



Fair Finance

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Parliamentary Joint Committee on Corporations and Financial Services
and the Senate Economics Committee
PO Box 6100
Parliament House
Canberra ACT 2600

Monday 31 October 2011

Dear Committee Members

Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011

Action to restrict any predatory lending by providers of small value loans is welcome, as is any action to address poverty in Australia. However, access to fair and affordable credit should not be the only strategy and we would also support enhancements to the social security system by way of improved delivery or value of benefits.

However, we write to you to bring to your attention an element of the proposed amendments to the above mentioned Bill, which we believe has not received due consideration. At the outset, Fair Finance Australia notes that the current direction of the debate regarding how to prevent exploitative lending is misdirected. Subsequently, Foresters Community Finance makes the following recommendations:

1. Efforts to address exploitation should focus on increasing *access* to fair and affordable loan products over and above addressing the *cost* of loan products. It is our experience that many of the people walking through the shopfronts of exploitative lenders do so because they do not have a choice and therefore this is their only pathway to access a loan. To address access issues we would recommend dealing with the issue at the shopfront door through prevention by the offering of alternative products and approaches in the market. The proposed legislation focuses principally on price to address exploitation and price exploitation is an outcome of access and a lack of real choice.
2. That the responsible lending framework and policing via ASIC be extended to *all* credit products including short term credit.
3. The final legislative changes should ensure that the window of opportunity remains open for safe and responsible lenders, such as community development finance institutions. This senate inquiry has the potential to shut down exploitative and predatory lenders or make them become yet more innovative. However it also has the ability to prevent fair, alternative lending options to develop and maturing in the market.

Our experience would indicate that any loan made for the purpose of payment of daily consumption or bills cannot by definition fit within the responsible lending framework. This is because it is usually the case that individuals do not have enough income to survive day to day and are clearly in poverty. Any form of loan that has to be repaid will in effect reduce their future income and is thus increasing their poverty levels. This can be seen as just a short term fix to their financial problems. This is similar to the argument made by the Financial

Counselling Australia (FCA) who assist clients via payment arrangements and other means to increase income rather than decrease it.

Awareness and education needs to be provided to individuals and families experiencing poverty to increase their understanding about options, including:

- negotiating hardship arrangements with their creditors instead of entering a spiral of more debts to pay off current debts
- income increasing strategies
- income retention via reduction in spending or plugging spending leaks
- seeking temporary “emergency relief”
- seeking genuine loans such as NILS, LILS for essential household items only, rather than entering into debts that can quickly become a downward spiral into major financial crisis.
- having access to interest bearing finance products that are fair and affordable.

About Fair Finance Australia

Fair Finance Australia (FFA) is addressing exploitative lenders at the point of access by providing a fair, alternative option. FFA offers fair, appropriate loans from \$1000 to \$4000 for terms up to 2 years. Our approach is very client / case focused and this leads to a lending experience that helps our clients either achieve their loan goal in a responsible way or gives them an understanding why a loan would be unsuitable for them at the present time and what sort of options they need to pursue to start their pathway to financial inclusion.

FFA was awarded a contract in February 2011 by FaHCSIA as part of the pilot of Community Development Finance Institutions (CDFI). FFA is a program within Foresters Community Finance and is conducting a micro-loan pilot program to address financial exclusion for individuals. Foresters is a non-profit that offers financial solutions as a CDFI that operates across all financial exclusion segments including individuals, social enterprises and non-profit organisations. FFA believes that access to fair affordable credit is a right for all and encourages the Committee Members to both consider measures that increase access to credit and well as restricting predatory lending via reinforcing the responsible lending framework to cover all lending, including short term lending.

Yours faithfully,

Peter Pamment
Manager
Fair Finance Australia