MEDIA RELEASE

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BUSINESS LOOPHOLE IN NEW CONSUMER LENDING LAWS COULD SPELL DISASTER FOR VULNERABLE BORROWERS

Consumer Action is warning consumers to avoid unregistered or unlicensed brokers and lenders now that new national consumer lending laws are coming into force.

Consumer Action has started legal action on behalf of a client who lost her home when a mortgage broker, David Robinson, obtained eight separate loans for her during an 18 month period, with one of the loans attracting a 90% interest rate.

The legal claim alleges that the broker found the loans through a solicitor's firm by having the consumer declare that the loans were for "business or investment purposes", even though the consumer had told him she needed the money to pay out personal gambling debts.

Nicole Rich, Consumer Action's Director – Policy and Campaigns, said that declaring a loan to be for business or investment purposes was a loophole to avoid the consumer protection laws that would otherwise cover the loans.

"Under the new national lending laws, brokers and lenders will have to get a licence and obey responsible lending obligations, but only if they deal in loans to consumers," said Ms Rich.

"We are worried that some unscrupulous operators will try to avoid the new system altogether and stay out of ASIC's eyesight by claiming that they only deal with business and investment loans so don't need a licence."

Ms Rich said that the current legal action sets out that brokerage fees on the client's loans amounted to more than $30,000 and other charges associated with the loans, including the solicitor's fees, exceeded $40,000.

"Our claim alleges that the broker was well aware of our client's vulnerable state. Our client instructs that the broker drove her to and from each appointment to sign the loan documentation and knew that she needed the additional funds for gambling."

"After the first six loans from solicitors, our legal action claims that Mr Robinson secured financing from Car and Home Finance (CHF) with a staggering 90% interest rate, only possible because the loan was again stated to be for business or investment purposes."

"Our client then obtained a seventh loan from the solicitors, remortgaging her house to clear all of the earlier loans. Soon after this, she was approached directly by CHF with the offer of more finance which she accepted – at an interest rate of 60%," Mr Rich said.

"We allege that Mr Robinson knew this level of lending was unsustainable for someone on our client's income, particularly in light of the high interest rates and fees associated with many of the loans."

"All of the loans were secured against our client's home and she was ultimately left with no option but to sell her home to meet these debts."

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