

Fair Finance for Australians

BRIEFING PAPER



THE SACC REVIEW

A Government review of the laws regulating payday loans and consumer leases was undertaken in 2015 by an independent three-member panel. The review, known as ‘the Small Amount Credit Contract (SACC) Review’, made a number of important recommendations to strengthen protections for people using payday loans and consumer leases. On 26 November 2016, the Government recommended the majority of the SACC Review’s recommendations, but we are still waiting for legislation.

PAYDAY LOANS

What are payday loans?

Payday loans are loans of up to \$2,000 for periods of 16 days to 12 months. The industry’s biggest lenders include Cash Converters and Nimble. Payday lenders can charge a 20% establishment fee and 4% monthly fee on the amount loaned. These fees convert to annual percentage rates of between 407% and 112.1%.¹

What are the problems?

- 1. The industry is booming:** The industry is tipped to be valued at more than \$2 billion by 2018. There has also been a huge growth in online lending—in 2015, more than 68% of households who access payday loans use the internet to do so.
- 2. Payday loans are extremely expensive:** Payday loan annualised percentage rates can be more than 400%. People who are already struggling financially simply cannot afford to make repayments, and many become caught in a harmful cycle of repeat borrowing’.
- 3. Payday lenders are getting special treatment:** Payday lenders are not subject to the 48% annual percentage rate caps as are other lenders—they can charge almost ten times as much as banks and other lenders.
- 4. Repeat borrowing:** Payday loans are usually taken out to cover day-to-day living expenses (such as food, rent and utilities) rather than ‘one off’ expenses. Consumers already struggling to make ends meet simply cannot afford to make repayments, and are caught in a harmful cycle of repeat borrowing.
- 5. Irresponsible lending:** The industry has repeatedly shown that it will lend money to pretty much anyone, regardless of whether they can afford repayments. ASIC has repeatedly taken action against big lenders for breaching responsible lending laws, including Cash Converters and Nimble, but we haven’t seen any positive changes in the industry.

SACC Review recommendations

The SACC Review made a number of recommendations to improve protections for payday loan borrowers, and level the playing field between payday lenders and other lenders. We are particularly supportive of the following recommendations:

- Capping payday loan repayments to 10% of the consumer's net income.
- Requiring equal repayments over the life of a payday loan
- Prohibiting monthly fees if a payday loan is repaid early.
- Banning unsolicited offers of payday loans to current or previous customers.

CONSUMER LEASES

What are consumer leases?

Consumer leases are high-cost goods rental agreements, commonly used to rent electronics, whitegoods and furniture to low-income Australians. The best known consumer lease provider is Radio Rentals. They are sometimes referred to as 'rent-to-buy' agreements.

What are the problems?

1. **No cap on fees:** Consumer lease providers can charge whatever they like, regardless of the retail price of the goods. They are not subject to the 48% cap on costs that other lenders must comply with.
2. **Poor disclosure of cost:** Consumer lease providers only advertise a low weekly amount, rather than the full cost of the lease. They also don't advertise the recommended retail price of the goods, or an annual percentage rate.
3. **Regulatory arbitrage:** Lessors use tricky clauses to structure contracts as leases rather than loans (sale by instalments). These include terms allowing the borrower to buy 'similar' goods for \$1, even though in most cases the person keeps the goods. If the contract allowed for purchase, it would be regulated as a credit contract and the interest rate cap would apply.
4. **Irresponsible lending:** We continue to see consumer lease providers signing low-income Australians up to these agreements, even when they can't afford to make repayments.
5. **Exploitation of Centrepay:** Centrepay is a bill payment service for people receiving Centrelink payments. Many consumer lease providers take their fees automatically out of people's Centrelink payments before it even reaches their bank account. There are more Centrepay deductions (in terms of number, not value) for consumer leases than education, housing, water or gas.

SACC Review recommendations

The SACC Review concluded that the current consumer leasing laws have largely been 'ineffective at promoting financial inclusion', and said high cost leases had 'highlighted the problems with excluding consumer leases from the caps that apply to all other forms of finance'. The SACC Review made a number of recommendations to address these issues, including:

- Capping fees at 4% of the Base Price of the goods per month, for a maximum of 48 months.
- Capping consumer lease repayments to 10% of the consumer's net income.
- Banning unsolicited selling of consumer leases.

OPTIONS FOR STRUGGLING AUSSIES

Payday loans and consumer leases are often used by people who feel that they have no alternative when times get tough, but there are other options:

- Speak to a free financial counsellor at the National Debt Helpline on 1800 007 007 for help with budgeting, prioritising debts, consolidating loans, applying for grants and concessions, early access to superannuation, increasing income and more.
- Apply for a loan under the No Interest Loan Scheme (NILS) or StepUp program.
- Get a Centrelink advance.
- Seek help from family and friends.
- Negotiate with lenders and utility providers.

NEXT STEPS—WHAT DO WE NEED?

The SACC Review recommendations are a great first step towards improving protections for people using payday loans and consumer leases. To finish the job, we need Parliament to:

- enact the SACC Review Panel's recommendations as soon as possible
- go further by capping loan interest rates at 48% for all credit providers, including payday lenders and consumer lease providers; and
- commit to more funding for support services for struggling Australians such as financial counselling, NILS/StepUp loans and legal assistance. People need help to get out of poverty, not harmful products that will entrench it.

WHAT CAN YOU DO?

If you agree that it's time to make finance fair again, we urge you to contact **Hon Michael McCormack, Minister for Small Business (and responsible for consumer credit)**, to voice your support for implementing the SACC Review recommendations.