



## Fair Lending in a time of crisis

May 2020

“If you lend money to one of my people among you who is needy, do not be like a moneylender; charge him no interest” Exodus 22:25

“It is well with the man who deals generously and lends; who conducts his affairs with justice.” Psalm 112:5

The Biblical text urges that where money-lending occurs, it is just and fair. The text states that it is better that the wealthy share with the vulnerable rather than provide loans. However, at the very least, what is expected in the Biblical text is ethical behaviour that deals with vulnerable people justly.

Every week, community and consumer advocates speak to people trapped in payday lending debt. For years, they have been campaigning to stop the debt trap and harm caused by payday lenders.

Australia already has one of the highest rates of household debt in the world. The COVID-19 crisis threatens to make that worse.

Payday lenders and rent-to-buy operators charge some of the highest rates of any lender. Equivalent interest rates can be more than 400% per annum. These loans are aggressively marketed to people struggling to make ends meet. They are straightforward to get but much harder to escape.

With thousands more set to lose work over the coming months, there will be a pool of people ready to be preyed on by payday lenders. Financial counsellors are worried and anticipate a deluge of people with a payday loan and rent-to-buy related debt as a result of the COVID-19 emergency. To protect vulnerable people at this time, financial counsellors are calling for a pause all payday lending and rent-to-buy activity for at least six months.

For someone unable to pay for daily essentials like food and rent, these loans are a recipe for financial disaster. They market themselves as a stop-gap for people caught in a tight spot. However, the business model, with its high fees and eye-watering interest rates, relies on exploiting people and forcing them to take out loan after loan after loan.

Between April 2016 and July 2019, more than 4.7 million payday loans were taken on by around 1.77 million households. Without decisive action, this number is set to drastically increase over the next few months as work dries up for many. Saddled with unaffordable debt, the data shows around 15 per cent of these people fall into a spiral that risks ending up in bankruptcy and even losing the family home. This will be a disaster for those families. We know that around 35 per cent of people spent the 2009 stimulus package paying down debt.

In one marketing text seen by *The Guardian* lender Jacaranda Finance suggested that during this time of the COVID-19 crisis, people offer their cars as security to get loans.



Members of the Stop the Debt Trap Alliance (including the Synod) putting the case for protecting vulnerable people at Parliament House, Canberra.



Jacaranda Finance charges interest rates of up to 140% per year. Perth-based Cash Now is offering loans to people at this time with interest rates of up to 430% a year.

The alternative to predatory payday lenders is community organisations that provide no-interest loans to people in need.

Rent-to-buy operators offer contracts for the hire of goods where the cost of the hire is usually higher than the value of the goods being rented. The amount of rent paid over three years is often three to five times the value of the goods being rented. For example, a person in northern Tasmania was charged \$5,460 in rent for a fridge that could be purchased new for \$1,797.

Right now, millions of people are in a very precarious position. Predatory companies are in a prime position to profit off this situation if we let them. The Government has the opportunity to protect vulnerable people and put an immediate pause on predatory lending.

### What You Can Do

Write polite and respectful letters to:

**The Hon Josh Frydenberg MP**

Treasurer  
PO Box 6022  
House of Representatives  
Parliament House  
Canberra ACT 2600

**The Hon Michael Sukkar MP**

Assistant Treasurer  
PO Box 6022  
House of Representatives  
Parliament House  
Canberra ACT 2600

Salutation: Dear Treasurer

Salutation: Dear Minister

Points to make in your letters:

- Thank the Commonwealth Government for the actions they have taken to support people and protect lives during the COVID-19 crisis.
- However, express concern that payday lenders and rent-to-buy companies continue to target people at this time of vulnerability. Point out that Jacaranda Finance has suggested people offer up their car as security to get a loan with an interest rate of 140%. Cash Now is offering loans with interest rates of up to 430%.
- Ask that the Commonwealth Government use its emergency powers to close down payday lenders and rent-to-buy contracts for the next six months until the COVID-19 crisis has passed and people are back on their feet.
- Ask that when Parliament resumes they introduce to the Parliament legislation to implement the reforms they have already identified through multiple inquiries are needed to rein in the predatory behaviour of payday lenders and consumer lease corporations.

For more updates on this campaign go to the Stop the Debt Trap campaign webpage <https://consumeraction.org.au/policy-campaigns/stop-the-debt-trap/>