



Good Shepherd  
Microfinance

# Payday Lending

Payday lending is the fastest growing sector in the Australian financial services landscape. At the same time we continue to witness the harmful consequences of high cost credit and spiralling debt.

Good Shepherd Microfinance calls for better consumer protection and more investment in safer and more affordable alternatives.

## Our Position

- › Financial inclusion includes access to a small amount of safe and affordable credit. However, it is unacceptable that people who have the most limited financial resources are targeted by retailers promoting expensive and often inappropriate products.
- › Lenders should undertake responsible and ethical lending practices that do not create more financial hardship than they remedy. This requires strong and well-resourced regulation from ASIC, effective industry self-regulation and effective community representation.
- › Recent changes to the laws regarding payday lending have led to improvements in consumer protection, however further enhancements are necessary.
- › Responsible lenders will proactively protect financially excluded consumers. This will include referring to financial counsellors and the No Interest Loan Scheme (NILS) as well as the implementation of a Financial Inclusion Action Plan.
- › Mandatory positive credit reporting is the simplest and most effective way to allow lenders to see a consumer's credit history and make responsible lending decisions. It will also become an important source of industry-wide data.
- › A comprehensive approach will reduce the harm caused by high cost loans and must include;
  - Access to safer alternatives.
  - Better financial education.
  - Ensuring people have enough money to live.
  - Effective consumer protection measures.

## We call for

Verification that the customer understands the product, rather than just disclosure

Outright limits to repeat loans, two loans and one default in past 90 days means customer is ineligible

Protections for Centrelink recipients extended to all low income consumers

Uphold cap costs and specify maximum costs for late payment and direct debit fees

Online warnings to link to MoneySmart and NILS

Broader anti-avoidance laws and stronger enforcement by ASIC

The introduction of mandatory positive credit reporting

Improved accessibility to the reporting process for suspected breaches in responsible lending laws

Responsible referrals and Financial Inclusion Action Plans (FIAPS)

More investment in inclusive finance to reach more financially excluded people

## Background

Financially excluded and financially stressed people increasingly rely on alternatives such as payday lending to access cash and household goods. Payday loans continue to be taken out to cover day-to-day expenses. The annual percentage rate for a payday loan can still exceed 240% with additional exorbitant default and direct debit dishonour fees for late payments.

The payday lending industry in Australia has grown ten-fold in the past decade to be worth more than \$1 billion and is anticipated to grow even faster in the future as banks cut their exposure to riskier borrowers.

Enhanced consumer protection laws introduced in 2013 placed caps on interest rates and fees that payday lenders can charge consumers, resulting in the industry consolidating into fewer but larger bricks and mortar operators. An analysis of these laws in 2015 found that lenders are still failing to comply with basic requirements including assessing loan suitability, inappropriate loan design and weaknesses in record keeping. The industry is also rapidly evolving with the huge growth of online lending.

Currently, laws that were introduced in 2013 are being reviewed by the Federal Government, with a report due in early 2016. Good Shepherd Microfinance prepared a submission as part of this process that can be found [here](#).

## About Us

Good Shepherd Microfinance runs Australia's largest community microfinance program, and has reached over 170,000 people and families in partnership with 247 accredited community agencies. Key partnerships include with the National Australia Bank, the Department of Social Services, the Victorian Government and the SA Government.

Good Shepherd Microfinance has a range of programs that provide safe, fair and affordable credit to people who are excluded from mainstream financial providers. The programs include the No Interest Loan Scheme (NILS); StepUp; Good Money; AddsUP and Debt Deduct.

Many microfinance clients have previously had small amount credit contracts with payday lenders. Independent evaluations of our microfinance products have demonstrated that they reduce reliance on payday lending for four out of five clients who had previously used payday lenders and stopped using them since accessing our programs.

Good Shepherd Microfinance believes that all Australians should be financially included as a basic right, with access to affordable and appropriate financial products while being protected from predatory, unfair and inappropriate products.

In line with our values of human dignity, respect, social justice, compassion and reconciliation, Good Shepherd Microfinance will continue to advocate for and provide fair alternatives.



**Good Shepherd  
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**Research and Policy**

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