MEDIA RELEASE

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Credit Enhancements Bill a 'win' for payday lenders

Consumer advocates and financial counsellors have lamented the lost opportunity to effectively protect vulnerable Australians from exploitative payday and short term loans. While pleased that the Government's *Credit Enhancements Bill*, which passed through the House of Representatives today, has seen the dangers of small amount lending debated at a national level, consumer groups said the final bill had the lending industry's fingerprints all over it.

Catriona Lowe, Co-CEO of Consumer Action, said having the Government and other Members of Parliament acknowledge the dangers of short term lending and the devastating effect these loans can have on low income borrowers was a step in the right direction. However, the bill, as it stands, falls far short of effective protection.

'The Government had previously announced a weakening of a comprehensive cap on fees and interest (cost cap), but we had hoped this would be offset by "complementary measures" which would effectively address the unsafe aspects of this type of lending. Instead we have a cost cap set at the level proposed by Australia's biggest payday lender - the cost of loans will come down, but short term loans will still have interest rates that most Australians would consider outrageous - up to 240% per annum. And we'll continue to see borrowers fall into debt traps because the proposed measures to guard against the harm of repeat borrowing* are inadequate.

'Despite our concerns that lenders were having an undue influence on the bill, we sought to work with all parties and the Independents to develop measures to effectively target repeat borrowing. Unfortunately, the "complementary measures" do not stack up,' said Ms Lowe.

Ms Lowe said the strongest measure in the bill is the introduction of a protected earnings amount for Centrelink recipients - this is an important step but it will not help 'working poor' borrowers and is insufficient to offset concessions made to the industry.

Ms Lowe pointed to a number of last minute Government amendments to the legislation that weakened consumer protection, including:

- the introduction of a "mid-tier cap", which enables lenders greater returns on loans between $2,000 and $5,000 as well as being able to secure the loan;
- removal of bans on refinancing, credit limit increases and multiple loans;
- an effective endorsement on the use of employer authorities as a payment mechanism and debt collection tool.

'The introduction of a mid-tier cap appears to be solely the result of lobbying by small amount lenders. There are many lenders, such as credit unions and some banks that advance loans of between $2,000 and $5,000 at fair market rates. However, the legislation will allow commercial lenders to charge an establishment fee of $400 in addition to a 48% interest charge and take security. It is a matter of time before we see people's homes at risk because of a loan to buy a second hand vehicle.

Ms Lowe also said that removal of the ban on multiple loans will open up avoidance techniques for lenders.

‘Payday lenders can be canny and commonly use contractual niceties to evade consumer protections—we're well aware of that. The legislation contains some measures to address this – however, it opens a window for avoidance even as it closes a door. The removal of the ban on multiple loans has unintended consequences - it will enable lenders to set up multiple, concurrent loans for smaller amounts, to take advantage of more generous fee allowances,’ said Ms Lowe.

We urge all Members of Parliament to take the winter break to revisit protections for the most vulnerable consumers in Australia.

*Repeat borrowing comes about due to a combination of features present in the typical payday loan - the high cost, the use to met essential day to day living expenses and the fact that direct debit prioritises the loan repayment over food, housing and other essentials, such that consumers are 'caught short' of funds for essential everyday living and return for further borrowing. Less costly loans are a benefit for consumers who access loans for a genuine one off emergency. But research consistently shows such use is in the significant minority. For the typical user the cost cap in the bill will simply mean a slower trip down the debt spiral.

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