
Caught \$hort

Exploring the role of small, short-term loans
in the lives of Australians

Final Report

August 2012

Marcus Banks, Greg Marston, Howard Karger and Roslyn Russell



Charity gives, justice changes.



Caught Short. Exploring the role of small, short-term loans in the lives of Australians.
Final report.
July 2012

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Published by: Social Policy Unit, The University of Queensland, Brisbane.

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Acknowledgements

We thank 112 payday lending customers for talking – often very frankly – about their lives, borrowing practices, and attitudes to the industry and government. The generous time that lenders, financial counsellors and other stakeholders invariably gave to be interviewed has, we hope, contributed to a nuanced report about the contentious issues impacting upon the sector. Specific acknowledgement is given to Rob Bryant, the CEO of Money3, for allowing researchers in-office access to contact and interview customers. The collaborative research effort during the course of the three-year project has involved a wide range of people. Professor Catherine McDonald (a Chief Investigator on the project until her retirement in late 2011) is a key architect of the research design and has been a bedrock of intellectual challenge and support. Dr Lynda Shevellar co-wrote the findings of the pilot study, which articulated into this project, interviewed half the participants, and has provided crucial thematic frameworks to analyse the borrower interview data. Crystal Joyce captured the major themes being expressed by lenders and other stakeholders. Finally, our thanks go to Tanya Corrie, Kathy Landvogt and Marilyn Webster from Good Shepherd Youth and Family Service, and Corinne Proske, Elliot Anderson and Mikala Hehir from NAB. As our research partners they have been actively involved in discussing the design and implementation aspects of the project, disseminating our findings across the welfare, socio-legal and financial sectors, and financially supporting the study's publications. We would also like to acknowledge the support of the Australian Research Council for co-funding this study.

I don't reckon they're very good for anybody to be quite honest. But then I think of people who are in real jams and what else are they going to do?

(Borrower)

I would say 98 per cent are repeat customers. That in itself should show you how vital we are for some people.

(Small lender proprietor)

It's very easy for a bunch of middle class advocates, financial counsellors, whatever, to say this shouldn't be happening – but walk a mile in the shoes of the people who have no other access. I think our entire premise should sit around that Centrelink payments are inadequate for people to live with dignity in this community.

(Financial Counsellor)

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Executive Summary

This report presents an insight into the role of small, short-term loans in the lives of Australians. This area of the financial services sector has been growing rapidly in Australia over the past two decades. Our research aim was to explore the main reasons for this growth and its consequences, particularly from the perspective of borrowers.

The research was conducted as an Australian Research Council (ARC) Linkage study involving a partnership between RMIT University, The University of Queensland, The Queensland University of Technology, the National Australia Bank and Good Shepherd Youth and Family Service. Researchers interviewed people in Victoria, northern New South Wales and Queensland. The report highlights a number of the more significant borrowing patterns of 112 individuals from these three states. Also presented are the perspectives of lenders, financial counsellors and other stakeholders. A discussion about policy directions and future research is included at the end of the report.

Key findings

The empirical research primarily focused on the experiences of people borrowing small amount, short-term loans. In-depth interviews of borrowers, lenders, regulators, consumer advocates and financial counsellors were conducted during 2010 and early 2011. Analysis of policy developments, overseas research and previous Australian research was also undertaken. What follows is a brief overview of the key findings from the interviews with borrowers, lenders, financial counsellors and regulators.

Borrowers

One of the major reasons reported by respondents for taking out loans was having insufficient income to meet basic living expenses.

- Almost 80 per cent of research participants were receiving a Centrelink payment or pension. One of the strongest findings was that many people talked about the *lack* of choices they had in managing their finances.
- More women (58 per cent) than men (42 per cent) used payday lenders.
- 37 per cent of the income-supported interviewees were Disability Support Pensioners.
- Two fifths of borrowers had dependent children in their care.
- Around 20 per cent were born overseas (slightly less than the national figure of 25 per cent) and a quarter spoke a second language at home.
- Ten participants identified as Aboriginal or Torres Strait Islander.
- Most participants – more than four of every five Centrelink payment recipients and about seven in ten other interviewees – reported living with significant physical, psychological or emotional health problems. A substantial minority of the overall sample linked their poor health to ongoing or previous periods of excessive gambling, alcohol consumption or illegal drug taking. Half the men and a third of the women discussed how a problematic relationship with one or more of these activities – either in the past or currently – had impaired their well-being.

- Most respondents (54 per cent) borrowed amounts less than \$300, followed by \$301 to \$500 loans (21 per cent).
- Over half the respondents had taken out more than 10 loans in the last two years. Within this group of high-frequency borrowers, three quarters had taken out more than 20 loans.
- Less than seven per cent of respondents owned a credit card and over 60 per cent had a poor credit rating.
- The seven most commonly cited reasons for first taking out a payday loan were to meet regular, weekly-type needs and expenses, such as food, 'had no money', bills and rent.
- Those who took out loans less than \$500 were more likely to spend it on regular rather than irregular expenses, as were individuals who had borrowed more than ten loans. Less than half (42 per cent) of the respondents reported taking out one or more **one-off** loans separated by periods of time.
- Four categories provide an understanding of a participant's borrowing practices: one-off, cycling, spiralling and parallel loans. Almost half of the sample discussed a practice of **cycling** – immediately taking out a new loan once the previous loan was paid off; around 20 per cent of the sample engaged in **spiralling** – refinancing the balance of a partially paid-out loan to start a new loan; 25 per cent of respondents took out **parallel** – simultaneously taking two or more loans from the same or different lenders.
- The comments by many borrowers of how they felt caught in a vicious cycle of being 'trapped' or 'stuck' reflects the lending patterns of the majority of respondents who were continuously indebted to one or more payday lending companies.

Despite these problems, borrowers' attitudes and experiences with short-term lenders cannot be captured using a simple positive and negative binary analysis. Many borrowers did not like needing to take out loans but also felt if the loans did not exist they would have far fewer options. Only a minority of participants – less than one-fifth of the sample – thought the short-term lending industry should be abolished. Most people had ambivalent and conflicting opinions. The industry and financial counsellors and regulators also had conflicting views and different ideas about the nature of the problem and the solution.

Lenders

Interviews with payday lenders took place in Queensland, northern New South Wales and Victoria. The sample of lenders was quite diverse, ranging from single site operations to large multi-site franchises.

- Most lenders emphasised due diligence in lending and claimed to understand the contextual factors that impact borrowers, such as the current economic climate, the casualisation of the workforce and unemployment.
- Payday lenders maintained that they fulfil a need not met by mainstream financial services, such as banks. They further maintained that meeting this need required a higher premium given the high risk of loan defaults.
- Lenders discussed how they respond to loan defaults, including renegotiating repayment schedules, waiving default fees, and developing a system for prioritising payments. Lenders claimed that their flexibility to negotiate with borrowers depended on the reasons for the default. They reported that if 'genuine' reasons (e.g., loss of employment) existed for non-payment, they would be more prepared to renegotiate favourable conditions than for non-genuine reasons (money spent on gambling or tobacco). No evidence was provided to support these statements.

- Lenders preferred to negotiate directly with clients instead of with outside parties, such as financial counsellors, who they saw as ‘unhelpful’. Perhaps because financial counsellors first want to ensure that their client’s utility bills and other essential services are paid before repaying the payday loan.
- The analysis suggests that lenders try to capitalise on the many people’s negative perception of large mainstream banks. They strive to provide a quick and easy service, with minimal paperwork, and they work hard to make borrowers feel welcome. As one lender reflected: *‘We endeavour to treat our customers very, very well. As a generalisation we behave as unlike a bank as we possibly can’ (Small Lender, Gold Coast, Qld).*
- Industry respondents claimed they are offering a service of choice, rather than a service of last resort. As discussed below the meaning of ‘choice’ is hotly contested by financial counsellors and other consumer advocates.

Financial Counsellors

Financial counsellors list insufficient income and subsequently not being able to afford the cost of living (rent, food, utilities, etc.) as the key reason why people use payday lenders.

- Some financial counsellors stated that that the problem confronting lower socio-economic borrowers was not financial literacy as much as one of sheer economic necessity. Many financial counsellors felt that people were generally aware that they were paying a premium price for short-term credit.
- Financial counsellors reported what they saw as the irresponsible lending practices of some payday lenders. This included structuring loans to facilitate an endless ‘borrowing cycle’ and lending to low-income borrowers or those with vulnerability factors, such as mental illness and lack of education. Financial counsellors reported how these factors could impact on a borrower’s ability to properly assess the viability of the loan.
- Some respondents questioned the need for the existence of the payday lending industry, and in particular, whether low-income groups should have access to this form of credit given that the potential costs are not immediately apparent. One financial counsellor stated: *‘I feel like it gets to a point where it isn’t actually a conscious choice for clients anymore and I think that’s when there do need to be guidelines in place to protect people who are experiencing problems that have gotten so out of control. I don’t actually feel like it’s a choice for them anymore.’ (Gambling Help Counsellor, southern Qld Metro)*
- The introduction of interest rate caps in several Australian states was generally perceived as positive since it forced some unscrupulous lenders out of the marketplace. Caps were viewed by some consumer advocates as a ‘gatekeeper’ that separates responsible payday lenders from irresponsible ones. Other counsellors who wanted to ban the payday industry viewed any business closure as a good outcome, regardless of the lending practices.
- While some counsellors acknowledged the ethical problems in lending to low-income borrowers, they also recognised the lack of alternatives. Community based lending schemes were seen as not being of a sufficient scale to meet demand and their purpose did not address recurrent expenses.
- While Centrelink loans were seen as positive, they do not cover all the needs of a lower-socio economic demographic, and they preclude low-income workers who are not Centrelink clients.
- Some counsellors identified that banning payday lending would not solve the wider structural problem of poverty and precarious employment, and as such, the demand for payday loans would still exist.

Framing of the issues around access to short-term, high cost credit, highlights the polarised policy debate about what solutions, if any, ought to be proposed to ensure that all sections of society have access to fair credit. Moreover, a larger question is what can be done to reduce the demand for credit in the first place?

Policy and practice directions

This report helps to clarify that the reasons people engage in payday lending – and the growth of the industry – is connected to structural changes in the economy and society. Specifically, labour market changes that have decreased secure work in the manufacturing sector and increased the numbers of people engaged in precarious and casual employment, underemployment and long-term unemployment. Borrowers had many ideas about what would create positive change in their lives. Gaining living wage employment was overwhelmingly the most commonly cited view about what would make a positive difference. This was followed by suggestions to increase government support to pursue education or on-the-job training, or finding a means of consolidating their debts.

Based upon borrowers' often strongly held opinions about what would help low-income people, we offer six practical policy steps:

- **Increase Centrelink allowances and pensions.**
Pay Newstart and Parenting Payment Partnered recipients at the pension rate. Additional financial support is required from the Government to meet the higher costs of living experienced by Disability Support Pensioners.
- **Weekly Centrelink payments.**
Offer all Centrelink clients the option of receiving their payments weekly. Receiving a fortnightly Centrelink payment puts unwarranted financial pressure on many borrowers.
- **More flexible Advance Payments.**
Remove nearly all the complex restrictions currently applying to Advance Payment eligibility, amounts and repayment schedules for transfers of less than \$500. Advance Payments should reflect respondents' borrowing practices with small-loan, short-term lenders. Make small Advances (down to \$50) readily available to all Centrelink pensioners and allowees, with short repayment schedules of two to four fortnights;
- **Extend Centrepay eligibility for a broader range of purposes.**
Increase Centrepay capability to meet a client's *calendar* monthly costs, such as insurance payments;
- **Mandate banks notify customers who incur a dishonour fee of fee-free accounts**
Many respondents experienced far higher costs than the typical fees charged by lenders due to direct debit transfer problems. If the loan repayment amount was not available in their bank account at the time of the debit transfer, bank dishonour charges (and the subsequent lender dishonour charge) commonly exceed the standard fees for loans of less than \$300. Many borrowers were unaware that all banks offer dishonour-fee-free accounts. We encourage the Government to mandate that all mainstream financial institutions and banks notify in writing to customers who incur a dishonour fee that such accounts are available.

- **Continue to expand alternative forms of credit.**
Give low-income borrowers more credit access choices. Australian Government (2012: 27) proposals to set up 'one-stop financial services hubs' to directly compete with payday lenders have already been initiated in Victoria. NAB and Good Shepherd Microfinance (with funding by the Victorian Government) will establish three outlets to provide the low-interest and no-interest schemes, and other financial services to low-income people, which they have been offering for some years (nabITAT, 2012b). Introduce community-lending practices that are more flexible: the financial products currently on offer are only for one-purposes; and claims usually take more than a day to process. Two key findings in the research are that borrowers want cash immediately, and that they are twice as likely to take out a loan to help meet their day-to-day, rather than irregular, expenses. At present, therefore, micro-financing schemes operate in a complementary market space to the payday lending industry.

The views of consumer advocates and financial counsellors reflected some of these recommendations. In particular, they involved developing more sustainable forms of community credit and increasing welfare payments to reflect the current cost of living.

Even if the structural issues mentioned above were addressed to a satisfactory level we would still need a discussion about the appropriate regulation of credit. A stronger challenge is required against the conventional logic that the best way to serve lower-income households is to charge them more for credit. Such common sense ideas only serve to entrench the fact that 'the poorer you are, the more things cost' (Brown 2009).

Alongside food, rent, transport, education, health and other life necessities, equal access to affordable credit should be a moral and legal right for all Australians.

1 Introduction

This report presents the results of a study funded by the Australian Research Council, titled “The High Cost of Financial Insecurity: Exploring the Role of the 'Fringe Economy' in the Lives of Low-Income Australians (Reference number LP0990992, Project Number 008882), that investigated the relationships between payday lenders and borrowers. In particular, the study focused on motivations of borrowers, their life circumstances and the economic and social factors that underlie these interactions. Chief Investigators of this project were Professors Catherine McDonald, Roslyn Russell (RMIT), Howard Karger (The University of Queensland) and Greg Marston (QUT). Research support was provided by Dr Lynda Shevellar and Crystal Joyce (The University of Queensland), and Dr Marcus Banks (RMIT and The University of Queensland).

The term ‘payday lending’, as used in this study, refers to the practice of lending small amounts of cash for short periods of time, typically two to four weeks in exchange for a fee. If the borrower cannot afford to repay the loan and fee, then they must renew it, paying an additional fee. The amount of the loan varies, but it is usually less than \$1,000, although some lenders specialise in larger amounts. These loans aim to assist people to get past an immediate cash shortfall (King & Parrish 2007). It is called payday lending because the money is theoretically lent on the security of the borrower’s next pay cheque. In Australia lenders usually derive security of payment by obtaining direct debit authority from the borrower that allows first call over the borrower’s income in their bank account (Corones et. al. 2011). There is a large and growing demand for this form of consumer credit and a rapidly expanding network of companies willing to supply it (Infosys Technologies Ltd 2008).

The first payday lender appeared in Australia in 1998 and by 2001, 82 payday lending businesses were offering 12,800 loans per month (Wilson D. 2004). Recent research indicates that the ‘fringe lending’ sector, which also includes pawn shops, has a market size of \$800 million and is the fastest growing part of Australia’s financial landscape (Infosys Technologies Ltd 2008). Given this expanding supply of payday loans it is clear that this form of lending is becoming a more prominent dimension of the financial management strategies of low-income Australians. State and national governments in Australia are concerned about the negative impact of payday lending on consumers, which has led to interest rate caps being introduced in a number of Australian states (Manning & de Jonge 2006). More recently, the Federal Government has assumed responsibility for regulatory control of this industry through a number of legislative measures that will be discussed in this report (Treasury 2008; 2010).

There is a lack of robust evidence on which to base policy proposals, particularly evidence about borrowers’ perspectives and experiences of payday loans (see section 4.3). This report seeks to contribute to addressing this gap.

The project primarily focuses on the experiences and views of borrowers, asking such questions as:

- What are the supply and demand side factors driving growth in short-term, high cost credit?
- What are the current borrowing practices of people taking out small, short-term loans?
- How do individuals manage their loans and view their relationships with lenders?
- What attitudes do borrowers have towards the industry?
- What alternatives for credit do people have?

To answer these questions we interviewed 112 borrowers in three states: Queensland, Victoria and New South Wales. Interviews were also conducted with lenders and other stakeholders, including financial counsellors, state and federal policy makers and financial counsellors. The research undertaken was in the context of a remarkable growth of the payday lending industry in the last decade, with credit regulation transitioning from state to federal portfolios, and a current national debate about whether the sector needs regulatory change.

1.1 The policy context in Australia

Policy and legislative responses to borrower harm are most often regulatory, such as more stringent licensing to encourage responsible lending, greater contract transparency concerning fees and charges, and mandatory conflict resolution schemes to ensure sufficient rights of redress. In Australia, personal loans have been regulated by the Uniform Consumer Credit Code (UCCC), which became law in 1994 in every State, and applies to loans for ‘personal, domestic and household purposes’ (Cleary 2000). While this sounds comprehensive, as Cleary (2000) observes, by simply altering the loan conditions, loans may be crafted to fall outside the Code, for example by the use of brokering arrangements and establishment fees in some States. Overall, federal market regulation of the payday industry remained weak as the UCCC exempted the core business of the payday sector – issuing short-term loans for periods less than 62 days. In 2001, the government began to address this policy gap by limiting the exemption to short-term loans which attracted fees and charges not exceeding five per cent of the principal and which had interest rates of less than 24 per cent per annum. Amendments made in 2007 addressed the misuse by small loan providers of the bill facilities exemption in the Code by restricting the exemption to commercial facilities provided by an authorised deposit-taking institution (McGill et al 2012: 153). As the Treasury’s Green Paper on credit reform (2008) observes, due to time lag and certain reservations contained in the laws, the UCCC has not achieved the intended uniformity, resulting in marked differences across Australian States and Territories.

There has been no comprehensive evaluation of interest rate caps in the various Australian states and territories; so it is unknown whether there is in practice a difference between the cost of credit to borrowers of short-term loans in jurisdictions with caps compared with jurisdictions without such a cap (Corones et. al. 2011). In part, this lack of uniformity has prompted the Australian Government to take action. Consequently, the Australian Government announced an action plan to assume national responsibility for all consumer credit (Treasury 2010). It was also announced that the credit reforms would be developed and implemented in two phases.

In the first phase of the plan, the Government took responsibility for trustee companies, existing credit regulation and the UCCC by enacting a federal law. Phase One of the National Consumer Credit Protection regime commenced on 1 July 2010, and included five key measures:

1. The National Consumer Credit Protection (NCCP) laws replaced the State and Territory-administered UCCC.
2. Registration of all small loans businesses is now required. This move introduced upfront entry and ongoing operational requirements. It provides access to external dispute resolution mechanisms.
3. The introduction of responsible lending conduct in which the lender must make reasonable inquiries about both the consumer's requirements and objectives and their financial situation, and take reasonable steps to verify the consumer's financial situation.
4. As a single national regulator, the Australian Securities and Investment Commission (ASIC) will be able to ban people from the industry and impose a range of penalties to enforce the regime.
5. As part of this amendment, the Government has agreed to increase the range of information that credit reporting agencies (such as Veda Advantage) are able to collect. The stated aim of this policy is to improve responsible lending practices and make it easier for some people on low incomes to obtain finance in the future. The reporting of only partial credit history can disadvantage consumers as it limits their knowledge of how credit ratings are constituted and hence their ability to build an appropriate history of good credit management.

Released in March 2011, ASIC's *Regulatory Guide 209* provides details of the procedures that credit licensees must complete in order to comply with the responsible lending requirements. The guide indicates that responsible lending obligations involve three key steps:

- make reasonable inquiries about the consumer's financial situation, and their requirements and objectives;
- take reasonable steps to verify the consumer's financial situation; and
- make a preliminary assessment (if you are providing credit assistance) or final assessment (if you are the credit provider) about whether the credit contract is 'not unsuitable' for the consumer (based on the inquiries and information obtained in the first two steps).

In addition, if the consumer requests it, the lender must be able to provide them with a written copy of the preliminary assessment or final assessment (as relevant). A credit contract is unsuitable if it does not meet the borrower's objectives or requirements or if the borrower will be unable to meet the repayments or will incur substantial hardship in doing so (ASIC 2011). Dispute resolution measures include an attempt to resolve the problem internally or filing a complaint with the Credit Ombudsman Service. Litigation remains another alternative, which is far too costly for payday lending clients.

A Regulation Impact Statement (RIS) produced by the Government in June 2011 reviewed how Phase One of the National Consumer Credit Protection reforms was only marginally influencing the market for high-cost, short-term loans:

The introduction of the responsible lending requirements could be expected to have the greatest impact on very short-term loans with a single high repayment. However, there do not appear to have been any significant changes to practices in this area.

(Australian Government 2011: 38)

Phase Two of the reforms aims to provide additional regulations to address ongoing market issues associated with the short-term, small-loan sector. The Consumer Credit and Corporations Amendment (Enhancements) Bill 2011 (Cth) will amend: (1) the National Consumer Credit Protection Act to impose further responsible lending conduct obligations on licensees issuing small-amount loans; and (2) the National Credit Code to impose different ways of measuring and limiting the cost of small loans (McGill et al 2012: 162). The Government has rejected calls by consumer advocacy groups, financial counselling peak bodies, the Salvation Army, St Vincent de Paul Society and Good Shepherd Microfinance to impose a blanket 48 per cent per annum comprehensive cap on small, short-term loans (CALC, CCLC & FCA 2012: 3). The Government initially proposed that, from 1 July 2012, small amount lenders, who provide contracts with a credit limit of \$2,000 for a term of less than two years, would be limited to charging a maximum establishment fee of 10 per cent of the total amount borrowed and a maximum monthly fee of two per cent of the total amount borrowed each month for the life of the loan.

The payday lending industry reacted negatively to the Government's initial proposal and the consumer advocates' recommendation of a 48 per cent cap (already in force in NSW, Queensland and the ACT), arguing that both make their industry unviable. The industry demanded further consultation. On 22 September 2011, the House of Representatives referred the Enhancements Bill to the Parliamentary Joint Committee on Corporations and Financial Services for inquiry and report. The committee received 53 submissions and held a public hearing on 24 October 2011. The committee released its report containing 14 recommendations on 2 December. The first recommendation was to postpone the commencement of phase two reforms until January 2013. The report recommended that the Government revisit some of the reforms around a maximum 10 per cent of the amount borrowed as an establishment fee, plus a maximum monthly fee of two per cent per month of the amount borrowed (the 10+2 cap). The report argued that an '...appropriate balance between consumer protection and industry viability' was needed (Commonwealth of Australia 2011: 118). The peak body for payday lenders in Australia, the National Financial Services Federation (NFSF), has welcomed the report as they believed it presented an opportunity to resolve key differences between lenders and the Government (NFSF 2011).

In April 2012 the Minister for Financial Services and Superannuation released for public consultation draft legislation to amend the Consumer Credit and Corporations Legislation Amendment (Enhancements) Bill 2011 (the Enhancements Bill). The draft legislation responds to the industry campaign by proposing a doubling of the loan establishment fee from 10 to 20 per cent and a similar increase in the maximum monthly fee from two to four per cent (Australian Government 2012a). Consumer and welfare advocacy groups have opposed the 20+4 cap, arguing that Enhancements Bill will permit lenders to charge the equivalent of an APR of over 100 per cent (CALC, CCLC & FCA 2012: 4). The NFSF considers the changes have not gone far enough. In its submission to the amended draft legislation the NFSF expresses 'considerable and mounting concern' that the 20+4 cap will force 'a significant proportion' of lenders out of the market (NFSF 2012: 3).

The passage of the Enhancement Bill through the House of Representative on June 26th continues to reflect the tension between consumer protection and industry viability. The Lower House approved the 20+4 cap for short-term credit contracts of less than \$2000. However, the government also plans to introduce through regulation the concept of a protected earnings amount for borrowers whose main source of income are social security payments. Repayments on any short-term, small amount loan will be restricted to a maximum of 20 per cent of their income (Shorten, 2012: 8020). Moreover, a number of new sections impose greater obligations on lenders. Section 118(3A) inserts the presumption of a borrower's 'unsuitability' in a number of circumstances, and so precluding a lender from entering into a

contract with a borrower who is in payment default with another lender or who has had two or more small loans in the previous 90 days. Consumer advocates are claiming that because the legislation insufficiently specifies the responsibilities of lenders to ascertain a borrower's unsuitability, 'a window for avoidance' has opened which will allow the industry to continue writing multiple and repeat loans to low-income consumers (CALC 2012).

The Government has also significantly shifted its sole focus upon market regulation of the sector by releasing in April 2012 a discussion paper *Strategies for reducing reliance on high-cost, short-term, small amount lending* (Australian Government 2012b). The Minister of Financial Services and Superannuation and the Minister of Community Services jointly released this paper. Responses are being sought from welfare agencies, social enterprises and researchers such as ourselves to expand options beyond the payday market for the overwhelming number of small loan borrowers who are financially disadvantaged. Less costly alternatives to payday loans are being canvassed as well as proposals to recalibrate Centrelink services, payments and procedures to more effectively respond to the needs of those seeking payday loans. More detail about recommendations we made in our submission to this joint paper is in Section 7 – Policy Practices and Directions.

The next section will outline some of the key issues that have been considered as part of the credit policy development process. Reference will be made to research, industry and consumer advocacy literature in Australia and other national jurisdictions.

1.2 Key Issues in Payday Lending

There are three central issues that emerge from the literature on non-mainstream credit provision: predatory practices, high interest rates and how the chronic use of payday loans leads to debt traps. Each of these will be explored in turn.

1.2.1 Predatory practices

'Predatory' lending is a term used to condemn high prices, excessive lending and other dubious practices (Morgan 2007: 21). Although no official definition exists, it generally refers to business practices that are so detrimental to consumers that they are considered abusive (Stegman 2007). Payday lending has been referred to as a 'predatory' lending practice because it is essentially opportunistic (Malbon 2005b: 225). According to the former ACORN (Association of Community Organizations for Reform Now) it involves 'imposing unfair and abusive loan terms on borrowers, often through aggressive sales tactics, taking advantage of borrower's lack of understanding of extremely complicated transactions and outright deception' (cited in Malbon 2005b: 25). Malbon asserts that this practice does not simply rely upon consumer ignorance, it also takes advantage of the financial vulnerability of its victims and the limited options they have for dealing with a financial crisis. As part of predatory behaviour, there is some evidence that unscrupulous fringe lenders do not always fully and frankly disclose terms and conditions of the loan (Infosys Technologies Ltd. 2008). Wilson (D. Wilson 2002) also observes that payday loan advertising is targeted at low-income consumers under financial stress and businesses tend to be located in socially disadvantaged areas.

In the US context, predatory lending refers to improper credit checks, 'upselling' loans to try to encourage people to take out more than they initially requested and hounding past borrowers to try to encourage them to take out another loan. Gary Rivlin's (2011) recent book on what he calls the 'poverty industry' in the US devotes a chapter to these kinds of practices. He recounts the story of one former store manager of one of the large multi-site payday lenders who was eventually sacked because she refused to comply with a management directive that in her own words implied that "...if a body walks in the door, you loan 'em money and I wouldn't do that" (Rivlin 2011: 189). This particular store manager also felt uncomfortable in employing strategies to turn one-off customers into semi-regular and regular borrowers. She would also go against management directives by encouraging borrowers to take out smaller, rather than bigger loans. She would show people how much they had paid out in fees, showing one customer the computer screen that highlighted how borrowing \$500 was costing her around \$1,500 a year in fees (Rivlin 2011).

Stegman and Faris (2003) conclude that in the majority of US studies, the official statistics underestimate the magnitude of the problem because they do not account for a family's use of more than one payday lender at a time or the use of a loan from one payday lender to pay off another. Their own research demonstrates that the financial performance of the payday industry is significantly enhanced by the successful conversion of more and more occasional users into chronic borrowers: 'Payday lenders who cultivate more repeat business from existing customers...will fare better financially than those who do not. Significantly, this independent variable is the second most important determinant of financial success' (p. 24). Previous Australian data indicates that a sizable minority of payday borrowers take out ten or more payday loans per year (D. Wilson 2002). In Dean Wilson's research customers repeatedly spoke of the addictive nature of loans, which was encouraged by the ease and speed of processing repeat loans: 'Indeed many consumers seemed truly surprised, and a little uncomfortable, by how easy subsequent loans were to obtain and how rapidly they received money' (p. 75).

In Australia, Nicola Howell (2004) has defined unethical lending as lending activities in circumstances where the consumer simply does not have the capacity to repay the loan, either at all, or without substantial hardship, the lender takes security over essential household furniture: 'blackmail securities'; or there is an imposition of excessive and unconscionable costs or unfair contract terms. She suggests that even the failure to ensure there are safe, fair and non-exploitative products available in the market could constitute unethical lending.

Overall, the Queensland Office of Fair Trading argues that the potential detriment to the consumer flowing from high interest loans includes: an impaired ability to overcome financial difficulties, a depleted capacity to save and build assets, an increased likelihood of default on loan repayments, further exclusion from the mainstream market and bankruptcy. They also point to broader social and economic impacts including increased strain on the community and welfare services and reduced consumer spending in other areas of the economy (Queensland Government 2006: 13).

Although Consumer Affairs Victoria says that it is hard to identify the prevalence and severity of consumer credit problems, real detriment is likely to be understated and most likely to be increasing: 'Even if the proportion of consumers who suffer detriment is low, the size of the market means the number of individuals affected is large and the impact on individuals and families can be pronounced (Consumer Affairs Victoria 2006b: 3). The recently published National Australia Bank report, *Measuring Financial Exclusion in Australia*, finds that nearly three million Australians (an increase from 15.6 per

cent of the adult population in 2010 to 17.2 per cent in 2011) are fully or severely excluded from mainstream financial products (Connolly et al 2012: 6).

Donald Morgan (2007) defines predatory lending as a welfare reducing provision of credit. He argues: 'Households can be made worse off by borrowing more than is optimal. Excess borrowing reduces household welfare and may increase default risk' (p. 6). Morgan and Hanson (2005 cited by Lehman 2006) define predatory lending as a welfare-reducing provision of credit undertaken by vulnerable borrowers who are deluded or deceived about their future income prospects. In other words, predatory lending can be seen to occur when a borrower is encouraged by a lender to borrow high levels of credit relative to their future income levels and ability to repay. Dr Justice Malbon's (2005: 17) Victorian report into whether the poor pay more for credit explicitly links predatory lending to poverty and raises concerns about the social impact of unsustainable debt: 'Unchecked, predatory lending has the capacity to undermine social cohesion and wreak havoc on families'. However, Malbon also emphasises that predatory lending only accounts for a relatively small proportion of unsustainable debt.

1.2.2 High interest rates

In addition to the issue of predatory lending is the question whether the interest rates (and/or fees) charged on short-term loans are justifiable. The issue of interest rates receives a great deal of attention in the regulatory debates in Australia and internationally. Lenders argue that the establishment and service costs of a small loan are comparable to a larger loan – however because the rate of return is so much lower, a higher interest rate is charged to make the practice financially viable for the lender (Lehman 2006). Lenders also argue that the increased risk associated with their clientele necessitates higher charges, as there is an expected higher default rate and potential fraud. Borrowers are charged not only for being able to access the money, but also the timeliness of the loan. As Lehman notes about the US, economics is subjective, and people may be willing to pay more in the future if they place higher value on receiving the cash in the present. Thus in Lehman's view there is no such thing as an excessively high finance charge: 'it is entirely subjective to each voluntary participant in the transaction' (p. 9).

Very little objective empirical data exists on the costing structure of the payday lending industry in Australia. Some small studies have examined consumer costs. Wilson, D (2002) measured the cost of a \$200 loan for a period of two weeks and found that typically, the cost ranged from \$48 to \$69 for the two weeks. This is an annual percentage rate (APR) of up to 700 per cent. However, micro-lenders argue that the annualising of interest rates to enable comparison with other credit products is misleading as their product is intended for short-term periods.

The research report *Payday Loans: Helping Hand or Quicksand* (2010), undertaken by the Consumer Action Law Centre in Victoria updated Wilson's 2002 report. The research involved quantitative and qualitative analysis, including on-line surveys, focus groups and interviews with borrowers and financial counsellors. Based on the analysis, the report recommended a comprehensive 48 per cent interest rate cap at the national level. The basis of this recommendation came from evidence that the loans were harmful, due to a high incidence of repeat borrowing. However, the evidence for this claim has been criticised by the National Finance Services Federation and by Coronos (2011). The main criticism is that the research identified that 48 per cent of people had taken out only one loan over the past eighteen months and that 86 per cent of respondents had taken out four or less loans over the same period.

Overseas research indicates a high rate of repeat borrowing, particularly in the US (Karger 2005), however it cannot be assumed that the problem exists to the same extent in the Australian financial services market. The financial services sector in Australia and the US are different for a number of reasons. Australia has a very high proportion of its citizens that have some sort of relationship with a bank. In Australia, it is not possible to receive income support payments unless you have a bank or credit union account. There are similarities between the US and Australia, particularly in regard to how the industry presents itself as the target of an ongoing smear campaign by the mass media and some politicians (Rivlin 2011). The industry is particularly vocal in rejecting the claim that it is predatory.

Allan Jones, Chairman and CEO of the US based 'Check Into Cash' company argues '*You cannot call payday companies predatory unless you compare their bottom-line percentage profits to other industries' bottom-line profits. In that case you'd have to call Wrigley's chewing gum, General Electric, Matel, and the International House of Pancakes predatory!*' (Check into Cash Inc, n.d.). Aaron Huckstop (2007) says that to date, there is no conclusive evidence to justify the claims that payday lenders are making extraordinary profits: 'The call for regulation should be based solely in principle or other subjective reasoning – not on high fees' (p. 204). Mann and Hawkins (2007) argue high interest rates standing alone are not a sufficient basis for regulatory intervention. They assert that a sensible scheme of regulation must rest on a determination that the transactions involve market failures, that the payday lending industry externalises costs to the rest of society, or that the transactions offend social norms or justice in some other way. This leads into a discussion of another key contentious issue in the literature, which is the prevalence of so-called 'debt traps' and 'debt spirals'.

1.2.3 Chronic borrowing: payday lending as a debt trap

Another objection against payday lending is the practice of trapping borrowers in cycles of revolving loans. To avoid appearing to rollover the debt, some lenders ask their debtor to take out a 'new loan' by paying a new fee and constructing a new contract (Stegman & Faris 2003). Either way, the principal is not reduced. In the US context, King and Parrish (2007) found that over 60 per cent of loans go to borrowers with twelve or more transactions a year while the average borrower has more than eight transactions a year. Twenty-four per cent of loans go to borrowers with 21 or more transactions a year; one in seven borrowers have been in payday debt every day of the past six months, and nearly 90 per cent of repeat payday loans are made shortly after a previous loan is paid off. They argue that the payday lending business model actually *depends* on trapping borrowers in loans (p. 9). Critics of payday lending refer to the practice as the credit market's equivalent of crack cocaine: a highly addictive source of easy money that hooks the unwary consumer into a cycle of debt (Stegman 2007).

A further complaint against payday lending is the use of direct debit facilities which can inadvertently feed the debt trap because of high dishonour fees. If a direct debit is not honoured (for example due to an absence of money in the bank account) the bank charges a sum of money typically between \$35 and \$50 – thus borrowers may be charged twice for use of the money. Not all researchers agree that payday loans constitute a debt trap. In fact, Morgan (2007) makes a distinction between predatory lenders and the kind of lending that assists households to maintain consumption as their income fluctuates and he argues that payday lenders tend to fall into the latter category, speculating that payday loans have the potential to help at-risk household to more effectively manage their finances.

In 2008 Policis, an independent social and economic researcher for the public sector, was commissioned by Cash Converters Inc to examine the impact of interest rate ceilings. They concluded that there is no

evidence that payday lending creates a debt spiral and instead illustrated the way in which payday lending works to ameliorate and prevent financial difficulties (Ellison & Forster 2008b). 'To America's middle-class, the payday advance product serves as a dignified and cost-efficient financial taxi to get from one payday to another when faced with an unexpected cash need' (Community Financial Services Association of America 2001, p. 1). Other research concludes that the vast majority of payday loan customers pay on time (Elliehausen & Lawrence 2001). (However, this finding would seem to invalidate the argument that borrowers constitute the high-risk clients that justify high fees and charges).

McKernon and Ratcliffe (2008) argue that people turn to payday lending because they lack the assets to weather emergencies. Likewise, Stoianovici and Maloney (2008) find that payday loans enable people to survive income interruptions and unexpected expenses, and Adair Morse (2007) shows that communities with payday lenders show greater resiliency to natural disasters and enhances the welfare of communities. Interestingly, Elliehausen asserts that payday loans may actually be 'transitional products' (2009: vii) for many consumers, and that as families age and incomes rise, consumers may become less vulnerable to financial distress. (Although the assumption contained herein remains open to debate).

Making sense of this contradictory data, the metaphor of a taxi seems an appropriate one. In a pinch or on special occasions taxis provide fast and efficient travel and on some occasions may actually contribute to our well-being and keep us safe. The problem is that taxis are not intended for daily use and are a costly way to get around. 'Payday loans help the subjects to absorb expenditure shocks and, therefore, survive. However subjects whose demand for payday loans exceeds a certain threshold level are at a greater risk than a corresponding subject in the treatment in which payday loans do not exist' (B. J. Wilson, Findlay, Meehan, Wellford, & Schurter 2008).

Huckstep (2007) says while the industry's insistence that their product is designed to be used in emergencies only, is correct in theory, it ignores the reality. He concedes that while it does appear that low-income people have a need for a short-term unsecured financial vehicle, 'Payday borrowers are using the product with a frequency that suggests their only emergency is that their bank account is low' (p. 220). This analysis points to an argument of overconsumption: that people are spending money on goods and services to such a wasteful and unnecessary extent that serious money problems are inevitable (de Graaf 2001). While there is certainly a truth to this argument, there is also a danger in blaming the victims. The over-consumption explanation may be too simplistic. Poverty itself can be a barrier to self-improvement. Daily pressures of living on low incomes include limited access to services (such as transport and childcare) and opportunities (employment, education and training) as well as facing discrimination and prejudice (Seymour 2007). Authors like Warren and Tyagi (2003) refer to the overconsumption argument as a 'myth'. In examining consumer spending habits in the United States they show that any changes to spending habits in the USA have not been sufficiently sudden or dramatic to explain the growing danger of financial ruin.

In summarising the debate on the purpose loans serve and how people use them, it is useful to draw upon the thinking of Berthoud and Kempson (1992) who argue that credit fulfils different purposes and has different social meanings for different social groups: 'poorer families, on the whole, use credit to ease financial difficulties; those who are better off take on credit commitments to finance a consumer life-style' (p. 64). Different solutions will be promoted depending on how the target population and the policy problem are framed. If seeing the problem as mostly about changing cultural habits and attitudes, then the media and social values become the targeted vehicles to change behaviour. If the problem is predominantly seen as structural and reflecting economic changes, particularly in the labour and

financial markets, then solutions are more focused on how to address social inequalities and economic insecurities that create greater levels of personal debt, which in turn fuels demand for credit. As the empirical section of this report shows, many borrowers are able to identify both cultural factors and structural barriers behind their demand for short-term credit. We discuss reasons and other pathways to the door of the payday lender in this report, following an overview of the research methodology in the next section.

2 Methodology

We used ‘top down’ and ‘bottom up’ methods to source lenders and borrowers for the study. Between August and November 2010, researchers directly contacted cash loan company proprietors, managers and their staff.¹ The approaches to owners and executives of international and national payday lending companies met with mixed responses. Senior managers of the Australian operations of large multi-site operations were initially open to being involved in the project. However, after lengthy discussions, they did not consent to be involved. The CEO of a large multi-site operation in Victoria who also provided important backing for researchers to interview his staff and customers agreed to an interview. We interviewed three owners of medium sized companies operating multiple businesses in the southern and eastern suburbs of Melbourne, two managers of their outlets.

‘Bottom up’ methods were also used to source interviews from staff of small, short-term, loan businesses – telephoning and face-to-face contact. The researchers soon found that telephoning a lender resulted in very poor outcomes, and so spent many weeks cold-cavassing payday staff in Brisbane, Melbourne and a number of cities in Northern NSW such as Lismore and Ballina. The second approach improved the success rate of securing an interview with a proprietor, manager or staff member but remained low – about one in ten agreed. Specific sets of questions were asked tailored around five themes:

- Industry context – the business profile of the company, interviewee’s role in the organisation, market position and customer target groups, types and amounts of loans issued, and loan approval rates;
- History – the interviewee’s business background prior to working in the industry, personal motivation for becoming involved in the sector;
- Skills – interviewee’s views on the particular set of skills and attributes needed to run a successful payday lending business;
- Experiences – lender’s views on a customer’s typical experience when applying for a loan, the reasons why people are taking out a loan, how a lender assesses the risk of lending to a particular customer, the default rate of the business, and whether the lender considers they are only selling a product in the market or also providing a service;
- Sector issues – lender’s views on the impact of government regulations on their business and sector, what the sector does well, relationship with other lenders, opinion about what ‘problem’ government regulation is trying to solve, and the consequences for their customers if their sector did not exist.

As anticipated, requests to interview selected consumer advocates, community support managers, government regulators and financial counselors invariably met with a positive response. The design of the stakeholder interviews was open-ended and exploratory. These participants were contacted in the initial stages of the study to understand how non-market actors in the sector perceived payday lending

¹ One Brisbane manager was interviewed in December 2009 as part of the project’s Queensland pilot study.

practices, the industry's impact on their services or clients, and changes occurring within the policy context. A second reason for early contact was to foster awareness among frontline community agency workers that the study was seeking to interview people who had borrowed small loans from the industry.

Most borrower interviews occurred between August and November 2010. In addition, the project has included 28 borrower transcripts from the 12-month pilot study conducted by the University of Queensland during 2009. A range of bottom-up and top-down methods were used to source borrowers willing to be involved in the project. We initially distributed approximately 4,000 cards to payday lending businesses, financial counselling agencies, selected Centrelink offices, Neighbourhood Houses, court houses, pawnbrokers and Western Union money transfer outlets located inside suburban grocery stores.

We offered a \$50 honorarium to prospective interviewees in Victoria. NSW and Queensland borrowers received \$40. We emailed information about the project across many networks, resulting in a snowballing demand for electronic versions of the cards and information sheets. Many prospective borrower interviewees who had picked up a locally photocopied card in the reception area of a payday loan outlet or community organisation contacted researchers.

The research was sensitive to the potential biases of a data set sourcing too many interviewees from financial counsellors, assuming their clients would overly occupy the 'triage end' of payday loan customers not coping with their debts. Lenders interviewed for the study consistently reiterated that a distorted picture of the 'average' customer would emerge unless most borrowers were directly sourced from their outlets.

To help ensure researchers interviewed a representative section of payday loan consumers, the study restricted participants sourced from financial counsellors to less than 20 per cent of the sample. A majority of people interviewed found out about the research from lenders or from researchers approaching customers at payday loan outlets. The remainder saw a card or heard about the project from a community organisation (mainly Neighbourhood Houses), via word of mouth or from a newspaper advertisement. A notable methodological finding is that there is little to distinguish the borrowing practices, attitudes and backgrounds of lender-sourced participants from those who found out about the project through financial counselling agencies or other means (see Appendix).

In the initial interview phase, large organisations were approached to promote the project among their clients or customers. After protracted discussions and email correspondence, Centrelink National Office agreed in mid-October 2010 to display cards in three of the seven offices requested: Ringwood, Morwell and Collingwood in Victoria. Approval to place the cards in four northern NSW offices (Ballina, Byron Bay, Brunswick Heads and Lismore) was still pending when the project's interview target was reached in November. Though about 20 people eventually contacted the researchers (mainly between December 2010 and March 2011), the delay meant that only one Centrelink-sourced borrower was interviewed.

As raised above, senior managers of the large multi-site loan provider flagged that their customer database may be an available source for borrowers but then withdrew this offer two months later. Contact with the CEO of another multi-site loan provider was more fruitful. The CEO agreed to advertise the project across the company's Victorian network of 18 outlets, encouraged staff to be involved, and allowed a researcher to source and interview borrowers inside his branches (if a suitable room was available). Approximately 20 interviews were subsequently conducted from borrowers in the Glenroy,

Northcote and Geelong areas or from participants who had picked up a project leaflet from the Reservoir, Moonee Ponds, St Albans, Frankston and Coburg branches.

The method the researcher used when inside a loan outlet was to ask every customer who had completed their transaction if they would like to participate in the project. The target of five interviews per day meant that the researcher was in the branch for approximately five hours. Three independent proprietors in the Melbourne suburbs of Clayton, Dandenong and Croydon also agreed to have a researcher situated inside their reception area and approach borrowers who had finished their transactions. Interviews were conducted inside five of these outlets where a sound proof room was available and in local coffee shops near four others. No similar managerial support from any large payday loan company was given in Queensland or northern NSW. One approach adopted by the researcher in Brisbane was to directly solicit interviews from customers leaving these outlets, resulting in a small but important source of participants.

The majority of lender-sourced participants emailed or rang a researcher after picking up a card from one of the extensive range of medium and smaller lenders they mentioned using. These included Cash Loans Money Centres, Village Finance, Cash 2 U, Cash & Convenience, AMX Money, Cash Doctors, Action Cash Loans, Cash Fast (Radio Rentals), The Cash Store, Money Plus, Pawn & Loans, GE Money, Cash Convenience, Needy Money, Cash Smart, Speedy Finance, Lightning Loans, Fast Loan Access, Money Centre, Toowoomba City Loans, JP Credit Line, the Cash Stop and City Finance. Managers and workers at many of these lending outlets, as well as pawnbrokers and Western Union cash transfer agencies, were directly approached to display the cards in a wide range of Brisbane and Melbourne suburbs and northern NSW coastal townships. We posted or emailed cards to regional payday proprietors and staff, after first contacting by phone. Less than a quarter of these highly labour-intensive approaches met with a positive response. Of those that did, less than half resulted in a borrower contacting the research team.

Other tactics employed in all three states also met with varied responses. A significant amount of interest was created through a snowballing, word of mouth approach as interviewees began informing other people they knew who had taken out small, short-term loans about the project. Advertisements in a Lismore newspaper and Catalyst (an RMIT University student newspaper) resulted in a small number of interviews. Promotion of the project by the Consumer Action Law Centre and the Financial and Consumer Rights Council in Victoria generated an overwhelming response from clients of Neighbourhood Houses, legal aid centres, and financial counselling and community support agencies. To ensure sufficient lender-sourced borrowers were included in the sample, researchers declined two out of three requests for an interview from community sector-sourced respondents.

Borrower interviews comprised a mixed-method approach of semi-structured questions and an eliciting of what Sarbin (1986) terms 'storied data' from the 112 people interviewed. Questions were thematised by time:

- A participant's past experiences with money;
- Their present financial and social circumstances; and
- Their thoughts and hopes about the future.

We did face-to-face interviews with nearly all Melbourne and Brisbane metropolitan borrowers, and slightly more than half the Victorian regional participants. We telephoned a majority of Queensland and NSW regional respondents.

The methodological focus of these 45-70 minute interviews was to encourage the respondent to move beyond fact-based descriptions to enter into a narrative – to ‘remember, argue, justify, persuade, engage, entertain...even mislead’ (Bamberg & McCabe 1998: iv).

To encourage an interviewee to offer storied accounts of an *event or motive* in their working lives, three types of questions suggested by Kielhofner and Mallinson (1995: 65) were available as prompts:

- what they saw as a morally significant change in their experiences (*how was your life better or worse?*);
- their hopes and fears (*how did it happen that you felt that way?*); and
- their recollection of particular events or circumstances (*what is the difference between then and now?*).

All borrower interviews were recorded and transcribed, as well as most of the conversations researchers had with lenders, financial counsellors and other stakeholders.

3 Profiling the sample

3.1 Borrowers

Interviews with 112 individuals who had borrowed, or had attempted to borrow, short-term cash loans from payday lenders comprise the research core of the project. Being ‘caught short’ has structural and personal dimensions. The fact of poverty pervades the lives of most borrowers interviewed. Eight people were homeless. Only nine respondents owned their homes or had a mortgage, with most (75 per cent) renting their accommodation either privately (36 per cent) or publicly (39 per cent) (Table 1).

Table 1
Accommodation circumstances

Type of accommodation		How long have you lived at your current address?	
Private rental	40	Less than a month	7
Public rental	44	1 to 6 months	19
Pay board	8	7 to 12 months	5
Own home	9	1 to 2 years	17
Temporary/homeless	8	3 to 10 years	34
Other	3	Over 10 years	22
		Unknown	8

Total number of respondents – 112

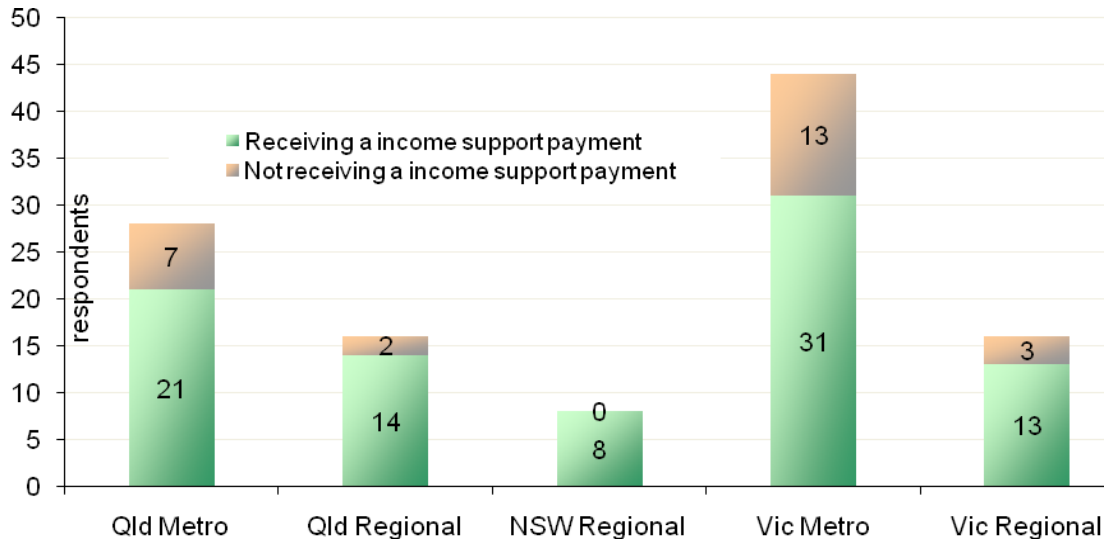
Less than a quarter (24 per cent) of borrowers had some form of paid employment (Table 2).

Table 2
Employment profile of participants

	Full-time	Part-time	Casual	Self-employed	Unemployed and seeking work	Looking after home or caring for family	Unable to work due to illness or disability
F	7	1	4	1	11	16	17
M	7	1	5	1	14	1	15
Total	14	2	9	2	25	17	32

A very high proportion of participants – nearly eight in ten – were receiving a Centrelink income support payment or pension when interviewed (82 per cent of women and 72 per cent of men). Borrowers in all locations reflected these high receipt rates of Centrelink payments, ranging from 70 per cent of Melbourne metropolitan participants to all people interviewed in northern New South Wales (Figure 1)

Figure 1
Centrelink payment receipt and interview location



Number of respondents – 112

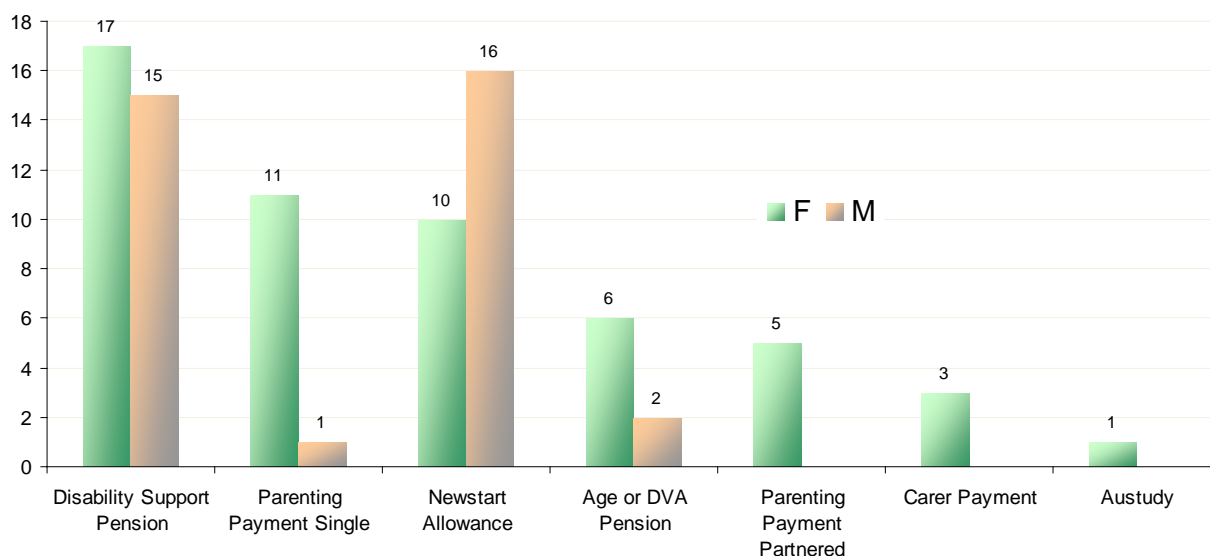
Sixty one per cent of the 87 participants receiving a Centrelink income support payment or pension were women. A gender balance existed among the 25 interviewees not reliant on an income security payment. Men were more likely to be on Newstart Allowance and women on a higher, pension rate of payment. The proportions of borrowers receiving one of the eight allowances, payments and pensions in Figure 2 differ significantly from the overall Centrelink populations in three of these payment streams.

Most strikingly, 37 per cent of income-supported interviewees were Disability Support Pensioners (DSP) compared to only 18 per cent of Australians within these payment streams receiving DSP. The proportion of borrowers receiving Newstart Allowance was also far higher (30 per cent of the income-supported sample) than in the overall eight-payment population (11 per cent).

Conversely, Age/Veterans Affairs Pensioners were highly under-represented in the sample (nine per cent) compared to the wider, eight-payment, population (54 per cent). This disparity was far less pronounced among recipients of Parenting Payment Single (14 per cent of the sample, compared to 10 per cent of the overall population), Parenting Payment Partnered (four per cent of the sample, six per cent of the population) and Carer Payment (four per cent of the sample, three per cent of the population).²

² Source: Harmer, J (2008), Pension Review. Background Paper. FaHCSIA, Table 1, page 3.

**Figure 2:
Centrelink income support payments or pensions by gender (number of respondents)**



Number of respondents – 87

Half (48 per cent) the income-supported interviewees had left school by the end of Year 11, compared to only a quarter (28 per cent) of borrowers not in receipt of a Centrelink payment (Table 3). Men were slightly more likely to hold a post-secondary qualification (43 per cent) than women (35 per cent).

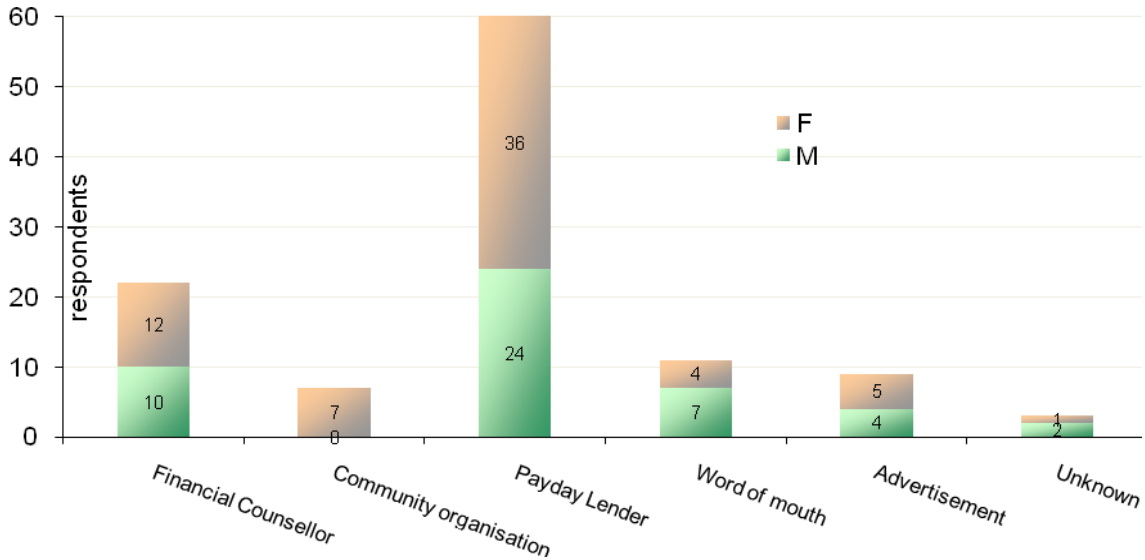
**Table 3
Level of education completed**

	Years 1-8	Years 7-9	Years 10-11	Year 12	TAFE/Trade/Professional Qualification	University Qualification	Unknown	Total
F	2	10	16	14	17	6	1	66
M	2	8	11	4	16	4	1	46
Total	4	18	27	18	33	10	2	112

A fifth (N=24) of interviewees were born overseas (slightly less than the national figure of 25 per cent) and a quarter (N=31) spoke a second language at home. Ten participants identified as Aboriginal or Torres Strait Islanders.

Figure 3 details the sources of borrowers. The majority of participants (N=60) were sourced from lenders. Twenty nine people found out about the study from a financial counselling agency or other community organisation. Twenty respondents heard about the project from a friend seeing a card at a payday outlet or community organisation (N=11) or saw an advertisement placed by the project in a local Lismore newspaper or RMIT University student magazine (N=9). The source of three participants is unknown.

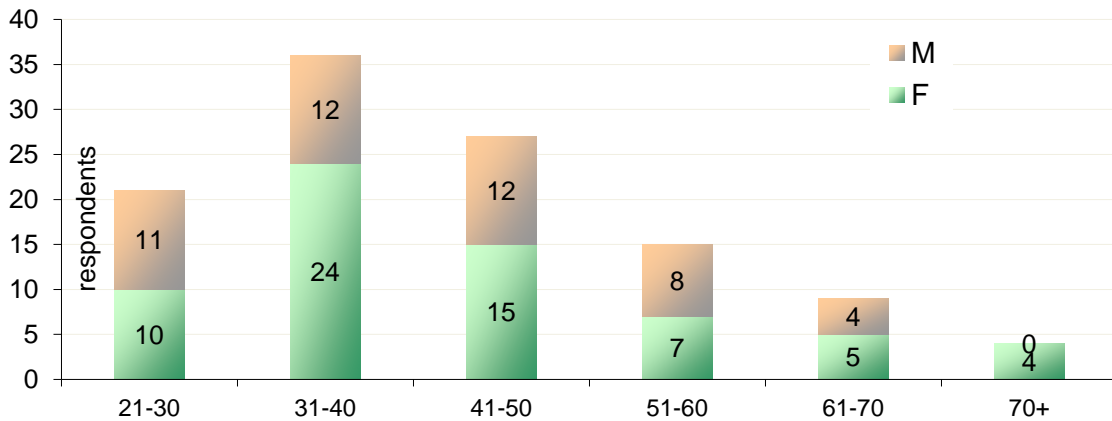
Figure 3
How borrowers found out about the study



Number of respondents – 112

A third of borrowers were aged between 31 and 40. Respondents aged in their 40s were slightly more likely to be interviewed than those in their 20s. There were 13 participants aged over 60 years. Figure 4 profiles the age of the respondents within ten-year categories (apart from the ‘over 70’ cohort). Half (47 per cent) of the interviewees reliant on an income security payment were under 40 years of age, compared to two thirds (64 per cent) of borrowers not receiving a Centrelink allowance, payment or pension.

Figure 4
Borrower age³



Number of respondents – 112

³ One Geelong participant aged 18 was also interviewed. He is included in the 21-30 category.

Four in ten participants (38 per cent) were members of a couple, a minority of whom had children in their care. The majority of the sample were single, separated, divorced or widowed (Table 4).

Table 4
Relationship status and child care responsibilities

Relationship status	Gender		Do you have children in your care?		Total
	F	M	No	Yes	
Single	31	26	42	15	57
Separated/divorced/widowed	11	5	9	7	16
Partnered	23	16	16	23	39
Total respondents	65	47	67	45	112

There were 45 respondents (31 women and 14 men) who had either joint or sole care of 98 children. Table 5 below details the relationship status of participants by the size of their household. Because four partners of coupled borrowers were interviewed (in households of one, two and six children), the aggregated number of children in care in these households is not a multiple of the number of respondents. Two thirds of parents in the sample are women. About half the households are headed by a single parent, predominantly single mothers. Significantly, borrowers who are (usually sole) mothers are in about 8 in 10 households where more than two children are present.

Table 5
Household composition where children are present

Relationship status of respondents who have children in their care	Type of household – children						Number of respondents
	<i>One-Child</i>	<i>Two Child</i>	<i>Three Child</i>	<i>Four Child</i>	<i>Five Child</i>	<i>Six Child</i>	
Single parent - female	5	3	7	2			17
Single parent - male	4						4
Coupled parent - female	3	5	3	2		1	14
Couple parent - male	2	4		1	2	1	10
Number of respondents	14	12	10	5	2	2	45
Number of children in care	12	20	30	20	10	6	

3.2 Lenders

Fifteen short-term loan providers were interviewed, four by telephone and 11 face-to-face. Lenders in the sample owned or co-owned their business, were a franchisee, or were managers of an outlet. Unfortunately, while many employees were open to discussing their work with the researchers, none agreed to be formally interviewed. Due to project deadlines, a late offer by the CEO of a large multi-site loan provider, to allow his staff to be interviewed, was, unfortunately, not able to be taken up. Table 6 details the interviews locations.

Table 6
Number and location of lender interviews

Interview location	Lenders
Brisbane Metro	2
QLD Regional	2
NSW Regional	3
Melbourne Metro ⁴	8
Total Respondents	15

3.3 Other Stakeholders

The views of 33 other stakeholders further inform the study. In the early stages of the project researchers investigated the various perspectives of the Australian payday loans industry held by 14 financial consumer advocates, representatives of welfare organisations, academics and government regulators. Nineteen financial counsellors were also interviewed – nine individually and ten together during a work meeting held in a south-eastern suburb of Melbourne. Table 7 summarises the locations where these interviews occurred.

Table 7
Number and location of stakeholder interviews

Interview location	Financial counsellors	Other stakeholders
Brisbane Metro	3	8
QLD Regional ⁵	2	
NSW Regional	3	
Melbourne Metro ⁶	11	6
Total Respondents	19	14

⁴ Including telephone interviews with two owners of multiple outlets in Melbourne who lived in Sydney and Perth.

⁵ Including the Gold Coast

⁶ Including ten financial counsellors who were jointly interviewed.

4 Borrowers

4.1 Borrowers' lives

The predominately low incomes of borrowers in the study reflect the findings of local and most international studies. In Britain, a 2005 Parliamentary report found that the burden of payday loans and other expensive short-term and unsecured debt disproportionately affects poor families and single parents. (Griffiths Commission 2005). The Office of Fair Trading (2010: 21) reiterated that 'many consumers using high-cost credit have low incomes relative to average levels in the UK'. Consumer Focus, a statutory advocacy body, specified that over two thirds of borrowers had below-average household incomes (Burton 2010: 19). Within this group, more than three quarters manage household budgets which are at least 63 per cent less than the national average income (Data derived from Burton 2010: 19, Figure 1). North America has a similar consumer profile. A survey of 5,300 families by Statistics Canada concluded that people in low-income families (earning less than \$23,000) are three times more likely to use payday lenders than those in higher-income households (earning over \$66,000) (Pyper 2007: 8, Table 1). Payday industry reports in the United States put the median income of borrowers at \$35,000 (Francis 2010: 616). However, non-lender studies indicate considerably lower average incomes of borrowers in California (\$25,417), Colorado (\$28,440) and Wisconsin (\$24,273) (Francis 2010: 617), and in Indiana (\$25,000-\$30,000) and Illinois (\$19,000) (Stegman 2007: 173). The overall demand for small, short-term loans by people with low-incomes is also spatially reflected in the supply-side of the industry – a high concentration of payday lending outlets located within working class and 'moderately poor' neighbourhoods (Gallmeyer & Roberts 2009; Stegman 2007: 174).

The only two non-lender Australian studies of people's borrowing practices and interactions with payday lenders have been produced by the Consumer Action Law Centre (CALC), a Victorian advocacy body (Gillam 2010; Wilson, D 2002). The Wilson study (2002: 14-15) used a similar research method to source respondents as that applied in a core component of this study – that is, directly soliciting street interviews from borrowers at payday outlets. Between November 2001 and January 2002, the Wilson researchers reported that three in four requests to people leaving or entering Melbourne payday shopfronts to be involved in the study were successful, resulting in a sample of 73 respondents who were applying for or repaying loans. Borrowers were asked to complete a three to five minute, fact-based survey consisting of eight socio-demographic and ten borrowing-specific questions (all which were asked by researchers in this (ARC) study). Twenty three people agreed to participate in longer, qualitative interviews, though only 12 were subsequently interviewed due to resource and time constraints. Data for the Gillam study (2010: 36-37) was based on the very different method of posting an online survey at pureprofile.com.⁷ The quantitative data comprised 448 responses to the

⁷ The 320,000 people who are currently registered with pureprofile commonly receive small payments (20 cents to a few dollars) for completing online surveys. Selected members receive questionnaires based on the demographic or other characteristics requested by a research/marketing body (see pureprofile.com.au for further details).

questionnaire received by pureprofile in May 2008. A small qualitative research component of four group discussions, five standard depth interviews and three in-home interviews augmented the study.

A central finding in both CALC reports – that a majority of respondents had below average incomes – aligns with the international literature and the results uncovered by our research project. Table 8 compares the borrower profiles of the CALC reports with the current study. All three data sets have similar gender and country of birth compositions. The participants in our study are somewhat older than respondents in the other two studies, though the use of different age categories across the studies makes direct comparisons difficult. Despite differences in employment and Centrelink income receipt rates, the empirical results of the ‘Caught Short’ and Wilson studies essentially have more in common with each other than the Gillam report.

Table 8
Comparing the Wilson, Gillam and ‘Caught Short’ studies

	Wilson	Gillam	‘Caught Short’
Gender	52% women	55% women	58% women
Age	18-25 -20%	18-24 -20%	21-30 – 19%
	26-35 – 38%	25-34 – 36%	31-40 – 32%
	36-45 – 25%	35-44 – 24%	41-50 – 24%
	46-55 – 14%	45-54 – 12%	51-60 – 13%
	56+ 3%	55+ 8%	61+ - 12%
Marital status	Coupled – 26%	Coupled – 47%	Coupled – 35%
Caring for children	Women -63%	Women - 50%	Women – 47%
	Men – 23%	Men – 38%	Men – 29%
University degree	4%	31%	9%
Born overseas	29%	25%	21%
Employed full-time	49%	45%	17% ⁸
Employed part time or casually	12%	28%	11%
Total employed	61%	73%	28%
Centrelink payments	38%		78%
	(Women -55%	~50% ⁹	(Women - 82%
	Men - 20%)		Men - 72%)
Income less than two-thirds of the average wage (see note 9)	85%	51%	93%

⁸ Of working age respondents

⁹ The Gillam report did not ask respondents if they were receiving a Centrelink payment. However, a likely percentage of income support recipients can be derived through responses to a question asked in both CALC studies – whether a participant had taken out a Centrelink advance payment in the last 12 months. (Our study asked respondents less time-specific questions about their use of Centrelink advance payments). A data set attached to the Gillam report notes that 123 respondents had received a Centrelink advance payment in the last 12 months. Some tentative numbers of income support recipients in the Gillam sample are developed through applying Wilson’s finding that 55 per cent of respondents receiving a Centrelink payment had taken out an advance in the last 12 months. (Our study broadly supports the Wilson figure – 66 per cent of Centrelink recipients had taken out a advance over an unspecified time frame). We use the Wilson percentage to propose that the 123 advance payment borrowers in the Gillam study also represent 55 per cent of income support recipients – suggesting that half those participating in the CALC online survey (224 of 448 respondents) were in current or recent receipt of a Centrelink payment.

A basic finding of the 'Caught Short' and Wilson studies was the exceptionally high incidences of poverty and low incomes among participants. In the Wilson sample, 85 per cent of borrowers had an income less than two thirds of average weekly earnings – a similar proportion found by our study (93 per cent). The Gillam research puts this figure at a much lower rate of 51 per cent.¹⁰ The most likely reason for the Gillam report noting higher income levels is methodological – an overreliance on a particular cohort of pureprofile respondents who did not mirror the overall payday borrowing population. Nearly a third of participants in the Gillam study stated they had a university degree – a far higher proportion than the 23 per cent of working-age Australians holding a university qualification (ABS 2008). Moreover, given that the other two studies reported that borrowers had, as anticipated, far lower university qualification rates (4 per cent in Wilson and 9 per cent in our sample) than the national average, it brings into question whether Gillam's data set reflects a viable profile of payday consumers. There is also a significant internal inconsistency within the Gillam findings. The relatively high rates of employment and income reported by respondents are difficult to reconcile with the contradictory evidence that about half the participants were probably in receipt (or in recent receipt) of a Centrelink payment (see footnote 9).

All but 12 individuals participating in the present study had annual incomes of less than \$31,000. Of the other 100 interviewees reporting incomes of up to \$30,000 only 13 were not receiving a Centrelink payment or pension. There were a variety of reasons why this group of 13 people did not receive an income support payment. Two respondents, both in low-paid casual work, had arrived in Australia after changes to the Social Security Act precluded New Zealand citizens from receiving a payment. Five other low-income earners were ineligible either because they were in full-time work (an 18 year-old Geelong first-year apprentice mechanic who was paid \$260 per week and a Melbourne mother whose Parenting Payment Single had recently ceased after gaining cleaning work at Crown Casino), were self-employed or studying (a PhD student who supplemented her scholarship with casual teaching, and an undergraduate returning to study who was not entitled to a second round of Austudy payments and worked part-time). Three interviewees did not claim a full or part payment for fortnights when they earned below-threshold wages. Fluctuations in their casual earnings had made the confusing processes of reclaiming and receiving top-up payments a time-consuming and often fruitless task. A fourth person with no income said 'I guess I've reached a point where it isn't such a necessity' to claim a Centrelink payment. Squatting in a Melbourne mansion for the last six months with friends who 'pretty much entirely live off dumpster food', he spent only \$60 a week drawn from previous savings (M, 21-30, \$0-10,000, Vic Metro). Two women had partners with incomes of \$60,000 and \$80,000, which disallowed their receipt of a payment.

Most participants – more than four of every five Centrelink payment recipients and about seven in ten other interviewees – reported living with significant physical, psychological or emotional health problems. About half the respondents reported feeling highly stressed, anxious, fearful or angry. A quarter talked about losing their sense of control – of 'my head not coming out of the water' (M, 31-40, \$81,000+, Vic Metro), 'suffocating in your sleep' (M, 21-30, Newstart Allowee, Vic Metro), 'being caught in a grip' (F, 41-50, Disability Pensioner, Vic Metro), 'I don't want to wake up' (F, 41-50, \$41,000-50,000, Qld Regional) and 'I don't feel like I am in alignment' (M, 51-60, Newstart Allowee, NSW Regional).

¹⁰ Figures quoted are drawn from Australian Bureau of Statistics (ABS), *6302.0 - Average Weekly Earnings, "Full-time adult ordinary time earnings"*, November 2002 (for the Wilson report), November 2008 (Gillam report) and November 2010 ('Caught Short' study).

A substantial minority of the overall sample linked their poor health to ongoing or previous periods of excessive gambling, alcohol consumption or illegal drug taking. Half the men and a third of the women discussed how a problematic relationship with one or more of these activities – either in the past or currently – had impaired their well-being. Higher-income earners were more likely to have been impacted by addictive behaviours than lower-income earners. More than half the borrowers earning over \$40,000 per year talked about various adverse embodied effects they considered had resulted from their gambling, drinking and/or illegal drug consumption compared to less than two in five participants receiving a Centrelink payment.

Interviewees were encouraged to discuss their general financial experiences during childhood, to recall any financially significant events they considered shaped their lives, and compare their current financial circumstances to those before the significant event(s) they raised. From the wealth of stories participants told, and their assessments of the financial ramifications on their lives, a number of themes emerged.

Table 9
What was your overall financial experience when growing up?

<i>'It was extremely hard'</i>	20
<i>'We never had much money'</i>	31
<i>'Things were OK for a while then we struggled'</i>	7
<i>'We struggled for a while and then things improved'</i>	4
<i>'Average' or 'Normal'</i>	38
<i>'My family was very well off'</i>	5
Number of respondents	105

Compared to the overall population, participants were far more likely to have been brought up in financially impoverished families. Only a very small group (N=5) talked about being **very well off**, of coming from 'a very privileged background' (F, 51-60, Disability Pensioner, NSW Regional), where 'money was no object' (M, 51-60, Disability Pensioner, Vic Metro), 'never really an issue' (F, 51-60, Newstart Allowee, Qld Metro) and 'we had the best of everything' (M, 60-70, Disability Pensioner, Qld Metro).

About half the participants who discussed their personal financial histories talked of their upbringings as either **extremely hard** – 'sometimes we couldn't eat' (F, 31-40, Newstart Allowee, Qld Metro) and an 'absolute nightmare' (F, 31-40, \$0-10,000, Vic Metro) (N=20), or in less stark phrases such as **we never had much money** – 'we always sort of struggled' (M, 41-50, Disability Pensioner, Vic Metro) and 'we were very poor' (F, 70+, Qld Metro, Veteran Wife Pension, 70+) (N=31). Many talked of family violence associated with alcohol and poverty. Participants in these categories often came from very large families, and only one person received regular pocket money.

I grew up as a young kid, given away as a young child through family situations and through domestic violence from the house. Sometimes you have to go without food, sometimes you go without medication...I knocked money off because I needed money to survive.
(M. 41-50, Disability Pensioner, Vic Metro)

Maybe I didn't get the Barbie House, but I had the Barbie Ferrari for Christmas. My dad would build me, out of an old bookcase, a big Barbie House, with carpet and wallpaper and everything. Somehow always those things were met. I never went without one thing in my life. We weren't rich, we made do with what he had, but I do not remember feeling like we were lacking in anything. So, because it seemed so easy, I probably never consciously thought about how hard it was for my mother to manage that. But she makes it look so easy that I think I just imagined that, as long as I'm not buying expensive things, and I'm not buying \$100 pairs of shoes let alone \$400 pairs of shoes like my sister, I should be fine. So why isn't it fine?
(F, 21-30, Newstart Allowee, Qld Metro)

A significant proportion of borrowers (N=38) considered they had **average or normal** upbringings, 'middle of the road, not rich, not poor' (M, 51-60, \$51,000-60,000, Vic Regional), 'they weren't rich or anything, but I mean we got by' (F, 31-40, Disability Pensioner, Vic Metro), 'comfortable I suppose' (F, 41-50, \$31,000-40,000, Qld Metro). A respondent raised on a rural property talked of being 'not rich, but not poor, so middle class; had a nice house, nice horses. We went to public schools, not private. There was always food on the table' (F, 31-40, Single Parent Pensioner, NSW Regional). Many people in this group talked of Christmas as being 'good...my parents had money and us kids had presents and stuff' (M, 41-50, \$21,000-30,000, Vic Metro), 'I always got presents; I never went without presents at Christmas time' (F, 31-40, Single Parent Pensioner, Vic Metro). There were 15 participants in this group who talked about receiving money from a parent as they grew up. About half were given pocket money on a regular basis, mainly once they had done their chores. Others received one-off payments for clothes or particular items they sought to purchase. Having relatively greater financial resources shaped family dynamics in contradictory ways. One respondent talked about the financial 'bullying' she experienced growing up, 'talk about people's relationship with money, you wouldn't believe my family. They're well off, but, for some of them, it's their self-worth, everything – it's not about relationships, money is life blood to them' (F, 41-50, Disability Pensioner, Vic Metro).

Five participants indicated they had been **financially secure for a period then struggled**. Four considered the primary cause for the changes in their families' financial circumstances was due to their parents separating. One participant who had been brought up in the Cook Islands described how his family coped financially after his father lost his government job:

For me I got a big family. Four sisters and two brothers and I'm the fourth one. While that money, only one in our family works and that's my dad...he's good at that saving money. So a short time later we got no money, but he's got money aside.

Interviewer: Right. So it never got really tough?

Sometimes. But most of the times no, because we got our own plantation, so that's the only food we need to buy from the shop like milk, cereals and corned beef. But vegies and all that, fish and all that, my father does that. Fishing when he finished his job and he goes fishing.
(M, 31-40, Newstart Allowee, Vic Metro)

Four participants had the opposite experiences of ***struggling for a period then becoming more financially secure***. A parent re-partnering or gaining employment was given as the primary reason for their change of circumstances by three participants. The fourth person, a respondent who has been managing various Victorian Aboriginal human service and legal agencies for the last decade, told a different story of how his financial circumstances dramatically improved when he was 12 years old.

Well, we used to live in a shack, a two-bedroom house outside of a place called Heywood, down in Western Victoria. No gas, no electricity, this is back in the 1950s. And there were about three or four families living there. I can't really remember much about money in those times. There were days when we used to starve, and used to eat bush spinach, and all that sort of stuff. Nan used to make sure that we get by. But, come the 1960s though, it was a different matter. I was afforded the opportunity to go to Melbourne Grammar.

Interviewer: How old were you then?

Twelve. And that was a big change. We never knew about TV before that, only seen movies. See TV, electric lights, the whole lot. Bloody gas, hot water coming out of the tap, rather than being shoved in a tub to have a bath. Big copper tubs with a fire underneath it, very hot. And that sort of changed my life. I was actually sponsored by a multimillionaire, whose last dying wish to his wife was he put an Aboriginal through Melbourne Grammar. So I got the honour. And I stayed there for six years, and saw the high society, and the richness of life, and what money can get you.

(M, 51-60, \$81,000+, Vic Metro)

Borrowers were also asked to recall the most significant events that financially shaped their adult lives (Table 10).

Table 10
Financial turning points

Accommodation issues: moving house; lack of housing; costs of housing	41
Reduced employment or unemployment	30
Caring for children or losing care of a child	26
I've always spent whatever I had, always in debt, its always been up and down	22
Getting into or out of drugs, alcohol or gambling	21
Becoming partnered or separated	20
Death of family member	19
Behaviour of partner, child or parent	18
Becoming injured, ill or disabled	18
Getting a job or partner getting a job	11
Going to prison	5
Going bankrupt or credit card problems	4
Losing the right to a pension payment	3
Receiving a lump of money	3
Falling in with a 'bad crowd'	2
Education as an adult	2
Being fined	1
Number of respondents	110

Even though money is bad it's still a lot better than using a cardboard box as a blanket, getting robbed in parks and stuff like that. Now, it's a lot better. Even though it's a lot of debt to fix up, it can always be fixed up but at least there's a roof over your head and you don't have to worry about that every night.

(F, 31-40, Newstart Allowee, Qld Metro)

About two people in five raised accommodation issues. Eight respondents cited the experience of becoming homeless or stopping being homeless as a significant turning point. Others often talked about how moving to a new area as a financial turning point due to a variety of reasons – struggling to find money for a bond, needing to move because they had lost ownership of their home, or moving interstate to break away from a bad relationship. A similar proportion of respondents reflected that their gaining or losing a job was a key financial turning point in their lives.

About half the participants with dependent children said gaining or losing care of a child was a major financial turning point, 'having two kids when I was very young and only a year apart. It's just been a struggle ever since (F, 21-30, Single Parent Pensioner, NSW Regional), 'It's been tough since my son was born...sometimes I only have 20 bucks left for food' (F, 31-40, Disability Pensioner, NSW Regional). Eight people talked about the financial impact of children leaving their care, 'Everything just went bang, downhill and I didn't really worry about money, didn't worry about paying the rent, didn't worry about food in the house, didn't worry about anything really' (M, 51-60, \$80,000+, Vic Metro).

Five people talked of the emotional and financial trauma of their child dying. There were 14 participants, when discussing the death of a family member, raised funeral costs or longer-term influences on their working lives.

There was a first time in Melbourne when my baby died, and that was hard to get over. I used drugs to get over that, to kill the pain. Then I got off, I was threatened with the loss of my children, so I had to work with Human Services too and do drug screens and I got completely off. I did AA so I was completely clean off drugs and alcohol for three and half years...but my son died then...and that just totally floored me and I couldn't survive without anti-depressants then. The grief was there which is really powerful, and that lasted eight years before I even got rid of that knife stab in my heart, you see. And that comes back at you – becomes depression, comes on you, you can be just doing your normal life you can be happy. I really need to be out talking to people and being active and involved and seeing people regularly and catching up with them and that. I can't isolate myself because I can't cope then. But yeah, while I'm busy I'm okay.

(F, 51-60, Newstart Allowee, Vic Regional)

Many respondents considered that there had been no particularly significant moment that had shaped their personal financial circumstances, 'I've always been really #@!!% with money' (F, 21-30, Austudy, Vic Metro), 'I've always been a spendthrift, I've always rebelled against money' (F, 51-60, Newstart Allowee, Vic Metro), 'It's all been downhill' (F, 61-70, Age Pensioner, Vic Metro).

One in five participants talked about giving up (about half) or starting the excessive use of drugs, alcohol or gambling as a key turning point. A comparable proportion discussed the financial and emotional impacts caused by the behaviour of a partner or family dominated by one or more of these three activities. A similar number of people cited becoming partnered/separated or ill/disabled as a major financial turning point..

*I grew up with an alcoholic father that was very abusive and actually got bashed and things like that when he got out of hand. I remember cashing in coke bottles. You used to get money for them to buy chips for dinner. I remember one time a group of friends and we had a bit of a club and we started putting some money together and in the one bank account we'd have \$1.20 or something, One time I had to go withdraw 60 cents that I had in this joint account with these kids, to give it to my mum to buy chips because she was in bed and crying and didn't know what we were going to have for dinner. That wasn't a regular thing, but it did happen.
(F, 51-60, Newstart Allowee, Vic Regional)*

Of the 105 participants who compared their previous circumstances to their financial situation now, half said it was **worse than before**, a third thought their financial situation was **the same or held conflicting views**, and one in five considered it **better than before**. Participants not receiving a Centrelink payment were evenly split in their opinions, though they were somewhat more optimistic than Centrelink recipients. Men were marginally more optimistic than women, and participants caring for children were significantly more pessimistic than those who were not. Aboriginal and Torres Strait Islander borrowers expressed quite negative views about their current financial circumstances, compared to earlier periods in their lives (Table 11). The responses by Indigenous participants surveyed in the recent *Measuring Financial Exclusion* report (Connolly et al 2012: 8) that over 43 per cent experienced severe or full financial exclusion reinforces why so few Aboriginal or Torres Strait Islanders felt positive about their current financial circumstances.

Table 11
How do you rate your current financial circumstances?

	Gender			Caring for children		Aboriginal and Torres Strait Islander Borrowers	Receiving a Centrelink payment	
	M	F	Total	Yes	No		Yes	No
Better than before	10	9	19	9	10	1	12	7
Same as before or conflicting views	13	24	37	20	17	3	26	11
Worse than before	19	30	49	33	16	4	43	6
Number of respondents	42	63	105	62	43	8	81	24

The most significant reason given by the minority of participants who said their financial position **had improved** was due to paid work. Eight people had either: recently gained a job (N=5), had a partner or child starting paid work (N=2), or had begun receiving a higher rate of pay (N=1). A wide range of other reasons were also given why this group was more optimistic about their current financial situation: finding stable accommodation after being homeless (N=3); reducing expenditure on excessive

Before I used to lose my money [through gambling] in a day or two days. Now it takes me weeks, like two weeks, maybe three weeks and then I just lose it. So I lose it slowly, that's better than losing it quickly. (M, 21-30, Newstart Allowee, Vic Metro)

gambling/drinking/drug taking (N=3); re-partnering (N=2); reducing expenditure on mobile phones or stopping Foxtel (N=2); a renewed capacity to save some money (N=2); selling a car and declaring bankruptcy (N=1); receiving a Disability Support Pension (N=1); and getting rid of a credit card (N=1).

Participants who considered their current financial circumstances were **the same as before** expressed a similarly wide range of opinions. People gave pragmatic accounts of how 'money is just money, it just comes and goes' (M, 31-40, Newstart Allowee, Vic Metro), of living 'month by month' (M, 41-50, Disability Pensioner, Qld Regional). Some Disability Support Pensioners (N=7) considered little had changed financially for them. A participant with an intellectual disability talked of the unchanging character of his life since 1993 (M, 41-50, Disability Pensioner, Vic Metro) and another of how she was 'grateful' for the stability of having a Public Trustee manage her pension (F, 41-50, Disability Pensioner, Qld Metro).

*Some fortnights I will sometimes have up to minus \$60 [when]...I have to go to a town or to see a doctor. So if I don't have a lot of that on, I stay home. Then I find that I have money, up to maybe \$100 - \$200 at the end of a fortnight which helps when I get paid again so therefore it's that extra bit.
(M, 31-40, Disability Pensioner, NSW Regional)*

One interviewee talked of her ongoing problems dealing with money.

*It just is your relationship with money and if you don't understand it and you don't know what's going on, it'll just fall through your fingers. It doesn't matter what you're doing, what you spend it on...It just becomes too habitual for me to control. I'm really afraid of money. And I think I'm giving it too much power or too much energy or something. I've got friends that are beavers...but when I see money, it has to be spent...like I'm trying to fill some hole.
(F, 31-40, \$21,000-30,000, Vic Metro)*

An equally diverse range of views were expressed by about half of all borrowers who considered their present financial position was **worse than before**, emphasising: higher costs of living (N=13); increased costs due to illness or disability (N=13); leaving a job or receiving less hours of paid work (N=10); rent or other housing expenses (N=8); reduced Centrelink payments (N=9); having greater levels of debt (N=8); excessive drug taking, gambling or drinking by interviewee, their partner or one of their children (N=8); involvement with payday lenders (N=5); a child leaving their care or dying (N=5); no longer partnered (N=4); not managing money very well (N=4); bad credit history (N=2); increased expenses due to childcare costs (N=2); and lack of child support (N=1).

*I've been to about four different [financial advice] agencies in the last four years, and all they tell me is I'm living beyond my means. But I'm not paying any excess. I don't have internet, I don't have a home phone, I don't have pay TV. I don't have any luxuries, and I still don't enough money to cover my power, my gas, my water, school for the kids, just normal every day bills. If I pay everything I'm supposed to pay, I wouldn't even have the money to pay the rent, all the rent and buy food.
(F, 31-40, Single Parent Pensioner, Vic Regional)*

Five participants talked about the increased expenses they experienced due to having unstable or no accommodation.

*When you've got nothing to do, you spend more money. When you don't have anywhere to live, you don't sort of feel comfortable, you've just got to do things to ease the burden...I probably go to TimeZone and play some games, and then go and buy a roll from the bakery, then just have coffees, or on a hot day, soft drinks. It all adds up.
(M, 31-40, Single Parent Pensioner, Vic Regional).*

Many respondents were also very resourceful in managing money and securing some extra cash, goods or services to supplement their incomes. A large majority of income-support borrowers utilised Centrelink's direct payment facility, Centrepay, to manage their gas, water, rent or other regular bills.

Half the interviewees talked about cash-in-kind or cash in hand relationships they had developed. One person set up websites for friends and repaired their computers in exchange for food or an occasional loan to tide them over until next Centrelink payment (M, 21-30, Newstart Allowee, Vic Metro). Another sold his old refrigerator for \$100 after receiving a more efficient fridge through a state government environmental audit of his house that he had initiated (M, 31-40, Newstart Allowee, Vic Metro). A Melbourne smoker, who had organised to trial cigarettes for a market research company, received \$120 each fortnight and free tobacco (F, 21-30, Single Parent Pensioner, Vic Metro). A Brisbane interviewee was paid a few dollars for each survey he completed for an online market research business (M, 31-40, Disability Pensioner, Qld Metro).

Table 12 lists the formal and informal sources of income respondents mentioned during their interviews. Twenty-seven people were in paid work at the time of the interview. The other sources of income mentioned, apart from Centrelink payments, include instances throughout a person's adult life.

Table 12
Types of income sources mentioned by respondents

Centrelink payment	87
Paid work	27
Cash in hand	33
Cash in kind	14
Theft	3
Food or fuel vouchers from community organisations	44
Cash from community organisations	6
Pawning of personal items	37
Number of respondents	112

Interviewees were asked to recall the types of outstanding, recurrent or occasional debts they had incurred (Table 13). Few respondents had taken out a personal bank loan, held a credit card or were managing a mortgage. However, rather than signifying some unalloyed positive finding, the low mainstream debt burdens in the sample only reinforces that most respondents were living in poverty and did not have access to these forms of debt.

Table 13
Types of outstanding, recurrent or occasional debt mentioned by respondents

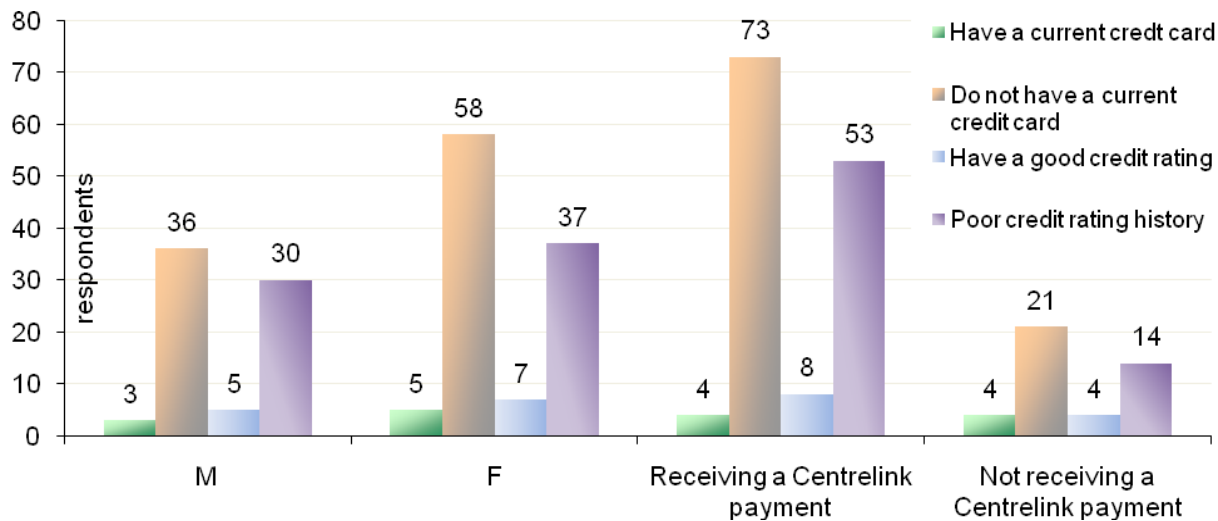
	Outstanding debt	Past debt or unclear	Total
Borrowing from family & friends	14	28	42
NILS type loan	6	3	9
House mortgage	6	11	17
Rental firms (Radio Rentals, Flexirent etc)	12	1	13
Car-related (purchase, maintenance, car fines)	18	6	24
Communication-related: internet, phone, Foxtel, computer (not recurrent expenditures on plans)	23	5	28
Utility-related: gas, water, electricity, council rates (not recurrent bills)	22	3	25
Other: dentist, optometrist, chemist, veterinarian, landlord, courts	18		18
Personal bank loans or overdrawn accounts	12	13	25
Never taken out a bank loan			69
Credit card debt	21	1	22
Has a current credit card			8
Does not have a current credit card			95
Has, or has had, a poor credit rating			68
Currently has a good credit rating			12
Centrelink debt or advance			58
Number of respondents			112

Overwhelmingly, it is the difficult financial circumstances confronting participants that orients them to the payday lending industry, where the 'core demand for payday loans originates from households with a poor credit' (Stegman 2007: 173). Less than two in five respondents had ever taken out a bank loan. The other interviewees gave at least one of three explanations for never taking a bank loan. Firstly, most expected their bank to reject their request. Their low income or poor credit rating were commonly cited reasons. Over 60 per cent of borrowers talked of having a 'bad' credit rating or a 'black mark' recorded against their name by Veda – an Australian credit rating agency controlled by Macquarie Bank. A third of those who were credit-impaired had declared themselves bankrupt. Secondly, bank loans were not 'for people like me' as ten respondents put it, frequently citing that the minimum loan amount (usually thought to be between \$3,000 and \$5,000) was far too high for their purposes or budget. Thirdly, there was a general antipathy and fear of banks and bank debt. The low proportion of the sample (less than two in five) who had an outstanding credit card debt needs to be viewed within a similar context since only seven per cent of respondents currently possessed a card.

There were two connected reasons given why so few interviewees had a credit card. Many said they did not want one, 'I don't believe in credit cards' (F, 31-40, Disability Pensioner, Qld Metro), 'a stupid idea in my opinion' (F, 21-30, Austudy, Vic Metro) or 'once bitten twice shy' (M, 31-40, \$81,000+, Vic Metro). Most were also not eligible to receive a card due to credit impairment or low income. Over a third of the sample had borrowed money from friends or family and one in eight respondents was currently in debt to a friend or family member. Most of the very few people (about one in ten respondents) who had heard about social support lending programs such as the No Interest Loans Scheme (NILS) had, if they thought they met the eligibility criteria, taken out one of these types of loans. Many had done so recently – six out of nine NILS-type borrowers had a current debt. Male and female respondents had proportionately similar incidences of credit card debt, comparable credit ratings and equally low levels

of possession of a current credit card. The ratio of poor to good credit ratings was far higher among Centrelink income support recipients (about seven to one) than respondents not receiving these payments (about three to one) (Figure 5).

Figure 5
Do you know your credit rating? Have you got a credit card?



Number of respondents – 109

4.2 Patterns of borrowing short-term loans

The international payday loan industry typically asserts that they lend to meet a customer’s emergency cash needs (Schafter, Wong & Castleberry 2009: 98). Payday loans are ‘sold as a quick solution to address an unanticipated expense’ (King & Parrish 2007: 7). The Australian industry’s peak body adopts a similar posture, stating that its members’ provision of small, short-term loans are ‘designed to help meet unexpected expenses’.¹¹

Contrary to these claims, this research finds that the seven most commonly cited reasons borrowers gave why they took out their first loan were all to meet regular, weekly-type needs and expenses (Table 14). This finding is similar to the responses given in a recent survey of 661 financially excluded Australians in *Measuring Financial Exclusion in Australia*, which identified ‘the most common need for credit was to be meet every day living expenses such as food, rent and utility bills’ (Connolly et al 2012: 7). Significantly, only four people could not remember the events or circumstances that led them to take out their first payday loan. Of the 47 interviewees who explained how they initially found a payday lender, half had heard about the outlet through word of mouth, and a third had seen an advertisement in a newspaper, on television or online. The others either discovered the business whilst walking in their

¹¹ *What is microlending?*, National Financial Services Federation, <http://www.nfsf.org.au/about-microlending-payday-advances.htm>, accessed 6/7/11.

shopping centre or already knew about their local lenders. The year a respondent first took out a loan was spread evenly over the last decade.

Table 14
Why did you take out your first loan?

	F	M	Total
Food	11	7	18
Had no money – 'couldn't make ends meet'	9	7	16
Bills (unspecified)	12	2	14
Utilities and telecommunications bills	5	4	9
Rent	5	3	8
For gambling or due to gambling	4	4	8
Regular children's expenses	3	4	7
Car registration	3	3	6
To meet Centrelink 'off-week' expenses	2	2	4
Relocation expenses: bond or 4 weeks advance rent	3	1	4
Health expenses	3	1	4
Car maintenance or repair	3	0	3
Car purchase or repayments	2	1	3
Relocation expenses: other	2	1	3
Sewerage pump, air conditioner	3	0	3
Furniture	2	1	3
Clothing or shoes	1	2	3
Starting work – work-related expenses	2	1	3
Shopping – Xmas shopping	2	1	3
School expenses	3	0	3
Unidentified one-off items	2	0	2
To pay back debts owed by another person	2	0	2
To pay back money owed to another person	2	0	2
Funeral expenses	2	0	2
Travel expenses	2	0	2
Drugs	1	1	2
Due to reduction in Centrelink payments or less paid work	1	1	2
Petrol	1	1	2
Cigarettes	0	2	2
Birthday	1	0	1
Extra money to meet deposit on a house purchase	0	1	1
For beer or drinking	0	1	1
Business-related expenses	0	1	1
To get a better credit rating	0	1	1
Don't remember	2	2	4
Number of responses	96	56	152
Number of respondents	61	39	100

Table 15 captures the reasons given by respondents for all the loans they have taken out, categorised as *irregular* and *regular* needs and expenses.

Table 15
Aggregated reasons for taking out a small, short-term loan

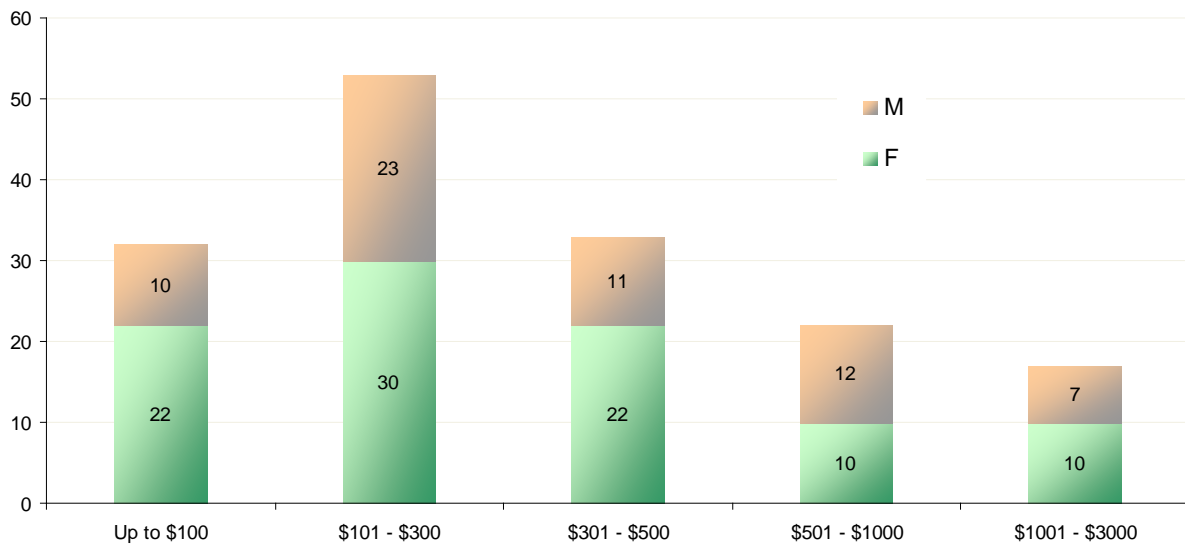
Irregular needs and expenses	F	M	Total
Car repairs, maintenance, registration or fines	12	4	16
Travel expenses	4	6	10
Birthday or Christmas presents	6	3	9
Hot water system. Whitegoods, computer or sewage pump	6	2	8
School expenses	6	0	6
Clothing or shoes	5	1	6
Car purchase	4	1	5
Give money to another person or pay another person's debt	3	2	5
To pay back money owed to another person	4	0	4
Bond or 4 weeks rent due to moving	3	1	4
Funeral expenses	2	2	4
Entertainment (eg holiday or night out or books or CDs)	0	4	4
Furniture	3	1	4
Relocation expenses	2	2	4
Starting work – work-related expenses	2	1	3
Health expenses	2	1	3
'Get a few things done around the house'	1	1	2
Pet expenses	0	2	2
Unidentified one-off items	1	0	1
For wedding	0	1	1
To get a better credit rating	0	1	1
extra money to meet deposit for house purchase	0	1	1
Business-related expenses	0	1	1
Number of responses	66	38	104
Number of respondents	53	35	88
Regular weekly-type needs and expenses	F	M	Total
Food	18	11	29
'Bills'	21	8	29
To pay back another loan	13	8	21
Had no money or less money	12	8	20
Utilities & Telecommunications bills	8	7	15
Medical (drugs or regular hospital expenses)	12	3	15
Things for the kids and childcare costs	11	4	15
Rent	7	7	14
For gambling or due to gambling	5	7	12
Shopping -'personal goods' – 'day-to-day things'	7	2	9
To meet Centrelink off-week gap	4	3	7
For illegal drugs	4	3	7
Cigarettes	2	3	5
Petrol	2	3	5
Due to reduced Centrelink payments or lack of maintenance payments	4	1	5
Public transport fares	2	1	3
For beer or drinking	1	1	2
car repayments	2	0	2
Heating – air con (often disability related)	1	0	1
Unknown	1	0	1
Number of responses	137	80	217
Number of respondents	48	34	82

Non-income-supported interviewees were somewhat more likely to borrow for irregular expenses (60 per cent of reasons given) than interviewees reliant on a Centrelink payment (50 per cent of reasons given).

Interviewees were also asked to recall the sizes of all the small, short-term loans they had taken out. A third of interviewees had borrowed up to \$100 from a lender. The most common loan amounts were between \$100 and \$300 (over half the respondents).

A third had taken out loans between \$300 and \$500. One in five had borrowed from \$500 to \$1,000 and about 15 per cent had taken loans of between one and three thousand dollars (Figure 6).

Figure 6
Size of loan (number of respondents)



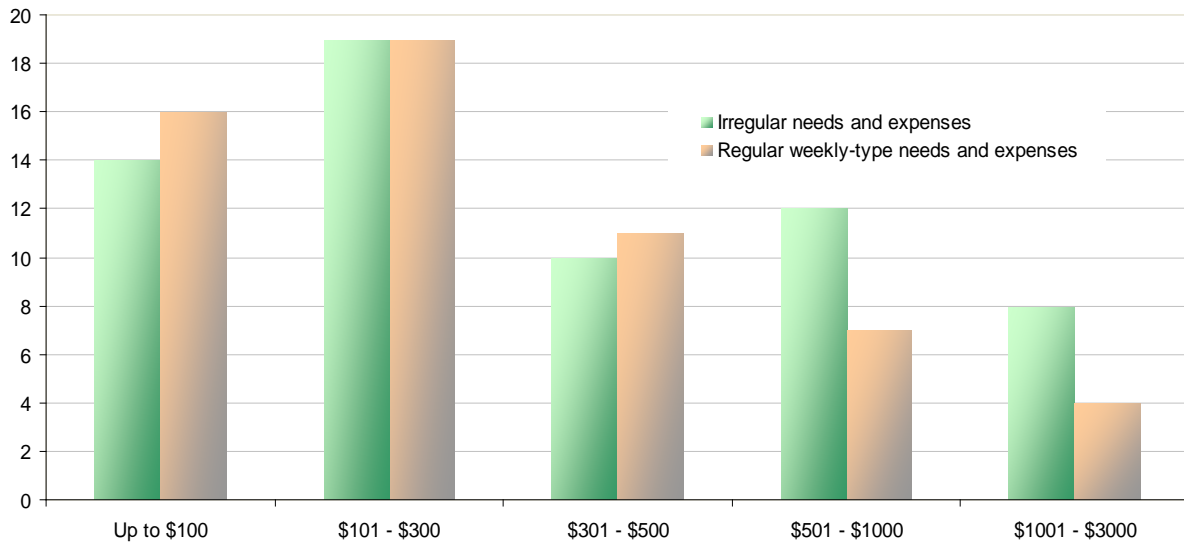
Number of responses– 157

Participants in receipt of a Centrelink payment were more likely to take out loans of \$300 or less (59 per cent of loans cited) than over \$300 (41 per cent of loans cited).

Conversely, non-income-supported interviewees were more likely to mention they had had taken out larger loans of over \$300 (60 per cent of all loans this group cited).

Respondents who took out relatively larger loans of over \$500 were more likely to spend this money on irregular rather than regular needs or expenses. Those borrowing less gave evenly divided reasons for the purpose of their expenditures (Figure 7). Only first-time borrowers were more likely to use their loan for an irregular expense.

Figure 7
Loan amount by reasons for borrowing (number of responses)



Number of responses – 120

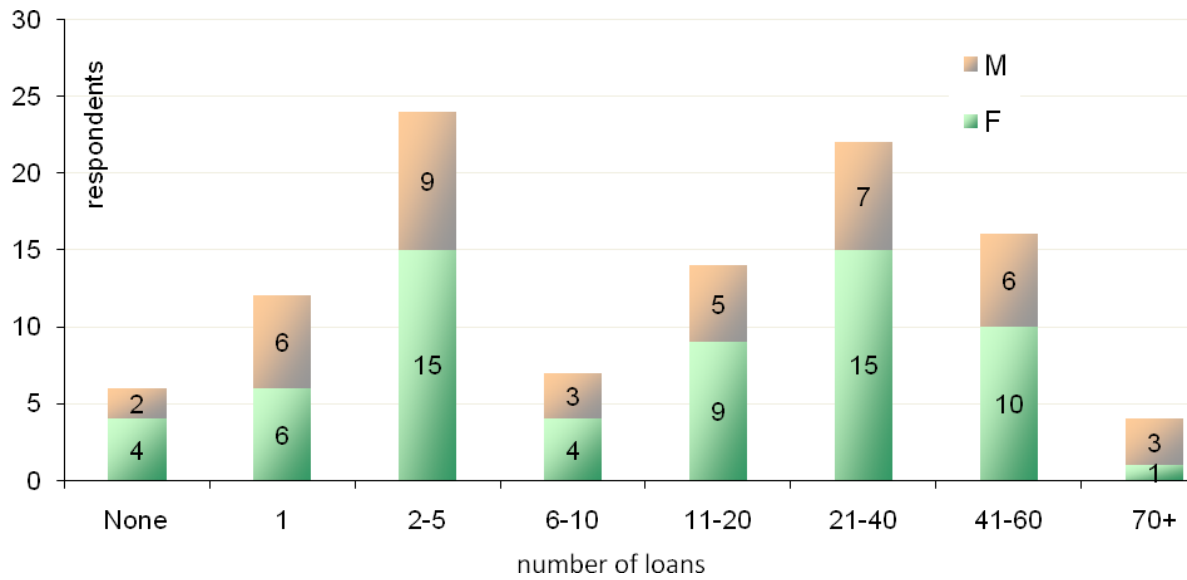
Many international studies point out the negative financial impacts of serial and frequent borrowing (Burton 2010; Ernst, Farris & King 2003; Francis 2010; Griffiths Commission 2005; King & Parrish 2007; Schafter, Wong & Castleberry 2009; Stegman 2007; Wilson, B et al. 2010). Recent experimental research examining whether access to payday loans ‘improves or worsens the likelihood of financial survival’ finds that payday customers in the United States who have borrowed more than 10 loans (over their life course) become subject to an ‘adverse...probability’ that they would not survive a ‘financial setback’ (Wilson, B et al. 2010).

A report for the House of Commons in the UK cites research that found 60 per cent of payday loan recipients regretted their decision to take out a loan and 48 per cent of loan recipients believed it had made their financial situation worse. Another UK report proposes limiting the number of loans a person can take out in any year to five (Burton 2010: 7). Similar proposals have been made in the United States, such as the suggestion by King and Parrish (2007: 13) for Federal policy to restrict the number of loans to four a year.

Using the threshold figure of 5 loans per year, our study analyses the frequency of loan-taking among participants over the last two years. Figure 8 illustrates that more than half the respondents had taken out more than ten loans, most of whom had received over 20 loans.

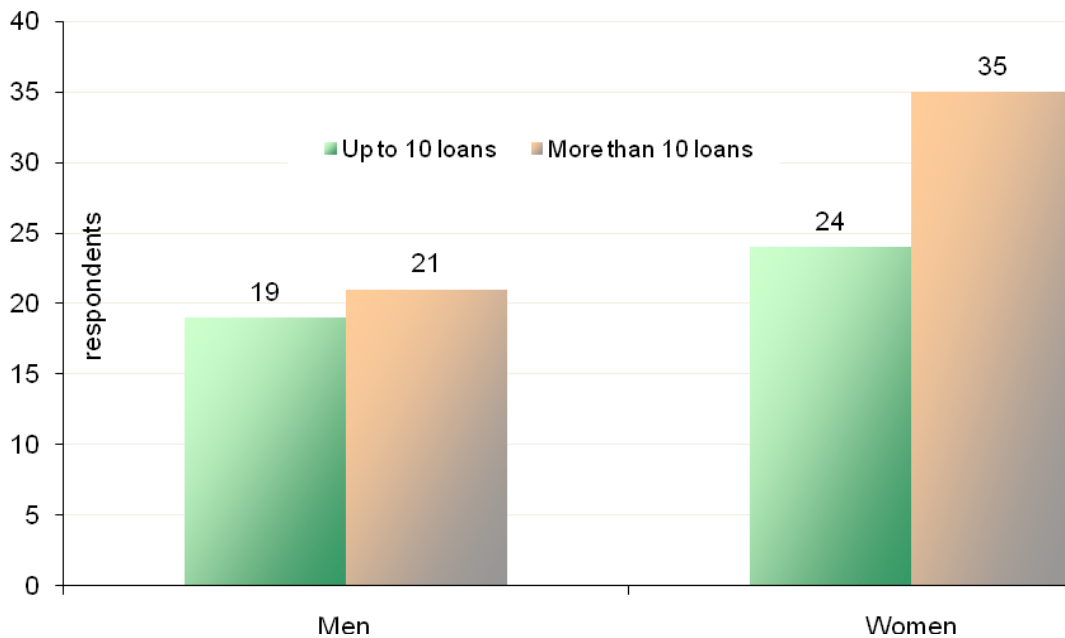
Women had more extensive borrowing rates than men among the 99 respondents who had taken out at least one loan in the last two years (Figure 9).

Figure 8
Number of loans taken out in the last 2 years



Number of respondents – 105

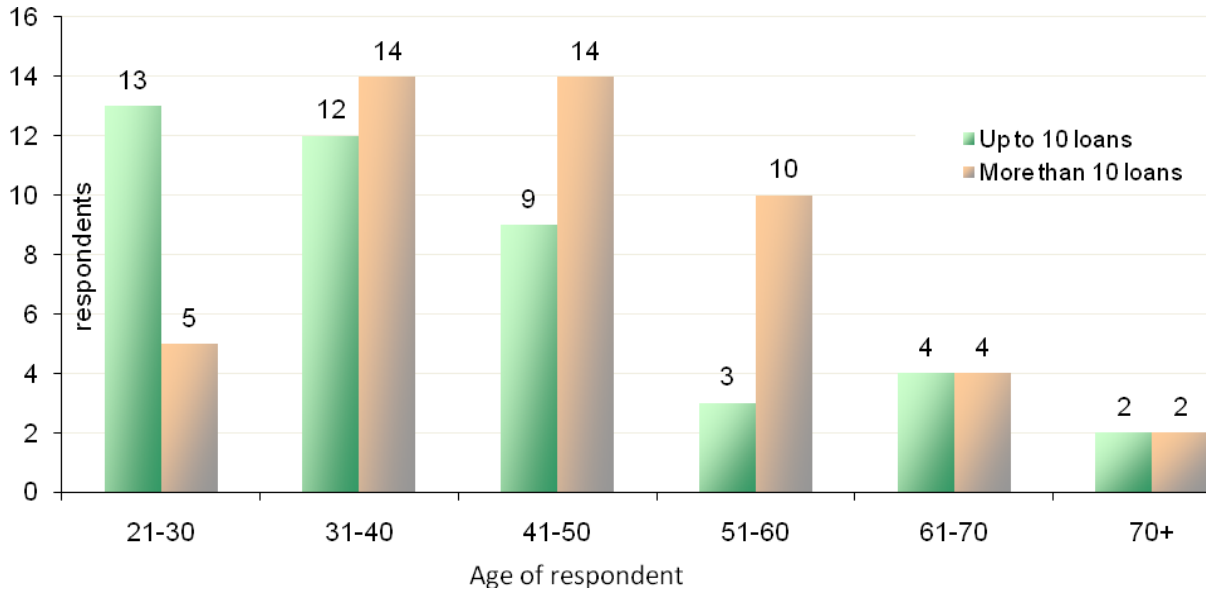
Figure 9
Number of loans taken out in the last 2 years by gender



Number of respondents – 99

Participants with children in their care were slightly less likely to have borrowed more than 10 loans in the last two years than those without dependent children. Middle-aged respondents used loans more frequently than borrowers in their twenties or older participants (Figure 10).

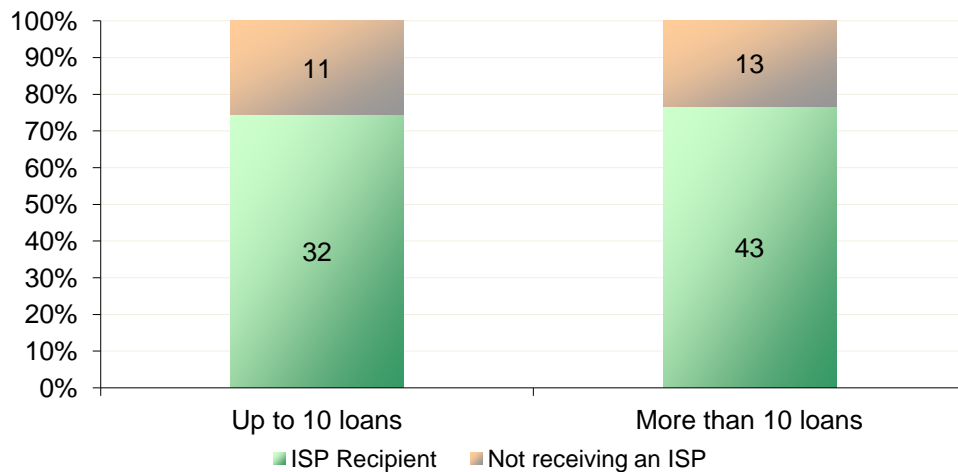
Figure 10
Number of loans taken out in the last 2 years by age cohort



Number of respondents – 92

Overall, there were very similar proportions of borrowing frequency rates found between people receiving and not receiving a Centrelink income support payment (Figure 11).

Figure 11
Number of loans taken out in the last 2 years by whether a participant receives a Centrelink income support payment



Number of respondents – 99

Within the Centrelink group, however, there were sharp differences in borrowing rates. The frequency of heavy borrowing among Disability Support Pensioners was more than twice that of Newstart Allowees (Figure 12). DSP borrowers were also far more likely to have taken out more than 10 loans in the last two years than interviewees not receiving any Centrelink payments. A case study of one Disability Pensioner's reasons for taking out 'dozens and dozens' of loans provides some personal context for the prevalence of heavy borrowing rates among this group of respondents.

Illness and borrowing

Michael has lived in Australia for 30 years after defecting from Hungary in 1979. He came 'from quite a privileged background' and has an economics and two nursing degrees. After three 'very difficult years' in Australia he managed to secure very well-paid work developing computerised accounting systems. Now in his 50s, Michael was given a project leaflet by a Money3 staff member, directing him to a researcher sitting in the outlet reception area for further information. Agreeing to be interviewed, he and the researcher relocated to a local coffee shop. In 1983 Michael was diagnosed with 'a then life-threatening illness', later revealing that he is HIV positive. Not needing to take any medications until 1996, his well-being has subsequently been on 'a roller-coaster ride' due to the side-effects of various prescribed drugs, requiring him to leave his job and exist on the Disability Support Pension. In 1997 one of the medications caused a condition called peripheral neuropathy in his feet and hands: 'For over a year I was unable to write, or sign my name, and I was walking for over three and a half years with a walking stick'.

Michael's partner of 25 years began exhibiting symptoms of HIV dementia in 1991 and died recently. Michael talked of being his partner's day-to-day memory' as part of what gradually became 'a full time occupation' to look after him for the last five years of his life. Caring costs in the mid-1990s were initially covered by the very large payout Michael received from his superannuation insurance plus money from his parents' estate. By 1999, however, all the money was lost investing in real estate on the Turkish Riviera. For a period up to the mid-2000s, as Michael's health stabilised, he took on casual jobs of 'no more' than 25 hours a week, before quitting to care for his partner full-time. Staying within the weekly time limit allowed Michael to retain his pension card and dramatically reduce his medication costs of \$2,000 a month.

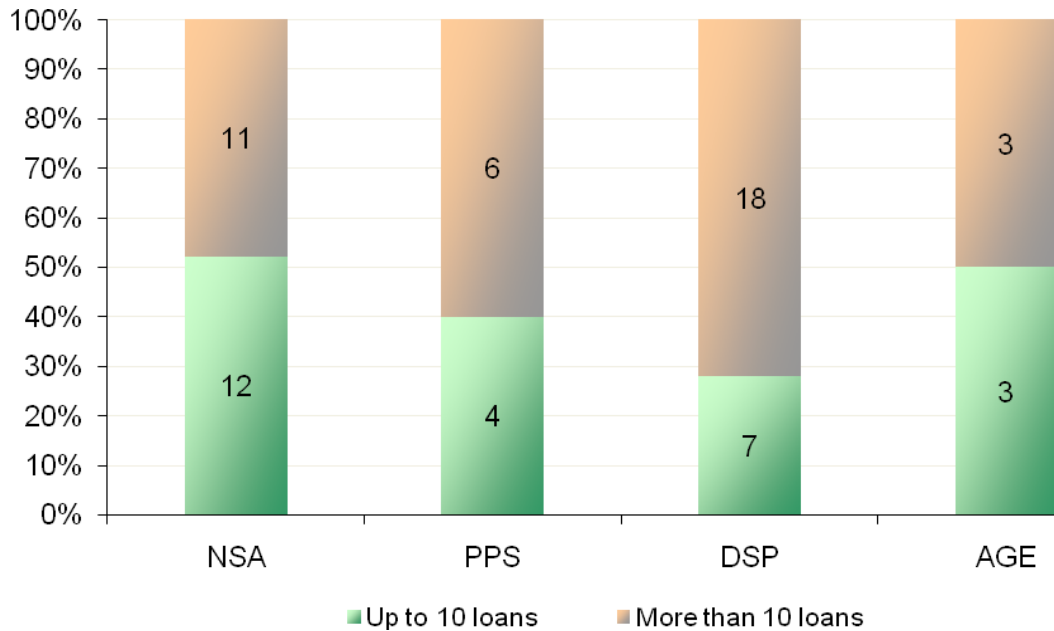
Michael began borrowing from a large lender in 2004 after his partner was diagnosed with liver cancer. At that time pensioners needed to pay \$400 for PET scans because they were not fully covered by Medicare. Over the next few years Michael's partner had six scans. Moreover, even though both were covered by the pharmaceutical benefits scheme, their medication bills 'were running close to \$100 a week'. After the bank rejected Michael's credit card application due to his level of income, he began a cycle of borrowing \$100 from the lending company, repaying \$65 a fortnight. Michael also uses the same cycle with the slightly more expensive large lender, repaying \$67.50 a fortnight for the \$100 he borrows.

He sometimes gets 'a couple of months break' from the 'dozens and dozens' of 'ongoing' and 'overlapping' loans from (large lender 1) and (large lender 2) before 'something else happens and I have to start it up again'. Michael thinks it would be a 'bad thing' if payday lenders did not exist – they 'smooth out the peaks and troughs in the financial situation of the disadvantaged people'. He explained why he was attending (large lender) on the day of the interview:

Same scenario. I've got car registration, my driver's license renewal, my electricity and gas bill, and my telephone bill in the same time. And it has to be paid within a three week period by the end of this month and by the beginning of next month. So I needed the cash for that.

(M, 51-60, Disability Pensioner, Vic Metro)

Figure 12
Proportion of heavy borrowing rates over the last 2 years by selected Centrelink payment categories*



Number of respondents – 74

*NSA: Newstart Allowance; PPS: Parenting Payment Single; DSP: Disability Support Pension; AGE: Age Pension

A study by Ernst, Farris and King (2003) highlights that borrowers who receive five or more payday loans in a year account for 91 per cent of payday lender revenues in the United States. Only one or two per cent of transactions ‘are made to borrowers who take out one loan, pay it off on time, and do not need to borrow again that year’ (King & Parrish 2007: 7).

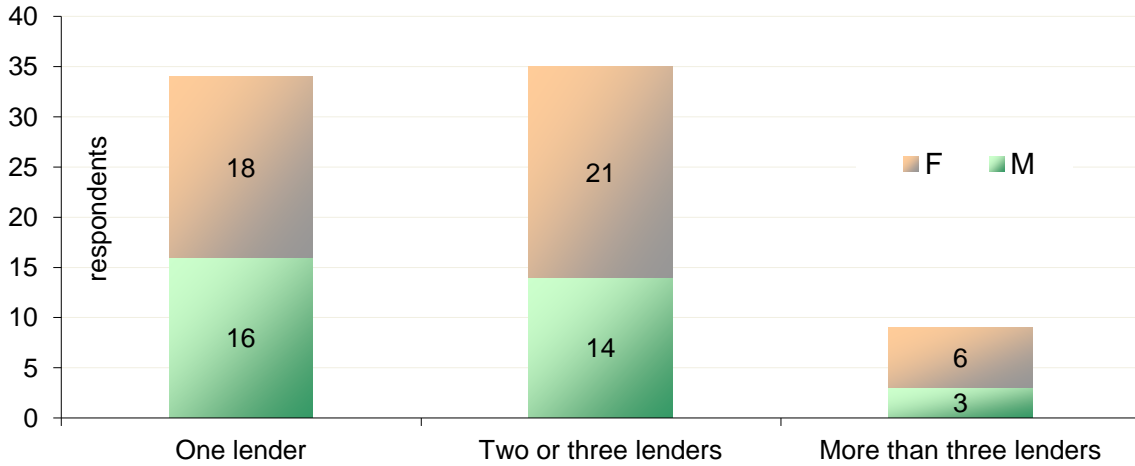
Payday industry encouragement to expand the high-use segment of the market has come from Dan Feehan, the CEO of the payday corporation Cash America:

The theory in the business is you’ve got to get that customer in, work to turn him into a repetitive customer, long-term customer, because that’s really where the profitability is. (cited in King & Parrish 2007: 1)

Reliance upon ‘serial borrowing’, often from multiple lenders (Stegman 2007: 177), creates what Karen Francis (2010: 615) has termed a ‘Sisyphian financial situation’ of chronic rollover and multiple lending practices among many borrowers.

To test how prevalent these habits may be in the Australian context, this research applies four themes to analyse the complexities of a participant’s borrowing practices: one-off, cycling, spiralling or parallel loans. Quantitative aspects of these themes are presented below. Subsequent sections explore the lived impacts of these various practices. Most participants had borrowed from multiple lenders (Figure 13).

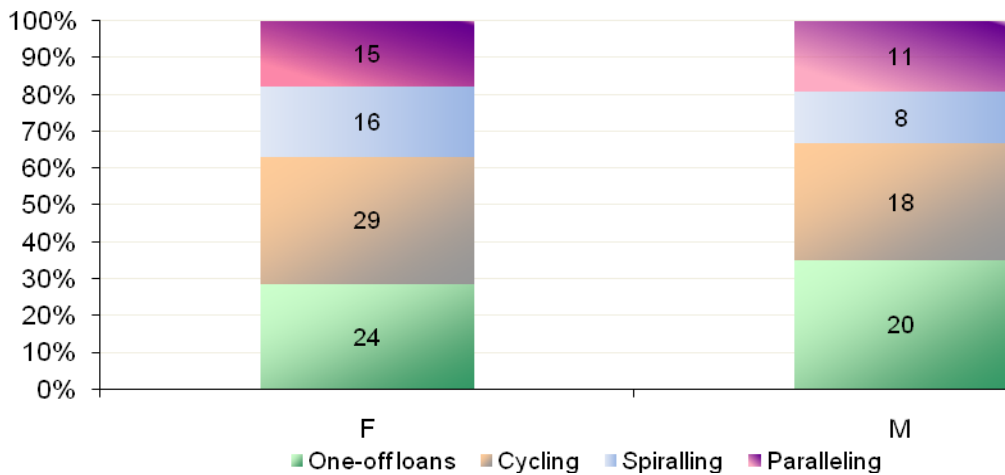
Figure 13
Number of lending companies used by participants



Number of respondents – 78

Forty two per cent of borrowers reported taking out one or more **one-off** loans separated by periods of time (at least a day). Forty four per cent of people discussed a practice of **cycling** – how they had immediately taken out a new loan once the previous loan had been paid out. Twenty three per cent became involved in the **spiralling** process of refinancing the balance of a partially paid-out loan to start a new loan, and a quarter of respondents described how they took out two or more **parallel** loans from the same or different lenders simultaneously. Women in the sample were slightly more likely to cite borrowing practices beyond simply taking out one-off loans (Figure 14). Little difference was found in the borrowing behaviours of Centrelink-recipients and others, or between those with dependent children and respondents without childcare responsibilities.

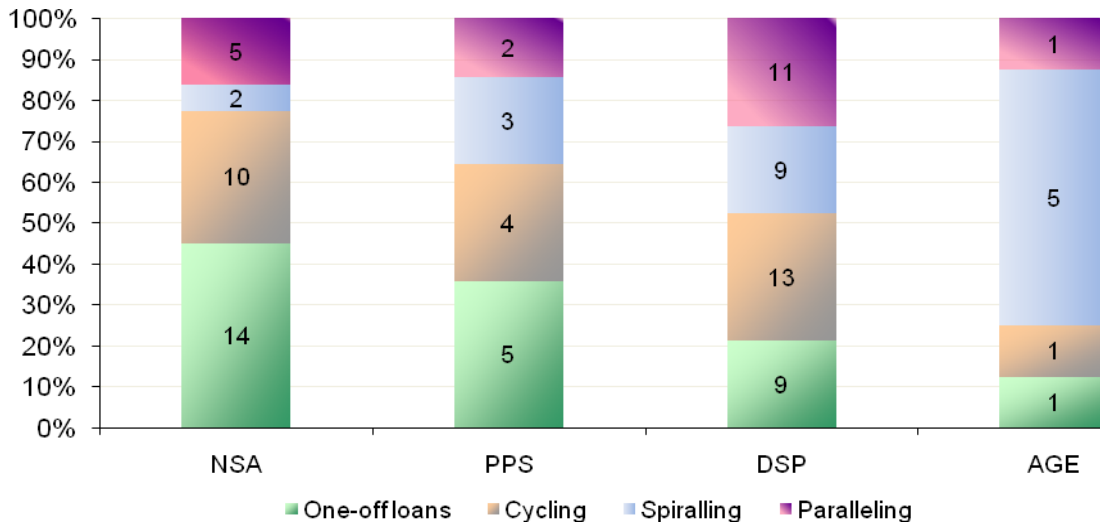
Figure 14
Borrowing practices by gender



Number of responses – 141
 Number of respondents – 104

Some different borrowing practices emerged between borrowers who received particular Centrelink payments (Figure 15). Pensioners – especially individuals receiving a Disability Support or Age Pension – were significantly more likely than Newstart Allowees to adopt cycling, spiralling or multiple borrowing practices.

Figure 15
Borrowing practices in selected Centrelink payment categories



Number of responses – 92
 Number of respondents – 74

Higher living costs often associated with illness or disability is one plausible reason for heavier borrowing rates among some groups of pensioners. There are also the supply-side reasons. All lenders interviewed considered that there were higher risks dealing with Newstart customers than pensioners due to their lower incomes. Many smaller and medium-sized businesses did not lend to Newstart Allowees, though most lent to pensioners.

Companies such as Money3 and Cash Converters lend to people receiving Newstart but apply risk-assessed models of ‘testing out’ (large Melbourne lender) their Newstart customers through a series of small, one-off payments of \$50 or \$100. The more stringent borrowing conditions (which Newstart respondents interviewed often said they financially struggled to meet) also shapes their borrowing practices.

Participants talked of changing patterns of borrowing practices, of different periods when they cycled, spiralled or had multiple loans. A reasonably clear distinction can be drawn between one-off and other loan practices. Only three of the 44 ‘one-off loan’ participants mention four instances of periods when they also cycled, spiralled or paralleled (Table 16). In contrast, ‘cyclers’ ‘spirallers’ and ‘parallelers’ each mention between 17 and 19 overlapping instances of these practices.

Table 16
Patterns of borrowing practices

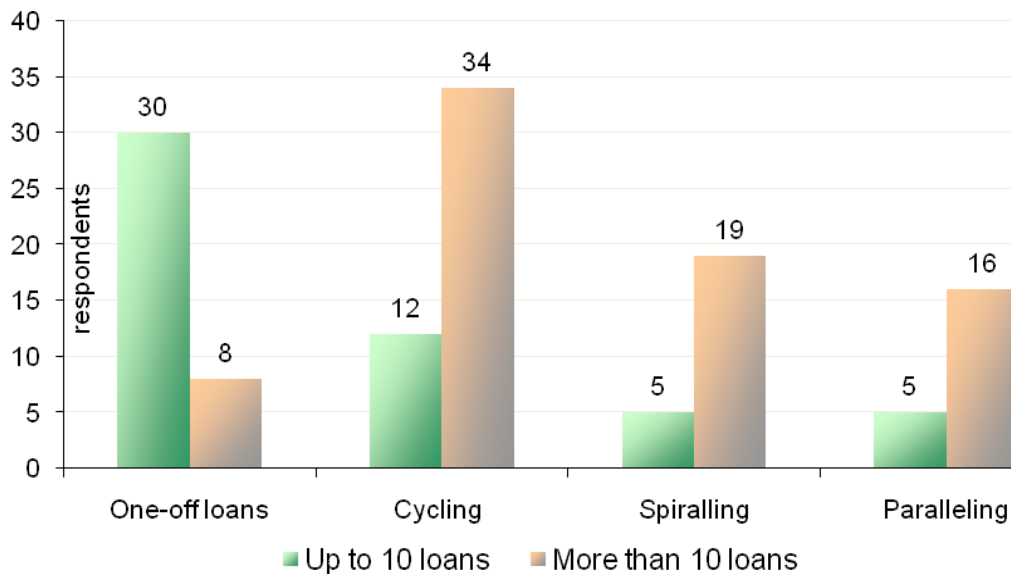
	One-off loans	Cycling	Spiralling	Paralleling
One-off loans	44	2	1	1
Cycling	2	47	8	9
Spiralling	1	8	24	10
Paralleling	1	9	10	26

Number of responses – 141
Number of respondents – 104

Analysing the frequency of loan-taking (Figure 16) further clarifies that there are two quite distinct groups of borrowers in the sample. Most respondents who cited one-off loan practices were not heavy borrowers, taking 10 or fewer loans in the last two years. Only one in five people in the one-off loan category (21 per cent) were involved in high-frequency borrowing.

Extrapolating these figures to the overall sample strongly suggests that a third of participants were neither heavy borrowers of one-off loans nor were involved in cycling, spiralling or paralleling practices.¹² Conversely, two-thirds of participants in the study were continuously indebted to one or more short-term, small-loan companies for considerable periods of time.

Figure 16
Borrowing practices by frequency



Number of responses – 129
Number of respondents – 104

¹² Assuming (from Figure 16) that 79 per cent of the 41 ‘one-off loan’ participants not involved in other borrowing practices were also not heavy borrowers. That is, about a third of respondents (32 of the sub-sample of 104 individuals who discussed their borrowing practices) did not meet Wilson’s (2010) ‘adverse’ financial threshold in their borrowing frequency nor had other problematic borrowing practices.

4.3 Borrower attitudes to lenders and loans

Respondents were asked to recall and evaluate their experiences of short-term lending processes and loan products. Mixed, contradictory and frequently animated views were held by individuals about their relationships with lending organisations and workers, loan repayments and product information. Clearly negative or positive comments tended to be about specific, concrete aspects of their experiences such as problems with bank or lender dishonour fees or understanding the terms and conditions of a loan.

However, when borrowers evaluated their relationships with short-term lenders and their personal experiences of loans, their comments cannot be readily captured through a binary of positive and negative views. For example, the ability to regularly meet a repayment schedule was considered by many borrowers to be a positive attribute as well as a problem of continually reinforcing their circumstances of being 'caught short'. This section highlights two themes – experiences of the lending process and the loan product.

4.3.1 How are the lending processes experienced and evaluated?

Most respondents held ambiguous views about whether there were some positive aspects of their relationship with their local lender.

A woman in her 50s who was receiving Newstart Allowance talked of her relationship with a staff member of a large Melbourne lender as one of support:

She actually ended up giving me a lot of support where I sit there and talk to her, and when I start getting anxious and everything, and with everyone, you have to produce your bank statements. So they know where your money is going to. And I make no secret that I do actually go out at the pokies, and (name of staff member) says to me, if I want to end up taking out more money or anything, she'll say to me, no, be careful, don't start going back to where you were. You're doing so well with yourself now; don't go back to where you were. Where I was getting roughly the same support from the girl at Preston, at (different large lender), but with her giving me the support, she was also giving me the extra money, where it was actually a vicious circle that I kept on going into. As for with (staff member of first large lender), she was saying, no, you're doing so well, don't go getting yourself to go backwards now.

Another respondent, who regularly borrowed \$50, repaying \$65 over a two-fortnight period, talked positively about his local lender:

They do the best they can for people in Geelong. I can't really think of too many places where I'd be sitting there, "I need money," you know and jump and, yeah, go see (large lender). Other finance companies make me feel uncomfortable, because I've been through (large lender) for so long...I've been into a few of them and some of the people in there are just rude or interest rates, instead of paying \$65 I'm paying \$85, just things like that. (M, 21-30, Newstart Allowee, Vic Regional)

An interviewee raised how the commercial nature of the payday transaction increased her sense of independence:

I don't think there's anything really inherently wrong with offering to lend people money and then making money off it. If people don't have any other choice. Sometimes it's good just to have a place you can go sort of semi-anonymously, to some extent. You don't actually know the people and borrow some money for a kind of short term thing.
(F, 21-30, \$0-10,000, Vic Metro)

Remarkably, half of the 24 overseas-born interviewees had Cook Islander (N=6), Samoan (N=3), Fijian (N=1) or Māori (N=2) backgrounds. All initially met with researchers inside or directly outside one of three lenders' shopfronts (two small and one large lender), except for one respondent who contacted the project team after seeing a leaflet in a Neighbourhood House. Nine interviews were conducted in three Melbourne suburbs where Islander populations are particularly concentrated – Dandenong, Clayton and Glenroy. Compared to the overall sample, this group of borrowers was far more likely to be in paid work. Apart from one Disability Support Pensioner, all were working in low-paid and usually casual jobs. Only half received a Centrelink top-up payment.

Cultural aspects of borrowing – a case example

Māori and Pacific Islander borrowers talked of culturally specific financial expectations within their families and communities associated with marriage and death which often led them to taking out loans. They also held fairly common attitudes about payday lenders and the industry more broadly. Many thought of their lender: 'like a friend, or like brothers, sisters, like that because they're Cook Island, and I'm Cook Island' (M, 41-50, \$21,000-30,000, Vic Metro); 'they are warm, it's like a family thing' (F, 41-50, \$21,000-30,000, Vic Metro).

One person took out her first loan of \$1500 to help cover the costs of a death in the family as a 'Pacific Islander thing...expected [turning her fingers into inverted commas] of you in our culture' (F, 21-30, \$20,000-30,000, Vic Metro). There were similar community expectations to financially contribute to weddings and big birthdays, 'and that if you don't give it, it's a bad name to the family'. While accepting her community obligations, she questioned whether a businessman driving a Mercedes and those 'struggling' should be expected to give the same amount. Her partner also gave 'what he can' but set limits, saying to her "If its not good enough then too bad". She 'wished' she had the same approach but explained that 'his upbringing was a little bit different to how I was brought up'. A part-owner of two small payday outlets in the south eastern suburbs of Melbourne agreed:

I've come from a single mum background... so I've just lived from week to week. But when there was a family death...my brother who owns his own workshop and his wife worked in a pharmacy...they came from a good income. They had a house and they had their own car, where I was in a commission home raising two kids. But when there was a family death, \$500 was the required amount, we all had to put in for every death. So even though I may not have known some of the family members, I still had to put that same amount of money.

Islander-managed payday businesses have become an economic and cultural aspect of daily life. One interviewee described a lender as 'he was the monetary' figure in the community (M, 31-40, Newstart Allowee, Vic Metro). Most borrowers had recommended the outlets to friends and other family members. An interviewee talked of how people across Melbourne 'make it a mission' to travel to the Clayton outlet she used (F, 21-30, \$20,000-30,000, Vic Metro). Lenders sponsor sporting and cultural events in the local community, rotate their Sunday attendance across a range of churches, and regularly go to their customer's funerals and weddings.

Overall, however, many borrowers considered the positive aspects of the relationship they had with their lender to be part of the larger financial problems they faced:

They would bend over backwards to help you. And then when you showed that you could pay it back they would offer you more (laughs). It was like a vicious circle.
(F, 31-40, Newstart Allowee, Qld Metro)

I don't reckon they're very good for anybody to be quite honest. But then I think of people who are in real jams and what else are they going to do?
(M, 51-60, \$0-10,000, Vic Metro)

It doesn't leave you much choice if you're desperate.
(F, 31-40, Single Parent Pensioner, Vic Metro)

'Marianne', who struggles with gambling and drug addictions, talked about the linked financial relationships she has with her drug dealer and a large lender:

I haven't changed the pattern. Like, there's a few guys that I do dishes for and have done for 10 years for some amphetamines, right? But it's not very much, so it's usually not enough, so I'll book up some credit when I start like that. And then I pay them back. And I don't really want to pay them back, but I guess you have to. They know the rut I'm in and they're keeping it going.

Interviewer: So are you more concerned about paying them back or actually seeing them?

The whole lot.

Interviewer: And there's no other way of paying them back except to see them?

Don't see them and don't pay them back, but just like (large lender), go there in a month's time and they'll give you credit all over again, and they'll be a bit more generous. You'll say you're grateful, "Oh thanks, this is a really good thing."

Interviewer: Right. So what's the difference between the amphetamine providers and (large lender)?

Nothing, really. They let you default on things, they know you're in trouble but they don't let that stop them from giving you more credit.

Interviewer: Are they both as friendly as each other?

(Large lender) is much friendlier, it's like you're a valued customer. "Hi Marianne, how are you?" "Just the usual." "Okay. Sign. See you."

(F, 41-50, Disability Pensioner, Vic Metro)

Thirteen people said they felt judged by the lender when they applied for a loan and twenty people commented about how they felt ashamed when going into a short-term lending outlet. However, a more common view was that lending staff were non-judgemental. These remarks were often a highly ambivalent mixture of positive and negative views about lenders. 'Candy', a part-time prison officer, talked of how her local small lender treats her 'like a person':

I know 'Joanna' in there...and when I walk through that door, she actually looks at me in the eye – you know, eye contact, body language, eye contact – she says, "Hi Candy, how are you going, how is your day?" And I go, oh, it's up the #@!!%, same old, same old, and I'm here again. And I laugh, because I got a warped sense of humour. I laugh to cover embarrassment sometimes. And I said to her, "I feel so embarrassed," and she said, "Candy, please don't feel embarrassed, the rates are ridiculous but I've got to do my job." And I said, "I don't blame you, mate. You work for the place, like I work for the prison." But I don't like throwing somebody down onto the ground and twisting their arm up behind their back, and putting handcuffs on. I don't like doing that. But it's part of my job, if somebody is non-compliant.
(F, 41-50, \$41,000-50,000, Qld Regional)

Nearly all borrowers who expressed an opinion thought the lending process was fast (N=23), easy (N=45) and flexible (N=28). However, these respondents' comments about the speed, ease or flexibility of the loan process were also often put in resigned terms – that the process was *too* easy, flexible or fast:

Yeah, I need dope, #@!!% I've got no money, I'll go visit (small lender), they give me \$200...no worries, bang, bang, bang, bang.
(M, 31-40, \$81,000+, Vic Metro)

A minority of respondents expressed unambiguously negative comments about payday lenders: 'it's a shocking industry doing a huge amount of damage to the community' (F, 31-40, Disability Pensioner, Vic Regional); 'their interest rate is #@!!% and I think they should be shut down' (M, 31-40, \$81,000+, Vic Metro); and 'they're blood-sucking vultures' (F, 61-70, Age Pension, Vic Metro). One respondent commented:

Frankly I don't think they're a means to an end. No, I think it's a sick sort of bloody idea that someone's come up with that works for them and I don't think it works for everyone else. I think they should be illegalised. I would rather lose my property than go to bloody (large lender), every month, 12 months of the year. I'd rather lose my TV, buy a new one in six months, frankly.
(F, 31-40, Disability Pensioner, Vic Metro)

Borrowers' attempts at 'self-exclusion' – a novel tactic

Nine people, most mentioning they had gambling problems, used the anti-gaming terminology of self exclusion in attempts to restrict their borrowing from payday agencies. This novel tactic was met with mixed results. Phil, a 33 year-old on Newstart Allowance who had been coach surfing for over a year around the south-east suburbs of Melbourne failed in his self-exclusion endeavours. He approached [large lender] in Dandenong and [different large lender] in Springvale but both said 'we've got no exclusion thing even though you could do it at the gambling places' Maria, a 52 year-old single woman receiving Newstart with restricted activity test requirement due to her depression, talked about how she had successfully 'self-excluded myself' in Melbourne. In many senses Maria had achieved a useful outcome for herself. After a history of 'borrowing thousands of loans' she told [large lender] 'I don't want any more loans from you'. She arranged for them to put 'a note on your system that I am not to end up borrowing any more money' unless 'I have to end up re-applying'. Rather than simply taking a couple of minutes to get a top-up loan, she would have to go through what was, in her view, a formidable administrative barrier that she had organised to be erected. Maria had also set up a similar arrangement with [different large lender], where she now has a limit of \$100 – 'if I want any more, I have to go through the hassle of actually re-applying and going through their system'.

To further explore why most respondents held contradictory views about their relationships with lenders, many participants (N=46) were asked if short-term, small-loan companies should exist. Few (less than 16 per cent) clearly thought the industry should be shut down. The overwhelming response was not a clear 'yes' but a more qualified set of reasons for the continuing role of the industry.

Some interviewees held a reasonably straightforward view supporting the sector, considering lenders to be *'quite good if you really need money quickly, then it's pretty easy to get it through them'* (F, 21-30, Single Parent Pensioner, Vic Metro).

However, most people had equivocal and conflicting opinions when asked if payday lenders should exist: *'not having them there does make things difficult for people, but then again, having them there makes things difficult (laughs). So I don't know'* (F, 31-40, \$0-10,000, Vic Metro).

A Melbourne student commented:

In a perfect world it would be great if they didn't exist because then people would have enough money – there wouldn't be that desperation. I mean as long as there's that desperation and people aren't earning enough to support themselves, there's always going to be those people that are going to prey on that need. So, it's like a necessary evil...I think that they're filling a gap that the welfare state isn't providing.
(F, 21-30, Austudy, Vic Metro)

The data provides some indicative support (though based on small numbers) for the contention that borrowers who are caught up in highly restrictive circumstances are more likely to *support* the continued existence of the payday lending industry than individuals who have slightly greater financial resources or options. About ten per cent of people who described their current financial situation as worse than before (N=19) thought lenders should be abolished, compared to about a quarter of borrowers whose financial circumstances were either better or the same as before (N=31). Similarly, only seven per cent of ‘cyclers’ said the sector should not exist (N=15) compared to about 20 per cent of people who took out ‘one-off’ loans (N=16).

Nearly 90 per cent of heavy borrowers (more than 10 loans in the last two years) thought the sector should continue to exist though only half the ‘lighter’ borrowers held this opinion. Support for the continuation of the sector was far higher among participants who borrowed up to \$300 (where 81 per cent of borrowers were receiving a Centrelink payment) compared to those who took out larger loans (where the proportion of borrowers receiving a Centrelink payment dropped to 66 per cent). Among those who borrowed up to \$300 (N=40), 93 per cent of people supported the continuation of the sector or held ambiguous views, compared to only 62 per cent of those who borrowed more than this amount (N=29).

Five groups of borrower comments (made by 47 respondents) were aggregated into a theme termed ‘specific mention of negative relationship with payday lenders’:

- borrower tried to exclude from the process;
- borrower felt judged by lenders;
- terms and conditions of the loan not explained properly;
- borrower felt ashamed about using a payday lender;
- borrower relationship with lender mainly negative.

The research finds further support for the contention that people who have relatively greater financial resources are more likely to be openly critical of payday lenders than poorer respondents. Over half of non-income-supported interviewees (56 per cent) made at least one negative comment about their relationship with payday lenders under this construct – far higher than the 38 per cent of borrowers receiving a Centrelink payment.

4.3.2 How was the lending product experienced and evaluated?

The contradictory relationship most borrowers had with their lenders was less pronounced when respondents talked of their experiences with the loan as a product. Overall, many of the respondents who mentioned positive aspects of their relationships with a lender also experienced levels of hassle about the loan product – dishonour fees, unsolicited calls from lenders and other repayment problems. While still riddled with ambiguities, their comments were more clearly captured by the research as either positive or negative.

Of the 48 respondents who specifically commented on the terms and conditions of their loan less than half (N=22) had not adequately understood them:

*At (large lender) I got a \$600 loan. But they didn't tell me it was going to be \$67 a week taken out of my pension. They actually stated, "We can do it fortnightly", and I did actually pick fortnightly. But no, they went weekly and I had another dishonour fee.
(M, 41-50, Disability Pensioner, Vic Metro)*

About a quarter of respondents specifically talked about how the loans they had taken out had made their lives worse. Twelve people used phrases such as 'vicious cycle' or 'vicious circle' to express how they felt about their borrowing practices. Others talked of 'how I hate feeling so trapped' (F, 51-60, Disability Pensioner, NSW Regional), 'I'm sort of stuck' (M, 51-60, Newstart Allowee, NSW Regional) or of being 'caught in the spiral of having to reloan constantly' (F, 31-40, Single Parent Pensioner, Vic Regional).

Many people (N=41) talked of the repayment problems they had. This was often due to direct credit transfer issues between the bank, the lender and Centrelink which resulted in dishonour fees from the bank or extra charges from the lender. A homeless Melbourne man in his 30s receiving Newstart Allowance talked about how the high cost of repaying multiple loans was exacerbated by unexpected bank charges and lender fees.

When I had the three loans going, if the bank had taken out (a dishonour fee) it would ruin basically one of them every time, and they (the bank) would always make it ruin the biggest one, and then you get in trouble with them (the lender). The next thing you know you're in an argument with them and you can't pay them, then those fees jump up, and jump up, and jump up because you can't pay them for the next few weeks until you get on top of the other stuff. A lot of times man this happened, a lot of times.

A single woman in her 50s receiving Newstart Allowance woman talked of her experiences with loans: 'Well it's every month, it's every month. As soon as it's paid out I go back and get it again. It's like an addiction. That you have to go there. It's like picking up your pay every week. It just comes so familiar'. A single parent pensioner with two dependent children talked about the problems of juggling two loans.

At (first large lender) they don't take the money out the night before you get paid, they take it the day you get paid. So if you go to the bank, you take money out to go shopping or whatever and you've forgotten that you have a loan repayment and then you get the whole dishonour fee through your bank. (Second large lender) actually take the money out before you can touch it whereas (first large lender) doesn't do that. I had a dishonour fee last week because I borrowed \$50 from (second large lender). I was short on money and I borrowed \$50 off them because I was paying (first large lender) a personal loan as well. That was for four weeks there was a payment coming out of \$34 and I went to (second large lender) because I didn't want to ask Mum for money because she's sick at the moment...I did call them and I said that I've realised I haven't left the repayment in the bank and because my car's not on the road at the moment, I had no way to run down the street and put it back in the bank or run in there and pay them.Now, I know, you've got to remember that paying it back it comes out of your pay usually before you can, know you can stuff up. It's just #@!!% I reckon how the money doesn't come out before you can actually go and withdraw your money.

(F, 31-40, Single Parent Pensioner, Vic Metro)

Dishonour fees and payday loans – a case example

Ron is in his 40s and has been a Disability Pensioner since breaking his back in an accident in 2000 and sustaining 39 other fractures from the waist down. Ron left school at 15 and became a trade-qualified chef. Though he did not have his Year 10 Leaving Certificate, Ron was able to use his trade papers to get into the NSW Fire Brigade, where he worked full-time for 25 years. Continuing to work as a part-time chef, 'I felt like a millionaire' for many years. By his early 20s 'I owned my own house, boat and car' and by his 30s had paid off a house he had bought for his parents. The break-up of three-year marriage in the 1990s left Ron with 'nothing' except a bad credit record after his ex-wife defaulted on some loan repayments of her house which was still in their joint names. Though quickly recovering by working 'up to seven days a week...things sort of spiralled financially downhill' after his accident. Ron's new partner of four years died suddenly in 2010 and he first borrowed from a payday lender at this time – a \$1000 from a large lender in Geelong – to help pay for her funeral costs. He currently cares for her 15-year old son who suffers from ADHD and has a mild intellectual disability.

Ron has borrowed 'a couple of times' since then with 'no problems' until recently. Dealing with a big ulcer on his leg caused him to miss an appointment with Centrelink and having his pension cut-off. However, Ron only found out when he went to the bank on a Wednesday and there was no payment. He went to Centrelink the next day but was advised that they could not restart his payments until he attended the medical. Ron rang the large lender 'first thing Thursday morning' and was told 'no worries' – they would not try to take out his loan repayment until he was sorted. On Friday, however, his account was overdrawn because the payday company had unsuccessfully attempted to recover a loan repayment. He was out of pocket \$60 since the [name] Bank had charged a \$40 dishonour fee and the lender had added a \$20 'administrative' fee to his loan.

When Ron went to see the lender to say they had promised not to take out the money they said 'bad luck, you should have given us more notice'. He explained that it was 'pretty hard to give you notice when my pay doesn't go into my bank 'til after 6.30 pm, and it's not there and I don't find out until the next morning. I can't give you notice'. Once Ron had spoken to [name] Bank who said it was not their problem, he became involved in a round of 'buck passing'. They suggested Ron contact the parent company of lender which finances their outlet. In turn, the parent company said 'it's not our fault' since they contracted out their bank transaction operations to 'some other company in Melbourne'. The parent company would not give out the contractor's phone number to Ron, so he went into the local lender's Geelong shopfront and had the manager ring the contractor. Ron became 'quite annoyed' to be told 'it's not their fault, it's not our fault, it's not the bank's fault, it's your fault. Bad luck.'

At the time of the interview with a project researcher (October 2010), Ron was still paying off the \$1,000 loan he took out the previous January, calculating that it would cost him about \$1800 to pay back. In January he had stopped taking strong painkillers, 'so I meditate and look beyond the pain now. Same as with my financial worries. I look beyond tomorrow. There's got to be a light at the end of the tunnel.'

A Geelong organic bread transport worker in his 50s had similar attitudes about short-term loans:

What happens is you pay it off over that four weeks but you incur, you end up – because you’re short that x amount of money. You always think it’s going to be all right, but you only need that one hiccup, your dog goes to the vet or that 150 bucks you weren’t expecting to have to outlay somewhere. And it puts you somewhere, you have to short change and then you have paid off that (large lender) thing, but you going to have to take out another one because the little incidental bills that got put to the side, have all caught up with you at the end of the four weeks. And you’ve got to pay them out again. It’s a bit – you’ve probably heard this a million times – but it’s the sort of the circuit you seem to get yourself into. They bail you out and it’s a great feeling – oh I’m bailed out, but then gradually as the week’s tick over you’re thinking “#@!%”

4.4 Borrowers’ ideas and hopes for the future

Respondents were asked about their views of the future. About two thirds of those who responded (N=74) thought their lives would improve and a third said they expected their financial circumstances to stay the same. A few individuals (about seven per cent) thought their lives would get worse. Borrowers had many ideas of what would create change in their lives. Gaining employment was overwhelmingly the most commonly cited view (55 per cent of respondents), followed by suggestions to increase government support for them to pursue education or on-the-job training (19 per cent), and personal goals of consolidating their debts (12 per cent) (Table 17).

Table 17
What would create change in your life?

	F	M	Total
Employment or business or barter system	24	17	41
Education	13	1	14
Consolidating debts – becoming bankrupt – paying off loan	6	3	9
Changing behaviours (eg have stopped smoking, drugs, gambling)	3	4	7
Budgeting a little bit better	4	3	7
Winning lotto – get rich quick schemes – getting a small lump of money	3	3	6
Having a car or gaining regaining drivers licence	4	1	5
Generic view that things will get better	4	1	5
Gaining secure or cheaper housing	4	0	4
Moving overseas or interstate	1	3	4
Seeing a financial counsellor	1	2	3
Getting one more loan or getting a NILS loan	1	1	2
Inheriting wealth or property or receiving a large payout	0	2	2
Leaving a relationship	0	1	1
Health improving	0	1	1
Getting a Visa	0	1	1
Regaining care of children	0	1	1
Total responses	68	45	113
Total respondents	44	30	74

One hundred and one respondents provided often strongly-held opinions about what needs to happen to help people on low incomes (Table 18).

Table 18
What do you think needs to happen to help people on low incomes?

	F	M	Total
Increases to income support. More generous means test. More one-off payments. Make Centrelink payments weekly.	32	15	47
Lower interest or no interest loans Make Centrelink loans more flexible	14	7	21
Better public education or financial literacy programs. Increase support for people wanting education and training or a job	17	10	27
More jobs or better jobs or more steady jobs	7	6	13
Affordable housing	3	7	10
Enough is being done or no more can be done	7	3	10
'Helping people make them feel as if their worth something'	7	1	8
Increase minimum wage or reduce tax on low income earners	3	4	7
Utilities or other costs need to be lower	4	3	7
Improve health care	2	0	2
Government needs to be stricter	2	0	2
Removal of bank charges and dishonour fees	0	1	1
Better public infrastructure (eg public transport)	0	1	1
Get rid of pokie venues	1	0	1
Don't know	3	3	6
Total responses	102	61	163
Total respondents	60	41	101

Over half the women interviewed and more than a third of the men called for increases to their Centrelink income support payments, child care or rental assistance, more of the one-off payments they received due to the Global Financial Crisis, and for their payments to be delivered weekly rather than fortnightly.

\$50 extra on the dole these days wouldn't go astray. I'm talking fortnightly, that's \$25 a week. It's not a whole lot but man, that would help heaps of people. Extra food man.
(M, 31-40, Newstart Allowee, Vic Metro)

I know this does, comes back on government really, and that is more public housing...If they can't provide more public housing, increase the rent assistance, you know, or put a cap on rents.
(M, 51-60, Disability Pensioner, Qld Metro)

*I get about \$120 dollars rent assistance...but it's really tough. In Portarlington there's nothing under \$250 dollars a week. I know some people are living in houses with way less bedrooms than they need, because they just can't afford to pay the extra rent for the larger bed-roomed homes.
(F, 31-40, Disability Pensioner, Vic Regional)*

One in five suggested that lower-interest loans be more readily available and Centrelink Advances become more accessible.

Many of these interviewees clearly indicated that having access to more frequent and flexible Centrelink payments and services would benefit them enormously.

Receiving a fortnightly Centrelink payment puts undue financial pressure on many borrowers, particularly in their 'off-week'. To ease the stress of organising their budgets, respondents clearly support the option of receiving their payments weekly and increasing the scope and flexibility of Centrelink deductions to allow calendar-monthly payments.

Access to smaller Centrelink Advance payments, repayable over shorter periods of time, was considered a cost-effective, flexible and realistic alternative to market-based sources of finance.

Many proposed that smaller amounts (down to \$50) be available through Centrelink Advance Payments, with short repayment schedules of two to six fortnights.

*The one thing with Centrelink loans is there's no interest. It's your money that you're getting paid earlier, you know...if I could go in and get \$200 every three months, like I do with [large lender], that would be great because it would stop me a lot of the time from going there. And then I would be saving money. Even though the interest payments are very small at [large lender], I would rather not have to pay them...I would save myself \$300.
(F, 21-30, Single Parent Pensioner, Vic Metro)*

*The wonderful thing about the Centrelink loan is that you can't default on it. You pay it off over a half a year and then you're still not allowed to get another one until the next year rolls around. I don't see the government actually providing any way of us not using these [payday] services.
(M, 31-40, Disability Pensioner, Qld Metro)*

Struggling for social and economic inclusion

Gladys, a Brisbane disability pensioner in her 60s, talked of the wide range of social, material, legal and financial resources she used 'keeping my life and finances organised'. Her personal accounts were informed by a discreet determination to 'lend a voice to other seniors...letting them know that they don't have to sit home and worry – that they can survive'. Growing up in a children's home and then living with foster parents in a country pub, Gladys 'took the chance to run away on my own to nursing school' after her foster father was murdered by a hotel patron. Once she gained her qualifications as a registered nurse, Gladys left Australia for 20 years, specialising in the care of dementia patients in England and the United States. Gladys gradually revealed she had 'not been blessed with fabulous health.' Severe back and leg injuries due to the constant work of lifting and showering patients had caused her to retire by her mid-50s and take a Disability Pension. Foot and back fractures have confined Gladys to a wheelchair lately. Struggling with depression and alcoholism for most of her life, Gladys also had to deal with two recent bouts of cancer. Having 'always survived on my own', Gladys talked of her 'church family' since her 'only next of kin' was Osky, her budgerigar. She utilises a wide range of resources 'when things get tough': food parcels (from 'St Vinnies'); vouchers (from the Salvation Army); the services available through the Home Assist and Blue Care agencies; and a program called Adopt a Pensioner. When she first retired, Gladys had a 'little business' making silk floral arrangements and exotic scarves, until it became 'too expensive'. She has raised with Home Assist that they start a 'barter system' between the pensioners involved in the program so that she can swap her floral arrangements and scarves for items or services she needs. Gladys has also talked to women in her seniors group at church about 'changing clothes around.' She has used Legal Aid to stop 'constant overcharging' by her private medical insurance company. Last year she put 'my profile on the internet' after seeing on the Today Tonight TV show a program called 'Adopt a Pensioner'. She now has 'a young accountant' help with the 'heavy shop' since she does not have a car:

So it's a couple of hours, once a fortnight, out of his life, to help someone else...he's also a computer whiz...when I was in hospital for three weeks with my fractured back, he knows the key code to get in. So he just came in and put everything into folders I needed and just deleted it so I didn't have a lot of emails when I came out.

Gladys has no credit or store cards ('the bank's not going to help me at all, with no resources and being on a pension'), hasn't had a drink for over a year and does not smoke. She spent \$166 on food last payday 'and I got home and I was wondering where all the food is'. Gladys reflected that the extra expenses of eating frozen dinners 'at the moment' because she can't cook, and Osky's honey sticks (\$7 for three) are the main reasons 'I am 'lucky if I make pay day with \$5 or \$10 in my purse'. For the last seven years, after 'sliding through the little bit of super that I had', Gladys has had an 'ongoing' relationship with one small payday lender for the 'daily expenses of life', usually borrowing \$200 and making four \$65 repayments (\$260). The lender has been 'wonderful security, especially this year':

I would not have been able to even access Brisbane Private Hospital when I fractured my foot, if it wasn't him lending me the money to pay the \$250 to go in on the excess...and all the extra medications that I was put on for pain my bills that would be no more than \$50 or \$60 a month [are] now of over \$200 at the pharmacy

The payday loans have been 'a lifesaver':

As long as you don't miss your payments, which you don't want to anyway because the bank will charge you \$45 if it didn't go through and then [small lender] would charge \$30...As a Christian, I just pray that his business survives for people like me, to give me the security. I know, in the coming year if something comes up, that I can just pick up the phone and [staff member] is there and I don't have to worry where the money's coming from.

Over a quarter of respondents suggested greater government support was needed to help low-income people seeking education or training. Significant numbers of people considered that an increase in secure, quality jobs and affordable housing would greatly assist people on low incomes. About one in ten thought that enough was already being done or no more could be done. A small group of seven women and one man talked about the about the need for greater respect. A Melbourne Disability Support Pensioner in her 30s commented:

It's more than just re-education because you can go to (welfare agency) and you can sit there and do something called (welfare program) where you sit like a vegetable and learn a computer. I'm in that system and it's #@!!%...It's beyond that, there's got to be a support, not just giving food vouchers, but also the respect of that too...The (welfare agency) give you the third #@!!% degree when you go and ask for food voucher they give you \$30, you go other places and they give you whatever it is or they have the cheek to say, "oh why". People say there's no poverty in Australia. They don't know what the #@!!% they're talking about... A woman who...doesn't wash her kid... you can't just educate her, she'd never been to school, she's a single mother of 23 and she's got three kids and she's a heroin addict so how are you going to get her to go and get a job. Giving her more money, you can give her vouchers, and she's made to feel like #@!!% when she goes to get them. There's got to be some sort of body that educates and a niceness about it, which there just isn't.

5 Lenders

We get people in here who have been knocked back from (large national lender) which is a payday lender 200 yards up the road, and when you ask them what they want the money for and they say food, it's not terribly encouraging, is it?
(Owner of medium-size, multi-site lending company)

5.1 Introduction

Interviews with payday lenders provide an important insight into the practices of the small, short-term loan industry. What the discussion in this section shows is that there is a vast discrepancy in the way lenders view the payday lending industry – and their role in the economic lives of the poor – compared to financial counsellors and others. To justify their business model, lenders have crafted a narrative that describes the circumstances that warrant payday loans, and explains how they fill a legitimate need in the market.

Most lenders identified that they had a responsibility to assess whether borrowers could afford the loan, and lenders discussed that since it was their money that they were providing, they had a vested interest in ensuring that there was a good likelihood of it being repaid. The problem was that there was a wide variance in what constitutes an affordable loan and which eligibility criteria borrowers needed to meet. Some lenders had stringent assessment criteria that involved assessing borrower's weekly budgets and credit checks on VEDA, whilst others had a more standard procedure involving ID, proof of income and bank statements. Likewise, some lenders excluded all Centrelink recipients on the basis that they could not afford loans, whilst others allowed some Centrelink recipients with a set limit on how much they could borrow. Making these judgements was sometimes based on both evidence of capacity to pay and personal judgements about financial management skills. As one lender indicated:

I mean I have people here who haven't been able to afford their bread and milk and stuff and they've been on Centrelink benefits. But my suspicion is that they just don't manage their money well, so it's those sorts of people I don't help. I just send them on to get food vouchers.
(Small lender proprietor, inner north Vic Metro)

Lenders also discussed the importance of facilitating a good rapport with clients, and most claimed that they were willing to negotiate with borrowers if they defaulted on payments, providing they had perceived good reasons for doing so (e.g. sudden loss of employment). Particularly for some small lenders who got to know their borrowers' lives there was an espoused willingness to take into account an individual's circumstances when responding to defaults:

It's not just a person you are extracting funds from. You know it's a person that has a life and if something goes wrong you need to fully understand that person and what they've got in front of them to be able to help them to find a solution.
(Small lender proprietor, inner north Vic Metro)

Follow-up measures to recover debts varied from lender to lender and included phone-calls, letters and home visits. The perception of financial counsellors, as discussed in the next section of the report, was that these follow-up measures constituted harassment, whilst the perception of the lenders was that follow-up measures were necessary if borrowers refused to repay their loans or communicate with them.

The changes to legislation and the impact this has had on business, particular small owner operated businesses was discussed at length. Small businesses seem to be struggling more with the cost of new licencing requirements and interest rate caps than large franchises, which in turn impacted their perception of whether the industry was growing or declining. Most lenders believed that interest rate caps negatively impacted their profit margins, and questioned the validity of introducing a set 48 per cent mark-up when other markets and industries, such as jewellery and fruit, were allowed greater mark-ups and profit margins, over 100 per cent in some cases. Lenders discussed ways in which interest rate caps could be worked around, and that the existing state based legislation is not preventing so-called “dodgy” lenders from taking advantage of borrowers. Lenders were aware of those in the industry who they perceived as contributing to the stigma surrounding their business, and that the introduction of nationally recognised protocols for loan eligibility criteria, including access to and use of a national credit-check database, would help regulate the industry more than a capped interest rate.

The following sub-sections summarises lender interviews and locates the responses within given categories. Caution should be exercised when reading the following section since the responses of lenders concerning their attitudes, values, business practices (i.e., eligibility determination), repayment activities, and so forth are self-described. As such, this section reflects the lenders’ narrative, a narrative that is refuted by financial counsellors and some clients.

5.2 Lender-borrower relationship

Some lenders have shifted to a brokerage model due to financial difficulties, which was identified as impacting on the quality of service lenders could provide to their clients, particularly in terms of renegotiating repayments for default borrowers.

Small organizations were perceived by lenders as more ‘friendly’ and ‘caring’ than large organizations, due to the face-to-face interaction and time put into creating and sustaining a good relationship. A good client-lender relationship was emphasised as key to repeat business and earning a good reputation in the industry. Some lenders mentioned that borrowers were more likely to prioritise repayment of their loan to the lender due to perceiving lenders as their friends. One lender remarked:

I think across the board the intention is for staff to be rather personable, and build the relationships up with people. That’s certainly my intention. It’s hard for people to let you down in that situation, when you’ve built up a relationship with them.
(Franchisee, large lender, Northern NSW)

A small proprietor of an eastern suburban outlet in Melbourne considered ‘developing relationships’ as the most highly prized skill he possessed. The success of his business was not simply based on writing loans but rather on ‘selling relationships’ to people coming into his outlet.

Similar sentiments were expressed by another lender in the attributes she most sought when hiring staff:

We look for people that don't judge... We've hired a couple of people that have come from uni, but they don't like the front counter work, they like to sit at the back and do all the background paperwork. They don't like to mix with people. So the ideal candidate for us is someone that is a people's person, and someone that doesn't look down at customers, and somebody that can talk to them and make them feel at ease as soon as they walk in the door.
(Small lender proprietor, south east Vic Metro)

Lenders used specific discourses when discussing borrowers. Borrowers were assigned into two main categories: "genuine" (and therefore "deserving") or "non-genuine" ("undeserving"). This language was used across the board by lenders when assessing borrowers' eligibility for a loan or determining if they had good reasons for defaulting on repayments. Ironically, similar language is often used to describe the "worthiness" of welfare recipients:

I remember one girl who came in here in tears. And she said, "Look, I'm desperate, I don't have any money, I've got to get some chemist thing filled for my daughter who is sick, and I don't have any money". And I just knew I was never going to get the money back, and it was \$30 or \$40 or less, so we did the loan and everything, and we did get it back, but I just thought she would get – I don't think she was into drugs, but I mean, it's pretty hard to tell sometimes. And she had a young daughter with her, and clearly she was distressed as well, I mean, who knows why, but she had the script and everything as well. And so you get some of those.
(Small lender proprietor, eastern Vic Metro)

Non-genuine borrowers were discussed as having addiction problems (e.g. gambling, drugs) and being serial borrowers (having multiple loans and defaulting on repayments regularly – not to be confused with repeat borrowers). Lenders identified non-genuine borrowers through VEDA credit checks (for serial borrowers) or determining if borrowers had a specific reason for the loan. Personal judgement also plays a major role in assessing a potential customer:

When someone walks through the door – and we tell them over the phone what they need – and they come in organised, you know that they are going to be probably a good prospect to pay you the money back. The ones who are not are generally ones you don't want to deal with. If you get a mother who comes in with two screaming kids, and they are out of control, you know that's probably not going to work out. And so even if she's got plenty of money, income, you're probably not going to do the loan, because she's never going to be available on the phone, she probably hasn't got a phone, she's just going to ignore you, you're never going to get the money back from her. So you go to the greatest length you need to make sure they are a good customer. And this flies in the face of what the financial counsellors, the consumer law advocates, and all these people who say, you're just trying to get money off of them. Well, we're not. If we don't get it back, we're not interested. It's easy for them to come and borrow money. Put on a brave face and say, yeah, give me 300, I'm wonderful, and then disappear and go to the next place and do it. No one is going to chase them for the money, they don't have a problem. They're just getting funds from wherever they can. So we're not interested in that relationship.
(Owner of medium-size, multi-site lending company)

Conversely, genuine borrowers were those people who had specific reasons for loans, usually an unexpected expense (e.g. funeral, wedding) or an expected expense that was of a large amount (most commonly car registration). Genuine borrowers could also be middle- to upper-class professionals who use non-bank loans regularly as part of their budget or had an unexpected expense. Lenders discussed how this demographic was increasing. As noted earlier, this narrative is likely rooted in the desire to evade the stigma of predatory lending. The narrative tries to recast payday lending as just another convenience-based service with a wide-ranging customer base. Casual or part-time employees who earned a significant income but did not qualify for bank loans were also framed to be genuine borrowers. This category might also include grey market workers who are paid in cash.

Most lenders have Centrelink recipients as part of their client base, but many were reluctant to admit this, despite some payday businesses specifically targeting Centrelink customers in their advertising. Lending to Centrelink recipients was seen as needing to be justified, and lenders discussed how this demographic has the right to credit as well. Lenders maintained that Centrelink loans have strict criteria that may make borrowers ineligible for loans, or that borrowers could only secure small amounts of loan money. Some lenders discussed how they only loaned to Centrelink recipients with a set income, or they excluded particular Centrelink clients (such as Youth Allowance recipients).

Many lenders discussed how many potential borrowers lacked the knowledge and ability to handle their finances responsibly. This capacity is assessed during the initial loan eligibility assessment test and later if they're struggling to make repayments. For some lenders, the lack of financial knowledge was not necessarily grounds for refusing a loan. Lack of financial understanding manifests itself in borrowers' underestimating the true amount they spend on items or services; not knowing how to budget or stick to a budget; or their expenditures exceeding their income. When borrowers got into trouble with their repayments there were varying degrees of flexibility regarding debt recovery, depending on a range of factors.

Lenders described how they enter into a negotiation process with clients that default, which could involve renegotiating a repayment schedule, waiving default fees and assessing a borrower's hierarchy of needs (prioritising what needs to be paid first). Dishonour fees and charges were strictly applied by larger lenders but less so with smaller lenders. Typical charges by large lenders are \$30 if a direct debit deduction is dishonoured by a customer's bank (though some corporations do not charge for the first failed deduction and give the customer a warning), and a \$50 charge for being in payment arrears. One proprietor discussed how her move from managing a payday outlet for a large lender to setting up her own business allowed greater flexibility in negotiating repayments for her clientele:

When you are a corporate business, you must charge fees for all the dishonours, all the arrears. It's a must for that. Whereas we just look at the clients – we have a look at the situation and then we'll just do fees accordingly. There are some people, like if they lose their jobs, we won't charge any fees. And then we'll hold the accounts, and then we'll give them like a month to try and get themselves together, and then we'll ring them or we'll put them on a small payment plan. So we try to do things that are just more affordable for them, and they can work within their budgets.

(Small lender proprietor, south east Vic Metro)

The extent to which lenders negotiated with borrowers was dependent on the reasons for defaulting, if there were "genuine" reasons (such as loss of employment) or "non-genuine" reasons (such as the client using the money for smoking, etc.). Vulnerability factors that were identified by lenders as impacting

borrower's ability to assess whether they should take out the loan or the capacity to make repayments were poor literacy/education, drug dependency, lack of financial education, unemployment, mental health issues, poverty and dependent family members (such as children).

Direct debit was favoured as a method of repayment. Lenders preferred to negotiate directly with clients themselves, without involving outside parties such as financial counsellors. Most lenders did not perceive financial counsellors as helpful. Follow-up measures ranged from letters and phone-calls to home visits. Lenders viewed follow-up measures as necessary, but identified that some lenders would harass clients – these lenders were identified as the few that were “dodgy” in the industry.

5.3 Responsibility of lenders

Most lenders discussed that they felt that they had a duty of care, or responsibility to exercise due diligence, in assessing clients' eligibility for the loan through looking at client's credit history, considering whether they will be able to afford repayments and refusing clients who did not meet the eligibility criteria. As two lenders put it:

It is very easy to lend money. All that's too easy, but it's doing it properly so everybody wins.
(Small lender proprietor, outer south-east Vic metro)

I would call myself a loan nurse because I don't like to give a loan out unless those people can use it for a specific reason, if you know, that's warranted and they can afford it.”
(Small lender proprietor, inner north Vic Metro)

However, there is debate over what a client can afford and if there should be a minimum set wage as part of the eligibility criteria regardless of the loan amount. This meant that some lenders would not loan to Centrelink recipients on the basis that their income was too low. Most lenders, however, loaned to Centrelink recipients for small amounts as this was perceived as affordable for that particular income bracket. With such variation in what an affordable loan was, what length of time it should be loaned for and what percentage of the borrower's income (or discretionary income) the loan should take up, there is much debate over what constitutes an eligible borrower.

From the data set, some lenders were more comprehensive than others in considering a potential borrower's capacity for repayment, the impact a loan will have on their existing financial circumstances and if the borrower is even aware of whether they can afford the loan or not. However, most lenders agreed that they would not lend money to a borrower who did not have a specific reason for the loan; namely, borrowers who wanted the loan for the sake of having money or as a “top-up” until payday.

Lenders agreed that this suggested that a borrower could not afford the loan in the first place or that they might have addiction problems or want the money for what was perceived as “non-genuine” reasons (e.g. cigarettes or other non-necessities).

There is a tension for lenders between lender duty of care to exercise due diligence in assessing borrower's capacity to repay the loan and the fact that they are running a business whose basis is strongly linked to repeat borrowing. A 2009 study of the US payday lending industry found that the

structure of payday lending virtually guarantees that low-income customers will experience a shortfall before their next pay period will require a new loan. This churning is said to account for 76 per cent of total US payday loan volume (Center for Responsible Lending, 2011). There is no accurate national data on what percentage of payday loan volume occurs through churning in Australia.

Some lenders infused personal relationships into the business model. As such, some lenders attempted to blur the line between a business transaction and a social welfare role by stating how concerned they are about the economic well-being of customers. One lender considered he had an obligation to wear repeat borrowers off loans if they were being used for daily living expenses:

LENDER: The other area is people that get stuck in the borrowing cycle and they don't want to be there and that the lender doesn't really try to help them get out of it, which is kind of a bit of a responsibility of the lender.

INTERVIEWER: But if you were successful in doing that and 80 per cent of the business was repeat how do you make an assessment if they are stuck or not?

LENDER: Yes, it's pretty hard to do and the fact that a lot of them are repeat, you can see it in different ways. Like for example if I'm a constant repeat customer of my credit card or my bank or whatever and pay off my house and want a bigger one, yeah, it's not a bad thing I think that a lot of the clients are repeat because it means that they are sustaining themselves inside of that and if they're satisfied that it's giving them a benefit, then I guess that's a good sign. But, some people get caught in a cycle, and I think the worst thing is if the money that they're borrowing like you were saying before, they're just losing it to ordinary living expenses then I think they're not getting any benefit...that is something we would be concerned about and try and reduce the amount of money we lend them and get them to somehow lose the dependency on it, because it's not helping them.

(Small lender proprietor, outer south east Vic Metro)

However, the limitations of this lender's approach were evident among the customers interviewed at the two outlets he owned. Five talked of taking repeat loans for regular living expenses.

Factors such as lack of financial education, mental health issues and addiction were identified as impacting borrowers' ability to assess their financial situation and repay the loan. Lenders were dependent, to some extent, on client disclosure of circumstances, particularly if those circumstances change. Lenders discussed the ways in which they determined if a borrower was "genuine or non-genuine" and the categorization of borrowers into these areas determined if the loan was given or if the terms of the loan were renegotiated if the client was struggling with repayments.

Most lenders agreed that loans should be refused to people who lacked a specific reason for needing the money (most likely indicating wider financial problems or addiction) and cases of serial borrowing where clients had multiple loans with different organizations and a history of defaulting. Despite lender claims, it appears unlikely that lending decisions are normally based not on need but rather than the ability of the borrower to repay the loan. Moreover, without any central reporting system, lenders could only guess whether customers had loans with multiple lenders.

The categorisation between “worthy” and “unworthy” borrowing used by some lenders is particularly striking. One lender claimed that:

Yeah, there is quite a variety (of worthy loan categories), but I'd say funeral expenses . . . helping family, older people that . . . want to help a youngster get a new car or a house or something.... Car repairs . . . if people need their car for work, we think that's a very genuine reason. However, there's some hoons that just want to hot his car up and we're not interested. Therefore, we try to be responsible lenders, and lend to people that have a genuine need.

(Small lender proprietor, western Qld metro).

Oddly, this lender categorises a payday loan like a needs-based Centrelink grant rather than a business transaction. Many lenders talked about their welfare responsibilities to their clientele. A CEO of a large, multi-site corporation gave a story about how one his staff assisted a customer:

(Name of staff member) in Frankston last week, she had to knock back this young woman who needed it (a loan) for nappies, and there was no capacity whatsoever, it just wasn't going to help, and (staff member) said, "Have you tried the Brotherhood" or something. "No, no, where are they?" And so (staff member) has actually taken her there. So not just a phone number.

In contrast, an owner of a medium-size, multi-site company straightforwardly rejected that his business involved any welfare role:

We make small loans to people up to \$2000. We lend them whatever amounts of money they like, \$200-\$2000 over a year, maximum term and that is it, really. ...Nobody likes payday lenders because the interest rates are so high, including people like me. So there's no point in me trying to make myself sound like a saint to you or anybody else. But if there were no people like us around, I really don't know what a lot of these people would do.

There were also differences in welfare attitudes between smaller lenders, and those holding that they had a welfare role were often contradicted in their practices:

People have financial stress, it might be gambling. I can sit and talk to them once I find out what the problem is and I can usually see a pattern, and as soon as they open up a little bit about it we can talk about it and I advise them to go and get counselling, because it's not something you can workout yourself...I just grab the phone numbers off the Internet, the Alcoholics Anonymous if they are an alcoholic or gambling and just advise them to go and seek counselling.

(Small lender proprietor, inner north Vic Metro)

However, when this lender was asked how often she suggested a customer contact a counselling or welfare agency, she could only recall “four or five” instances in the “last year or so”. Similarly, a

manager of a medium-size, multi-site lending franchise in NSW talked about her organisation's connections with a number of welfare agencies:

Mission Australia, we tend to have a bit of contact with them, and there are different sort of community centres throughout that we do have contact with. If someone especially if we have to decline a loan or something like that we're finding someone who is really struggling, we will tell them that they should try and go and get their budget done with Mission Australia, especially if its debts that are spiralling out of control. And we don't sort of have an individual will go through refer to but we would say look, you need to get some help, you need to get your budget sorted out and there are community groups will do that sort for you like Mission Australia or the Salvation Army. So, we sort of recommend it in a vague way.

Again, a disjuncture occurs between the lender's welfare discourse and her practices. Later in the interview the lender mentions that her core business was the 80 per cent of her customers who were caught in a borrowing cycle. Moreover, most borrowers presumably did not meet the lender's criteria of "really struggling" since they were also offered:

The facility that if they get more than about three-quarters through their loan, if they want to pay it off and refinance immediately, then they can do that. We only ever let them have one loan at a time and if they pay it out early they only pay interest up to when they pay it out. That would be the majority of them. Most of them do try and come back before their previous loan is finished.

In the final analysis, all the lenders agreed that there was a shared responsibility between the lender's duty to assess the eligibility of a borrower and the borrower's responsibility to commit to repaying the loan and be honest in disclosing their circumstances. Lenders discussed how it was the borrower's responsibility to advise them of changes in circumstances that could impact their repayment of the loan. In those cases, most lenders were willing to renegotiate the repayment schedules. Lenders also discussed how it was their responsibility to fully disclose the terms of the loan – some lenders even warned borrowers that their loans were expensive. (We know of no business model that discourages customers from purchasing their product.)

5.4 Changing borrower profile

You always hear that pawnbrokers are for the drop kicks of society, but unfortunately, when you see the cars and the types of people that are pulling up outside our doors in the last two to three years, there has been a huge shift towards your middle-income people who are just not making ends meet. And invariably the stories are electricity, food, car payments, rent. That's a typical sort of thing that they would be needing money for. (Small lender, Northern NSW).

Many lenders acknowledged external factors as driving changing demand. They discussed how the current economic climate has seen an increase in unemployment and casualization of the workforce, as

well as rising prices of necessities (such as food). Consequently, there are growing numbers of low- to middle-class clients struggling to make ends meet. Lenders make the argument that all sections of the population deserve access to credit; and if their industry did not exist, people would still be in financial trouble and may even attempt to borrow from the black market or become involved in other illegal activities.

Newly arrived migrants were also identified as a part of the population where there is increasing demand. Migrants with temporary visas and casual and part-time employees usually do not qualify for bank loans, even if they have a steady income. For some lenders new migrants constituted the majority of their business:

A lot of our business comes from specific ethnic communities, mainly from either from the Cook Islands, or other types of Pacific Islanders. They don't really have a lot of access to mainstream, some of them aren't educated to be able to get normal loans.
(Small lender proprietor, outer south-east Vic metro)

Previous Australian research has shown that people born overseas tend to have lower levels of access to key financial products, such as credit cards or a transaction account. One of the lenders interviewed gave some insight into circumstances that can lead to Australians born overseas turning to a payday lender:

I've got a couple they've got very well paid jobs, however, the best they could get was a credit card with a maximum of \$1000 on it. They needed a rental bond of \$2500. I've got Philipino people, as they've got a shop across the way from us. We get the odd one of them coming in. They're excellent customers, but they just can't get finance from a bank.
(Small lender proprietor, western Qld metro)

In general, most lenders felt that mainstream financial institutions such as banks were not meeting the financial needs of their typical borrower. Lenders identified that some borrowers only wanted a small amount of money to be repaid in a short timeframe — bank loans are usually larger amounts for longer periods of time. Some borrowers were using non-bank loans to pay off bank loans. Other borrowers were ineligible for bank loans because of previous bad credit history or bankruptcy, but were using non-bank loans to build a good credit history. Lenders discussed how their loans were more convenient than bank loans, and that they could better tailor a loan to a borrower's circumstances.

5.4.1 Repeat borrowing

Despite noting a concern for tailoring services to the needs of individuals it was also clear that the core basis of most lenders' business was repeat borrowing, regardless of demographic. This conclusion is supported by the borrower interview data discussed previously where it was shown that repeat borrowing is prominent. Lenders demonstrated a reluctance to talk about the timeframe between paying off one loan and taking out another one; however, in those cases where it was discussed borrowers would take out another loan within three months of paying off the first one. In some

instances, lenders discussed how borrowers would take out another loan immediately after paying off the first one. Lenders indicated that repeat borrowers make up the bulk of borrowers on their books:

I would say 98 per cent are repeat customers, that in itself should show you how vital we are for some people.

(Small lender proprietor, inner north Vic Metro)

This lender goes on to qualify that in the case of a repeat loans they are hesitant about lending more money than what is evident in the past pattern of borrowing:

Like this man here he's got what is called a line of credit, which he pays off each month and he continually comes in and will borrow that. And so I don't have to question him. I know exactly what he is doing. He's shown good conduct so I don't have to worry. But if somebody comes in that's had small loans and then wants a couple of thousand dollars and they've only ever had \$300 or \$400 then I would have to quiz them as to why they want the loan. I certainly won't give it to them, just for anything.

(Small lender proprietor, inner north Vic Metro)

Lenders emphasised that repeat borrowers were usually reliable, and that trust had been built through borrowers repaying smaller loans first before building up to larger loans. Some lenders did discuss how borrowers would take out another loan before repaying the first one. They emphasised that in those cases, the borrower had a good history of repayment (that they were a repeat borrower with the lender's business). Some lenders emphasised that repeat borrowers used their loans because they were convenient. However other lenders talked openly about how many borrowers, even those with good incomes, were struggling financially in the current economic climate.

5.5 Views on industry regulation & interest rate capping legislation

In terms of industry growth, there were varied responses according to whether lenders owned a small business or were part of a larger franchise (this should be cross-referenced). Some lenders perceived the industry as growing, but other lenders who owned smaller businesses perceived the industry as declining. Some of the smaller owner operated businesses were struggling financially which the lenders attributed to the state based interest rate caps legislation.

Interest rate caps were viewed by all but one lender as unprofitable and unsustainable given the higher risk attributed to unsecured loans, overheads, and comparison with other markets. In particular, lenders compared their industry with other markets, such as jewellery and fruit, which have much higher, unregulated profit margins (upwards of 100 per cent). Subsequently, lenders constructed their business as renting or selling money – money was not a means to an end but an end and a product in itself.

One lender explained at length the difference he perceived between small, short-term loans and mainstream financial credit:

I think it's a misconception that people think they should attach a percentage amount to (payday) loans...the parallel I draw is if you go down to your local hire place and hire an electric drill, let's say nominally the drill is worth \$100 to buy for that store – for that hire store. Now they will loan that out to you for around about \$30 for one day. If you want it for a weekend, it will cost you a bit more, if you want it for two weeks, it will cost you a bit more. So in effect they have to fund the purchase of that drill, that \$100, they've got to find \$100 just like we do. So if that drill's out, someone's hired it for a day or a week or whatever it is, they need to buy another drill to hire it out to the next person. They might indeed have to buy several drills, so they've got enough drills. They've got to buy each one of those at \$100. And it's no different to what we do. Somebody comes and borrows \$100; we need another \$100 for the next person, so we've got to source those funds from somewhere. Now, I would argue, if it's fair for the company that's hiring the drill of \$100 to charge \$30 or \$40 or whatever their cost is, it's the same for us. Our costs are no different to theirs, in effect. They've got staff, they've got insurance, they've got rent, they've got superannuation and so on the list goes. No different than exactly what we do. And so the idea that that is somehow related to a percentage that you work out over a year of some notional idea that you are going to charge 1000% or whatever it happens to be, it has no reference to what I am doing, because it has no reference either to what the hire company is doing. All that person wants to do is hire their drill for a day or a week or whatever it is. They don't want to work it out over what it would cost for a year.

(Small lender proprietor, eastern Vic Metro)

Basically, lenders did not believe that interest rate caps would regulate unethical lenders. Some also believed that the comprehensive interest rate caps of 48 per cent lead to lenders increasing their typical loan amount as this helped ensure some degree of profit:

If you've got an interest rate cap then the only way you can make a profit is if we start lending longer term and we start lending larger amounts because the deal with each individual client who is only borrowing \$100 and \$200 is a lot of work, so then you go more toward the traditional finance direction. It's a problem to people because then they end up with more debt and they have less access to credit.

(Small lender proprietor, outer south-east Vic Metro)

On a related note, many lenders discussed how there were too many licencing requirements, particularly for small owner operated businesses with only one staff member. Too much “red tape” in the form of administration procedures, cost and added stress to overheads and capped interest rates was mentioned.

Lenders discussed how their industry needed regulation. These included the need for a reliable national credit reporting database to be used by all lenders. Under the present system, non-bank lenders do not have to report defaulting clients on VEDA, which makes credit checks (and assessment of borrower eligibility for loans) difficult. They mentioned that membership on a national board such as the NFSF should be mandatory, and of designing a nationally instituted set of eligibility criteria which should be

used across the board to assess borrowers. Under the current system, lenders use their own assessment procedures and some of these are more stringent than others. (Some lenders who had standard assessment procedures did not access VEDA and did not support some of these recommendations for change.)

Some lenders discussed how the law, especially the Debt Recovery legislation administered by the Australian Securities and Investments Commission in Australia, strongly favoured borrowers. Although the lenders acknowledged that protecting borrowers' rights was important, some lenders believed that it allowed borrowers to easily remove themselves from their obligation with lenders, and that more laws were needed to protect the lenders' right to recover their money. Other lenders believed that the Debt Recovery guidelines were positive and prevented unethical harassment of default borrowers – opinions varied on this matter.

5.6 Conclusion

There are complex issues surrounding non-bank lending. Most lenders discussed due diligence in lending and demonstrated their understanding of the contextual factors that shape and impact borrowers such as the current economic climate, the casualisation of the workforce and unemployment. The argument that all sections of society deserve access to credit was cited as the main reason for loaning to the lower socio-economic demographic, and certainly this is a valid point. However, this demographic is also the most vulnerable in terms of becoming dependent on loans, entering into cycles of debt and lacking the financial education or means to improve their circumstances. In these cases, it could be argued that repeat borrowing is merely facilitating these cycles of poverty; however, the wider contextual factors that have led to this demographic seeking non-bank loans also need to be considered. Lenders are aware that there are businesses in the industry that are practicing unethically; however, they emphasised that it is the few lenders who give the majority a bad name. In particular, the stigma surrounding the non-bank lending industry and promoted by the media and politicians was identified by lenders as not being a faithful account of how most businesses operate. At the same time, the need for appropriate industry regulation was widely acknowledged as necessary to prevent unethical lending. Whether further regulation would lead to a greater validation of the sector and so lessen the stigma attached to payday loans remains an open question.

6. Other stakeholders

As noted in the methodology the research project also interviewed financial counsellors, regulators and associated advocates. This section of the report highlights the various perspectives of the Australian payday loans industry held by 33 financial consumer advocates, representatives of welfare organisations, academics and government regulators. Nineteen financial counsellors were also interviewed – nine individually and ten together during a work meeting held in a south-eastern suburb of Melbourne. The themes discussed are similar to those raised in the previous section. There is a focus on borrower profile, responsibility of lenders, the context of growing demand. Suggestions for reform from financial counsellors and other stakeholders are discussed in the final section of the report.

6.1 Key Characteristics of Borrowers

Similar to the lenders, financial counsellors have also identified that there is an increasing middle-class, demographic struggling to make ends meet and using Payday loans. Although these clients may have a good income, they either lack the ability to live within their means or use payday loans to buy non-essential items, which may correlate with both rising living costs and the context of a credit culture in society.

I have clients who would never have been part of my client group seven, eight years ago and they're what I call middle class people. The working you and me and the other people, a lot of my clients I can say earn substantially more than I do and probably you do. And yet, the use of the fringe lenders is pretty much across the board, so it's not something which is only for the very poor, because if that were the case, they all would have gone broke and we have an enormous number of fringe lenders in (location name).

(Financial Counsellor, northern Qld Regional)

Nevertheless, all the financial counsellors maintained that the majority of payday lender's clients are still within the lower socio-economic group, and often have other vulnerability factors that impact their ability to afford the loan (i.e. poor mental health, lack of education, suffering from an addiction such as gambling and families with children).

Welfare recipients in particular were highlighted as the group that would struggle the most in repaying the loan – the viability of lending to this particular group is contested and has been discussed previously. Overall, irresponsible lending practices were tied into this discussion of lending to borrowers with low incomes, especially since the inability to afford loan repayments often leads to rolling over the loan or repeat borrowing from other payday lenders. Lower socio-economic groups, and in particular welfare

recipients and low-income families with dependent children, were highlighted as being particularly vulnerable to entering into a pattern of unsustainable debt.

Lenders were identified by many participants as targeting this lower socio-economic group's vulnerability in their choice of location (businesses were often located in central business districts of lower socio-economic areas) and advertising messages (which focus on the ease and convenience of the loan).

Despite previous discussion on how the credit culture has influenced people to borrow money for non-essential items, participants continually referred back to the structural context of poverty and how borrowers are using loans to buy essential items, as the following quotes from two financial counsellors illustrates:

For many of these people, what they are spending the money on is literally day to day living.
(Financial Counsellor, northern Qld Regional)

There are [some] people that, definitely, financial literacy is part of what we do in our work – there is a need. But I think generally [clients go to] payday lenders [because] there's probably more of a sense of poverty and lack of capacity and income than anything else.
(Financial Counsellor, eastern Vic Metro)

The examples provided were similar to the reasons for borrowing cited by lenders, namely car registration, electricity bill, etc. Consumer group participants, however, highlighted this borrowing for essential items as being indicative of an insufficient income, an addiction such as a gambling problem, or an inability to manage finances. Financial counsellors working with clients who had problematic gambling, drinking or drug-taking behaviours relegated financial literacy to the bottom of their practices:

Budgeting is what you give the client to do while you think what the #@!!% do you do here?
(Financial Counsellor, northern Vic Metro)

Interestingly, despite previous discussions in the research about the significance of financial literacy, financial counsellors identified that most lower socio-economic borrowers, even some who were caught up with addictive behaviours, were more likely to be good at budgeting, due to necessity.

Most people, particularly if they are living on a low income, are better at budgeting than the average person who's got a wage coming in, through to bankruptcy and everything in between.
(Financial Counsellor, northern Qld Regional)

6.2 Lender responsibility

Participants discussed the irresponsible lending practices of some payday businesses, the main issues being structuring loans in such a way as to facilitate a debt cycle and lending to low-income borrowers or borrowers with other vulnerability factors. These could include financial illiteracy, mental illness and lack of education, and participants discussed how these factors could impact on a borrower's ability to assess the viability of the loan.

They wouldn't be a problem if they had reasonable interest rates and did it to the benefit of low income who are the people they are targeting. And did affordability checks on people before they gave them the money.

(Financial Counsellor, eastern Vic Metro)

I wouldn't go so far as to say lenders preyed on certain people but I do wonder whether they continued lending them money when they knew there was some other problem going on. In fact, I had one client who had a huge problem with gambling. He would go into the lenders and say "I have a huge problem with gambling, please don't lend me any more money if I come back in here", and he continued to get loans many times after saying that.

(Gambling Help Counsellor, southern Qld Metro)

As was also mentioned in the lender findings, consumer group participants discussed lender accountability in lieu of these vulnerability factors. The implications of these lending practices were that borrowers could not afford loan repayments and would borrow more, or that borrowers would make repayments, but would then struggle to pay other living expenses (such as rent). Repeat and rollover borrowing was thus highlighted as a key problem for the payday lending industry.

Of particular interest was the debate over the existence of the payday lending industry, and whether low-income groups should have access to this form of credit.

I suppose really it wouldn't matter who they're borrowing from, as long as they knew what their rights were under the legislation and whether they're being charged excessively, but anecdotally my experience is that once a person wants to get credit, it's just a matter of who is going to lend it to them.

(Industry Regulator, Qld Metro)

I think payday lending if I look at the groups for whom they are unsuitable, which I would say is anyone who is on a Centrelink payment to be honest, that is their sole source of income.

(Financial Counsellor, northern Qld Regional)

I feel like it gets to a point where it isn't actually a conscious choice for clients anymore and I think that's when there do need to be guidelines in place to protect people who are experiencing problems that have gotten so out of control that they don't actually feel like it's a choice for them anymore.

(Gambling Help Counsellor, southern Qld Metro)

Some financial counsellors acknowledged the drivers on the payday lending businesses, in terms of managing risk:

An eight months loan charging 1000 bucks for 2000 and giving the client \$2000 so it's just outrageous. But I guess from their point of view they have to do that to make a profit because their loan book is so risky. And, the costs of their funds are higher because of the higher default rates, but they are ripping people off. There's no getting around that and they do and runs around the legislation by not charging it interest and calling everything an application fee (Financial Counsellor, northern Vic Metro).

Consumer group participants identified the client lender relationship as a key part of the payday lending business. Asking about borrower's families and providing a space for discussion served to strengthen the relationship between borrower and lender. In particular, borrowers who were welfare recipients and were used to being treated poorly in other public spheres, such as the local Centrelink office where they may be forced to wait for long periods and be treated indifferently by counter staff, were identified as being particularly prone to gratitude towards lenders as a result of being treated with dignity. Consumer group participants discussed how this meant that borrowers were more likely to feel compelled to pay lenders back before meeting other cost of living requirements, and to feel guilt and shame when they could not make repayments.

Lenders were identified as using the client-lender relationship to ensure repayments were made and to encourage repeat borrowing; this corresponds with the findings of the lender data set. Some participants, however, discussed how borrower's perception of lenders changed in relation to lender's behaviour. In the initial setting-up of the loan period, lenders were viewed favourably by borrowers because they were helping borrowers out. In the enforcement period, when lenders were recovering repayments and borrowers were defaulting, borrower's perception of lenders changed and they became afraid of lenders. This fear was discussed as being a result of the intimidation tactics lenders used, and also because borrowers became more aware of the full cost of the loan and the ramifications of repayments on their budget.

Yeah, you actually have to separate two processes. The first process is the lending. The second part is the enforcing of the debt. And in the lending part, they will be quite okay; quite pleasant, but it's in the enforcement of that debt, that's where things can go quite bad. And often times when people come to a (consumer organization) for advice, they're at the enforcement stage, not the lending stage. (Consumer advocate, Qld Metro)

6.3 Place of payday lenders in the financial services industry

Participants discussed how payday lenders had positioned themselves to fill an unmet need in the marketplace. The nature of bank loans, large amounts over of a longer period of time, and the exclusion of certain borrowers from bank loans (e.g. low-income, unemployed, poor credit history) has created a demand for what was referred to as 'high-risk, short-term loans'.

But these people have no access to other finance, so it kind of fills the gap, as I say, so I'm sort of very conflicted around this, personally. But I think to be fair, I think it obviously – short term lending has a place in our marketplace, its well utilised. (Location name) is probably the best cross-section of a community that you could look at because we have quite a large number of homeless people here, we have a lot of humanitarian resettlement, we have indigenous folk living here, we have a very large army contingent – army and RAAF.

(Financial Counsellor, northern Qld Regional)

The ways in which lenders manage the fact that their clients have a higher risk of defaulting was discussed in terms of high interest rates, threats/intimidation and specific structuring of loans. The introduction of interest rate caps was thus discussed as having a positive impact on the industry though forcing some lending practices to leave the marketplace. Some participants discussed this as an unintended consequence that payday lenders with irresponsible lending practices probably could not afford to operate within interest rate caps, and would therefore go bankrupt. In this way, interest rate caps were perceived as acting as a gatekeeper, separating more responsible payday lenders from irresponsible payday lenders. Some financial counsellors and consumer advocates, those who support the banning of the payday industry, viewed any closure of a payday business as a good outcome, regardless of their lending practices. The regulators in government acknowledged that some payday lenders had closed down, however, they pointed out that the reasons for this closure were not necessarily due to the introduction of interest rate caps.

Whilst all of financial counsellors acknowledged the ethical problems inherent in lending to low-income borrowers, they also discussed the lack of alternatives. Community lending schemes were identified as not being of a sufficient scale to make a big impact and although Centrelink loans were discussed as a positive initiative, they do not necessarily cover all the needs of a lower-socio economic demographic, and they preclude non-Centrelink recipients who are still classed as low-income (for example, casual employees). Consequently, some participants identified that banning payday lending would not solve the wider structural problem of poverty, and the demand for these loans would still exist, and perhaps be replaced by a black-market lending industry. Participants discussed how for many clients, payday lenders are a last resort – if this resort was not available, then the issue of needing access to credit would remain. In contrast, some financial counsellors identified that borrowers have the right to choose, and that the solution to current payday lending problems lies more in regulating the industry rather than closing it down and limiting borrower's agency.

Industry regulators discussed how there was a credit hierarchy, in which payday lenders used their own capital, while others borrowed their capital from banks or other financial institutions. One regulator discussed the impact of banks tightening up their lending criteria:

I was actually talking about a credit provider the other day and he firmly believes – and I do too – that his business is going to increase over the next couple of years. Banks are going to start tightening up more on their lending in terms of their risk, it's going to create a bigger market and that nominal sort of line, where this socioeconomic spectrum goes to payday lenders and this one goes to banks, is going to raise up. And these people are going to start going to payday lenders because it'll be a little bit easier to get a loan from them rather than the banks.

(Industry Regulator, Qld Metro)

Some financial counsellors showed a reluctant acceptance of the place of payday lenders:

I think we need to accept that in one guise or another, we are going to have some form of short term micro finance, which, even the NILS model, where there is very, very limited funds for administration, it's a very difficult model to work with, and it's a slow model, and it is for purchasing essential items, which is great...(but) for people who have no other avenue, where you can't ring your brother or your sister or your mate to get some money and I still sort of think, "Well there is a place," and there's always a price for it.

(Financial Counsellor, northern Qld Regional)

You can regulate and regulate and regulate but, you can't pin them down completely and if people need money, they'll go to where that money is. They'll go to where they can get it.

(Consumer advocate, southern Qld Metro)

In contrast, others thought that payday lenders were 'a section of the economy that should be legislated out of existence' (Financial Counsellor, eastern Vic Metro), and 'we need to get beyond these businesses that have established themselves by exploiting vulnerable people' (Consumer advocate, inner Qld Metro).

6.4 Repeat and Rollover Borrowing

Financial counsellors agreed with lenders that the basis of payday lending business is repeat borrowing. In contrast to lenders, consumer group participants perceived this as problematic because it indicated that borrowers were in a debt cycle. Like lenders, consumer group participants provided examples, stories, to illustrate their point, and these stories had a coherent theme, namely borrowers could not afford the loan in the first place, struggled to make repayments, and would take out other loans (or rollover the loan) in order to make repayments.

Borrowers were represented in these accounts as not understanding what the total cost of the loan was, and what impact repayments would have on their budget. In cases where the loan was rolled over, participants discussed examples in which subsequent repayments did not cover the overall interest and how borrowers would have continual debt that they struggled to afford. Some participants discussed how payday loans were convenient for borrowers, and that borrowers used them as a daily part of their budget management, however this was not viewed as healthy or desirable.

The central idea seemed to be that regardless of whether borrowers defaulted on their repayments or continued to make them, they were still in a debt cycle and since repayments could comprise a substantial portion of their overall income (in consideration of other cost of living expenses), borrowers were struggling to make ends meet. This struggle to make ends meet also needs to be understood within a wider context of poverty. Lenders are unlikely to refuse a loan to a repeat client on the basis that they're in a debt cycle because this would mean losing the client's business, probably to another payday lender.

They're (lenders) moving away from rollovers because of all the bad press about them. They've moved to models of repeat borrowing. So instead of rollovers where technically it's the same loan and you're rolling over. They will technically shut down the first loan by paying it off, but the next loan will be bigger and it will be a new loan.
(Industry Regulator, Qld Metro)

They rewrite the loan they call it. So they don't roll it over, they just lend more. I think that's an exercise in semantics. I know with clients that they do actually roll the loan over and then increase it, so, "I haven't paid that one off but I need some more now." So you can say, all right well they've effectively paid that loan off by new borrowing. I don't care what you call it. My reality is from what I've seen is that people have a loan, they haven't paid it off, they need more money so the loan is rewritten so the person gets an increase. Obviously then there's more fees that go with it or interest, or whatever they call them because it's all become a game, a very semantic problem.
(Financial Counsellor, northern Qld Regional)

Overall, the language used by consumer group participants (debt cycle) to discuss the trend of repeat and rollover borrowing contrasted with lender's language (repeat borrowing, repeat customers, reliable, trustworthy, etc), and illustrates the different ways in which the same phenomena can be understood. Despite these differences there was general agreement between lenders and consumer advocates about some of the factors that is behind increased demand of this form of credit.

6.5 Structural context of demand

No and I think this is the, this is it, the problem's been around for a long, long time, these sort of people, these sort of lenders have been around for a long time, doing exactly what they're doing now, lending to people who are in, who are sort of like at the end of the road in terms of their credit options and they will continue to be around because there's a demand for them. And the demand obviously increases in times like this.
(Consumer advocate, southern Qld Metro)

Whilst participants identified a problem for payday borrowers was financial illiteracy, wider structural and cultural issues were also discussed. The increase in cost of living, unemployment and the impact of the 2008 Global Financial Crisis were identified as factors that had facilitated growth in demand for this type of credit. Besides a growing number of working poor in Australia and people on income support payments, middle-class, working people also discussed how they were struggling to live. One indicator of the personal impact poverty and financial stress was having on respondents' lives was that half the interviewees talked about living with significant physical, psychological or emotional health problems. The connection between poverty, health and well-being is well established. Poverty is internationally recognised as one of the key social determinants of health and well-being. Within countries, the evidence shows that in general the lower an individual's socioeconomic position the worse their health (CSDH, 2008).

Welfare payments were identified by participants as inadequate for the current cost of living and the lack of dignity afforded to welfare recipients was cited as a reason why borrowers felt that payday lenders were their 'friends'.

I think we need a real rebalance in appropriate income support in our community. Centrelink payments are inadequate for people to live with dignity in this community...I don't call them benefits because they only benefit the community by silencing those people because they can't afford to have a voice. They are struggling on a day to day basis and it creates this underclass in Australia...they don't believe that they have any say they are looked, in the broader terms, down upon as lazy, as underserving, they live in poverty, in real poverty.
(Financial Counsellor, northern Qld Regional)

I think there's a wider issue about inadequacy of income levels. And you know. The cost of housing. And all that stuff is linked.
(Consumer advocate, inner city Qld Metro)

Without an adequate income, welfare recipients were also more vulnerable to entering into a debt cycle. Participants thus discussed how welfare payments needed to be increased. However, a credit culture was also identified as a wider structural problem indicative of Western society. The 'buy now, pay later' mentality that underpins a credit culture was cited as being used by payday lenders to encourage borrowers to buy non-essential items. Nevertheless, participants discussed how borrowers were being encouraged to use credit and buy products to 'feel good', and that the lower socio-economic group were particularly vulnerable to this message as a way in which to restore dignity. Some participants also discussed the invisible nature of transactions involving a card (as was used by some payday lenders) and the implications this had on borrowers, i.e. that they were less likely to appreciate the actual amount of money spent, and therefore the overall impact on their budget.

There's a kind of like, a lack of perception as to significance of the debt, in this way. The credit card is handed over, if you have cash in your wallet, say you're going to buy a big screen TV and you've got and it's \$2000 and you're paying cash and you've got \$2000 cash, that's a fairly big wad of money, but the credit card is only this one card and you hand it over and you don't see it. You don't see how significant it is.
(Consumer advocate, southern Qld Metro)

So if you think about when you have very little, about feeling good about yourself, then having the big telly might be just the thing that's in, same with everybody else so they don't see it as a debt because a) it's not sold to them that way. They have something to show for it, which is very different to a credit card, let's be honest....As I said, you won't go and admire the fridge but you will admire the television. This is about how people feel about themselves and I think this is something we can't leave out of the equation. It is about people being able to engage with the mainstream community.
(Financial Counsellor, northern Qld Regional)

6.6 Treatment of loan defaults

Financial counsellors did discuss how when they became involved in debt recovery proceedings, lenders would usually renegotiate the loan. The extent to which this was done willingly seemed to depend on the lender and the consumer group's perception of the payday lending industry. Some participants discussed how lenders were difficult to negotiate with and demonstrated a lack of concern for their clients, whilst other participants discussed how lenders were willing to negotiate with financial counsellors and other advocacy groups, sometimes primarily because they wanted at least the principle of their money returned. Some participants emphasised that the clients that they saw were at the extreme end of the spectrum of borrowers in that they were in serious trouble (facing bankruptcy, homelessness, etc). Therefore, these participants discussed how their comments on lenders' behaviour and experiences of borrowers needed to be understood within that context.

The measures lenders used to follow-up with default clients were discussed as unethical and harassment. Language used by consumer group participants included "intimidation, threaten, coerce".

If they (borrowers) do know that they've been subject to some of inconsistency or that sort of stuff, they don't want to speak to the regulator because of fear that they won't get credit again from that credit provider, or they're embarrassed they got themselves in that situation to start with.

(Industry Regulator, Qld Metro)

A lot of clients were feeling very harassed by the lenders. A lot of them started out seeing the lenders more as their friends, people who had given them money when they didn't have any and when banks wouldn't give them money. But over time as they owed more money and tried to get loans and couldn't get more then they started to see them in a really negative light.

(Gambling Help Counsellor, southern Qld Metro)

In particular, lenders were positioned in these comments as using borrower's vulnerability in not knowing or understanding their rights to threaten default clients with actions that could never actually be taken, for example, the repossession of borrower's furniture. Other frequently cited measures were threatening to contact or actually contacting a borrower's employer and taking repayments directly from borrowers' wages. Frequent phone-calls, letters and home visits were also discussed by participants as effective ways in which to harass borrowers into repaying the loan. Participants discussed how the impact of these methods affected borrower's mental health and emotional stability.

So we require them (borrowers) to pay, so I can get something back or if I've got some sort of asset, they've got some sort of asset that I can, that I can secure it over. Now in doing that, what they will do is, they will take; they will take chattel mortgages or securities over things that shouldn't be secured, like household items. And even though the household items aren't worth anything, they will then rely on the perception on the part of the person to enforce the debt, by saying, well if you don't pay, I'm coming in and I'm taking all your furniture. So you'll have nothing.

(Consumer advocate, southern Qld Metro)

Lenders were calling them a lot – around dinner and later at night, mostly phone calls and sometimes threats about legal action and things like that. People had a lot of fear as a result: fear about what might happen, fear about going to jail if they didn't pay this money back, that was a big fear for a lot of people

(Gambling Help Counsellor, southern Qld Metro)

Direct debit was mentioned as a useful method to set up for repayment because borrowers were often not aware that they could cancel payments with their bank, or were hesitant to do so due to feelings of shame and guilt.

Well, one, they secure their payments through direct debit. Customers (who) aren't my clients aren't aware that they can run straight down to the bank as soon as they sign up for the payday lender and get that direct debit cancelled.

(Financial Counsellor, northern Vic Metro)

The industry regulators interviewed mentioned the same problem identified by the other participants, namely that consumers were not aware of their rights, and that this impacted their capacity to make a complaint and therefore the extent to which the industry regulator could be made aware of breaches to the legislation:

It does and without having that ability to proactively monitor you're at a real disadvantage because generally the consumer in my experiences doesn't know that they've been subject to a breach of the law or whatever it is.

(Industry Regulator, Qld Metro)

This last point raises interesting issues around stigma and personal shame associated with debt, perceptions that change over time. Reflecting on the media commentary about increasing personal debt has led the popular Canadian writer Margaret Atwood (2008) to conclude that "...we seem to be entering a period in which debt has passed through its most recent harmless and fashionable period, and is reverting to being sinful". The notion of debt as sinful reflects the proposition that present generations are more prepared to live beyond their means (meaning they have brought it on themselves) and as a result debt has become a form of slavery as households struggle to repay the debt and correct the balance.

6.7 Stigma associated with payday lending

Many participants drew interesting comparisons between the payday lending industry and banking institutions in order to illustrate the particular stigma associated with payday lending or the similarity in unethical lending practices between the two institutions. The overall argument was that banks were similar in their lending practices to payday lending businesses, particularly in how they advertised credit cards and rewarded use of credit cards. However, the use of credit cards in society has been normalised to such an extent that people who access this form of credit are viewed positively and as contributing to

society. In contrast, borrowers who access payday loans as credit are viewed negatively and as mismanaging their finances. The point was that people who use credit cards could be in debt cycles as well, facilitated and encouraged by banking institutions.

Due to the stigma attached to welfare recipients and the lower socio-economic demographic overall, there seems to be a perception of payday borrowers as undeserving and payday lenders as “sharks”. The consumer group participants who drew these parallels did not condone irresponsible lending practices in payday lending business, but rather wanted to emphasise that these irresponsible lending practices are not limited to payday lenders and that the over-use of credit (and subsequent increase in borrowers becoming trapped in debt cycles) is part of an overall credit culture which is promoted and sustained by many institutions. Some of these participants believed that solutions to the problems of payday lending lay in regulating the payday lending industry, however due to similar issues identified in bank lending practices, it could be argued that the financial sector in general needs stricter regulation.

I sort of liken the payday lending structure a lot like credit cards, and I know myself and other people, you get a credit card and within a month you've maxed it to the limit, and you can never pay it back, but you pay back your minimal amount, but you've always keep drawing on that because it factors in a big part of your income and you can't get yourself out of that cycle, because we're notoriously bad budgeters, we can't get out of that cycle of not needing that money, and even though we've got to go back at the end of the month, we've still got to go back again and draw back on it, so that we can use it.

(Industry Regulator, Qld Metro)

Look, it's not that hard to borrow money. It's not that hard to get a credit card. Just by walking through a shopping centre you get some idiot selling American Express or GE money cards.

(Financial Counsellor, northern Vic Metro)

I think I've always been a supporter of No Interest Loans Schemes and greater access to affordable credit for consumers. The problem has been with the banks really, I've had a lot of people who've just been burned by credit cards. Like I'm speaking to one guy at the moment, he's got bipolar. He's had his credit card go from \$1000 to \$3,500 and now can't afford to pay. He desperately wants to keep the credit card. Why did they give him greater access? Because he was always really good on paying. But the effect of that is that he now won't have a credit card at all. Whereas had they just allowed that credit card limit to stay at \$1000, he'd have ongoing access to credit.

(Consumer advocate, inner city Qld Metro)

The moral attitude and the fact that well the money's been borrowed from the bank so, if there's a problem, well that's your fault. Whereas, well you went to a payday lender, these people are just parasites, bloodsuckers, they just take money out of you, it's their fault. Is there really any difference between them?

(Consumer advocate, southern Qld Metro)

These viewpoints indicate that most participants had a wider view of where the problems were and how to address them, a view which went beyond a narrow problematizing of the payday lending industry. Structural factors such as poverty, rising living costs were seen as critically important issues that need to be addressed to reduce demand for this form of credit, but many participants in this group also saw the need to acknowledge cultural changes in society and look at regulating all sectors of the financial markets more closely. Respondents also had some specific views on regulating the payday lending industry.

6.8 Conclusion

I think really what we need to say is, "This is the society we live in. These are the things that are available. How can we have some damage control, some limitations, so that basically, I hate to say it 'cause I'm not a for profit person at all – but so that everybody has their needs met. Because what we're saying is, 'All right, what we need is to shut these people down,' which we know is never going to happen; I mean that's a joke anyway. What we want is them better regulated, but we also want to say, "Well why should any group in this country miss out because we have a middle class attitude?" So positioning should be saying, "How do we make what we've got work better?"

(Financial Counsellor, northern Qld Regional)

Interest rate caps, as was previously mentioned, were viewed positively by consumer advocates and financial counsellors. In addition to a capped interest rate, some participants discussed how a stricter set of loan eligibility criteria needed to be drawn up and instituted as a requirement for all payday lenders. As part of this, payday lenders were identified as needing to set up a budget with their clients, in order to encourage borrowers to realise the full impact of repayments on their cost of living and to understand how much they spend and where. In this way, payday lenders may be called upon to take on the role of a financial counsellor somewhat; the fact that this may conflict with their business is an issue that was raised. Working on more widely available forms of community credit schemes and increasing welfare payments to reflect the current cost of living, whilst not directly regulating the industry, were discussed as ways in which lower socio-economic borrowers may have more choice in which forms of credit they can access, thus reducing their dependency on payday lenders.

7 Policy and Practice Directions

Advancing people's lives – there is no limit to where we will go in the future. We know the niche that we're in and we know the value that we add...Authenticity is authenticity. Yeah, we make a good profit out of this. I have become a lot wealthier than I would have expected to, but...it's not about the money – that's the game, that's the measure. But...it's (also) about the contribution. It's not about saving the world, it's where you can be best placed to use the skills that you've got...I love business, I love money, I love people, and so we've actually got a thing here that we can really grow.
(CEO of large, multi-site lending corporation)

If we really want to be a truly civil society, to use Eva Cox's words, it is really important that everyone in the community can participate and it should be done in such a way that it's participating without really having some loan shark on their back. So it's got to be about participation with dignity I guess. It's very easy for a bunch of middle class advocates, financial counsellors, whatever, to say this shouldn't be happening – but walk a mile in the shoes of the people who have no other access. I think our entire premise should sit around that Centrelink payments are inadequate for people to live with dignity in this community.
(Financial Counsellor, northern Qld Regional)

The current political conflict between lenders and consumer rights groups centres on policy-framing. At stake in their campaigns to shape the extent and nature of pending policy interventions by the Australian Government is which answer to the question Carol Bacchi (1999: 1) asks prevails: 'what is the problem represented to be'? Lenders construct the policy problem as a minor matter of having the industry 'cleaned up' (Small lender proprietor, inner north Vic Metro) of the 'bad buggers' (Small lender proprietor, inner north Qld Metro). Light market regulation, they argue, will best bring the sector into the mainstream of Australian finance capitalism. In contrast, welfare and consumer activists consider the existence of the payday industry as an opportunist and predatory problem that needs to be curtailed or abolished. Yet most borrowers interviewed and many advocates, such as the financial counsellor quoted above, also see and experience the strong binds between poverty and payday lenders. A resistance is found to reducing the debate to one of strong or weak market regulation of the sector. Patchy and inconsistent government social provision also represents a pivotal policy problem.

Consumer advocates and financial counsellors had some clear views on other measures they wanted to see implemented to address the problems in this report. In this final section we will consider some of the various policy options that are often canvassed and evaluate them in light of the research findings discussed previously in this report. At the outset we want to acknowledge that this summary is limited

and partial, given the evolving policy context. The difficulty investigating, researching and responding to the fringe credit industry, or what Rivlin (2011) simply calls the 'poverty industry' is that it is broad, multi-faceted and forever changing its products in response to new regulations. By the time this report is made available fringe lending products are likely to have evolved even further in response to new legislative reforms. Nonetheless, it is worth canvassing some of the broad policy options and more specific practical measures that are likely to make an immediate and positive difference to ordinary Australians.

7.1 Banning pay-day lending

One obvious policy response to the borrowing patterns identified in this report is a complete ban upon payday lending, which has been tried in other jurisdictions. Two states in the USA, for example, provide a case study of this option. In May 2004 the state of Georgia in the USA banned payday loans. North Carolina followed suit in December the following year. In examining the effects of the bans, researchers concluded that the absence of storefront payday lending has not had significant impact upon the availability of credit for households in North Carolina. Further they argue it has had a positive rather than negative effect on households, with nine out of ten households surveyed claiming 'payday lending is a bad thing' (University of North Carolina Center for Community Capital, 2007: 1). Participants reported using several credit alternatives to payday loans including pawn shops, overdrafts and internet providers. Others developed lower cost strategies, took on additional jobs, changed their spending habits and chose to simply do without. Whilst this would seem to lend support to a banning strategy it is worth noting that of the 400 people surveyed, only twenty-three were former payday lending clients. In the present study there were mixed views in both the borrower data and the consumer advocate data about the complete outlawing of the payday lending industry. Some were supportive, while others feared that unless a large-scale viable alternative was put in place to offer fair credit then people would be left with little option than to turn to illegal means of accessing credit. This response is often used by the industry and as such has become a fear tactic in their campaign against tougher regulations.

Policy consumer research in France, Germany and the UK all show that use of illegal lenders is concentrated among those who have experienced credit refusals from legitimate lenders (Ellison & Forster, 2008b). However Ashton (2008) argues that the substitution hypothesis is not correct. The reduction of one form of credit will not result in a substantially identical increase in another form of credit. Lott and Grant suggest that people are unlikely to turn to loan sharks, and usually are unacquainted with them. Rather they would be more likely to turn to family and friends for help (Lott & Grant, 2002). Ellison and Forster (2008a) show that informal borrowing is an inadequate substitution for commercial credit. 'If payday lending is welfare improving for at least some portion of the population, a move to ban payday lending is ill advised' (Morse, 2007: 35). Karian and Zinman (2009: 9) observe that 'restricting supply does not restrict demand'. Instead they argue for the asking of new questions, such as instead of asking how we shut markets down, how do we make them work better? 'How can we create an environment that allows those who would benefit to borrow, and leads those who would be harmed to avoid expensive traps?' (p. 9). On the other hand, The Consumer Action Law Centre argues that just because there is a demand for a product in the marketplace, it does not necessarily make it a good idea for that product to be supplied (Ashton, 2008: 30). Robert Shiller (2004) suggests the need to provide the financial sector with incentives for undertaking investments with high social benefit and punish those if its investments cause social loss, as a means to managing risk and developing appropriate price

management. In any case, banning payday lending is not a policy option that is likely to be pursued in the Australian context at any time in the near future. As such, it is appropriate to examine other policy options.

7.2 Interest rate capping

Interest rate caps or ceilings, sometimes also called usury laws, have been in use throughout history and constitute the earliest form of consumer protection law (Rougeau, 1996). There are links back to the Babylonian Code of Hammurabi of 1750BC, the Roman Empire in 450BC, the Chinese empire in the 1500s, and the British colonies in the 1700s (Malbon, 2005b). Malbon also argues that this is history of regulatory and enforcement failure. Proponents of interest rate capping and other cost controls argue that controls protect from usury and exploitation, they ensure consumers pay fair rates, they address the issue of unequal bargaining power, they help individuals build assets, they encourage competition which reduces excessive pricing and inefficiencies and controls compensate for a lack of choice (Howell, 2005). King and Parrish (2007: 4) argue that the 'only proven way for state policy makers to protect their citizens from predatory small loans is to enforce a comprehensive small loan law with an interest cap rate at or around 36 percent'.

Critics of interest rate caps contend that they harm rather than protect low income and vulnerable consumers (Durkin, 1993; Engel & McCoy, 2002) and have unintended consequences (Karian & Zinman, 2009). There is now evidence from the World Bank and the Consultative Group to Assist the Poor that advises against ceiling rates as damaging to the interest of the poor and their communities (cited in Ellison & Forster, 2008b). Durkin (1993) also suggests that interest rate controls cause shortages in the provision of credit, impede competition and are ultimately wasteful: both lenders and regulators waste resources in finding ways around them and in enforcing them. Interest rate caps can easily be avoided by loading additional costs into the largely unregulated additional fees and charges (Howell & Wilson, 2005).

The 2006 Report of the Consumer Credit Code Review suggests that interest rate ceilings can also be harmful in that they may give consumers a false sense of security (Consumer Affairs Victoria, 2006a: 4). At a more ideological level there is a criticism that cost control by government is both inappropriate and paternalistic (Howell, 2005). Large lenders and representative bodies for the payday industry argue that the cap is unworkable for lenders, leading to business closures and increased requests for social welfare assistance by borrowers (Cash Converters, 2008a, 2008b). The Victorian Consumer Action Law Centre states: 'it is not economical for most payday lenders to lend at or below 48 per cent per annum' (Ashton, 2008: 2). Payday lenders predict disaster for payday borrowers if they can no longer charge triple digit interest rates (King & Parrish, 2007). Likewise Ellison and Forster (2008b) argue that retreat of lenders from the credit market will attract illegal lenders and criminal activity, force borrowers to use products less suitable to their needs, and force some borrowers to access more money than they actually require thus exposing them to greater credit risk.

In a fascinating Catch 22 they also argue that the interest rate caps will reduce lenders in the market, thus discouraging healthy competition – the very thing that lenders believe keeps borrowers safe from exploitation. This is supported by Morgan whose research suggests that competition amongst lenders works to lower loan prices. He says 'The problem of high prices may reflect too few payday lenders,

rather than too many' (2007: 22). In Australia, however, there is no evidence that the sharp increase in payday lending outlets over the last decade has led to any marked decline in loan fees or charges.

As discussed in section 1.1 the draft legislation soon to be tabled in the Australian Parliament has rejected capping small, short-term loans to 48 per cent and instead proposes limiting lenders to charging borrowers an establishment fee of 20 per cent of the loan amount and a maximum monthly fee of four per cent (Australian Government 2012a). Consumer and welfare advocacy groups opposing the 20+4 cap point out that lenders will be permitted to charge the equivalent of an APR of over 100 per cent (CALC, CCLC & FCA 2012: 4). On the other hand, lenders consider that the cap will drive many of them out of the market (NFSF 2012: 3).

For the large numbers of borrowers who are regularly in debt to lenders, massively high interest rates increasingly become a reality. If a comprehensive 48 per cent annualised cap were to be applied and be the only potential source of profit for a lender, then the cost to a person borrowing \$50 over two weeks (leaving to one side the struggle to stop bank and lender dishonour fees and charges) would be 92 cents. A 48 per cent cap, of course, would be unprofitable for a sector which deals with high-risk lending practices and would, according to the CEO of a major payday company interviewed for the research, abolish loans below \$500. Therefore what is actually at stake in this debate is the existence of payday loans below \$500.

The overall aim of those campaigning for a 48 per cent comprehensive cap (or for the 10+2 cap rather than the 20+4 cap the Government is now proposing) is to support borrowers by taking away their access to these lenders. The general thrust to lower fees and charges to the 10+2 levels the community sector proposes is cautiously welcome, but not the aim. Lower-cap policies need to be balanced against the very real risk that regulated market access to very small loans will be abolished. Further independent research needs to be conducted to test whether the 10+2 proposal is viable or would deny borrowers access to such loans. We are sensitive to the borrowers' clear view – particularly those with the least financial means – that they take out small loans because they lack other options. We therefore do not agree with any immediate aim to abolish the sector. Most borrowers interviewed could not see how such a unilateral position would benefit them. Instead, many interviewees have proposed alternatives to help them meet their regular and irregular expenses and needs prior to any movement in this direction (see section 7.4).

However, whatever form of interest rate cap emerges, the policies do not address the causes of over-indebtedness, 'a matter of common sense debt is the cause of over-indebtedness and the two factors that are going to influence the extent of debt are the amount borrowed and the interest and fees on the amount borrowed' (Ashton, 2008: 5).

7.3 Other policy measures

In addition to the legal and regulatory policy responses there are other measures that aim to increase capacity among borrowers so that they are in a better position to avoid relying on payday lenders in the first place. Clearly, some of these measures require considerable investment and long-term change at the individual, economic and social level. In this overall approach, education and financial literacy clearly has a role to play. Research shows that credit counselling has a positive effect on personal debt levels,

provides a buffer against financial hardship and facilitates long-term change (ANZ Bank, 2005; Courchane & Zorn, 2005) if coupled with structured opportunities to save, financial education, can increase participation in savings plans and increase the level of savings for people (Barr, 2004). Whilst financial counselling serves a developmental function, assisting borrowers to develop the skills and knowledge they need – most people initially access counsellors for more corrective intervention to intervene when debt spirals out of control, to negotiate directly with lenders and banks and to assist people to re-establish financial control. Lack of financial knowledge and skills actually is only one part of the picture, as the present study has shown. Singh et al (Singh, Myers, McKeon, & Shelly, 2005) take a broader approach and argue that the main gap in the literature is in the study of the social and cultural dimensions of debt, credit and decision-making.

Many economic behavioural analysts have focused upon explanations for an individual's choices (see for example, O'Donoghue & Rabin, 2001, 1999a, and 1999b). Singh et al argue that with the inclusion of the social and cultural perspectives, financial decision-making no longer remains an individual economic issue. Singh et al argue that culture needs to be understood as an important macro factor in understanding consumer behaviour because money is a social and cultural phenomenon. Their paper explores different attitudes to money and credit among other cultures, exploring the way in which culture influences the meaning of money, who money is shared with, management and control of money, attitudes to savings, attitudes to spending and credit and attitudes to financial institutions. So whilst money is an object – an inert thing – it is also has subjective and affective meanings as well which influence people's attitudes and behaviour. Through this lens, gaining access to money, and relatedly access to credit, is about attaining achievement and recognition, status and respect, freedom and control. From this perspective, financial literacy is limited in its effect unless the social and cultural meaning of money and debt is properly understood and acted upon.

The explosive growth of the global financial sector in the last three decades years has contributed to dramatically shifting the social meaning of money in people's lives. The pervasive 'power of finance' encourages individuals to think of their households as enterprises and themselves as 'two-legged cost centres' (Blackburn 2006: 39). However, the lived experience of the 'financialization of daily life' (Martin 2002) only partially entrenches a social acceptance that improving one's household finances can be reduced to a matter of personal responsibility and competence in managing money. Politically buttressing the supposedly natural character of financialisation has been the 'democratization of finance' – the false promise that now *all* households 'can make money and manage risk by buying appropriate financial services and products' (Erturk et al. 2007: 553). In this sense the growth of the payday lending industry is a 'democratic' response to the demand by an increasingly financially excluded section of the community for financial services and products. The tension between the promise that a financially literate citizenry can rationally organise their lives and the actual uncertainty of a person's economic circumstances is most acute among those who are poor.

In the present study teaching financial literacy in secondary schools was discussed by consumer advocates as a measure to increase borrower's financial awareness and thus ensure a more informed choice when taking out a loan. Schools were mentioned as the key institution for teaching financial literacy, due the important roles primary and secondary education play in the socialization process and the fact that by the time people reach adulthood, they have already formed financial habits and behaviours which lead to financial mismanagement.

Despite the fact that financial literacy is key to being able to operate as a fully functioning adult, participants discussed how most schools in Australia did not include it in their curriculum.

The financial literacy has to be taught at school. I mean we teach people mathematics, we teach them biology, chemistry, this sort of thing and that's very useful in terms of an academic education, but also teaching them skills such as balancing the budget, all of these sorts of things.

(Consumer Advocate, southern Qld Metro)

Support for structural changes and acknowledging structural causes of demand for payday lending was also a common theme in solutions out forward by consumer advocates. One of the study's clearest findings was that many people talked about the *lack* of options they had in struggling to manage their finances. These borrowers are working within highly constrained notions of choice and as such we need to be careful about simply encouraging more education.

Most of the participants in the study were aware of the high costs associated with payday loans. However it is also disingenuous on the part of lenders to simply say their customers accept the higher charges because the risk of default is higher, compared with banks. One lender interviewed for this research, for example, said the loans he provided were more akin to the relatively high cost of hiring a sander from Bunnings for the weekend rather than leasing it for a year or buying it. What is missing from this lender's account is that no person continually hires a sander every weekend, as is the case with many people borrowing payday loans. Interviewees (frequently receiving Newstart Allowance) commonly pay between \$15 and \$17.50 to borrow \$50 for a fortnight. Should this transaction be compared to a personal loan taken out through a bank? Seen through this lens, a \$15 charge for a fortnight's borrowing of \$50 attracts an annual rate of 780 per cent interest. However, interviewees for this research, especially the majority who are in receipt of an income support payment from Centrelink, do not view their loans through such a long-term, abstract lens. Borrowers concretely talked of the amounts they had to repay, the dishonour fees and charges from banks and lenders, and compared these amounts to what they received from Centrelink. That is, they talked about how expensive the loan was as a proportion of what they had to live on.

7.4 Practical steps

1. Increase Centrelink payments.

We consider that that the Government's commitment to financial inclusion needs to involve far more than 'providing opportunities for those who are financially disadvantaged to improve their own situation' (The Australian Government 2012: 4). Borrowers strongly recommended that their incomes be improved in order to reduce their reliance on high cost, short terms loans. Accordingly we support the position of the Australian Council of Social Services (ACOSS) that *Newstart Allowance and Parent Payment Partnered recipients need to be paid at the pension rate, and the higher costs of living experienced by Disability Support Pensioners requires additional Government financial support* (ACOSS 2012: 3).

2. Weekly Centrelink payments

The recent Treasury discussion paper *Strategies for reducing reliance on high-cost, short-term, small amount lending* notes that 'receiving (income support) payments on a weekly basis...is specifically targeted at those who are financially vulnerable' (The Australian Government 2012: 11). Currently, only 0.3 per cent of the 4.6 million people receiving a pension or allowance (14,500 individuals) receive their income support payments weekly (Harmer 2008: 2). Many of the borrowers we interviewed talked of taking out a payday loan in their Centrelink payment 'off week'. A Disability Support Pensioner in his 40s recalled how:

I've seen old people in (payday outlet) and they're struggling to bring their stuff in - because they can't afford that second week that they've got nothing. They can't afford to live.

Receiving a fortnightly Centrelink payment puts undue financial pressure on many borrowers. To ease the stress of organising their budgets, respondents clearly support the option of receiving their payments weekly. *We strongly recommend that all income support recipients be given the option of weekly Centrelink payments.*

3. More flexible Advance Payments

Interviewees also identified many problems they have with Centrelink Advance Payments. Currently the minimum Centrelink Advance Payment a single person can request is:

- a \$361.55 (Age Pension, DSP, Carer Payment, Widow B Pension and Wife Pension); or
- b \$250 (ABSTUDY, Austudy, Newstart Allowance, Parenting Payment Partnered and Single, Widow Allowance and Youth Allowance); plus
- c \$188.20 (FTB)

Except for Abstudy, Austudy, Youth Allowance (Student) and FTB recipients, access to Advance Payments is restricted to Centrelink customers who have been in receipt of a pension or payment for at least three months. An Advance Payment can only be taken once in six months (group a and c) or 12 months (group b). Group A clients can 'draw down' their Advance Payment in three tranches. The default repayment schedule set by Centrelink is 13 fortnights. There are only two ways a person can repay an Advance Payment more promptly. The first is to know about the poorly explained provision that they can negotiate a faster repayment schedule with a Customer Service Adviser at the time of claim. The second is to come into a Centrelink office with cash.

Many Centrelink participants we interviewed take out payday loans of between \$50 and \$300, repay them within two to six weeks, and borrow again. The Centrelink Advance Payment arrangements need to reflect these practices. *Nearly all the complex restrictions currently applying to Advance Payment eligibility, amounts and repayment schedules need to be removed for transfers of less than \$500.* For example, a person should be able to go online or ring to take

out a \$50 advance, receive it in their bank account by the next day, repay that amount in two weeks and immediately take out another payment.

A young single parent pensioner we interviewed in Melbourne talked about how greater flexibility in Centrelink advances would help her:

The one thing with Centrelink loans is there's no interest. It's your money that you're getting paid earlier, you know...if I could go in and get \$200 every three months, like I do with (payday company). That would be great because it would stop me a lot of the time from going there. And then I would be saving money. Even though the interest payments are very small at (payday company) I would rather not have to pay them...I would save myself \$300.

Serious consideration should also be given to revising the blanket prohibition of Advance Payments to income support recipients who have a separate Centrelink debt that is not related to their Advance Payment. We suggest that a social worker assesses whether a claim for a small advance (\$50-300) would materially benefit the well-being of such claimants.

4. Broaden Centrepay

Centrepay eligibility needs to be extended for a broader range of purposes. In our interviews with borrowers who were Centrelink customers they called to increase the flexibility of Centrepay to meet their *calendar* monthly repayments – especially for insurance. Given that Centrelink payment cycles are mainly fortnightly (and we hope in the future, weekly) we suggest that the Government investigates how irregular Centrepay transfers may occur.

5. Mandate banks notify customers who incur a dishonour fee of fee-free accounts

Many people we interviewed also talked about their repayment problems. This was often due to direct credit transfer issues between the bank, the lender and Centrelink which resulted in dishonour fees from the bank or extra charges from the lender.

A homeless Melbourne man in his 30s receiving Newstart Allowance raised how the high cost of repaying multiple loans was exacerbated by unexpected bank charges and lender fees.

When I had the three loans going, if the bank had taken out (a dishonour fee) it would ruin basically one of them every time, and they (the bank) would always make it ruin the biggest one, and then you get in trouble with them (the lender). The next thing you know you're in an argument with them and you can't pay them, then those fees jump up, and jump up, and jump up because you can't pay them for the next few weeks until you get on top of the other stuff. A lot of times man this happened, a lot of times.

We heard from borrowers that they thought only some banks (NAB and the Commonwealth Bank were most commonly mentioned) provided accounts that did not charge dishonour fees. Many borrowers were unaware that all banks provide these type of accounts. *We encourage the government to mandate that mainstream financial institutions and banks notify in writing to every customer who incurs a dishonour fee that they consider changing to an account which does not attract dishonour fees.*

6. Continue to expand alternative forms of credit

Alternative financial products and services that target low-income clients have increased in recent years. Low-interest and no-interest schemes such as the NILS program and other microfinance schemes provide loans for purchasing household goods, car repairs and covering start-up costs for establishing a small business. For example, the NAB and Good Shepherd Microfinance Program, which has been in operation for over ten years, grew by 84 per cent in the 12 months to February 2012. Over the past decade 35,000 loans have been provided and \$130 million issued (nabITAT, 2012a).

The recent Treasury discussion paper *Strategies for reducing reliance on high-cost, short-term, small amount lending* proposes 'one-stop shop financial services hubs' be created to:

Address financial exclusion by providing a retail service delivery model which could compete with the service offered by high-cost small amount lenders...through offering financial counselling, access to microfinance products, Emergency Relief, money management education and referrals to the Home Energy Saver Scheme...Additional products could also be developed to directly compete with small amount loans currently provided by payday and fringe lenders.

(The Australian Government 2012: 27)

The first of three stores operating within this model (co-funded by NAB and the Victorian Government) was launched by Adam Mooney, the CEO of Good Shepherd Microfinance, in April 2012 (nabITAT, 2012b).

Borrowers requiring a loan to meet one-off household expenses will benefit if the No Interest Loan Scheme were to be expanded and marketed more widely. Similarly, easier access for individuals seeking financial counselling, debt management and financial information is a welcome development. However, the claim by the Australian Government that the hubs could 'directly compete...with payday and fringe lenders' is untested. The timeframes and purpose of the product may not meet the needs of many payday lending customers. NILS and other microfinance schemes offer products for one-off purposes and usually take more than one day to process a claim. Two key findings in the research are that borrowers want cash immediately, and they are twice as likely to take out a loan to help meet their day-to-day, rather than irregular, expenses. Micro-financing schemes therefore operate in a complementary market space to the payday lending industry.

7.5 Conclusion

This research project has investigated the experience of accessing short-term, small loans in Australia, which is an area of the financial services sector that has been rapidly growing. The research explored the main reasons for this growth and its fiscal and social consequences, especially for borrowers. What is clear is that the discussion of these issues needs to move beyond assigning individual blame, and policymakers need to take into account the complexity of the abovementioned responses and the increasing demographic of people struggling to make ends meet in an increasingly uneven economic climate. As one participant stated: *“If you took payday lenders away, yes, it would actually help people get help quicker when they've got a problem. It would create less harm to the families....”* While that simple solution may be enticing, it begs the larger question of what creates the problem in the first place, which is linked to increasing inequality and unequal opportunities in relation to the Australian economy.

In addition to appropriate regulation of the payday lending industry it is clear that we have to get better at tackling the root causes of the increasing reliance on high cost credit. It is too easy to simply blame consumer culture and an instant-gratification society for the popularity of the payday lender. There are deeper, structural reasons for the rise in payday lending in countries such as Australia, the UK, Canada and the US (Rivlin, 2011). The housing market and labour market in Australia are both becoming increasingly segmented with economic security and affordability for some and insecurity and spiralling costs for many others. Until these issues are addressed in a substantial way, alongside the rising cost of living, it is difficult to see any reduction in demand for credit to meet regular and irregular expenses.

However, even if these structural issues were addressed to a satisfactory level we would still need a discussion about the appropriate regulation of credit. And in this debate we need to get beyond the conventional logic that the best way to serve lower-income households is to charge them more for credit. Such common sense ideas only serve to entrench the fact that ‘the poorer you are, the more things cost’ (Brown 2009). This ‘poverty premium’ has been quantified in a UK study:

It is a shocking injustice that the poorest families in the UK pay higher prices than better-off families for basic necessities like gas, electricity and banking. The costs that poor families bear in acquiring cash and credit, and in purchasing goods and services can amount to a ‘poverty premium’ of around £1,000; 9% of the disposable income of an average-size family.
(Family Action 2007: 1)

Regrettably, the notion that ‘you have to be rich to be poor’ (Brown 2009) currently seems to be counterintuitive in Australia:

*People who are in vulnerable financial positions, the interest rate they have to pay is sky-high whereas it should be the other way. If people can demonstrate financial difficulty, they should be offered a **lower** interest rate with more reasonable payments. Our whole system, the banks and everyone else, does it in reverse.*
(Financial Counsellor, eastern Vic Metro)

Alongside food, rent, transport, education, health and other life necessities, equal access to affordable credit should be a moral and legal right for all Australians.

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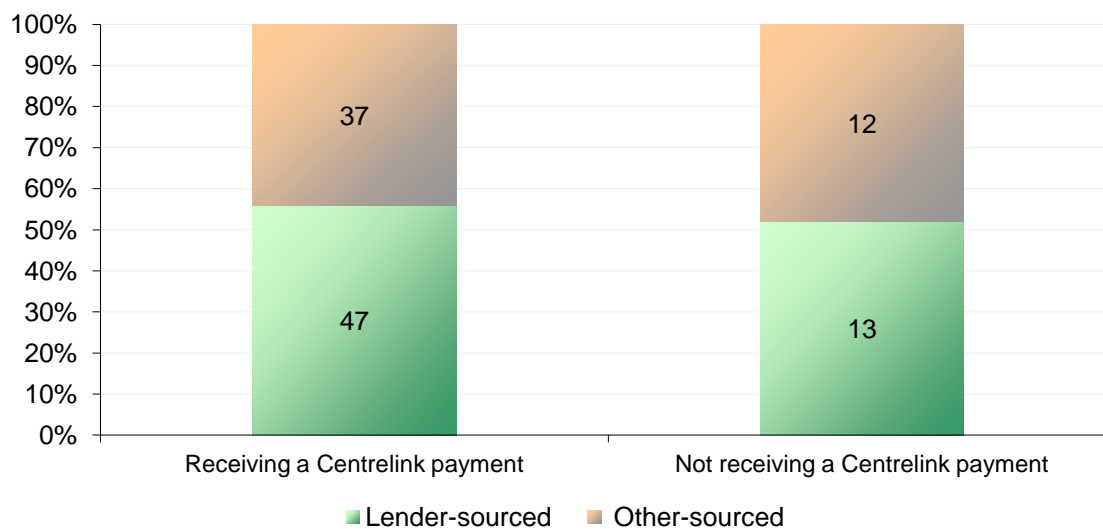
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Appendix

Comparing lender-sourced respondents to other borrowers

A notable methodological finding is that there is little to distinguish the borrowing practices, attitudes and backgrounds of lender-sourced participants from those who found out about the project through financial counselling agencies or other means. Comparisons between lender-sourced and other borrowers are made against seven of the key statistics in the preceding borrower findings sections (see below). There are remarkably similar proportions of interviewees in both source categories who are in receipt of a Centrelink payment (Figure 17). Lender-sourced participants are slightly more likely to consider their current financial situation to be the same as earlier times in their lives than other-sourced respondents – who were somewhat more pessimistic about their present financial circumstances (Figure 18). The ratio of people in the two groups was quite stable across three related issues – their perceived credit-worthiness and whether they had a credit card or taken out a bank loan (Figure 19). Against excessive gambling, drinking and illegal drug-taking, other-sourced participants were somewhat more likely to consider they had a problematic relationship with illegal drug-taking, compared to proportions in the two addictive behaviour categories (Figure 20). Lender-sourced participants were slightly more likely to be heavy borrowers (over 10 loans in the last two years) compared to other-sourced borrowers (Figure 21). Lender-sourced borrowers were somewhat less likely to support the continued existence of the payday industry (Figure 22). Patterns of borrowing practices were fairly similar between the two groups, though lender-sourced participants were relatively more likely to be ‘cyclers’ than other-sourced borrowers (Figure 23) When taken in the aggregate, how a person found out about the project has only marginal statistical impact on the research.

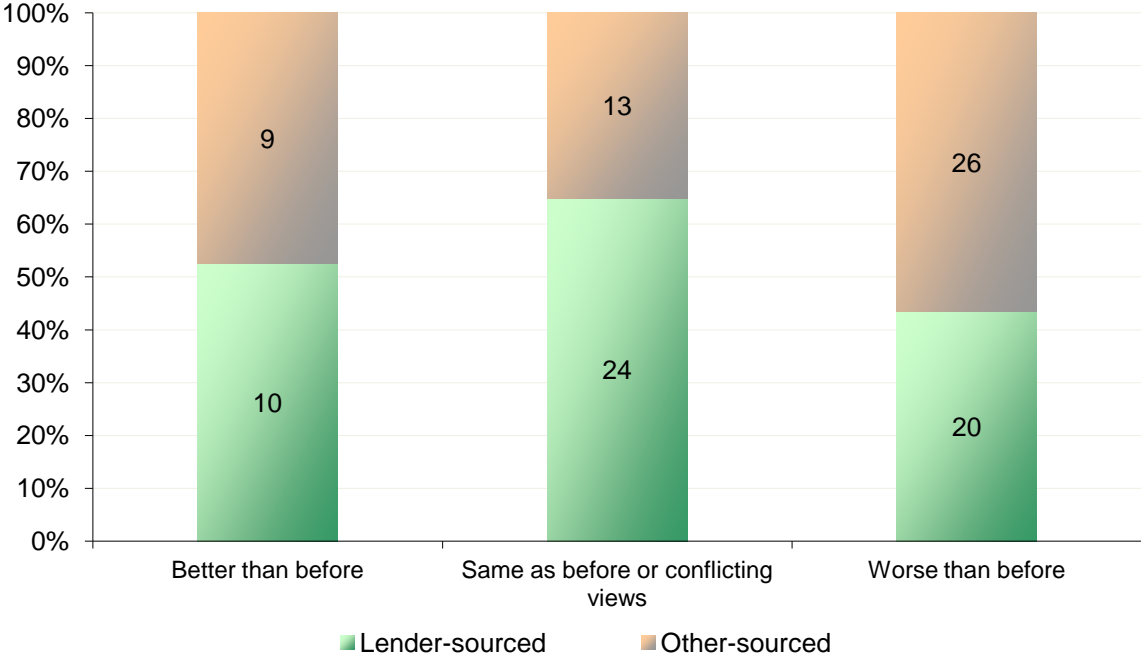
Figure 17
Receipt of Centrelink payment by source of borrower



Number of respondents = 109¹³

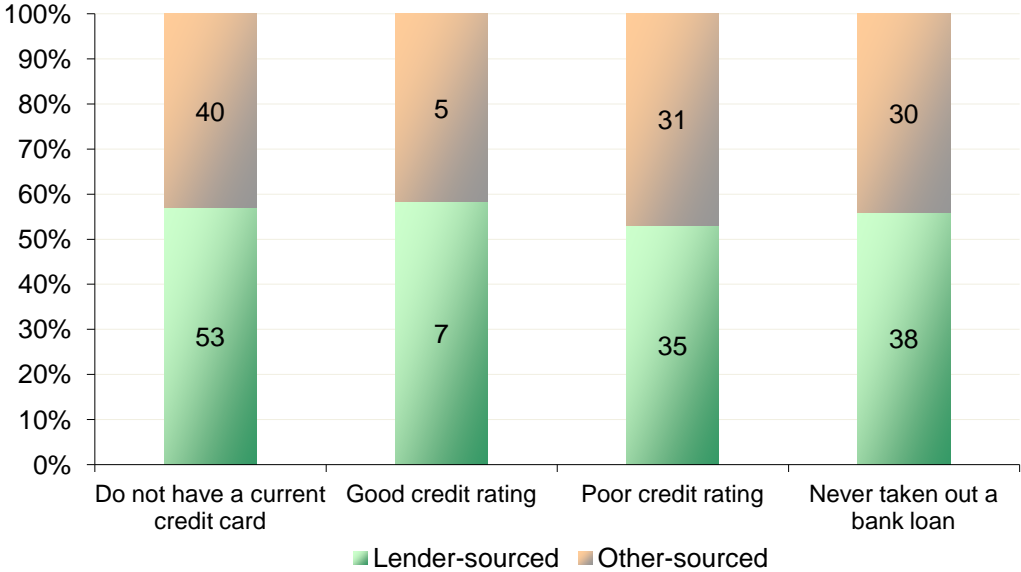
¹³ The source of three participants is unknown.

Figure 18
How would you describe your present financial situation?



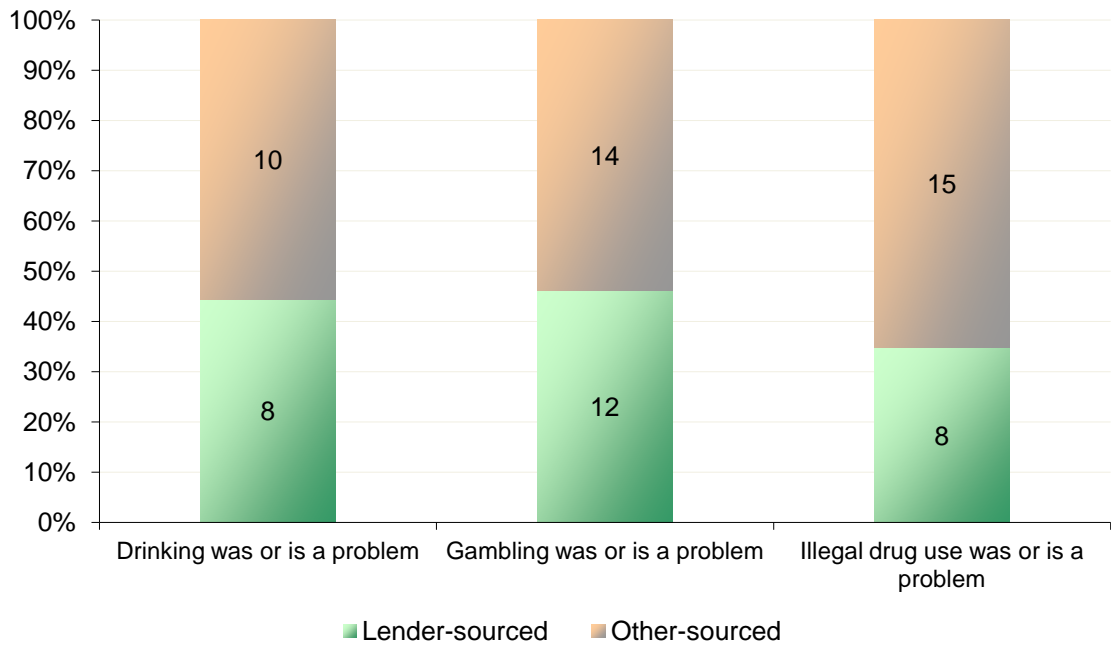
Number of respondents – 99

Figure 19
Selected credit issues



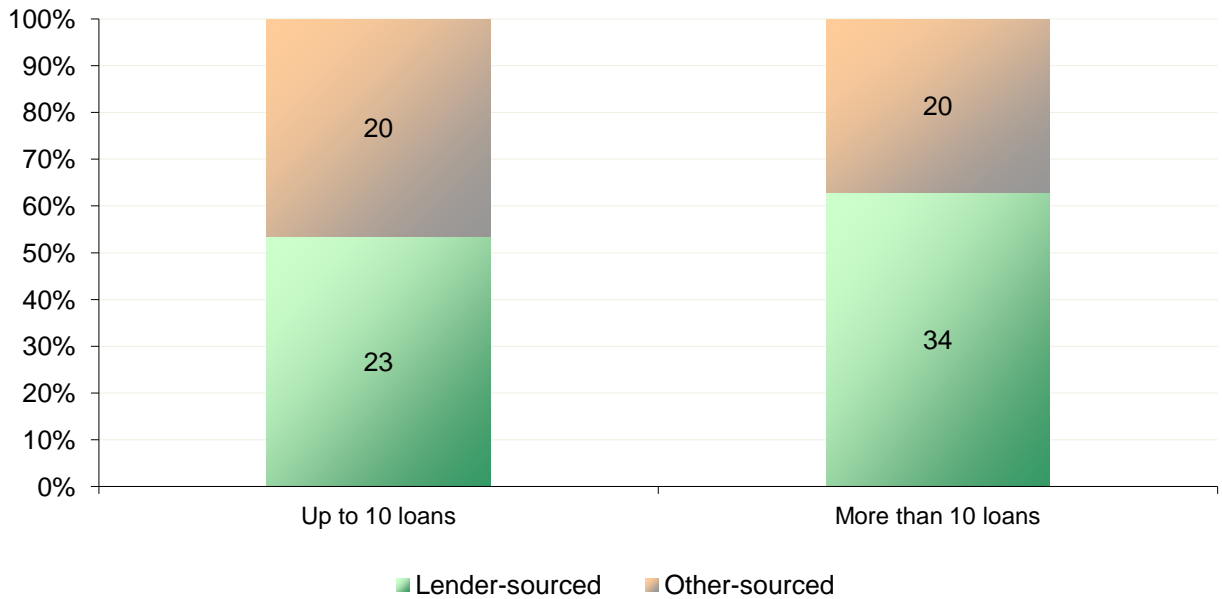
Number of responses – 239

Figure 20
Gambling, drinking or illegal drug-taking seen as a problem by the participant



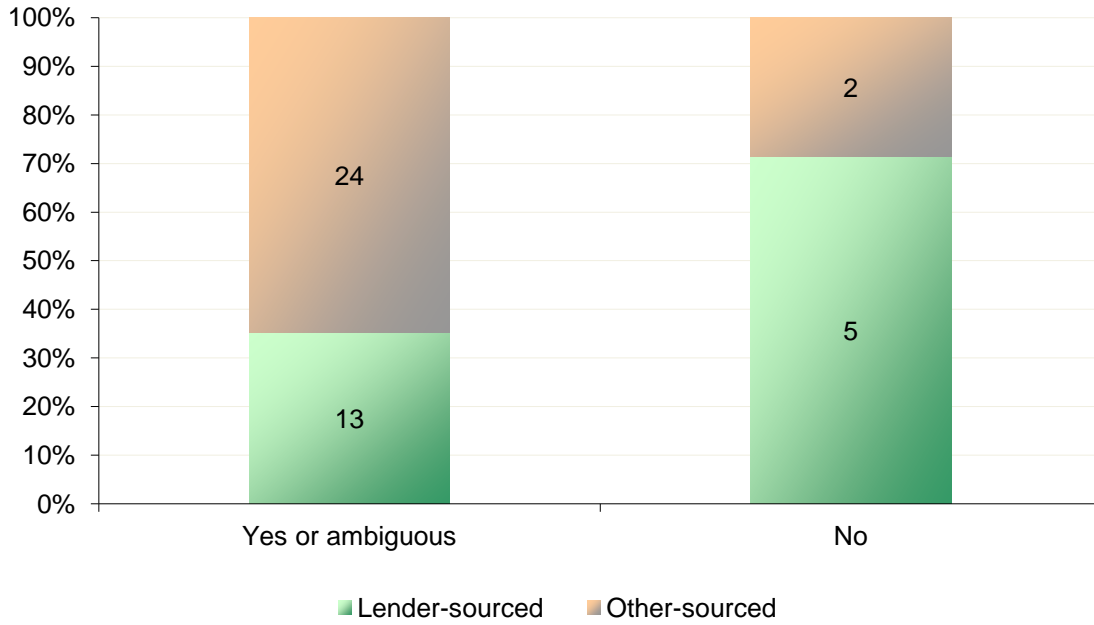
Number of responses – 67

Figure 21
Number of loans taken out in the last 2 years



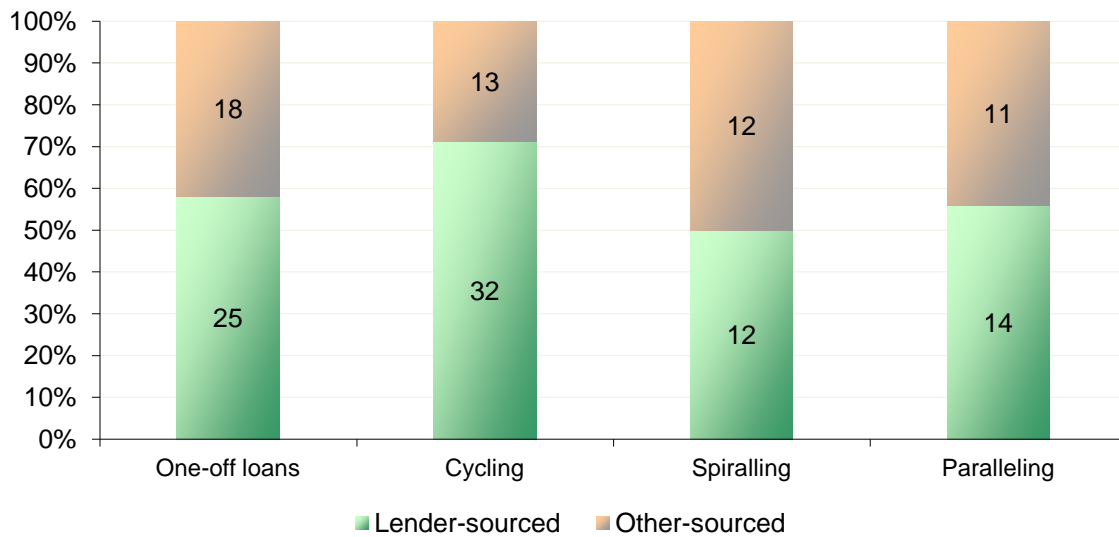
Number of respondents – 93

Figure 22
Do you think payday lenders should exist?



Number of respondents – 44

Figure 23
Borrowing practices of lender-sourced and other participants



Number of responses – 137
 Number of respondents – 100