Civil and Administrative Tribunal], has been visited by the Sheriff, and now faces homelessness.

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[17] Case 7

[18] If a person has no assets other than normal household items and a car worth less than $6,500 and their only income is a Centrelink payment, they are deemed "judgment proof". To be judgment proof means that they cannot be forced to pay a debt from their Centrelink income and they have no assets that a creditor can seize. A creditor may still obtain judgment against the debt, but cannot enforce it. See: http://www.moneyhelp.org.au/Your-Debt-Options/Hardship-programs/Judgment-debts.html#When you don't have to pay a judgement debt

[19] Case 12

Female (age unspecified) Victoria - Employed[20]

Client has had to cut work hours from 5 days to 4 days weekly due to illness. Daughter has also been unwell. Client has had financial set back as a result. Client is a sole parent. Daughter is 18 years of age.

Cash Convertors $980 currently owing. Borrowed the amount two weeks ago. Amount borrowed $680.

Client has borrowed money from Cash Convertors 6 times in the past. Purpose of the loan was used for living expenses.

The whole amount will direct debited from the client from the client's account in November 2010. Fees and charges was all in writing however client was stressed and did not read, just signed. Unsecured loan.

Cash Store $800

Other debts:

[Phone] bill $1800 currently outstanding. Client is disputing this bill. Her services have been disconnected (land line and internet); Electricity bill for $956 - closed account. Gas bill $475 closed account; Current gas with [provider] for $270; Client has a personal loan with [provider] for $1000; repayments $116 monthly; Credit card for $3,500; Orthodontist bill $800; Car loan for $4500 repayments are $380 monthly, car value approximately $5k; [Tolls] account: $600; Fines: $800

[20] Case 11

Repeat borrowing continues to cause problems, with loans being given for the purpose of paying off other payday loans. Self exclusion requests are being ignored

Nearly all the stories presented here have a repeat borrowing component. Cases 1 and 4 are but two examples of this issue. Multiple mentions were made of pleas for self-exclusions to be honoured - pleas that were ultimately ignored.

Female (age unspecified) Victoria - Full-time employment[21]

...She is a repeat borrower who also has loans with Dollar Direct and Cash Doctor. The client described them as 'like an addiction'.

Male (49) South Australia - Disability Support Pension[22]

Client had originally taken out a loan for $300, which was to be repaid from his Centrelink benefit over two fortnights. The annualised interest rate was 300%.

Client found he could not survive and have the amount demanded taken out – he approached the payday lender and was told that they would roll the loan over into another one.

Client allowed this to happen and the original loan of $300 was to cost him $760.95 by the time he had made the final payment on the new loan. This was not feasible and I approached the payday lender (by letter) and asked that the interest be waived and that the total cost of the loan would be reduced by payments of $30 per fortnight, commencing on the client's next Centrelink benefit day.

I also requested that the client receive no further loans from the lender, given that the lender advised me that the client had had fourteen (14) loans between May 2010 and December 2010.

I was advised by the Head Office of the lender that I would need to have the client submit a Statutory Declaration to the effect that he was not to be given any further loans. The client has now been approached with this request.

A total of fourteen (14) loans were rolled over in the seven month period, and the client borrowed on as often as a fortnightly basis.

Was he in a debt spiral? Absolutely! He was being set up to fail by the sheer size of the amount of his Centrelink benefit that he was expected to pay each fortnight.

[21] Case 1
[22] Case 4

Lenders are providing loans despite the provision of evidence - such as bank statements - showing multiple existing loans, clearly indicating existing financial distress

It is difficult to imagine how Cases 5,6 and 7 could have met the responsible lending requirements, or how the client could possibly have been considered to be in a position to repay without causing hardship, given their multiple existing debts and repayments to other payday lenders.

Male (42) Victoria - Disability Support Pension[23]

Client owes a large amount on bills. He lacks understanding and comprehension of bank statements. He is in a circle of borrowing when his money is spent - his bank statements from January 2011 to April 2011 clearly show that he is borrowing off one lender to pay another.

Male (65) Victoria - Aged pension[24]

In late December 2010 he presented with the following debts:

Cash Converters advance	$120	Repayment of $81/fortnight
Cash Converters Loan	$600	Repayment of $50/ fortnight
Cash Store debt	$207	Repayment of $56/ fortnight
Centrelink debt	$800	Repayment of $65/ fortnight

All debts had been obtained round about the same time due to a health crisis. He is very unwell, smokes and drinks heavily. The repayments above almost exceeded his income after rent, leaving him with little for food and other essentials. He was very distressed and needed food vouchers.

His mental capacity is limited given his addiction and poor health. He is very depressed, which is made worse by additional debt, and he knows it.

It appears that he has taken out multiple loans to support himself, especially his smoking and drinking.

We wrote to all lenders (except Centrelink) to explain his extreme financial and personal hardship. Safrock wrote off the $600 loan. But Cash Converters and Cash Store have even contacted him direct despite our letters.

[23] Case 5
[24] Case 7

Female (age unspecified) Victoria - Disability Support Pension[25]

Client on Disability Support Pension (DSP) - went to special school when young as has difficulty to read and write. Client lives with parents, and brother, father on DSP for same reason, mum on aged, brother is on Austudy.

Client had debts had her mothers rings in pawn brokers [and multiple rental arrangements].

Concurrent payday loans:

- Cash Converters
- Cash Advance
- Cash Store Advance
- Money 3
- Safrock

Client still owes these people the money [and also has a credit card debt].

[25] Case 6

Users of these loans are often vulnerable and disadvantaged, and in some cases may not be able to understand the consequences of using these loans

Male (42) Victoria - Disability Support Pension[26]

Client owes a large amount on bills. He lacks understanding and comprehension of bank statements. He is in a circle of borrowing when his money is spent - his bank statements from January 2011 to April 2011 clearly show that he is borrowing off one lender to pay another.

The client has financial literacy issues and is unable to deal with phone calls and text messages. [Financial counsellors] are working with him to clear his payday loans and set up a budget.

Male (24) Western Australia - Disability Support Pension[27]

Client is a 24 year old male with a partner and a 3 year old child, and presented in October 2010. Both he and his partner are both on Disability Support Pension and both unemployed. They share their rented property with his father who contributes to paying the rent on a fortnightly basis. He has a number of loans for a car, Centrelink, and some rental agreements.

In November, the client informed the financial counsellor that he has now separated from his partner. He said that he is no longer working. He had taken a loan ($60) out with Cash Converters on his birthday as he felt depressed and 'Blew the money at the Casino'.

Client suffers from mental health issues and does not any take responsibility for his life choices. His demeanour is one of no accountability and is unreliable in his actions. He does not feel a need to change his lifestyle.

[26] Case 5
[27] Case 10

Conclusion

Responsible lending provisions have failed to address the detriment caused to the consumers in these case studies by the use of high-cost, short-term loans. Many of the cases reflect multiple aspects of our concern - such as high rates, usage for day to day expenses, and cycles of repeat borrowing (including to pay off existing loans).

In particular, it illustrates that responsible lending provisions have failed to stop these consumers becoming financially over-committed by ongoing easy access to this expensive line of credit.

We are concerned that these cases are typical and note their strong correlation with the types of cases seen by financial counsellors and Consumer Action prior to responsible lending reform.

They bolster our view that only a national comprehensive interest rate cap of 48% can effectively minimise the harm caused by these high-cost short-term loans.

APPENDIX A: CASE STUDIES

CASE STUDY 1

Female (age unspecified) Victoria - Full-time employment

Female, full time employed. She doesn't have a great credit rating. Her son was having an 18th birthday party and the family was coming to visit – so the pressure was on to entertain.

She was given $600 from Cash Store, as half of her assessable income. Virtually all her next fortnight pay went to paying it off.

From September to December 2010 she paid a minimum of $350 in fees - in total she paid $950 in fees for the $600 loan over 6-7 fortnights. She'd go in to pay off the loan and sign new contract at same time.

She stopped going in December and owes them $1000. She has now seen a financial counsellor and is doing a payment plan of $200 a fortnight, but Cash Store are demanding $267 or threatening to go to collections.

CASE STUDY 2

Female (age unspecified) Victoria - Disability Support Pension

In April 2011 the client entered into a loan with the assistance of The Cash Store. Under the agreement the client received $260.00 in her account and was obliged to make one repayment of $421.81 in 14 days. The cost of the transaction included a brokerage fee charged by The Cash Store of $136.31 and interest charged at 47.5 % per annum.

The client received $670.90 per fortnight from a Disability Support Pension, and the loan repayment, had it been made, would have left her with $249.09 for all housing and living expenses over a fortnight.

The Financial Counsellor says that the funds were used to pay a utility bill, which may have been better dealt with by a hardship variation or Utility Relief Grant.

The documents provided to the client also contains a number of potentially unfair terms. For example, a document headed 'Authority to employer, provides:

> *I/We have agreed that if I/we default under my/our loan the Lender or its manager, The Cash Store Pty ltd CAN 107 205 612 ("The Cash Store") may contact my/our employer and arrange a payment plan whereby my employer makes payments from my wage to the Lender.*
>
> *I/we hereby authorize and direct my/our employer to provide information regarding our wages to the Lender or the Cash Store and to deduct from my/our wages and pay the Lender any amount specified by the Lender or The Cash Store from time to time.*

CASE STUDY 3

Female (26) Victoria - Full-time employment

Client is 26 and full time employed woman . She is a single mother with five kids under 6 years old. It takes two hours to get to work on the bus so she wanted to buy a car.

She got the deposit of $500 from Cash Store to buy a car from You Own Rentals. She will 'rent' for 18 months and then own it after 82 weeks. She will be paying $164 a week – a total of around $13 500 for a car valued at $3000.

Went to payday lenders to get deposit in March 2011 and paid back $980 two weeks later – for a $660 loan.

Then she realises she has no money for the rest of the fortnight – then and there they offer her another loan.

They ‘assessed’ 50% of her income is what she could afford. In reality its like – they’re assessing on the original amount and prior to tax. Which is more like 75-80%.

She is a repeat borrower who also has loans with them, Dollar Direct and Cash Doctor. The client described them as ‘like an addiction’.

There were five attempted drawings on her account within an hour for different amounts – her bank manager called her. The bank stopped it because it triggered an alert. Bank charges $40 per overdraw fee and they think it was probably Dollar Direct because it happened just after she’d just called them and said she was in hardship and needed help.

CASE STUDY 4

Male (49) South Australia - Disability Support Pension

Client had originally taken out a loan for $300, which was to be repaid from his Centrelink benefit over two fortnights. The annualised interest rate was 300%.

Client found he could not survive and have the amount demanded taken out – he approached the payday lender and was told that they would roll the loan over into another one.

Client allowed this to happen and the original loan of $300 was to cost him $760.95 by the time he had made the final payment on the new loan. This was not feasible and I approached the payday lender (by letter) and asked that the interest be waived and that the total cost of the loan would be reduced by payments of $30 per fortnight, commencing on the client's next Centrelink benefit day. I also requested that the client receive no further loans from the lender, given that the lender advised me that the client had had fourteen (14) loans between May 2010 and December 2010.

I was advised by the Head Office of the lender that I would need to have the client submit a Statutory Declaration to the effect that he was not to be given any further loans. The client has now been approached with this request.

A total of fourteen (14) loans were rolled over in the seven month period, and the client borrowed on as often as a fortnightly basis.

Was he in a debt spiral? Absolutely! He was being set up to fail by the sheer size of the amount of his Centrelink benefit that he was expected to pay each fortnight. He presented with overdue accounts for gas, phone, rent and had also taken the Advance Payment from Centrelink.

There is a significant advertising campaign in place in Adelaide, with buses carrying cheerful messages from the most widely-known pay day lender. The emphasis is constantly on the supposed improvement in a client's way of life, with no mention of the stress which these loans cause to clients whose understanding of interest rates is limited.

CASE STUDY 5

Male (42) Victoria - Disability Support Pension

Client owes a large amount on bills. He lacks understanding and comprehension of bank statements. He is in a circle of borrowing when his money is spent - his bank statements from January 2011 to April 2011 clearly show that he is borrowing off one lender to pay another.

The client has financial literacy issues and is unable to deal with phone calls and text messages. We are working with him to clear his payday loans and set up a budget.

CASE STUDY 6

Female (age unspecified) Victoria - Disability Support Pension

Client on Disability Support Pension (DSP) - went to special school when young as has difficulty to read and write.   Client lives with parents, and brother, father on DSP for same reason, mum on aged pension, brother is on Austudy.

Client's parents had a mortgage and got into arrears with mortgage, had an eviction notice, client borrowed money to help parents, who client says have been ripped off by a lawyer. Client's parents are now being assisted to sue the lawyer.

Client had debts, had her mother's rings in pawn brokers. TV, hard drive and air conditioner are on rental.

Concurrent payday loans:

- Cash Converters
- Cash Advance
- Cash Store Advance
- Money 3
- Safrock

Client still owes these people the money.

Has an $800 Westpac credit card debt. Client went to “My Budget” for assistance. Have not assisted, but have been withdrawing fees. Client now has an appointment to see a financial counsellor November 2010.

CASE STUDY 7

Male (65) Victoria - Aged pension

In late December he presented with the following debts:

Cash Converters advance	-$120	Repayment of $81/fortnight
Cash Converters Loan	-$600	Repayment of $50/ fortnight
Cash Store debt	-$207	Repayment of $56/ fortnight
Centrelink debt	-$800	Repayment of $65/ fortnight

All debts had been obtained round about the same time due to a health crisis. He is very unwell, smokes and drinks heavily. The repayments above almost exceeded his income after rent, leaving him with little for food and other essentials. He was very distressed and needed food vouchers.

It appears to have been happening somewhat regularly over the last few years at least.

His mental capacity is limited given his addiction and poor health. He is very depressed, which is made worse by additional debt, and he knows it.

It appears that he has taken out multiple loans to support himself, especially his smoking and drinking.

We wrote to all lenders (except Centrelink) to explain his extreme financial and personal hardship. Safrock wrote off the $600 loan. But Cash Converters and Cash Store have even contacted him direct despite out letters.

We have spoken to them since and they keep wanting to get even a small repayment that we have refused because we know that he cannot afford and may be moving to supported accommodation soon.

They do not seem to understand or accept “judgment proof”, saying that writing off the debt would set a dangerous precedent for other borrowers. I may have now got Cash Store to back off after severely expressing my concerns on Monday.

CASE STUDY 8

Male (age unspecified) Queensland - income source unspecified

In August 2010, Mr S was struggling to meet his household bills. He attended the offices of Financial Company A who offer loans.

He sought a loan of $300. He was told that the company does not give loans anymore, instead he could purchase a financial package. For $495 financed at an interest of 48% per annum across 17 weeks, he would receive his $300, plus he was required to purchase 2 CDs for $195 that were billed as improving his money management skills.

The CD's are numbered but occupy 2 of 6 slots of a specially designed CD Case titled "Manage Money". In total Mr S will be required to pay back $579.51.

An amount that places the loan in breach of the 48% interest rate cap.

CASE STUDY 9

Female (age unspecified) New South Wales - income source unspecified

Let me tell you about a woman who sat in my office only last week who is a strong reason for why the cap needs to remain and needs to be strongly administered. My client had presented because she and her adult daughter who lived together could not make ends meet.

The daughter had been borrowing from short-term lenders and was now in trouble. The daughter did not present with the client and had forbade the client from telling me about the short-term loans. However the client wanted to tell me about the loan and in fact had with her one of the contracts signed in July 2010, she wouldn't allow me to keep a copy of the contract to honour the daughter's wish, but she did allow me to have a look at it. Remember this contract had been entered under the new National Consumer Credit Protection Act. The details of the contract were:

- Loan amount $200
- Interest rate 48%
- Term 12 months
- Monthly repayment $21.31

That all seems to be ok and within the cap. But then the daughter was told the loan needs to be repaid in two fortnightly repayments of $137. She was asked to sign a form outside the contract which allowed for this to happen.

The creditor had written into the contract a clause called "deferred establishment fee". The "deferred establishment fee" is then instigated where the contract is paid out early; it is ostensibly a penalty for early repayment. The client signs a form called a "cash advance early repayment election" form which "allows" this to happen.

The result is that the client pays an effective annualised interest rate of 620%.

If this case doesn't indicate the intention of these lenders and the need for regulation to occur then I do not think we will ever see a case that will or does.

CASE STUDY 10

Male (24) Western Australia - Disability Support Pension

Client is a 24 year old male with a partner and a 3 year old child, and presented in October 2010. Both he and his partner are on Disability Support Pension and both. They share their rented property with his father who contributes to paying the rent on a fortnightly basis. He has a number of loans for a car, Centrelink, and some rental agreements.

In November, the client informed the financial counsellor that he has now separated from his partner. He had taken a loan ($60) out with Cash Converters on his birthday as he felt depressed and 'Blew the money at the Casino'.

Client suffers from mental health issues and does not any take responsibility for his life choices. His demeanour is one of no accountability and is unreliable in his actions. He does not feel a need to change his lifestyle.

CASE STUDY 11

Female (age unspecified) Victoria - Employed

Client has had to cut work hours from 5 days to 4 days weekly due to illness. Daughter has also been unwell. Client has had financial set back as a result. Client is a sole parent. Daughter is 18 years of age.

Cash Convertors $980 currently owing. Borrowed the amount two weeks ago. Amount borrowed $680.

Client has borrowed money from Cash convertors 6 times in the past. Purpose of the loan was used for living expenses.

The whole amount will be direct debited from the client from the client account in November. Fees and charges were all in writing however client was stressed and did not read, just signed. Unsecured loan.

Cash Store $800

Other debts:

[Phone] bill $1800 currently outstanding. Client is disputing this bill. Her services have been disconnected (land line and internet); Electricity bill for $956 - closed account. Gas bill $475 closed account; Current gas with [provider] for $270; Client has a personal loan with [provider] for $1000; repayments $116 monthly; Credit card for $3,500; Orthodontist bill $800; Car loan for $4500 repayments are $380 monthly, car value approximately $5k; [Tolls]account: $600; Fines: $800

CASE STUDY 12

Male (59) Victoria - Newstart

Client has a large rental arrears of over $6000, a phone debt and utility debts. He has engaged in repeat payday borrowing (monthly) for between 6 months and a year.

He was in full time employment until a few years ago, and retired with several hundred thousand dollars. In his own words he 'was stupid' with money and gambled. he started to have problems paying rent when he ran out of savings and now can't afford his rent on Newstart.

He started taking out payday loans and couldn't pay them off and then couldn't pay his utility bills. He has some work, and has sold his car to pay out the payday loans but not his rent and bills. He has been to VCAT [Victorian Civil and Administrative Tribunal], has been visited by the Sheriff, and now faces homelessness.

Appendix B

consumer action law centre

Payday Lending - Case Study Template

<table>
<tr><th colspan="3">Financial Counsellor Details</th></tr>
<tr><td>Name:</td><td colspan="2"></td></tr>
<tr><td>Work Location:</td><td colspan="2"></td></tr>
<tr><td>Contact Details:</td><td colspan="2">(Ph) e-mail:</td></tr>
<tr><th colspan="3">Client's Details
(Anonymous - For Statistical Purposes)</th></tr>
<tr><td rowspan="5">Demographic Data</td><td>Client's Age:</td><td></td></tr>
<tr><td>Client's Sex:</td><td></td></tr>
<tr><td>Employed/
Unemployed:</td><td></td></tr>
<tr><td>Centrelink Recipient:</td><td></td></tr>
<tr><td>NESB/
English Speaking:</td><td></td></tr>
<tr><th colspan="3">Client's Borrowing Behaviour - Payday Loans</th></tr>
<tr><td colspan="3"></td></tr>
</table>

Please briefly outline why your client first presented to you for assistance, and their circumstances at that time:	
Did your client engage in *repeat borrowing* from payday loan providers? **(i.e obtaining a new loan, immediately or soon after paying off an old loan)**	
Describe the *frequency* of repeat borrowing exhibited by the client. **(i.e. weekly, fortnightly, monthly)**	
Describe the *duration* of repeat borrowing exhibited by the client. **(i.e. to your knowledge, how long had the client been repetitively borrowing from payday lenders)**	
In your estimation, how many payday loans would your client be likely to take in a *twelve month period*?	
To your knowledge, did your client ever hold *multiple payday loans* from differing payday lenders at the same time ? **If so, was this common?**	
If your client did have multiple payday loans at any one time, how many loans would they be likely to have?	
In your opinion, did your client have difficulty breaking a *debt cycle* created and/or exacerbated by payday loans?	
Please add any further comments below, if you wish to do so. **(i.e. Any information to help flesh out your client's story)**	

☐ **Please tick this box if your client has expressed a willingness to speak with the media**