



FINANCIAL COUNSELLING

HUNTER VALLEY PROJECT Inc

P.O. Box 467,
Rutherford NSW 2320
Unit 9, 555 High Street
Maitland 2320
P: 02 4933 8999
F: 02 4933 8988

1st November 2018

Senate Standing Committees on Economics
P O Box 6100
Parliament House
CANBERRA ACT 2600

Dear Sir/Madam

Re: SUBMISSION into Australians at Risk of Financial Hardship

On behalf of my organization, staff and myself I would like to lodge a submission into this inquiry. This service provides free, confidential and non-judgmental financial counselling services to individuals and families facing unmanageable debt levels.

Staff regularly see the harm caused by unaffordable, small amount credit contracts, and consumer leases. The impact of pay day loans, consumer leases and “buy now, pay later” on individuals and families can be financially devastating and many of these people find themselves:

- Homeless or at the risk of becoming homeless
- At risk of losing their children
- Applying for more payday loans to pay for essentials
- Taking out more Non-payday loans and increasing total non-payday debts
- An increase percentage of non-payday loan balances in default &
- A deterioration of consumer creditworthiness
- Becoming trapped in a cycle of debt.

These vulnerable consumers tend to develop relationships with payday lenders and develop a reliance on this type of credit usually to their detriment.

While payday loans result in a short-term increase in funds, in the following months the person’s financial position worsens. Individual and families use payday loans for different things i.e. to help pay their rent, utilities bills, food, medical expenses and everyday living costs.

In our experience people who use payday loans find themselves in situations where they are presented with few other financial alternatives. In their eyes, a payday loan is a way of “staying afloat” for a short period of time without having to ask for handouts from local charities. People with low credit or no credit are ideal customers for payday lenders. Centrelink recipients are frequent users of Payday Loans as this type of credit is the only form of credit available to Centrelink recipients due to their low income.

A payday loan is not an attractive option for short-term financial problems. Exorbitant interest rates, fees and on-going charges, small loan size, future dependency and the possible negative effects that borrowing from these lenders can have on your credit rating are all valid reasons to avoid a payday loan if possible.

Also, due to the high cost of payday loans, consumers often have trouble making the repayments. This means high default fees and often the only option the person is given is to refinance, attracting another round of costly fees and charges.

Payday lenders tend to be less reputable than their commercial bank counterparts. In an industry where documentation is paramount, payday lenders can require borrowers to provide personal financial identification information as part of the approval process. An example of this is Cash & Go Machines in this Service’s catchment area. Cash & Go Machines are like a Teller Machine where both dispense cash, but the difference is one uses your own money, while the other you must provide your MyGov log on details so Cash & Go can check that you are receiving a benefit from Centrelink.

Some payday loans are not covered by the National Consumer Credit Code this means they are not members of an External Dispute Resolution Scheme i.e. Cigno Loans. Because payday loans provide big profits for lenders without many requirements for professional credentials, a lack of information security and potential for fraud are also troubling aspects of payday loans.

Examples where people use payday loans

- AB-Male, average working income, married, 1 child under school age. He has six regulated credit cards and now unable to gain any further credit, applied for a payday loan and was granted a \$3,000 loan. He then applied and was granted a further three payday loans each of \$3,000 and then he applied for another payday loan and was granted an \$800 loan. This does not include the two credit cards his wife already has. Without the assistance of a Financial Counsellor this man would have lost his wife, child and his job.
- KA-Female, 1 child, She and her partner were on Newstart. She is now escaping D/V, was placed in transitional housing and now receiving Parenting Payment Single from Centrelink. Has been granted a payday loan for \$6,000 for a car which was allocated to her. She also has two Rental contracts for household goods and has recently purchased goods for the two-year-old birthday to the value of \$500 through After-Pay. Prior to

taking out the above loans, she already had another payday loan for \$8,500 for a car that was written off in an accident by her ex-partner.

- RS-Single mother, works two jobs, looking for a 3rd job, has four children. RG has three payday loans to pay outstanding utility bills. RG has not made any payments on these payday loans and has \$1,200 owing to After Pay with fees mounting as she is unable to pay. RG thinks she will have to go bankrupt.
- CD-Single mother, two children, has not worked for four years, has a variety of health issues, is receiving Newstart Allowance from Centrelink and currently homeless as she has not been able to pay her rent. Now has two payday loans and four After Pay Accounts for things her children wanted and now has received an email from a collection agency for an After Pay that she cannot remember buying. CR now looking at accessing her superannuation to clear her debts. Her housing situation is not her priority but CR's main concern is being listed on TICA as she left her last rental owing money.

Reforms are needed to address the issues of:

- After Pay and companies like After Pay who do not have to be members of an EDR Schemes is becoming the next major issue facing financial counsellors.
- After Pay have no credit checks and is like a Line of Credit.
- Placing more checks when a person applies for a payday loan. There is no, or little Credit Check done on individuals when applying for a payday loan and if done is not a true representation of a person's situation.
- Better hardship conditions for people experiencing financial hardship with payday loans.

Some payday lenders will not give more than one-month assistance to people seeking hardship assistance. While other payday lenders will assist where ever they can. In general there are inconsistencies in addressing hardship with lenders.

We are seeking changes to predatory lenders practice across Australia.

Yours faithfully

Maria Hatch

Manager/Financial Counsellor NSW FCAN Registration Number F1171

Financial Counselling Australia Registration Number FC414