



10th October 2011

Department of the Senate
PO Box 6100
Parliament House
Canberra ACT 2600
Australia

Re: Proposed credit reforms by the Federal Government re Payday Lending.

Dear Committee Members,

I am writing to you on behalf of the people in the Penrith area who have fallen victim to the 'Payday' lending trap. Many of these people come from the social housing areas, are often welfare dependant and lack the ability to understand the true cost of the loan.

I have worked in the Penrith area with social housing clients for more than a decade, and am currently employed as an Indigenous Money Mentor. I am seeing firsthand the financial hardship payday loans often bring. I have clients who take out small loans to pay bills which quickly grow as a result of defaulting on their payments, hefty penalties for insufficient funds and letter writing to the offending person. Studies have shown that people who take out these short small loans focus on the dollar amounts without any understanding of the annual effective interest rates, fees or charges.

The people that present to me, often have more than one loan from a Payday lender, leaving little money for food and the basic needs of their children. This then creates a situation where families are required to attend welfare agencies for electricity / gas vouchers, food or other assistance. This in turn drains the resources of the charity as they support people over the long term.

Many aboriginal people I deal with don't understand the interest rates or fees charged by Payday lenders. In fact when I sit down and show them on paper the full cost of the money borrowed, they are 'shamed and frustrated', thinking these people were there to help them. Instead, they feel they were tricked!

I don't believe that Payday lenders make a full financial assessment of a person's situation prior to issue of a loan, often setting people up to fail.

At the recent financial counsellors conference in Melbourne, Fiona Guthrie of Financial Counselling Australia (FCA) said, payday lenders were currently charging effective interest rates upwards of 600 per cent, often with scant regard to the borrower's ability to repay the loan. Speaking at the conference, Fiona said,

"The financial counsellors here today have seen loans with huge interest rates given to people whose sole income is a disability pension, and they've seen people given loans



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to help pay off previous loans. Financial Counsellors regularly hear stories of being unable to pay their rent or utilities bills because payday lenders have debited a huge sum of money from the borrower's account on the day they get paid."

"I think what today shows is that financial counsellors are sick of hearing payday loan horror stories, they're sick of seeing people get exploited, and they're sick of seeing people going hungry because of these loans," said Ms Guthrie.

Peter Gartlan of the Financial and Consumer Rights Council said that financial counsellors will also be voicing their support for the Federal Government's proposed regulations on payday lenders which **would cap the amount of interest they can charge borrowers and place restrictions on repeat borrowing**, to help people avoid falling into a debt trap.

"Financial counsellors often see people taking out a high cost loans one week, and then having to take out another loan because the repayments haven't left them with enough money to live on – it's a vicious cycle", said Mr Gartlan.

I'd be more than willing to discuss this issue in person, in order for you to be fully briefed on this matter so you can speak with authority in Federal Parliament, supporting the proposed reforms that will reign in payday lending.

I would also like to add, that the Federal Government should also consider carefully what agencies have access to Centrepay deduction scheme. The scheme was intended to assist clients pay for essential items like; housing rent and utilities and payments that add to assisting with personal finances. The move to allowing 'for profit' companies using Centrepay would not be in the best interests of those who try to survive on limited Centrelink benefits.

, Yours Sincerely,

Graham R. Smith
Indigenous Money Mentor – Western Sydney.
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