

MEDIA RELEASE

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NEW RESEARCH REPORT SHOWS EXPONENTIAL GROWTH OF 400% +pa INTEREST RATE LOANS IN AUSTRALIA

An explosive new research report released today by Consumer Action Law Centre reveals that the high cost short term lending industry in Australia – sometimes referred to as payday lending industry - grew almost tenfold during the last decade.

The report also charts the experience in the US where such lending has expanded unchecked in recent years, impacting the broader economy and American battle readiness – due to excessive lending to military personal. This paints a grim picture of a possible future for Australia if action isn't taken now.

Zac Gillam, author of the 300 page report *'Payday Loans: Helping hand or quicksand?'* and a Senior Policy Officer with the Centre, said many Australians would be shocked to learn thousands of people were now repeatedly borrowing small loans at rates equivalent to 400% per year or more, given the amount of community concern expressed at even a 0.25% interest rate rise on products like home loans.

"These loans cost a staggering amount by any standard. And unlike the picture painted by industry advertising, it appears most consumers are using payday loans to fill an income shortfall, with the vast majority of payday loans being spent on the basics of day to day living, such as food, rent and bills and basic vehicle maintenance," said Mr Gillam.

"It's an attractive market for lenders because borrowers aren't in a position to argue over the cost and only a few Australian states have usury limits in place that put an upper cap on what Australian borrowers can reasonably be charged."

"It's lucrative because these lenders take a first stake in their customer's income by debiting repayments the day their salary or pension is deposited. This leaves little money for other essentials and can lead to one of the most destructive aspects of this form of credit – repeat borrowing. If a person can't afford recurring living expenses, they're probably not going to be able to afford to repay such an expensive loan so quickly either."

"No wonder it's grown to an estimated \$204 million loaned out in Australia every year to around 379,000 customers. Cash Converters alone was lending \$11.6 million in 2002 but last financial year lent out over \$124.5 million."

Mr Gillam said that, as a result, borrowers potentially find themselves in a borrowing cycle that was not only expensive but hard to escape from. They might pay back the loan but then find they did not have enough to get through the next fortnight, meaning they borrowed again, and then again. Far from helping low income consumers – this pattern places further strain on already exceedingly limited finances.

"The Australian Government needs to learn a lesson from the United States experience where payday lending exploded during the 1990's. There are now more payday lending stores in the US than McDonalds and Starbucks outlets combined," Mr Gillam said.

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"That prevalence of high-cost short term lending has had a devastating effect in the US both on the working poor and on the economy more generally, to the point where the US military stepped in to prevent payday lenders setting up shop near military bases or lending to servicemen because it was having such a detrimental impact."

Mr Gillam said many US states were now trying to wind back their payday lending industries through tighter regulation but with the industry so large it was not straightforward. Different states had tried all sorts of regulation to try to make the lending more 'responsible', but the only method that had proven effective in controlling the damage was a cap on the maximum interest rate, including fees and charges, that can be charged on loans.

"The Australian Government needs to act now before the industry becomes entrenched here as well. Later this year, the Federal Government will need to make a decision on whether to keep the existing 48% cap on interest rates and fees currently in place in Queensland, NSW and the ACT and extend it nationally as part of the new national consumer credit laws, or scrap the cap and leave the market to itself," he said.

Mr Gillam said Australians who support saving the 48% cap on interest rates can become a friend of the Facebook ["Save the Cap"](#) page.

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