

MEDIA RELEASE

Tuesday, 6 March 2012

Ombudsman asked to consider lending practices of payday loan provider

Consumer Action is lodging another dispute against a high profile payday loan provider. The most recent dispute, being lodged on behalf of Ms Jane Bowyer with the Credit Ombudsman Service, alleges The Cash Store engaged in irresponsible lending practices, and asks whether it lent Ms Bowyer money she could not afford to repay .

When she got the loan in November 2011, Ms Bowyer was only receiving \$671 from the Disability Support Pension, an amount that just covered her rent, utilities and other living expenses. Yet The Cash Store provided an amount of credit of approximately \$300, which required her to repay \$476.62 in the space of a fortnight. Repaying such a loan in full would have left Ms Bowyer with income of just \$194.38 for two weeks, reducing her pension by around 71 per cent.

Catriona Lowe, co-CEO of Consumer Action, said high cost, short term loans were particularly dangerous when given to low income earners as repayments often left them without enough money to pay for day-to-day living expenses.

‘Thousands of Australians can tell you that living on the Disability Support Pension is hard enough without having it eroded by large loan repayments. Not even the thriftiest among us could live on \$194 for a fortnight.

‘Faced with the real prospect of being unable to buy groceries or other essentials, many people in this situation will go back for another loan which only works to drive them further into debt.’

Both lenders and brokers which provide credit assistance, must ensure that a loan is ‘not unsuitable’ by making reasonable inquiries about a potential borrower's position and being satisfied that the loan can be repaid without substantial hardship. It is hard to imagine living on \$194 being anything other than substantial hardship. Ms Lowe said ‘we’ll be asking the Ombudsman to consider whether The Cash Store’s breached these obligations when dealing with Ms Bowyer.’

‘Payday loans are generally given to the people who can least afford expensive credit, lock borrowers into short repayment periods and encourage repeat borrowing. They’re dangerous plain and simple. Unfortunately, we know that many other vulnerable people are taking out similar loans, and their vulnerability can mean that they are not in a position to complain. In fact, it’s often financial desperation that means that they don't want to. That’s why further reform is needed.

‘The Government is looking dangerously like caving on reforms to protect payday loan borrowers; but this would be the wrong decision. It’s now time for it to pass legislation to introduce a comprehensive interest rate cap that effectively restricts the type of lending which traps so many borrowers in an ongoing cycle of high cost borrowing,’ said Ms Lowe.

END

Media Contact: Dan Simpson 0413 299 567

Consumer Action Law Centre
Level 7, 459 Little Collins Street
Melbourne Victoria 3000

Telephone 03 9670 5088
Facsimile 03 9629 6898

info@consumeraction.org.au
www.consumeraction.org.au

ABN 37 120 056 484 ACN 120 056 484