29th January 2021

Committee Secretary
Senate Economics Legislation Committee
Department of the Senate
PO Box 6100
Parliament House
CANBERRA ACT 2600

Dear Committee Secretary

Submission: National Consumer Credit Protection Amendment (Supporting Economic Recovery) Bill 2020

I wish to make a submission to the Committee on the above named bill based on my more than 10 years experience as a financial counsellor dealing with clients who have unaffordable debts that they cannot manage.

I strongly oppose the Bill and urge Parliament to vote against it for reasons set out in this submission.

Almost all of my clients have unaffordable debts. I have attached some examples at the end of this submission. Many clients are suffering from mental health issues arising from or exacerbated by the granting of such additional unaffordable credit. Some such clients are suicidal. These problems exist with the current laws and regulations and thus any relaxation of lending laws will inevitably make the situation worse for disadvantaged people already suffering from financial pressure.

Financial counsellors and agencies dealing with the marginalised and financially disadvantaged have fought for years to try to improve lending laws. We find it hard to comprehend the rationale for greatly weakening the current lending laws . This move flies in the face of the current environmental situation where:

- Lending is more competitive than ever with new non-bank lenders coming on the scene all the time, an explosion of on-line lending and new ways of getting finance (for example buy now pay later)
- There is much evidence that Australian household debt is amongst the highest in the world
- Irresponsible or unaffordable lending is still rife in spite of the current laws.
- The Banking Royal Commission first recommendation was '*the National Consumer Protection Act should not be amended to alter the obligation to assess unsuitability*'.

My primary concerns with Schedule 1 of the Bill are set out below:

1. The Bill removes the current requirements for a lender to verify that the loan they are offering is 'not unsuitable'. Under the Bill lenders may rely entirely on information provided by the consumer and are not required to carry out their own independent verification process. Financially stressed people often seek additional credit seeing that as the only way out of their financial problems.

Those who are successful in gaining additional loans through an inadequate verification process inevitably suffer from more stress and anxiety down the track as they enter a debt spiral from which they cannot escape.

2. The Bill removes penalties for irresponsible lending. The penalties available now are rarely invoked (it is difficult for borrowers to resort to legal action), but they do act as an incentive for lenders to follow the law. This removal of verification in the Bill also restricts the scope of the Australian Financial Complaints Authority (AFCA), the relevant ombudsman that consumers can turn to if they have a complaint against a lender.
3. The Bill removes the current protection in relation to credit cards (that was only introduced in 2019) whereby a credit card limit should be repayable within three years. Credit cards have high interest and are a key component of the total indebtedness of most of my clients. The majority of clients I see have had credit cards issued before 2019 (when this criteria was introduced). In most cases they would not have qualified for the credit limit provided if the current rule had applied at the time the limit was granted. Abandoning this criteria would be a radical backward step in discouraging irresponsible lending.

Schedule 2-6 of the Bill

These sections of the Bill deal with Small Amount Credit Contracts (SACCs). A review of SACC laws was prepared for the Treasury and completed in March 2016. My main objections to the Bill in this area is that it does not accept the recommended protected earnings caps on lending applying to these loans but in fact actually doubles them in some cases. The increase of these caps will inevitably lead to higher debts for low income people who cannot afford to manage them and who usually have only resorted to this kind of very high cost debt because of their poor financial circumstances.

The Bill doubles the caps for people not predominately on Centrelink. (increasing the recommended caps from 10% to 20% for pay day loans and from10% to 20% for consumer leases thus making the total cap 40%). I see many clients on low incomes that are working and not entitled to any Centrelink benefit. For example, people over the age of 60 who are unskilled and can only get part-time work and are not entitled to the pension until they turn 67. Some are no longer able to work more because they have always done unskilled labouring type work and their bodies are not able to continue to work full- time and they are unable to find suitable alternative work. Such people should be subject to the same cap as those on Centrelink benefits

The Bill also distinguishes between loans of up to $2000 and those from $2000-$5000 by irrationally offering more protections for the small loans than for the larger ones thus encouraging unwarranted up-selling.

Some recent examples of unaffordable and/or unsuitable lending taken from my case load to support this submission follow:

1. A family with one teenage child has a mortgage of $900,000 on a property worth say $1.5m and credit card debts and other debts of $65,000. One partner does not work and the other has a low income of less than $60,000 pa
2. A family with 3 dependant children has a mortgage of $600,000 on a property worth the same amount or less. They have a leased car, lease amount over $60,000 and unsecured loans of over $200,000. One partner does not work; the

other has an income of about $80,000 and uses the leased car as a private hire car.

3. A full time university student is granted 2 loans totalling $30,000 (which is used to support a gambling addiction)
4. A pensioner aged 75 is granted a $25,000 credit card making a total unsecured debt of $85,000 at that time
5. A full time student who wants to obtain money for gaming applications on her phone succeeds in getting $4000 in loan advances (all SACC loans) in a 48 hour period after making 15 on-line loan requests. Referred by hospital.
6. A chronic gambler gets a $30,000 credit card for a balance transfer to pay off a card that is maxed out with gambling and the lender does not even ask to see the balance transfer account(which would have revealed the gambling addiction).
7. A mother of two children with very low income had been granted a total of over $80,000 in unsecured loans
8. A retired married person living on the pension had over $260,000 in credit card debt and unsecured loans spread over 11 different credit cards or loans. This lady had never enjoyed a high income in her working life and had built up to this extremely high credit over a long period of time.
9. A married man of 34, whose wife does not work and who himself has only ever had a low income, has total unsecured debts of $97,000 across 7 different credit cards/loans
10. A single man of 40 on a gross income of $80,000 per year and renting in Sydney has 5 credit cards and a personal loan with a total outstanding balance of $62,000

The loans in all these cases, which represent just a small sample of my financial counselling clients, were unaffordable at the time they were granted. They have caused stress and hardship for the clients and their families and in some cases led to hospital admissions and suicidal ideation.

Please contact John Rawson on [redacted] or email [redacted] if you have any questions about this submission.

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