Fee caps proposed for pay-day lenders

Matthew Drummond

Many short-term commercial lenders face oblivion under a plan for tough limits on how much they charge.

Pay-day lenders provide small loans for short periods of time to people who do not qualify for bank loans or credit cards. The fees they charge often amount in effect to annual interest rates of more than 400 per cent.

Yesterday, Assistant Treasurer Bill Shorten said he would propose that loans for less than $2000 could attract no more than a 10 per cent upfront fee plus a monthly fee of 2 per cent.

Mr Shorten said the caps would stop pay-day lenders from overcharging customers who were desperate for money. But Mark Redmond, chairman of the pay-day lenders' industry body, the National Financial Services Federation, said such a cap was below the cost of doing business.

"Very few people would be left. They will just shut the doors," he said.

Shares in Cash Converters, the industry's biggest operator, fell 17 per cent yesterday to a 15-month low of 54¢. The company charges a flat fee of $35 per month per $100 borrowed and has previously told the government it has a profit margin of less than 10 per cent. The proposed laws would force the company to lower such a fee to $12. Cash Converters didn't comment yesterday.

Mr Redmond declined to say what the average cost of business was for his members but said they faced higher costs on account of having to run branches and spend lengthy amounts of time with customers who were borrowing small amounts of money.

"We lend responsibly to people who have a need and if we're gone from the industry that need is not going to go away," Mr Redmond said. "Where do they expect the vast majority of people to go?"

Under Mr Shorten's plan, which is subject to consultation, pay-day lenders would be obliged to tell customers of alternative forms of finance such as schemes run by not-for-profit organisations and Centrelink. Mr Redmond said such schemes provided about 1 per cent of the transactions processed by pay-day lenders.

In addition to the interest rate cap, the government proposed banning pay-day lenders from refinancing existing loans, a move aimed at addressing concerns of people being caught in debt traps.

Research by the Consumer Action Law Centre found that most customers of pay-day lenders used funds for living expenses such as car repairs and utility bills.

Carolyn Bond, of the centre, said she was generally supportive of the plan and it would not be bad if some pay-day lenders closed.

"The key issue here is whether you've got a product that's appropriate for the people it's being provided to," she said.

Depending on the duration of a loan, the proposed cap is lower than the 48 per cent cap in place in NSW.

One pay-day lender, who declined to the named, said it would wipe out many operators.

"All the time the government have been talking about maintaining viability. And now they have come in with a cap that's below cost."

KEY POINTS

- The government is concerned about overcharging by pay-day lenders.
- It proposes a cap on fees and a ban on refinancing existing loans.
- Lenders say that if the plan goes ahead many of them will go broke.