

MEDIA RELEASE

Friday, 2 December 2011

Committee's report shows responsible lending laws aren't enough

The Consumer Action Law Centre has welcomed the finding from a parliamentary committee of inquiry that Australia's responsible lending laws don't sufficiently protect consumers from harmful payday loans. However, the Centre said it was disappointed the inquiry hasn't supported a cap on the cost of credit, and it has called on the Government to stay firm on its proposals in face of strong lobbying from vested interests.

Carolyn Bond, co-CEO of Consumer Action, said she was pleased that the Joint Parliamentary Committee examining the *Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011* had recognised that responsible lending laws, on their own, were not enough to protect borrowers from harm involved with high cost, short-term loans.

'The committee's finding echoes our concern that responsible lending laws are ill-suited to address unsafe products, such as payday loans. The committee said that *'the very nature of a small amount short-term loan indicates that the loans are being sought to address financial difficulty'* and that additional measures are required to complement responsible lending obligations. We agree—in most cases, a short-term loan does not address financial difficulties, but only exacerbates them further.

Ms Bond raised concerns that the committee failed to make a clear distinction between 'small amount lending' and 'short term lending' when discussing industry viability.

'A viable *small amount* lending industry is important for consumers, and we would welcome a dialogue with government and the banking industry about building this sector. Small amount loans need to be advanced on fair terms and at affordable rates if they are going to improve a consumer's financial position. At the moment, an Australian affordable small amount lending industry—including Low Interest and No Interest Loans—is in its infancy and more needs to be done to support its growth.

'But we think that *short-term* lending, such as payday lending, is particularly harmful—a point acknowledged in the report. Short-term lending generally involves people already in financial difficulty having a significant amount deducted from their next pay, often leading them to need another loan to supplement their reduced income. This can lead to repeat borrowing—the borrower is continually "caught short", so obtains another loan, and so on.

The committee acknowledged the problems with short-term loans when it noted:

'that a \$300 loan over 28 days can require repayments of \$405, representing, in this case, 22 per cent of the borrower's income. If a person is in need of \$300 due to financial hardship, it seems axiomatic that the person may encounter further difficulties through having to repay the principal and an additional \$105 within a short timeframe.'

The committee finds that loan terms and repayment periods should be reasonable, but Consumer Action said it was disappointing the committee made no comments about how the bill should bring about such an outcome.

'When it comes to payday lending, the responsible lending obligations won't force lenders to provide reasonable loans with reasonable repayment periods. Unfortunately, it is the unreasonable terms and short repayment periods that makes the lending so profitable', said Ms Bond.

Ms Bond said high costs, repeat borrowing and lending for inappropriate purposes are also problems with payday loans.

'The high costs of short-term loans are a real problem as, particularly when loans are more than one-off as is commonly the case, the fees are then repeatedly charged over long periods of time. A cap on the cost of credit would encourage lenders to advance loans that have longer terms, and a lower cost, meaning that they would more likely to be affordable appropriate to consumers' needs.'

Consumer Action said the Government should proceed with the bill that caps the cost of credit and move to have it enacted by Parliament early next year.

'We call on the Government to stand up to the vested interests of payday lenders and enact this bill to protect vulnerable consumers as soon as possible', said Ms Bond.

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