



Brotherhood of St Laurence

Working for an Australia free of poverty

MEDIA RELEASE

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Credit reforms on right track, but disadvantaged need affordable loans

The Government's planned new national responsible-lending laws are a welcome development, including the proposed licensing of all lenders, but other measures are needed help people on low incomes take out affordable loans for essential items and avoid debt traps, the Brotherhood of St Laurence said today.

In a submission to the Treasury's consultation on the draft National Consumer Credit Protection Bill, the Brotherhood said that the proposal in the draft bill that all lenders and brokers be licensed, and be required not to provide credit contracts that are "unsuitable", was long overdue.

"Unscrupulous lenders and brokers have for too long taken advantage of lax consumer credit laws," said Gerard Brody, the Brotherhood's senior manager, financial inclusion. "We welcome the proposals that lenders and brokers be required to ensure borrowers are able to pay back loans without substantial hardship, and that the loans they offer meet the customer's requirements or objectives."

"However, more needs to be done to ensure people on low incomes can obtain fair and affordable loans," he said. Existing schemes such as the Brotherhood's Progress Loans, in partnership with ANZ, which offers low-repayment personal loans for essential items, show how this can be done.

"The Government must accompany this new consumer credit regime with measures that enable people on low incomes to obtain affordable loans, often for relatively small amounts of a few hundred dollars. This helps low-income households to purchase basic household items such as fridges, or pay for repairs on a car so that they can continue working.

"At the moment, low-income households are largely either forced to resort to credit cards, fringe lenders or go without. However, credit cards with their higher interest rates and expensive fringe lenders can be a debt trap," said Mr Brody.

According to the Australian Bureau of Statistics, more than half of all lower-income households have one or more credit cards, with an average (median) amount of debt of more than \$1,700. Eighteen per cent of these households reported credit card debt of more than \$5,000 while 60,800 households owed \$10,000 or more.

Mr Brody said there were signs that more people were resorting to fringe lending. "A recent report on fringe lending of small amounts of money suggests that the value of this industry in Victoria has risen from \$30 million a year to between \$50 million and \$100 million over the last three years," he said.

"Small affordable loans can help people pay for necessary expenses, such as whitegoods or car repairs. We think the Government should support the existing programs developed by community organisations and banks, or support the development of community finance institutions so that such loans are available to all who need them," said Mr Brody.

In its submission, the Brotherhood also voiced concerns about the increasing reliance on disclosure of credit contracts as a measure to protect consumers from unfair loan terms.

“Research undertaken by the Brotherhood and Griffith University found that the disclosure documents people are given before they sign up for a loan are invariably long and highly technical and do not help people on low incomes to understand many of the important terms of credit contracts, or know their rights”, said Mr Brody.

“We’re concerned that the draft legislation would increase mandated disclosure, and that will only result in increasing complexity and difficulty for Australians who plan to take out a loan, whatever their incomes.”

The Brotherhood calls on the Government to ensure that consumer credit disclosure documents be as simple, readable and concise as possible.

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