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By email: consumercredit@treasury.gov.au

Financial Services Unit Manager
Business Services Division
The Treasury, Langton Crescent
Parkes ACT 2600

To whom it may concern,

Draft bill to implement Small Amount Credit Contract (SACC) reforms

Good Shepherd Microfinance welcomes the opportunity to provide feedback to the draft legislation resulting from the Small Amount Credit Contract review. As with the final report from the review panel, the draft strikes a balance between consumer choice and consumer protection, and is the culmination of years of consultation with consumer advocates, businesses, industry representative bodies and governments.

Providing the legislated reforms are unchanged from the draft bill, they will greatly reduce the risk to consumers, especially in relation to the reforms to the consumer lease market, which has for far too long, been effectively unregulated. The new legislation is vital to safeguard people on low and middle incomes who choose to access credit through these channels, from becoming more financially stressed.

More than eighteen months after the review concluded, these reforms are still urgently needed. Research shows that more people are experiencing financial stress every year¹, putting them at risk of being unable to meet their basic needs. At this late stage in the process, our priority is for the reforms to be introduced in full, and as quickly as possible, no more than six months after parliamentary agreement.

Good Shepherd Microfinance is committed to advancing financial inclusion in Australia by offering a range of innovative products that meet the needs of people at different stages on the financial inclusion continuum.²

Our 'Strengthening NILS Strategy', will make safe, fair and affordable financial programs, such as the No Interest Loan Scheme (NILS), available to more people in more locations. This makes Good Shepherd Microfinance and its national provider network well-placed to respond to any shift in demand that results from these reforms, which the consumer lease industry representative bodies have claimed may occur.³ We call on the Australian Government to increase investment in the NILS network to ensure that people on low incomes can access essential everyday goods and services.

We have also created Speckle, a small cash loan, which expands our suite of financially inclusive products, and is delivered based on genuine need⁴ and capacity to repay. Working with the support of the National Australia Bank, we are demonstrating transparent, responsible and sustainable lending in practice. This includes complying with both the current and the draft legislation and operating with our own Australian Credit License. We are focused on customer care to ensure consumers are directed to the most appropriate option for their needs – whether this is a Speckle loan, another microfinance product, mainstream finance or financial counselling.

Our response focuses on feedback regarding two issues we believe are fundamental to these reforms: extending protections to all consumers and immediately implementing cost caps and affordability protections. We also provide additional comments that support the submission made by our colleagues at the Consumer Action Law Centre.

¹ http://www.csi.edu.au/media/Financial_Resilience_Part_One.pdf

² <http://goodshepherdmicrofinance.org.au/researchreports/pathways-resilience-financial-inclusion-continuum-economic-mobility/>

³ <http://cherpa.com.au/families-suffer-due-forecast-changes-consumer-leasing-laws/>

⁴ Research has found that 80 per cent of borrowers do not want the industry to be abolished due to the lack of alternative credit options
https://www.goodshep.org.au/media/1215/caught-short_final-report.pdf

Affordability protection for all consumers

Good Shepherd Microfinance unequivocally believes that affordability protections should apply to all payday loan and consumer lease users, regardless of their income. Our own experience leads us to believe that just because people earn money through employment, does not mean they are not vulnerable to financial stress and should be excluded from affordability protections.

Emerging data from Speckle offers alarming insights into the precarious financial circumstances of small amount loan applicants, including those that receive all of their income from employment. While the majority of applicants so far receive all of their income from employment (88 per cent), 75 per cent of these had low incomes (between \$30,000 and \$60,000). Declined applicants and those who do not earn the minimum income of \$30,000 (excluding government benefits) are provided with information about ASIC MoneySmart, microfinance options and the National Debt Helpline. The following case study from Debt Deduct, our debt consolidation loan pilot in South Australia, demonstrates the need to apply the protected earnings amount to all consumers, regardless of their income source or employment status.

Case Study: Daniel is married with a child and was referred to the Debt Deduct no interest debt consolidation loan pilot in South Australia from his financial counsellor after he sought help due to financial stress from unmanageable debt. Daniel is employed in a stable job, earning \$1,900 per fortnight. Daniel's Debt Deduct application included four separate payday loans from different lenders, with fortnightly repayments totalling \$727, over one third of his income. After his loan repayments, Daniel was \$128 in deficit, making it impossible for him to meet the basic needs of his family.

Daniel did to proceed with his Debt Deduct application as he had difficulty gathering the necessary documentation, and chose instead to enter long-term payment plans with the each lender. Changes to the Protected Earnings Amount would have prevented this situation from occurring.

Immediate implementation of cost caps and affordability protections

Good Shepherd Microfinance calls on the government to implement Recommendation 16 from the review's final report. This will allow the Department of Human Services to make the caps on consumer leases, and the protected earnings amount for consumer lease users, mandatory as soon as practicable for people who use the Centrepay system. We strongly agree with the review panel that these protections are necessary to safeguard the most financially vulnerable, and we are concerned that any delay in implementation will result in many consumers experiencing preventable financial stress.

Insights from our debt consolidation pilot operating in South Australia demonstrate the extent to which excessively costly consumer leases can mentally and financially cripple the lowest income consumers. Particularly concerning was feedback that without our help, one borrower may have considered suicide due to the financial stress caused by consumer lease debt. The following case study demonstrates that consumer lease debt can result in long-term financial stress when fortnightly repayments are too high.

Case Study: Alice is a single mother who receives a Parenting Payment of \$1,202 per fortnight. At the time of referral to Good Shepherd Microfinance, she was leasing household items including a laptop, lounge, fridge, PlayStation, phone and TV, but the expenses were unmanageable at a cost of \$306 per fortnight, equalling 25 per cent of her income. The total amount Alice was contracted to repay was \$24,744, and she was facing years of financial struggle, making it difficult for her to look after her child and think about the future.

Alice's financial counsellor was able to negotiate with the consumer lease company to reduce Alice's total debt substantially (to \$2,800) and she was approved for a Debt Deduct loan with a repayment of \$52 per fortnight. Since Debt Deduct, Alice has not used any form of credit, is happier with fewer bouts of depression, and is getting ready to move into cheaper accommodation.

Additional comments regarding the draft legislation include:

- SACC providers should be banned from making unsolicited invitations to all current and previous SACC customers, not just those who obtained loans within the past two years.
- Consumer lease companies should be required to disclose the total cost and base price for household goods prominently in advertisements.
- The method for calculating the price of goods for consumer leases, particularly for goods that are manufactured by the consumer lease company, or are second-hand should be based on the definition of the 'cash price' in the Credit Act 1984.
- All door-to-door sales for consumer leases should be banned. We are concerned that the proposed 'prior arrangement' exemption would be easily avoidable and would continue, particularly in Indigenous communities, which are particularly targeted by door-to-door sales.⁵

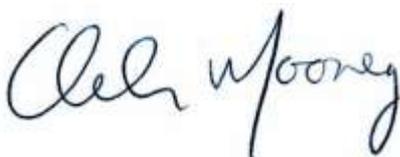
Also concerning is a shift towards the Medium Amount Credit Contract (MACC) market by payday lenders as a means to means to avoid SACC reforms. As the deadline approaches, payday lenders are increasing loan amounts and extending loan terms, with the amount of MACC credit doubling over the past financial year.⁶ Good Shepherd Microfinance's experience with the StepUP low interest loan program has shown that the market for loans between \$2,000 and \$5,000 includes a significant proportion of people living on low incomes, many of whom are dependent on government benefits. We strongly encourage regulators to pay attention to the MACC market to ensure activity in this category of loans does not lead to consumers being lent more money than they want or need.

While this legislation is key to improving consumer protection, we continue to call for further action by governments, the community sector, and lenders themselves, to improve financial inclusion in Australia. This includes State and Federal governments increasing the availability of financial counselling, financial education, crisis support, and inclusive finance initiatives in Australia. Credit providers themselves can also demonstrate their commitment to financial inclusion and positive customer outcomes by developing organisational Financial Inclusion Action Plans (FIAPs).

Finally, these reforms will not solve the problem of low incomes for many people in Australia, especially those on the very lowest incomes. Newstart payments are so low they impact the assistance that we can responsibly provide, as many have no capacity to safely repay any credit at all. We call on the Australian Government to increase Newstart payments, which we believe will increase the likelihood of them gaining financial independence by reducing the daily struggle to live so far below the poverty line.

Many thanks again for the opportunity to a voice throughout this process.

Yours sincerely,



Adam Mooney
CEO
Good Shepherd Microfinance
Email: amooney@gsmicrofinance.org.au
Mobile: 0438 363 399

⁵ <http://asic.gov.au/about-asic/media-centre/find-a-media-release/2017-releases/17-243mr-the-rental-guys-refund-more-than-100-000-to-vulnerable-consumers/>

⁶ <http://www.ncpa.net.au/publications/reports/2017/core-data-macc-report.html>