

**ANGLICARE Submission to the Inquiry into the
Consumer Credit and Corporations Legislation
Amendment (Enhancements) Bill 2011**

**PARLIAMENTARY JOINT COMMITTEE ON CORPORATIONS AND
FINANCIAL SERVICES**

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1. Who is ANGLICARE Sydney

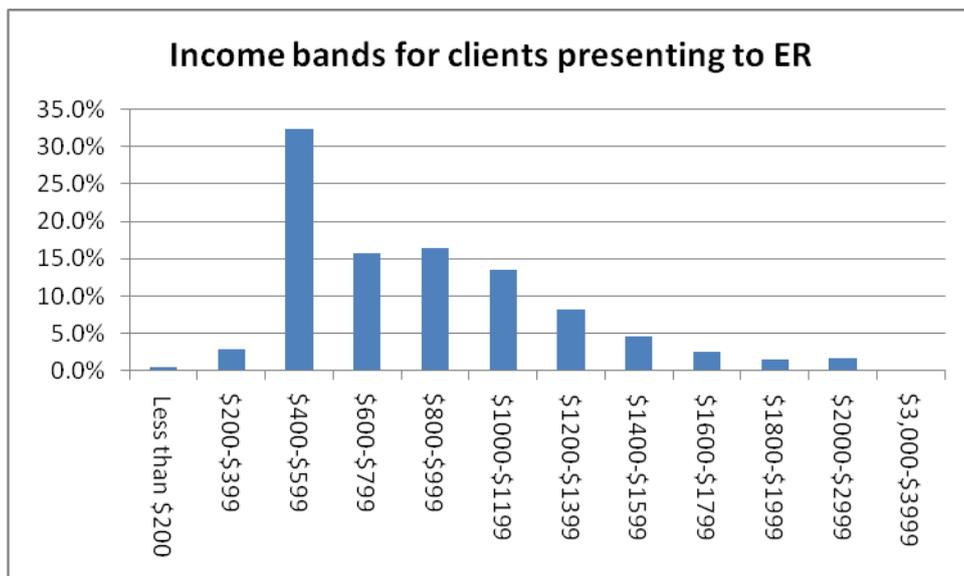
1.1 ANGLICARE Sydney is one of the largest Christian community organisations in Australia; it embodies the Christian commitment to care for all people in need, as comes from Jesus' command to love your neighbour as yourself.¹ ANGLICARE Sydney has been providing a wide range of professional services to the community since 1856 and serves many thousands of people every year. Its services include: counselling; community education for families; family support services; youth services; emergency relief (ER) for people in crisis; foster care and adoption for children including those with special needs; migrant services including humanitarian entrants and newly emerging communities; English as a second language classes; aged care both through nursing homes and community services; opportunity shops providing low-cost clothing; emergency management services in times of disaster; disability case management and respite and chaplains in hospitals, prisons, mental health facilities and juvenile justice institutions.

1.2 Economic hardship is most prevalent in people accessing ER services. ANGLICARE Sydney is currently one of the most significant providers of ER in NSW, operating across nine service sites. We have been providing ER services for more than 40 years across the Sydney Basin and the Illawarra. We now also provide financial counselling services at our Liverpool and Mt Druitt sites as well as the No Interest Loan Scheme. The observations made in this submission are based on the feedback from our services in the field.

2. Financial Exclusion, Credit Debt and ER

2.1 **Economic hardship is significant** for those presenting to the ANGLICARE ER services. Over one third of clients in the period 2007/2011 have incomes of less than \$1000 a fortnight – or around \$500 per week. Chart 1 illustrates these findings.

Chart 1



¹ The Gospel of Matthew, chapter 22 verse 39

- 2.1 This inadequacy of income is reflected in **an inability to accumulate savings** to provide a buffer for unexpected expenses. In the 2008 study of social exclusion by the University of NSW only 26% of clients interviewed had access to \$500 or more to draw down on in case of an emergency.² By comparison, more than three quarters of the national population were able to access emergency funds of the same value. Under such circumstances any unforeseen expense such as the need to replace the water heater, an unexpectedly high utility bill or the costs of a funeral can send a low income household into debt and the need to access either ER or credit. As a consequence a number of people access ER services either with significant financial debt or a need to resolve credit card debt. Since ANGLICARE began consistently collecting ER data in July 2007 across all its service sites there have been 10,304 visits recorded in relation to financial debt.
- 2.2 People on low incomes are vulnerable to **financial exclusion** with inadequate access to mainstream financial services. Accounts for low income customers generally pay little interest, incur high fees, require minimum balances and generally limit the number of free transactions. ANGLICARE service workers have commented that financial institutions which are not keen on attracting low income customers do not provide appropriate products or facilities to encourage such customers into the system. Low income households pay fees on accounts which require a minimum balance. Wealthier clients – with term deposits, home loans or other investments are often waived from the payment of such fees. Given the nature of the waiver it is almost always out of reach of the disadvantaged and low-income client. Additionally banks also provide discounted services for members of professional associations – these are not available to low income and disadvantaged customers.
- 2.3 This situation may well be exacerbated if the individual has **low levels of financial literacy**. ANGLICARE workers have observed that in the financial counselling program most clients have found it difficult to understand their bank statements and are therefore unaware of the charges they have incurred or the reason for these charges.
- 2.4 Financial exclusion is also exacerbated by the **lack of access to technology** for low income households. The move from over the counter banking to use of ATM's, telephone and internet banking and the use of EFTPOS facilities has in many ways revolutionised the delivery of financial products. To take advantage of these new systems however requires access to the technology. In the case of internet banking and even for some the use of ATM's this may not be feasible or easy. Fees on over the counter transactions have increased regularly whereas as customer usage of the internet to avoid these fees is encouraged. Unfortunately many low income customers do not have access to a computer and therefore are forced to use over the counter transactions which are more costly.
- 2.5 Given this combination of low income, lack of adequate savings and inadequate access to mainstream banking and financial services, low income households often find themselves in the hands of 'pay day lenders' – those who provide small loans (\$200-\$500) for very short periods of time (2-3 weeks) with very high rates of interest. In NSW this interest is capped, for now at 48%, per annum inclusive of fees and charges.^{3 4}

² Saunders, Peter et al (2008) *Towards new Indicators of Disadvantage: Material Deprivation and Social Exclusion in Australia*, Social Policy Research Centre: University of NSW, p42

³ Rosemarie Lentini, (2011), *Payday loan cap kept on for consumers*, The Daily Telegraph, 26 May <http://www.dailytelegraph.com.au/news/sydney-nsw/payday-loan-cap-kept-on-for-consumers/story-e6freuzi-1226063019547>

3 Current Pay Day Lending Issues

3.1 The provision of these high cost short term loans is **exploitative of people on low incomes** since it is predominantly these households using this kind of borrowing. ANGLICARE workers note that a number of people on DSP benefits often resort to this sort of financing, as do single mothers and many who are not financially literate. An interim report released this year by RMIT, the University of Queensland, the Good Shepherd and NAB⁵ indicate that most borrowers were on low incomes with 78% of research participants receiving Centrelink payments when interviewed.

Only nine people owned their homes, with most (75 per cent) renting their accommodation either privately (36 per cent) or publicly (39 per cent). Eight people were homeless. Less than a quarter (24 per cent) had some form of paid employment. Half (48 per cent) the income-supported interviewees had left school by the end of Year 11, compared to only a quarter (28 per cent) of borrowers not in receipt of a Centrelink payment.⁶

3.2 For many people borrowing from pay day lenders, it is **not a one off occurrence**. The difficulty in repayment leads to refinancing the debt to a point which is often unsustainable. The *Caught Short* report highlights the issue with cycling, spiralling and parallel loans. In that study what emerged was:

- 44% cycled through their loans – immediately taking out a new loan once the previous loan has been paid out.
- 23% found themselves in a spiralling process of refinancing the balance of a partially paid-out loan to start a new loan.
- 25% stated they took out two or more parallel loans from the same or different lenders simultaneously.

3.3 Borrowers are then caught in a **vicious cycle of debt** from which it is almost impossible to extricate themselves. ANGLICARE microfinance workers in Mt Druitt state the negative financial impact of short term high interest loans can be extensive with many unable to pay for their basic necessities like food or utilities. Feedback indicates that most would have enough money to live off if they were not required to pay back their debts at such cost. One ANGLICARE worker noted:

It breaks my heart to see people struggling in this cycle, and it's even more horrific when there are children involved, and you know they won't have food in the house in the coming week. When clients present with these debts, and are looking for help to get away from them (keeping in mind that not everyone wants a way out . . . they will go back and start the cycle again as soon as they feel like they need extra cash!),

⁴ Rosemarie Lentini, (2011), *Payday loan cap kept on for consumers*, The Daily Telegraph, 26 May <http://www.dailytelegraph.com.au/news/sydney-nsw/payday-loan-cap-kept-on-for-consumers/story-e6freuzi-1226063019547>

⁵ Marcus Banks, (2011), *Caught short: Exploring the role of small, short-term loans in the lives of Australians*, Interim Report, August

⁶ Ibid

it gives us an opportunity to partner with them for 4-5 weeks, while they break the cycle (via a contract to provide food vouchers).

3.4 Unfortunately it seems that many **clients are unaware** of how much they are actually paying back. Most are attracted by the marketing of easy and fast access to cash and are surprised when they are shown how much they are paying in fees and interest. Often a payday loan sets clients off on a debt cycle with some coming in to ANGLICARE with multiple loans from different lenders operating at the same time. People with gambling issues are also particularly vulnerable to the “easy” money.

4 ANGLICARE Response to the proposed reforms

- 4.1 ANGLICARE Sydney welcomes the introduction of the proposed reforms which aim to provide greater protection for consumers in relation to consumer leases, short term loans and reverse mortgages. It is hoped these reforms will contribute to a greater level of accountability and transparency in the credit services industry, which will genuinely benefit consumers over the long term.
- 4.2 ANGLICARE Sydney acknowledges that short-term credit loans are sometimes a necessary source of income for consumers unable to access the mainstream credit market (specifically, banks and credit unions). For this reason, it is important for the credit services industry to be regulated to ensure, consumers do not need to resort to ‘loan sharks’, where the exchange of household goods is involved or are subjected to extortionate interest and fee structures.
- 4.3 The proposed cap of an upfront fee of 10%, plus 2% per month, would certainly be more economical for consumers who are able to repay their loan within a short period of time (i.e. three to six months). However, the absence of a “maximum” cap in this instance would be especially risky for consumers who are unable to repay any of the principle amount over a period of two years or more; such a consumer may end up paying cumulative interest of nearly 58%. This rate is higher than the 48% cap (inclusive of fees and charges) that is currently in place in New South Wales. Subsequently, it would still be necessary to impose a cap on the maximum amount charged by credit providers under both small amount credit contracts, and all other credit contracts.
- 4.4 ANGLICARE Sydney questions whether the reforms will be able to provide sufficient choice for consumers who require income for the resolution of emergency situations – especially in lieu of other alternatives. ANGLICARE Sydney has observed situations where the negative financial impact of short term high interest loans can lead to people being unable to pay for necessities such as food and utilities. Feedback from workers indicates that most of these people would have enough money to live on if they did not have to pay back their debts at such cost. It is our view that consumers would benefit if they had access to a greater range of financial products – such as microfinance loans and mainstream credit loans.

5 Further proposed enhancements to the reforms

- 5.1 Use of Microfinance programs as viable alternatives to payday loans:** ANGLICARE Sydney welcomes the suggested obligations outlined in the Bill in relation to microfinance programs, where payday lenders would be required to notify borrowers of alternative programs (e.g. NILS, Step UP, AddsUP). The Bill also mentions Centrelink advances and government microfinance programs – however, the increased promotion of Work Development Orders (WDOs) for the payment of fines should also be considered as another alternative for consumers. ANGLICARE Sydney proposes these obligations should be mandatory for all payday lenders and that borrowers are also made aware of appropriate support services, including: financial counselling, financial literacy courses, and as a last resort, emergency relief funding. Referrals should be available to borrowers who wish to engage with these services. Microfinance programs and support services need to be supported with appropriate funding to ensure they are available to vulnerable people in the longer term and develop more consistent and inherent viability. It is generally well recognised that repayment of loans under micro financed arrangements is not an issue.
- 5.2 Measures to prevent the recycling of loans:** one of the issues which have been raised by ANGLICARE workers is the ability for clients to simultaneously take out a number of loans. It is recommended refinancing controls be put in place which require the settlement of one pay day loan before taking out another.
- 5.3 Increased options for low income consumers in the ‘mainstream’ credit market:** Willis (2005) suggests that the inability of disadvantaged consumers to obtain access to the mainstream credit market has a twofold effect; notably, the damaging of their self-esteem and the creation of an economically polarising outcome where “the poor must pay more for credit than the majority”. The government should encourage mainstream credit providers (including banks) to enter the low income consumer credit market, potentially through the introduction of grants or tax incentives, as per the recommendations of the Social Investment Taskforce in the United Kingdom. Ideally, these options would be accompanied by initiatives that would enable low income earners to build up their savings, reduce reliance on payday loans and establish a reliable credit history.
- 5.4 The Federal Government assist in the development of collaborative programs between credit unions and community groups for consumers who are not eligible to access microfinance products.** Such an initiative may increase the customer base of credit unions and give them a competitive edge over banks in the low-income market, thus reducing the costs associated with payday loans. Community organisations have assisted with product development, training and providing advice. In the United States, there are at least two credit unions that have offered payday loans with an interest rate of 10.75% - 11.75%, which is considerably lower than the Australian interest cap.
- 5.5 Improved education of consumers by payday lenders in relation to hardship provisions** available for utility bills, so that these consumers do not unnecessarily seek payday loans to pay these particular bills.
- 5.6 A commitment by the Federal Government to conduct research on the frequency and impact of payday loans on consumers** no later than 18 months from the time the

Enhancement Bill is passed into law. Such research would need to include a review in relation to the efficiency of informal formal dispute resolution processes, which were introduced under the *National Consumer Protection Act 2009*.

6 Conclusion

Providing incentives to mainstream Credit Unions and Banks to offer financial products for low income families and individuals who require small loans may be an effective way of providing them with greater financial protection in times of particular financial vulnerability, while also helping them develop a reliable credit history.

Since many small, short term loans are used to address systemic issues of disadvantage, further provision of financial counselling and controls on re-financing options are essential to help low income families and individuals develop greater capacity for understanding management of personal finances.

Mainstream financial institutions would need to build connections with social welfare providers to understand how best to serve the interests of vulnerable families and individuals requesting small, short term loans. This should not be seen as a limitation, but as an exercise in broadening social responsibility in the provision of financial services.

ANGLICARE Sydney welcomes the opportunity to provide input to the Inquiry into Consumer Credit and looks forward to the final report and the implementation of recommendations which provide improved financial options for low income households.

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