MEDIA RELEASE

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New report shows why greater consumer protections are needed in payday lending

The Consumer Action Law Centre has written to the Minister for Financial Services, the Hon Bill Shorten MP, and members of the Senate in a last ditch attempt to get vital consumer protections introduced into the payday lending industry through the *Consumer Credit (Enhancements) Bill,* which is due to come before the Upper House this week. The Centre pointed to figures in the newly released *Caught Short: Exploring the role of small, shot-term loans on the lives of Australians,*[1] which shows high levels of repeat borrowing, indicating that many borrowers are ensnared in long-term debt that is making them worse off than they would be without high-cost payday lending.

In its letter Consumer Action has called for the introduction of a limit on the number of payday loans a borrower can take out in a 12 month period. The Centre believes its proposed limit of four loans in twelve months would significantly reduce the occurrence of repeat borrowing and stop borrowers becoming dangerously reliant on high cost credit.

Catriona Lowe, co-CEO of Consumer Action, said that the *Caught Short* report's findings that more than half of borrowers had taken out more than 10 loans in the last two years, and that three quarters of this group had taken out more than 20 loans, was a clear sign that the high-cost loans were adding to borrowers financial problems rather than helping them.

'Lenders would have us believe that people take out payday loans for as a stopgap fix to financial problems, but this report shows, beyond doubt, that payday loans are used by people who can't afford to be paying a premium for credit and often keep them in a perpetual state of financial hardship.

'The fact that 80 per cent of payday borrowers surveyed for Caught Short were getting a Centrelink payment or pension is further proof that this industry is making millions from vulnerable Australians—these are the people our Parliament should be protecting.

Ms Lowe said that the opportunity for the Senate to improve protections in the draft legislation remains.

'Including a limit on the amount of loans a borrower can have in a twelve month period is an important safeguard. It wouldn't affect access to one-off loans, but it would protect borrowers from becoming dependent on this high-cost product,' said Ms Lowe.

The Consumer Action Law Centre is also calling for amendments that:

- exclude secured contracts from the types of small loans which can charge higher rates, and
- remove provisions which allow lenders to secure repayments directly from a borrower's employer.

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[1] *Caught Short,* an Australian Research Council-funded report, was jointly authored by RMIT University, University of Queensland and Queensland University of Technology, available at: http://www.uq.edu.au/swahs/index.html?page=183109&pid=28807.

Ms Lowe said having security over loans of between $2,000 to $5,000 means we could see Australians losing their cars or even their homes over relatively small amounts. ‘Losing a car or house can have a devastating effect on individuals and families. And given the bill already allows lenders to charge a premium because of the risk involved in these loans, we see security as an excessive protection for lenders.’

‘We’re opposed to lenders obtaining repayments directly from a borrower’s employer because it means the borrower will be denied the chance to prioritise their spending. We feel they should receive their full pay packet so they can pay for essentials like rent, utilities and medicine before anything else,’ said Ms Lowe.

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