# Taking the Stress Out of Managing Money

## A report examining the use and impact of payday lending on low income families in the City of Greater Dandenong

Prepared by Hanover Welfare Services
with support from the Consumer Action Law Centre
and Good Shepherd Microfinance

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# Contents

# Executive Summary

People using payday lending have become increasingly visible in Hanover's housing crisis services. After paying for food, school expenses for children, low income people who are homeless or at risk often struggle to meet payment for other basic essentials, including utilities, motor vehicle and other expenses. As a result many tend to use pay day lenders to supplement their income, without fully understanding the consequences of unpaid debts. Of these most do not seek support from community agencies that could prevent their use of payday lenders.

In 2012 Hanover (in partnership with Consumer Action Law Centre and Good Shepherd) was funded by Legal Services Board Victoria to undertake a project to investigate the causes and impact of payday lending, especially for vulnerable consumers, in Dandenong, one of Melbourne's most disadvantaged areas.

### *The purpose of the project*

The *Taking the Stress out of Managing Money pilot project* aimed to assess the efficacy of building community capacity to address the needs of people in financial stress, through timely access to legal services and by developing an evidence base for enforcement of existing consumer protections relating to payday loans.

It sought to achieve this aim through the following key objectives:

- exploring the impact and increasing problem of low-income consumers lapsing into housing crisis following use of formal payday lenders in a discrete municipality, particularly in light of legislative changes that came into effect in April 2013; and
- building the capacity of local service providers, especially those without finance expertise, to understand and address this issue with their service users.

### *Project elements*

The project employed three key elements:

- Action Research with consumers and service providers to inform understanding of borrower practice and experience, especially borrowers from the CALD community, in relation to payday lenders in the City of Greater Dandenong;
- Community Capacity Building – training, adapted for use with the local non-legal service providers, to address the needs of their clients dealing with payday lending matters; and
- Resource development for service providers and borrowers – assisting clients about making a complaint and workers to assist in performing financial health checks, highlighting the support clients will require.

## Key Findings

A brief 30 minute survey was completed by 49 volunteer participants who were recruited through five services located in the City of Dandenong and selected on the basis that they had accessed a payday loan. Despite the municipality being the most culturally diverse in the state and a recruitment strategy that targeted persons from those diverse communities, the final sample comprised mostly single people with an Anglo background. The youngest participant was aged 18 years and the oldest was more than 70 but two-thirds of the sample was aged between 31 to 50 years; with an equal number of women and men. Only one-quarter were in private rental while the majority were homeless (most were in crisis accommodation) and received income support.

### *Ongoing financial hardship*

The findings illustrate a picture of disadvantage and ongoing financial adversity. Those who accessed payday loans had experienced financial stress and hardship on a daily basis. Many participants had poor credit histories, limited financial literacy skills and had repeatedly used payday loans to subsidise their finances. With low incomes, they simply did not have enough to cover everyday expenses such as food, bills, medication and transport.

### *Experiences with payday lenders*

In general, borrowers reported having a relatively positive experience with payday loans; the main issue they identified was repaying the exorbitantly high interest rates. Borrowers suggested that interest rates be lowered and the loans extended over longer periods of time, to support the unexpected financial matters, which impacted heavily on their very limited finances. Despite high interest rates, this sample of borrowers was not deterred from payday loans. Many reported that they would access payday loans in the future, essentially because these loans were quick to obtain and provided an instant solution to their immediate needs.

In summary, for financially vulnerable people, payday loans were:

- A convenient form of cash, which addressed immediate financial need;
- Used to cover the gap in their income levels, which often did not meet all of the families financial needs;
- The only option left when experiencing financial hardship;
- An option that people intended to access again if needed; however,
- They would not recommend payday loans to others.

In the context of the amended legislation, which came into effect in April 2013, most participants reported that they had understood the terms and conditions of payday loans and they had been asked to provide proof of their income. However, almost half were *not* asked about their everyday living expenses. While participants had to complete more paperwork (such as providing bank statements or Centrelink statements as proof of income) prior to receiving a payday loan, this tended to happen only during the initial contact with the payday lender. Following this, borrowers were able to return to access more loans without re-presenting proof of their income.

### *Responding to the needs of people financially excluded*

Within the City of Greater Dandenong, there are a range of financial services offering support with money management, budgeting and assistance with dealing with debts. People experiencing financial hardship can, for example, access loans through a Good Shepherd Microfinance No Interest Loan Scheme (NILS) and StepUP® (a Good Shepherd Microfinance low interest loan) to purchase white goods or pay for car related expenses, such as maintenance and repairs.

They can also access support from the Dandenong Community Advisory Bureau and the Benevolent Society, as well as the local Salvation Army, for food parcels and vouchers. But these can only be accessed a couple of times a year. Residents who find themselves behind in their rent may access Rent In Advance from the local housing access point, WAYSS. Those on Centrelink payments may also access Centrelink Advance loans twice a year, of up to $1000.

However, few of the participants were aware of these community services. Also, strict eligibility criteria tend to restrict peoples' access to needed support and services. Access to financial support is not always available to people struggling financially whenever they require it. Long waiting times are also a feature of limited resources and strict eligibility requirements. These issues leave vulnerable people with very few options to address their financial difficulties. Within this context, payday loans present an attractive, and inevitable, alternative.

Having said this, however, it is important to understand that, in some circumstances, additional loans will further disadvantage households. For many indebted financially vulnerable people, additional credit, even if it is "safe" (such as a no-interest-loan) will not assist them. It could even be deemed irresponsible to give a person a no- or low-interest-loan if they cannot pay it back. It is really only when their financial circumstances have stabilized, that is, the debt is repaid or wiped, that community services that offer no- or low-interest loans are better placed to support vulnerable households.

The results from the training of thirty agency workers indicated that they had benefitted from the training. Both their level of knowledge increased as did their confidence in referring clients on to appropriate financial services. Referring clients to financial counsellors is particularly important when dealing with people who experience financial difficulties and hardship; it means that credit and debt matters can be dealt with in a timely and effective manner.

### *Strengths and limitations*

The strength of this project is that it builds on the findings of major reports that have provided important context around the practices of payday lenders and experiences of low income households by providing a place-based component. It would therefore be possible to replicate the project in other disadvantaged areas, with a view to developing and implementing an early intervention localised response. This would entail training frontline workers to identify early warning signs of financial stress, and to make appropriate referrals to support clients with appropriate financial assistance and guidance. The project demonstrated that people continued to seek help when it was often too late to avoid a debt trap and financial crisis.

The lack of diversity in the sample, mentioned earlier, is a major limitation of the project. Attempting to engage low-income households from the CALD community proved extremely difficult. Despite considerable effort and strategies to recruit, such as translated brochures and the use of translators, only a handful of eligible people agreed to be involved.

Two issues emerged around recruiting participants from CALD communities: the first related to a general reluctance to discuss or share information regarding private financial circumstances, not only with strangers but with other community members. The second issue related to literacy skills. Workers indicated that often clients they were seeing from the CALD communities had literacy difficulties with English as well as their own language.

A further limitation relates to the absence of input from payday lenders. Due to limited resources, it was not possible to include their perspectives, especially in relation to the extent to which legislative changes may have impacted on their lending practices.

## Recommendations

The following recommendations are based on the findings of the *Taking the Stress Out of Managing Money* project.

### *Policy*

- More active enforcement of responsible lending obligations and practise by ASIC;

- Review and assess the market competition for payday lending to ensure it provides fair and efficient outcomes for borrowers. Additional rules could be considered, including:

- Limiting repayments on payday loans to a small percentage of monthly income (say 5%) to ensure a borrower's essential expenditure and other liabilities are considered;
- Limiting the total amount of loans provided to a borrower each year, to reduce the likelihood that a borrower becomes reliant on payday lending; and
- Further limit the costs and interest that can be charged by lenders.

- Review the level of income support by government for vulnerable people who become trapped in financial hardship and who are financially excluded from mainstream banking.

### *Program/Practice*

- Better communication within the local community services sector - especially about where borrowers can turn when they feel aggrieved; and/or to make a complaint against a payday lender.

- Prevention and early intervention – the level of debt that financially vulnerable people endure is an ongoing risk factor causing overwhelming stress – perhaps there could be an *amnesty on debt.*

- Training for frontline staff about the warning signs of financial stress, about how to respond promptly and how to refer to relevant services for support.

### *Research*

- A longitudinal perspective would be useful to more comprehensively explore the effectiveness of interventions.

- A different strategy to recruit borrowers from CALD community and forge better links with the agencies that work with CALD communities – this remains a major gap in the study.

# 1. Introduction

This report presents the results of a pilot project undertaken in 2012 by Hanover in partnership with the Consumer Action Law Centre and Good Shepherd Microfinance. Funded by the Legal Services Board Victoria, the project, titled *Taking the Stress Out of Managing Money,* investigated the causes and impact of payday loans, especially for vulnerable consumers, in Dandenong, one of Melbourne's most disadvantaged areas.

Specifically, the project focused on building community capacity to address the needs of people in financial stress, through timely access to legal services and by developing an evidence base for enforcement of existing consumer protections relating to consumer credit. Importantly, the evidence will be used to advocate for reform of the regulatory environment protecting vulnerable consumers; especially with the review of the Consumer Credit and Corporations Legislation Bill 2011, which is due in 2015.

## 1.1. Project objectives

The key objectives of the project were to:

- explore the impact and increasing problem of low-income consumers lapsing into housing crisis following use of formal payday lenders in a discrete municipality, particularly in light of legislative changes that came into effect in April 2013; and
- build the capacity of local service providers, especially those without finance expertise, to understand and address this issue with their service users.

*Project elements*

The project comprised three key elements:

- Action Research with consumers and service providers to inform understanding of borrower practice and experience, especially borrowers from the CALD community, in relation to payday lenders in the City of Greater Dandenong;
- Community Capacity Building – through training, adapted for use with the local non-legal service providers, to address the needs of their clients dealing with payday lending matters; and
- Resource development for service providers and borrowers – assisting clients on how to make a complaint and workers to assist in performing financial health checks, highlighting the support clients will require.

## 1.2. What are payday loans?

Payday loans, often described as 'fringe finance', or 'cash advances', are essentially short-term, high cost and unsecured loans for small amounts of cash. In Australia, a typical payday loan is for $100-$300 and a term of 16 days to one month. There are also larger loans up to $2,000 for longer periods up to twelve months, which are also considered payday loans. They are called 'payday' loans because repayments are made, usually via a direct debit authority provided when the loan was established, on a borrower's pay day—whether that is wage income or government benefits.

## 1.3. What is financial stress?

Financial stress occurs when an individual or household struggles to pay for basic necessities due to a shortage of money[1] This suggests that those households receiving Centrelink benefits are especially vulnerable. Financial stress is often compounded by factors such as loss of a job, relationship breakdown, major illness or accident, problem gambling and family violence. It can have multiple impacts on a person's or households lives and is often a precursor to homelessness[2]. Indicators that low income households are in financial stress include: unable to raise $2,000 in a week for something important, spending more money than is received (in previous 12 months), being behind in paying utility bills, behind in paying for car registration or insurance, asking for financial help from family or friends, missing meals, unable to heat homes, seeking assistance from welfare or community organisations, and pawning possessions[3].

## 1.4. What is the significance of the project?

Hanover has experienced an increased visibility of those using payday lending within their housing crisis services. After paying for food and school expenses for children, low income people at risk of homelessness struggle to meet payment for other basic essentials, utilities, motor vehicle and other expenses. As a result many tend to use payday lenders to supplement their income. Whilst well intentioned, this practice generally leads to a deterioration of their financial situation due to excessive interest rates, chronic borrowing (debt traps) and opportunistic behaviour by some payday lenders.

As a result, low income borrowers are often in crisis when they seek help from agencies such as Hanover. This places a significant strain on the community sector, including community legal services. The problem is magnified among culturally and linguistically diverse (CALD) groups where language barriers, lack of local knowledge and paucity of services and support options combine to limit access to timely support. Without the information and skills to navigate the financial services environment, many low income people are susceptible to unsound financial practices, especially when on the pathway to crisis and in desperate need of financial assistance.

## 1.5. About the project partners

As noted above, the project was a partnership between the Consumer Action Law Centre, Good Shepherd Microfinance and Hanover.

Melbourne-based, the Consumer Action Law Centre (CALC)[4] is an independent, not-for-profit, campaign-focused casework and policy organisation. Consumer Action provides free legal advice and representation to vulnerable and disadvantaged consumers across Victoria, and is the largest specialist consumer legal practice in Australia.

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[1] http://melbourneinstitute.com/downloads/hilda/Bibliography/Conference_Papers/Nicol_AIFS2010.pdf

[2] Australian Institute of Health and Welfare 2013. Specialist homelessness services:2012–2013. Cat. No. HOU 27. Canberra: AIHW.

[3] www.abs.gov.au/AUSSTATS/abs@.nsf/Previousproducts/1350.0Feature%20Article350Jun%202001?opendocument&tabname=Summary&prodno=1350.0&issue=Jun%202001&num=&view=

[4] http://consumeraction.org.au/

Consumer Action is also a nationally-recognised and influential policy and research body, pursuing a law reform agenda across a range of important consumer issues at a governmental level, in the media, and in the community directly. During 2012/13, Consumer Action provided 10,887 Victorians with financial counselling assistance and provided legal advice to 4,429 Victorian consumers or community workers.

Good Shepherd Microfinance[5] is a national community organisation that provides people on low incomes with loans that are interest-free along with a range of other financial services including financial counselling. In late 2012, Good Shepherd Microfinance opened its Good Money Community Finance Hub in Dandenong. Good Money presents an alternative to the payday lending sector offering safe, affordable and responsible financial services for people on low incomes who are otherwise excluded from mainstream financial services.

Hanover[6] is a leading Melbourne-based agency that provides services to people experiencing homelessness or housing crisis. It has operated in Dandenong for over 10 years and provides crisis accommodation, employment services and other programs for people experiencing housing crisis and homelessness. Hanover continues to see a significant need for housing support as a result of financial stress and other related issues. In 2012-2013, Hanover provided emergency support to 581 adults and 208 children.

[5] http://www.goodshepherdmicrofinance.org.au/
[6] http://www.hanover.org.au/

# 2. Context

This pilot project was developed following significant policy and legislative reform in relation to payday lending. It also follows the publication of four key reports on payday lending practices, one written in 2002 and three others that date from 2010 onwards. These key reports provided an evidence base that documents people's experience of payday lending.

First, this section outlines the history, to the present day, of relevant policy and legislation in relation to payday lending.

Second, it presents a snapshot of the findings from *Taking the Stress out of Money* pilot project. This project does not attempt to substantially replicate the evidence collected and presented in these reports. Rather it drew on the findings from these reports to pilot community/service capacity building initiatives that might prevent and/or ameliorate some of the negative impacts of payday lending practices.

## 2.1. Policy and legislation

Payday loans first became widespread in Australia in the late 1990s.[7] From 1996 to 2010, consumer credit was regulated by the Uniform Consumer Credit Code (UCCC) which was applied by each Australian state and territory government. The UCCC, largely concerned with providing consumers with disclosure of key information ("truth in lending"), was enacted before payday lending arrived in Australia. As such, it was not well adapted to the payday lending industry nor the practices of payday lenders.

Various state and territory governments applied interest rate caps to supplement the UCCC and better regulate high-cost finance such as payday loans, particularly in Queensland, New South Wales and the Australian Capital Territory.[8] These caps were largely ineffective in limiting the overall fees and interest paid by borrowers due to a range of regulatory avoidance techniques exploited by payday lenders.[9] Victoria imposed a cap on interest charged, but this was not effective at limiting the amount borrowers paid because fees and charges were not included in the cap.

## 2.2. The National Consumer Credit Protection Act 2010 (Cth)

As part of the Australian Government's decision to streamline business regulation, the responsibility for regulating consumer credit shifted from states and territories to the Commonwealth Government in 2010. The National Consumer Credit Protection Act 2010 (Cth) required all credit providers, including those providing payday loans, to be licensed.

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[7] Dean Wilson (2002), *Payday Lending in Victoria—a research report*, Consumer Law Centre Victoria.
[8] See, eg, Credit (Commonwealth Powers) Act 2010 (NSW), s 5(1); Credit (Commonwealth Powers) Act (Qld), s 32(1) which limited interest and fees to 48 annual percentage rate.
[9] Avoidance techniques included the use of additional broker or third party fees, or the structuring of contracts so that additional fees were payable. Class action law firm Maurice Blackburn has launched two actions against Cash Converters alleging it engaged in such avoidance practices and breached fee and interest rate caps in NSW for the period up to 2010, see: http://www.mauriceblackburn.com.au/areas-of-practice/class-actions/current-class-actions/cash-converters-class-action.aspx

Requirements of licensing include membership of an external dispute resolution scheme, a requirement to comply with new responsible lending obligations, and a requirement to comply with the National Credit Code (which replaced the UCCC). The Australian Securities and Investments Commission (ASIC) became the national regulator for consumer credit, replacing state consumer affairs agencies.

New responsible lending laws state that a lender or broker must not suggest, assist with, or provide a credit product to a consumer unless they assess that it is 'not unsuitable' for that consumer. As part of the assessment, lenders and brokers must:

- make reasonable inquiries of the consumer about their requirements and objectives in relation to the credit contract;
- take reasonable steps to verify the consumer's financial situation;
- based upon these inquiries, assess whether the credit product is unsuitable for the consumer and only proceed if the credit product is not unsuitable; and
- give the consumer a copy of the assessment if requested.

A contract will be unsuitable if the consumer would be unable to repay it without substantial hardship or it will not meet the consumer's requirements or objectives. The requirements also apply where the credit limit on an existing contract is being increased.

Despite the existence of these requirements, payday lending continued to grow. By 2012, it was estimated that there were over half a million payday loan customers in Australia in an industry worth $800 million.[10] These estimates are likely to be conservative. Consumer advocates also alleged that payday lenders systematically ignored the responsible lending requirements, largely due to a lack of incentive for lenders to comply, and the difficulty in enforcing the responsible lending requirements.[11]

The argument for further regulating the payday lending industry arose for three key reasons: first, the fees, charges and interest that are applied to loans are seen as extortionate; second, a high proportion of lenders' revenue comes from making repeated loans to the same borrower; and, third, the direct debit authority, under which a payday lender can recover what is owed to it by directly debiting a borrower's bank account has proven to be a highly effective debt recovery tool for payday lenders. Consumer advocates also argued that payday lenders were largely used for recurrent expenditure—housing, food, utilities—purposes that were not conducive to improving a borrower's financial position. Using credit to pay for essential items is by definition unsustainable.

[10] Parliamentary Joint Committee on Corporations and Financial Services, 'Inquiry into Consumer Credit and Corporations Legislation (Enhancements) Bill 2011', December 2011.
[11] Consumer Action Law Centre, *Mission Incomplete—A snapshot of consumer experiences of short-term loans post the national consumer credit reforms*, July 2011.

## 2.3. Consumer Credit Legislation Amendment (Enhancements) Act 2012 (Cth)

Following a highly contested legislative development process, the Consumer Credit Legislation Amendment (Enhancements) Act 2012 (Cth) was enacted with effect from 1 March 2013. The "Enhancements Act" contains a set of discrete regulations directed towards payday loans (loans with a value less than $2,000 and for a period less than 12 months). The key regulations are:

- a minimum term for payday loans (must be greater than 16 days in length);
- caps on interest, fees and other charges that can be levied—lenders can impose an establishment fee of 20 per cent of total amount lent and a monthly fee of 4 per cent of total amount lent;[12]
- restrictions on rolling over payday loans and on borrowers taking out multiple payday loans—a loan will be presumed "irresponsible" where the borrower is in default under another payday loan or has in the previous 90 days borrowed two or more payday loans;
- a limit on the number of times a payday lender can use a direct debit to attempt to obtain a repayment of a payday loan;
- a requirement for payday lenders to display risk warnings at their places of business and on websites; and
- for consumers whose predominant income is Centrelink benefits, the amount of the loan repayments are capped at 20% of their income.

It should be noted that draft legislation initially proposed much more stringent requirements—outright prohibitions on rolling over payday loans and multiple payday loans; and capping costs to an establishment fee of 10 per cent of the total amount lent and a monthly fee of 2 per cent of the total amount lent. The final legislation was more in line with the preferences of payday lenders, compared to consumer advocates and financial counsellors.

Partly due to the contested nature of the new requirements, the Government included a statutory review process in the new legislation. A provision was included in the legislation that requires the Minister to commission an independent review of the payday lending regulations as soon as practicable after 1 July 2015.[13]

[12] There is also a limit on default fees to twice the total amount of the loan (excluding the costs of enforcement)

[13] The review, to be undertaken by 3 independent persons, must consider the new laws, whether a national database of payday loans be established, and whether there are new regulations that should be adopted. The report must be tabled in each House of Parliament. It is worth noting that in the days before the Enhancements Act was passed, the Minister also requested ASIC to undertake an immediate review as to any limitations in the new rules that would inhibit ASIC from taking enforcement action, and the effectiveness of a database to assist it enforce the new laws. The outcomes of this ASIC review have not been made public.

## 2.4. Key reports

Four significant reports provide important context around payday lending practices: *Caught Short: Exploring the role of small, short-term loans in the lives of Australians*, *Final Report, August 2012* http://www.uq.edu.au/swahs/news/CaughtShortFinalReport.pdf; *Measuring Financial Exclusion in Australia*; *Payday Lending in Victoria,* and *Payday loans: Helping hand or quicksand?* These reports provided an important evidence base to inform the most recent policy and legislative reforms in the field.

### *Caught Short*

*Caught Short: Exploring the role of small, short-term loans in the lives of Australians*, *Final Report, August 2012*, provides a national perspective of the role of small, short-term loans in the lives of Australians. This report highlighted the need for new reforms after identifying that almost 80 percent of those accessing payday loans were recipients of Centrelink payments or pensions and 20 percent were born overseas.

It was noted that clients were taking on smaller loans more frequently and therefore being pulled into a cycle of debt, which often would see them re-borrow from lenders to pay off their outstanding loans.

The report called for new policy and practice directions to prevent those on low incomes from falling into this cycle of debt, including; increasing Centrelink allowances and pensions, move to weekly Centrelink payments, flexibility with advance payments, opening Centrepay up to support client needs, influence banks around notifying customers when dishonour fees are incurred and also look to develop other forms of credit.

The *Caught Short Report* played an important role in highlighting the predatory practices of lenders in the community and how the high interest rates would often lead low income earners into debt traps

With the inclusion of the lenders perspective in the report, it promotes the idea that this is a growing market and is a fast solution to needing money for those who have no other credit options, including those on Centrelink and those who have recently moved to Australia.

### *Measuring Financial Exclusion in Australia*

The 2011 report, *Measuring Financial Exclusion in Australia* (National Australia Bank and Good Shepherd Microfinance), highlighted the difficulties in accessing credit from a mainstream credit provider was often due to insufficient income or a poor credit rating.

The report noted that people from the CALD community can be at a particular disadvantage, as they often have no credit history and are receiving low incomes, including Centrelink incomes due to their (relatively) recent arrival. Furthermore, due to their unfamiliarity with Australian service systems, many lack the basic information and even understanding about how to navigate the systems which establish credit ratings.

This report does however establish that credit is an important tool for personal or household finance management that is used daily by most people in the community. The form which credit takes might be different depending on an individual's ability to access mainstream services in the community, thus leading many people to access payday lenders.

### *Payday Lending in Victoria*

In 2002, Dean Wilson (Consumer Law Centre Victoria), released his paper *Payday Lending in Victoria – a research report e*xamining the practices of 16 payday lenders operating in Victoria, of which three were located in the City of Greater Dandenong. He described their predatory practices towards vulnerable consumers. Wilson reported that loans were predominantly taken out by people to meet household expenses and that if borrowers were to take out more than one loan, they would invariably take up to 6 within a 12 month period. These back-to-back loans lead borrowers into debt spirals with an increasing reliance on credit.

Wilson highlighted the need for capped interest rates on payday loans arguing that it would be beneficial for banks to consider developing a low interest loan tailored to meet the needs of low income earners. He also recommended expanding the NILS program to incorporate loans for cars (which are now accessible through the StepUP Program) and flexibility around Centrelink Advanced payments.

Written over ten years ago, this initial report showed a growing demand for payday loans and highlighted the major concerns, including predatory practices subsequently identified in the *Caught Short Report*.

### *Payday loans: Helping hand or quicksand?*

In 2010, the Consumer Action Law Centre released their report *Payday loans: Helping hand or quicksand?* (Zac Gillam)[14] reviewing the short term loan industry in Australia. It also examines the growth of payday lending in America and the impact this has had on the people accessing such services.

This report built on the 2002 Wilson report and its outcomes. The 2010 report considers the increases in the payday lending market, particularly via the internet, and the ongoing struggle to combat the use of high interest loans by low income earners and Centrelink benefit recipients. Gillam notes that online access to payday loans has made them highly desirable among consumers particularly because the consumer can remain anonymous.

The Gillam report also provides insight into the different state regulations within the payday industry and how this allows some payday lenders to flout the rules. As a result the Gillam and the Consumer Action Law Centre called for the introduction of comprehensive interest rate caps across all states, providing clear and uniform regulations for all Australian lenders.

[14] Zac Gillam (2010), *Payday loans: Helping hand or quicksand?* Consumer Law Centre Victoria.

## 2.5. Summary

This section provided an overview of the significant policy and legislative changes that have occurred in relation to payday lending as well as an outline of four key reports. These reports: *Payday Lending in Victoria (2002); Payday loans: Helping hand or quicksand (2010); Measuring Financial Exclusion in Australia (2011)*, *and Caught Short: Exploring the role of small, short-term loans in the lives of Australians*, *Final Report, August 2012* provided the evidence base documenting peoples' experiences with payday loans and the impetus for the legislative reforms.

Collectively, these reports identified significant issues experienced by borrowers in relation to payday loans. They described the background of borrowers, who tended to have limited economic resources and were, therefore, excluded from accessing mainstream financial services. The vast majority tended to be recipients of income support, while others were born overseas.

Payday loans, while expensive and short-term, provided immediate access to much needed credit. The reports highlighted the predatory behaviours of payday lenders that caught borrowers in a cycle of debt, mostly in an attempt to pay off outstanding loans by re-borrowing from the same lender. High interest rates, fees and charges put additional hardship and strain on extremely financially vulnerable groups.

Key policy and legislative responses occurred in 2010 when responsibility for regulating consumer credit shifted from the states and territories to the Commonwealth's main regulatory body: the Australian Securities and Investments Commission (ASIC). All credit providers were now required to be licensed, which included membership of an external dispute resolution scheme, obligations to adhere to new criteria around responsible lending (with the onus on lenders to assess that a borrower would be able to repay a loan), and complying with the National Credit Code.

Despite these regulations, payday lending continued to flourish and consumer advocates began to voice their concerns that the requirements of *responsible lending* were allegedly being systematically ignored. Underlying the push for further regulations were three important issues: exorbitant fees, charges and interest rates; repeated loans to the same borrowers; and the use by payday lenders of direct debit as a debt recovery tool.

Subsequent legislative reforms came into effect in 2013. The changes related to loans less than $2,000 and included capped fees, charges and interest, restricting borrowers taking out multiple loans, and limits to the number of times that direct debit can be used by lenders to recover debt. Also included is a provision for an independent review, due in 2015, by the Australian Government of the entire framework for small amount credit contracts.

# 3. Taking the Stress Out of Managing Money Project

This section outlines the location and methodology for the *Taking the Stress Out of Managing Money Project*, which commenced in June 2013.

## 3.1. The City of Greater Dandenong

The City of Greater Dandenong is located 30 kilometres south of Melbourne's Central Business District (CBD). With a population of 140,000, Greater Dandenong is Victoria's most culturally diverse municipality[15] with 62% of its population born in 150 birthplaces, mostly from Vietnam, India, Sri Lanka, Cambodia and China.

So why was the City of Greater Dandenong selected as the location for the project? Although multi-culturally vibrant, it is Melbourne's most disadvantaged metropolitan area according to the Socio-Economic Index For Areas (SEIFA)[16]. The community has extremely high rates of housing stress, unemployment and gambling losses, very poor educational outcomes for young people, and very low incomes[17]. More specifically:

- Many of the residents in Greater Dandenong live under financial stress and hardship; the average weekly gross income in 2011 was $395 (compared to $592 for metropolitan Melbourne);
- The unemployment rate is 9% compared with 5.6% for metropolitan Melbourne;
- The average rental price of a three-bedroom property was $320, as of June 2012; and
- In 2011/12, $118 million was lost to electronic gambling machines (EGMs or 'pokies') in Greater Dandenong – equivalent to over $1,083 per adult in this municipality, and the highest rate of gambling losses in Victoria[18].

With relatively high unemployment and low income, many residents would experience difficulty managing finances day-to-day and struggling to pay for necessities unexpected expenses. Moreover, such circumstances would simply exclude many from accessing mainstream financial services. It has, in fact, been reported that *'23,460 residents are either fully or severely financially excluded in the municipality'*[19].

Payday lending has grown in order to meet the demand of families and individuals who are under enormous financial pressure. There are approximately ten mainstream payday lenders in Dandenong itself, including: Cash Converters; Cash Mart; Cash Stop; CA$HIES; Cash Loan Money Centres; Insta Cash; Money 3; The Cash Store; GE Money; and JP Creditline.

[15] http://www.greaterdandenong.com/document/10768/summaries-of-social-information-cgd
[16] ABS Technical Paper, 2039.0.55.001
[17] http://www.greaterdandenong.com/document/10768/summaries-of-social-information-cgd
[18] http://www.greaterdandenong.com/document/10768/summaries-of-social-information-cgd
[19] http://goodshepherdmicrofinance.org.au/blog/good-money-dandenong-freedom-want

### 3.1.1. Financial services

Within the City of Greater Dandenong, there are approximately seven services which provide some form of direct financial counselling support to residents who are financially marginalised. They include: The Good Money Community Finance Hub; Casey Cardinia Community Legal Service; Bunurong Health Service; Gamblers Anonymous; Greater Dandenong Community Health Service; Ystop and Dandenong Community Advisory Bureau. The community can also access the Good Shepherd Microfinance No Interest Loans Scheme (NILS) for loans up to $1,200 or low interest loans up to $3,000 from Good Money or Dandenong Community Advisory Bureau. Additionally, there are four services that provide material aid: Dandenong Community Advisory Bureau; Foodbank Victoria; Dandenong & District Benevolent Society; and Cornerstone Contact Centre.

Many of these services run at capacity, whilst other case management providers only have the capacity and knowledge to assist clients to establish budgets and then refer clients to further financial counselling, where appropriate. Services may also be able to provide clients with material aid and information on where they can further seek support or alternatively, financial counselling via the phone. It is not uncommon for clients to be waiting up to six weeks to access direct financial counselling within the City of Greater Dandenong.

## 3.2. Methodology

The *Taking the Stress Out of Managing Money Project,* comprised two phases. The first phase documented the experiences of borrowers accessing payday loans. The second phase focused on developing and implementing sector capability training and resources

The project adopted the principles of action research[20]. Action research is essentially an iterative process where practitioners or researchers develop evidence/findings/insights in relation to a particular issue(s), practice(s) or circumstance(s) or fields, then reflect on it. On the basis of these reflections they develop or modify their actions or practices.

In this project, insight was gained using a flexible approach that involved both formal and informal quantitative and qualitative strategies; this included surveys, reflective practice, discussions with agency workers and observations by the project coordinator. The planned action for borrowers involved referrals to the Good Money Community Finance Hub; while training was organised for agency workers.

### 3.2.1 Phase 1: Borrower experience (September 2013 and January 2014)

*Phase 1*; under the auspice of Hanover aimed to investigate the experience and understanding of a limited sample of people who accessed payday loans. Of particular interest was whether the Legislation that had come into effect in April 2013 had impacted in any way on participants' experiences with payday loans.

[20] Valsa Koshy (2005), *Action Research for Improving Practice: A Practical Guide*, Sage.

### *Recruitment*

Posters (Appendix A) were displayed at five local services including Good Shepherd's Good Money Hub, Dandenong Community Advisory Bureau, Hanover Dandenong, Southern Migrant and Refugee Centre and the Salvation Army Doveton's financial/material aid services. These services assisted with the recruitment of participants by talking about the project with clients who were known to have experiences with payday lenders.

In order to volunteer to participate in the project, borrowers needed to meet the following eligibility criteria:

- be from a Culturally and Linguistically diverse background;
- live in the City of Greater Dandenong;
- be over 16 years of age;
- be living with children under the age of 18 years in their care;
- had accessed payday loans.

Recruitment posters were translated into Vietnamese, Persian and Dari, the common languages spoken in the Dandenong Local Government Area (LGA). Translators were also organised to undertake interviews with any eligible participants with a CALD background.

Unfortunately, these strategies appeared to be ineffective; considerable difficulty was experienced in recruiting eligible participants from the CALD community. With time running out to recruit a sample, it became clear that the eligibility criteria needed to be more flexible. The key change was to relax the CALD criteria so that potential participants could be from a range of backgrounds, not just CALD, and included single person households, not just families. As such, the revised eligibility criteria focused on potential participants who were:

- engaged with a service within the City of Greater Dandenong;
- were over 16 years of age; and
- had accessed a payday loan.

General Information Sheets (Appendix B) about the study were distributed to an unknown number of eligible people; and as a result 49 people volunteered to participate and completed a Consent Form (Appendix C). Each participant received a gift of $30 in appreciation of their time and contribution.

### *Data Collection and Analysis*

Data were collected via semi-structured surveys (Appendix D) that were completed as face-to-face interviews by the project officer between September 2013 and January 2014. Interviews lasted between 20-30 minutes and explored past and current involvement with payday loans, pathways into debt or financial crisis, how money and debt were managed, where participants turned for support, particularly if they were unable to repay a loan, and financial services accessed.

Survey Monkey was used to assist the analysis of each completed interview. The survey contained two open-ended questions that were summarised according to recurring emergent themes. Quotes from participants have been used in some instances to highlight specific issues.

Two case studies are presented to illustrate the different ways that payday lending was used and the impact it had on borrowers. In both instances, participants had been receiving support from local services for some time so their stories were familiar to their respective workers. Having consented to take part in the project, their support workers thought that their experiences would make interesting case studies. Accordingly, before the start of the interview, the two participants were asked if they would consent to answer additional questions in order to compile a couple of case studies. Both agreed to do so.

### 3.2.2. Phase 2: Sector capability (August 2013 and September 2013)

*Phase 2* focused on sector capability with the aim to improve the capacity of the local community to respond in a more coordinated, proactive and timely manner to low-income people in financial stress. The community services sector currently provides a range of measures in response to financial stress including legal advice, advocacy, financial counselling, emergency relief payments and no-interest-loan-schemes. These services often operate in isolation and tend to be reactive. They are also over-burdened, often with long waiting times for service.

#### *Training package*

The Consumer Action Law Centre (CALC) was funded by the Legal Services Board in 2011 to develop a civil law support project which developed a training package covering the legal implications, and client options, when a low-income client is faced with legal action in relation to a debt. This training package is intended for community legal services throughout Victoria; however, it was adapted to train non-legal community workers, providing them with the tools to identify legal need relating to payday loan debts.

The training session lasted two hours and involved presentations (Appendix E) by CALC on 'Stopping the Debt Cycle' and 'Keeping food on the table' to highlight the risks of payday lending, especially in the context of the Consumer Credit Legislation Amendment (Enhancements) Act 2012 (Cth).

#### *Participating agencies*

Agencies that participated in the training included: Good Shepherd Microfinance services, Hanover Dandenong, Commonwealth Department of Human Services – Centrelink, Dandenong Community Advisory Bureau, ERMHA and Bayside and Brighton's Gambler's Anonymous. All are located in Greater Dandenong.

A total of 30 staff, comprising case workers, financial counsellors and specialist counsellors, participated in one of two training sessions offered in August 2013 and September 2013. Thus, the training occurred several months after the new legislation had come into effect (April 2013). The training assumed that workers had a baseline understanding of financial literacy and could identify when they would need to refer people on to specialised financial services.

# 4. Findings: Consumer Perspective

This section reports on the results from Phase 1 of the project. It begins with a description of participants, followed by an in-depth look at the experiences of consumers using two case studies. This is then followed by a detailed presentation of the survey results.

## 4.1. Profile of participants

As noted earlier in this report, a total of 49 borrowers volunteered to take part in the survey. As illustrated in the table below, participants were equally split between women and men; while ages ranged from 18 years to 70 plus, most of the group were aged between 31 and 50 years; and most were single and did not have children in their care. Over half of the sample did not have post-secondary qualifications and most were in receipt of Centrelink benefits, and had only temporary housing (mostly crisis accommodation).

Despite recruiting participants from the most culturally diverse community in Victoria and with strategies in place to target those from non-English speaking backgrounds, the final sample of borrowers was far from diverse. Indeed, the majority of participants were Australian (n=39); only 7 participants were from a culturally and linguistically diverse background and 4 were Indigenous. This presents

| | |
|---|---|
| **Gender** | |
| Men | 25 |
| Women | 24 |
| **Age** | |
| 18-20 | 2 |
| 21-30 | 12 |
| 31-40 | 20 |
| 41-50 | 11 |
| 51-60 | 3 |
| Over 70 | 1 |
| **Relationship Status** | |
| Single | 27 |
| Married/Defacto | 15 |
| Separated/Divorced | 7 |
| **Children under 18 years living with you?** | |
| No | 36 |
| Yes | 13 |
| **Accommodation Type** | |
| Private Rental | 11 |
| Crisis Accommodation | 30 |
| Staying with friends | 1 |
| Unidentified | 8 |
| Other | 7 |
| **Highest education qualification** | |

| | |
|---|---|
| Below secondary school | 3 |
| Years 7 to 11 | 25 |
| Year 12 (VCE) | 9 |
| Post-secondary qualifications | 12 |
| **Source of income** | |
| Newstart | 18 |
| Disability Support Pension | 11 |
| Parenting Payments (including Family Tax Benefits) | 7 |
| Youth Allowance | 2 |
| Paid work (full- or part-time) | 6 |
| No income | 1 |
| No detail | 4 |
| **Nationality** | |
| Australian | 39 |
| North American | 1 |
| Indian | 2 |
| Sudanese | 1 |
| Iranian | 1 |
| Vietnamese | 1 |
| South African | 1 |
| French | 1 |
| No detail | 2 |
| **Aboriginal or Torres Strait Islander** | |
| Yes | 4 |
| No | 44 |
| No detail | 1 |

## 4.2. Case Study – Jenny's story

The following case study highlights Jenny's struggles with financial hardship and the impact of addressing her debt on both herself and her family. Jenny's story also illustrates the stress of relying on minimal income and falling into a debt trap and cycle of payday loans.

**Background**

Jenny* is a 30 year old mother of four living in the City of Greater Dandenong. Jenny has been accessing support from Hanover Dandenong for the past 3 years. Over the past 12 years Jenny has also accessed support through Centrelink in relation to financial concerns. Since having her last child and hurting her back, Jenny has been off work and is the full time primary carer to her children. Jenny's partner is unable to work due to ongoing episodes of depression. Jenny receives Parenting Payments/Family Tax Benefits and her partner is on a Disability Support Pension. Jenny has worked intermittently as an aged care nurse and is hoping to return to this position some time in the future to help improve the family's financial circumstances.

**Debt**

Jenny has had a poor credit history since her early 20s and has not been able to repay any of her debts, which she estimated to be $30,000. She has managed this debt by closing bank accounts and has changed personal details in order to avoid harassment by creditors or debt collectors. Although she has been to financial counsellors in the past, she has not addressed the considerations they raised.

Jenny has 20 items in hock at a pawn brokers. Collectively, Jenny received $200 for these items and continues to pay off almost that amount each fortnight so that her items won't be sold off. Jenny had difficulty understanding that she could have repurchased these items rather than continue to repay the debt.

**Payday loans**

Jenny has been using payday loans for the past 12 years, relying on these loans to get her through the period between pay days. On the occasions when Jenny has been unable to work, she has turned to payday lenders. While she feels that payday loans have not been beneficial for her or her family, it has been the only way that she has been able to buy food and nappies. Jenny also uses payday loans to finance the travel costs associated with taking her children to a school some distance away from where the family lives.

The financial strain on daily family life is enormous; the family is at high risk of housing breakdown and family breakdown. Jenny receives her Centrelink payment at midnight on a Monday so she will often walk for 30 minutes on her own at midnight to the local ATM to withdraw money she needs to purchase basic items like food, formula and nappies.

**Opportunities**

The key to moving forward is for Jenny to avoid accessing money through payday lenders. By linking in to Good Shepherd's Good Money hub in Dandenong, Jenny could access financial counselling and support. She would benefit from training opportunities around managing her finances. It is essential that she increase her confidence to make more informed decisions about her financial situation. Unfortunately due to her debts, Jenny may continue to find saving hard, however through financial counselling and support she may be able to develop confidence in her financial abilities. She should also be referred to the local legal centre or Consumer Action Law Centre to determine whether there is a legal basis for the debt to be challenged or not paid.

Access support for additional items like travel costs, school uniforms and food supplies through other avenues and services. The family should be assisted to apply to the Department of Human Services for an Office of Housing property.

*Jenny is not this client's real name. It has been changed to maintain her anonymity.

## 4.3. Case Study – Sam's story

In this second case study, Sam also grapples with financial hardship and because he does not have Australian residency, he is unable to access paid employment or income support and has only limited supports available.

**Background**

Sam* is 38 years old single man and has been in Australia for almost 4 years; during this time he has had paid work but that recently ended. He has a child living with his ex-partner in New Zealand whom he has not seen for a number of years, though he tries to maintain contact via the phone. Sam has no family supports in Australia. When the work dried up he was no longer able to maintain his rent and was subsequently referred to Hanover.

Overall, Sam is in a very vulnerable financial position with very few choices. He has no paid work but being a non-resident means that Sam is unable to receive financial support through Centrelink. Community agencies are unable to support him and he has no personal support networks to assist him. Without any assets, he is unable to apply for a personal loan.

Sam's money management skills are limited and he would like to be able to save to return home to New Zealand to see his daughter. A knee injury is preventing him from seeking work opportunities in the field he has previously worked in. He also has health issues related to his weight. Overall, his physical and mental wellbeing is suffering and he is unable to access healthcare because of his residency status and lack of income.

**Debt**

Sam has an estimated total debt of $10,000 and retains a poor credit history.

**Payday loans**

Sam has used payday lenders for the past 6 years to assist with payments to fix his car when had broken down. He needed his car to get to and from work and when the car needed repairing, he would borrow $1000 from payday lenders to have it fixed. At the time, payday loans helped him enormously. Given that Sam has no income, he is no longer able to borrow money from payday lenders.

**Opportunities**

Build Sam's skills and confidence in financial management and planning to enable him to make better choices and take more control over his finances and debts

Assist Sam to obtain Australian residency through the completion of appropriate documentation from the Department of Immigration

Implement a budgeting meeting with Good Money and look at a StepUP loan once Sam is receiving an income again. This service will also be able to support Sam to build his skills and capabilities in financial literacy. Sam may also contact Consumer Action Law Centre to determine whether there is a legal basis for the debt to be challenged or not paid.

*Sam is not this client's real name. It has been changed to maintain his anonymity.

## 4.4. Past experiences with payday lenders

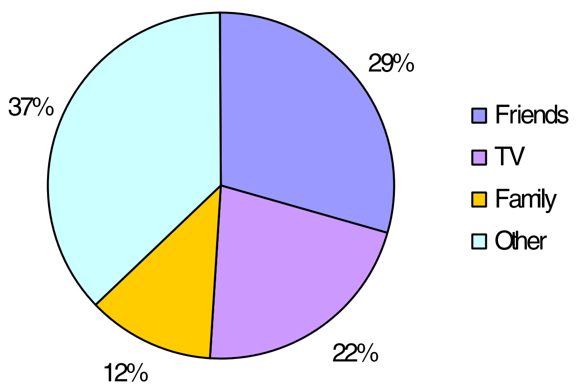
This section looks at the experiences that participants have had in their initial contact with payday lenders, their reason for requiring a loan, frequency of loans, the impact on their stress and the helpfulness of their loan. It also looks at participant's knowledge of service authorities and their engagement with banks.

### *Hearing about payday lenders*

When asked where they had initially heard about payday lenders, over half had heard from family (22%) or friends (31%). A further 12 percent identified TV as another source, while 39 percent stated 'other'.

Unexpectedly, a high number of 18 people (close to 40 percent of the sample) had learnt about payday lending from advertisements (n=11) or from their pawn broker (n=7). One person stated that they had always known about the loans.

**Where did you first hear about payday lenders?**




*Percents do not add up to 100 given multiple responses

### *Reason for initial loan*

When asked to identify the purpose of their initial loan to purchase, over a quarter identified car expenses (27 %), a quarter (25%) indicated food and groceries and just under a quarter nominated housing related expenses (22 %t. However, it was the 'other' category that received the most significant responses. One third (33%) nominated other which included items such as; other bills, cigarettes, computers, illicit substances and individuals just wanting the cash. It also included items such as phones, medication, holidays, utilities, clothes, educational expenses and transport.

Contrary to the findings in the *Caught Short Report* only 2 percent stated that they took on a loan to pay off a previous loan. However, this finding probably reflects the number of participants who repaid their loans through the use of direct debit (see loan repayment, under *Current Experiences*)

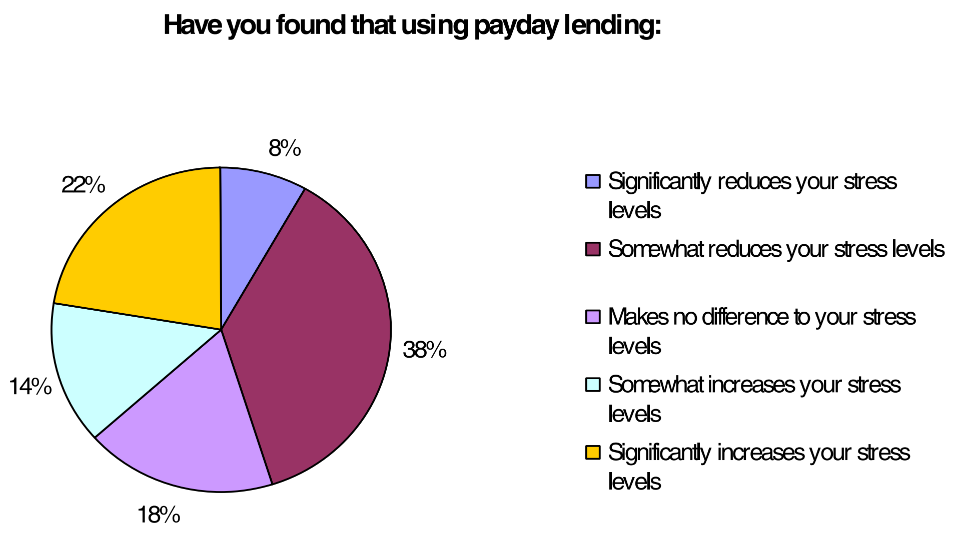
### *Frequency of loans*

Of the 49 participants, just under a third (30%) used payday lenders at least every few months (i.e. 10 percent once a month, 20 percent every few months); just under a third used them at least once a year (i.e. 10 percent every 6 months and .20 percent once a year), and just under a third (31%) had only ever used payday loans 1-4 times. Unexpectedly, 8 percent (four participants) identified accessing loans more sporadically than others including six/seven times in one year (n=2), every other day (n=1) and intermittently (n=1). In short, more than half had used payday lenders more than once a year.

### *Impact on stress*

Participants were asked to identify the impact of payday lending on their stress. Significantly, over a third (37%) identified that the loans somewhat reduced their level of stress, just over a quarter (22 %) found that payday loans significantly increased their stress, and just under a quarter (18%) felt that they made no difference on their level of stress. For a further one in seven (14 %), use of payday lending somewhat increased their level of stress and 8% said that it significantly reduced it. In summary half of the participants reported that use of payday lending increased their stress and nearly a third indicated that it reduced their stress.

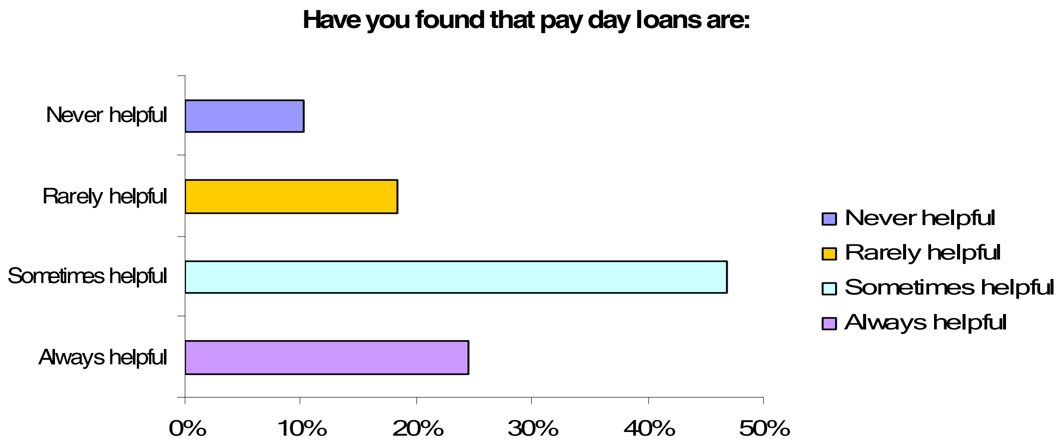
However, it should be noted that although this question about stress levels was a closed question, many participants who indicated that payday lending reduced their stress were keen to clarify that the reduction of their stress was only short lived. Soon after receiving their cash, their stress levels increased again.




*Percents do not add up to 100, due to rounding

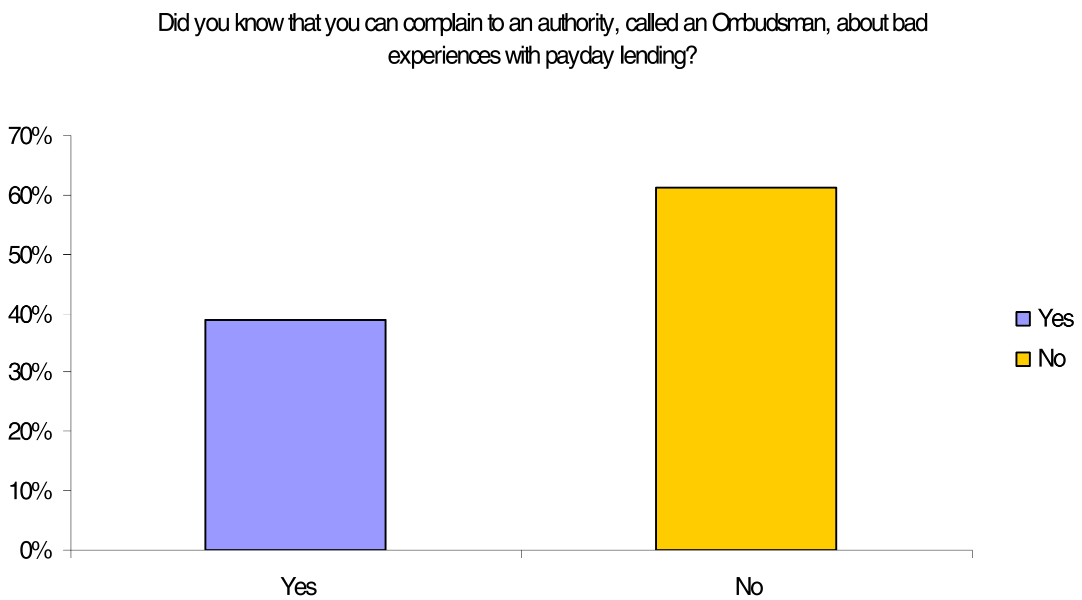
## Helpfulness of loan

Participants were asked how helpful they found payday loans. Most interestingly, nearly half (47%) of participants identified that payday loans were sometimes helpful.




## Complaint services

When asked if they were aware of an Ombudsman, who they could report bad payday lending experiences to, more than half (61%) stated that they were not aware of this body.



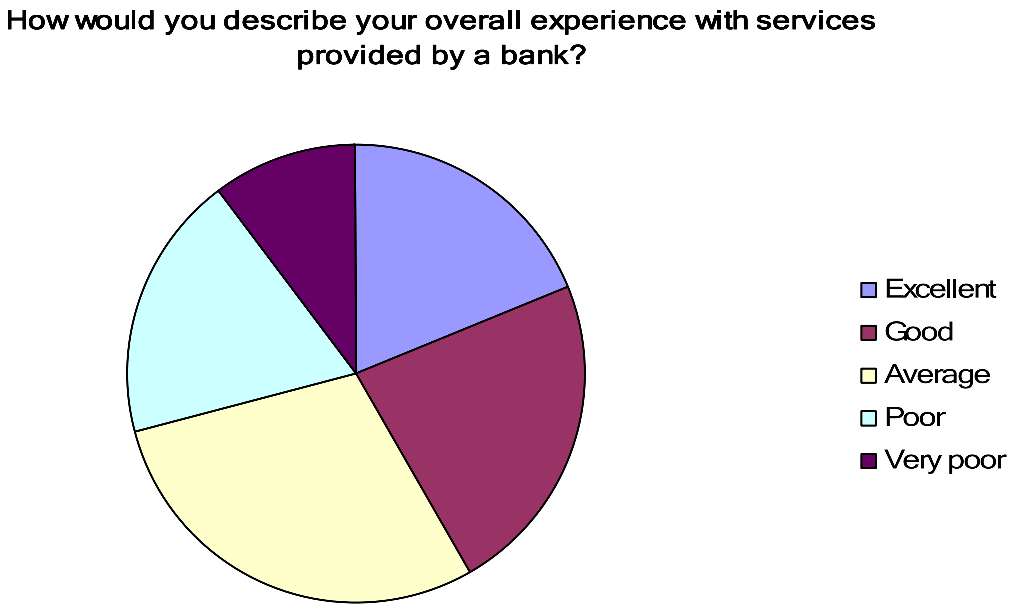
## Bank Loans

Of the 48 who responded to the question 'had they applied to a bank for a loan, prior to going for a payday loan?' 61 percent stated that they had not. Of these, half acknowledged that it was because they thought they would not be approved.

A fifth (20 %) stated they thought the amount they were after was too small to apply to a bank; A further 10 percent thought it was too much hassle to apply to a bank and a further 10 percent stated they didn't think to go to a bank or chose not to (n=2), and they were told to get a credit card (n=1). One participant stated it was because s/he thought s/he would have to wait too long for a bank response.

Of the 39 percent who did apply for a bank loan, the vast majority (84%) were unsuccessful while less than a quarter (16%) were successful. Of those who were unsuccessful seven people attributed this to bad credit ratings, four people to not having enough assets or being under the income threshold. 'Other' reasons, reported by 8 people, included; not enough work or banking history, they were given a credit card, they had too many expenses, they had previously applied for hardship and this was on their credit history, they were unemployed or on a pension.

When asked to describe their overall experiences with banks 48 people responded; 42 percent identified that they had had an above average experience with services provided by banks.



## 4.5. Current experiences with payday lenders (post April 2013)

This following section reports on the experiences that participants have had with payday lenders since April 2013. This is the date when new legislation around payday lending came into effect. Participants were asked to consider their recent loan experiences, the number of loans obtained, whether they had preferred lenders, whether they would recommend payday loans to others, conditions of loans, loan repayments, alternative loans and their overall experiences with lenders.

### *Reason for loan*

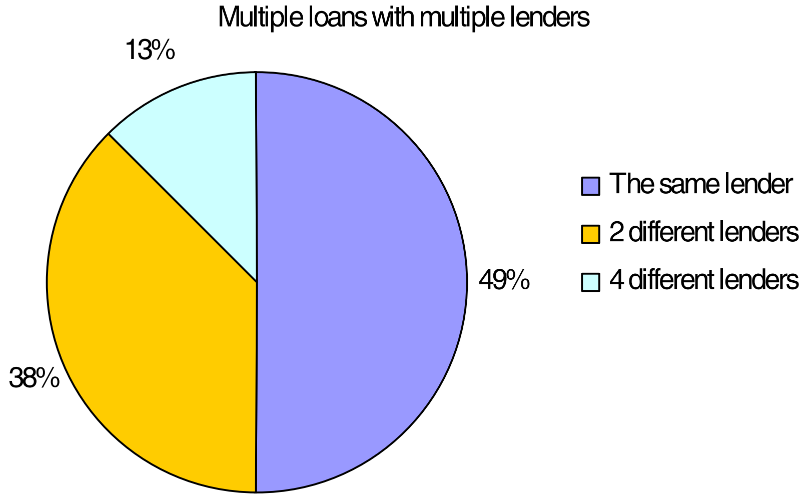
The majority of participants (71%) have had experiences with payday loans since the introduction of the new legislation in April 2013. Of this group, one third (34 %) identified that they had done so for car expenses, just under a third (31%) for food and groceries, and just over a quarter (28 %) for housing costs/rent. Other reasons for accessing payday loans included the need to purchase/pay for; white goods, clothing, medications, phones, TV, holiday, presents, utilities, public transport, education costs, cigarettes, illicit substances and to pay off other loans.

### *Number of loans*

Interestingly, three quarters (74%) stated that they only had one loan at any one time, since April 2013, while nearly a quarter (23%) stated they had two loans. One participant had four loans at any one time.

### *Number of lenders*

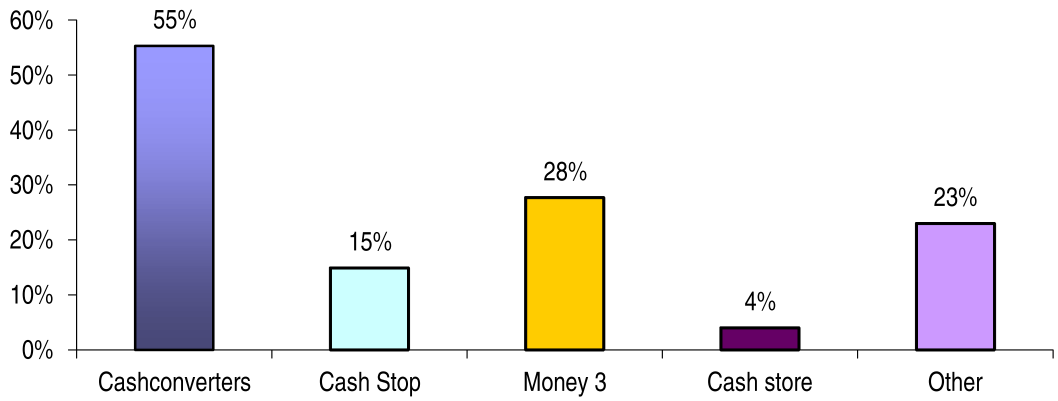
Of the quarter of participants (26%) who had identified having more than one loan at one time, half stated that the loans were with the same lender, while more than a third (38%) acknowledged they were with two different lenders and 12 percent stated that they had been accessing four different lenders at the one time.



### Preferred lender

Cash Converters was the preferred lender above all other lenders, with just over a half (55%) of participants accessing their payday lending facilities. Money 3 was also accessed by more than a quarter (28%) and 15 percent accessed Cash Stop. The remaining 28 percent of participants accessed 'other lenders', which included; Nimble, Cash store, Australian Money Exchange, Western Union, Trade Savers, Money Plus, Cash loan Money Centre, Cashies, Amazing loans, one provider in Queensland and another a private provider within the community.

Who is/are your preferred lender(s)




*Percents do not add up to 100, due to multiple responses

### Recommending loans

When asked if they would recommend others to access payday loans, more than half (53%) stated that they wouldn't. They attributed this mostly to the interest rates being far too high and the repayment times being too short. Additionally, participants spoke about not being able to receive a personal response and getting caught in a cycle of always being short on cash.

*"Because they are arses. Robbing the poor and getting us into debt and they don't care. But you don't think of that at the time."*

*"Does not fix financial status, makes it worse"*

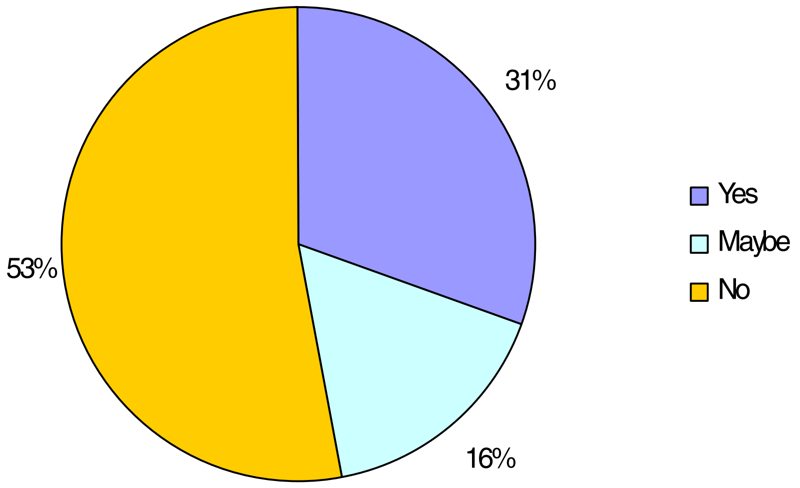
*"They are a rip off - you end up getting stuck and losing in the end"*

Of the nearly one-third (31%) who stated they would recommend payday lending, the underlying reason was because such loans were a fast way to get the cash, which offered immediate relief; it was easier than going to a bank:

*"It helped at the time. As long as you can afford the repayments."*

*"Beats doing crime. If you have kids and need to feed them, you can get money in 50 minutes"*

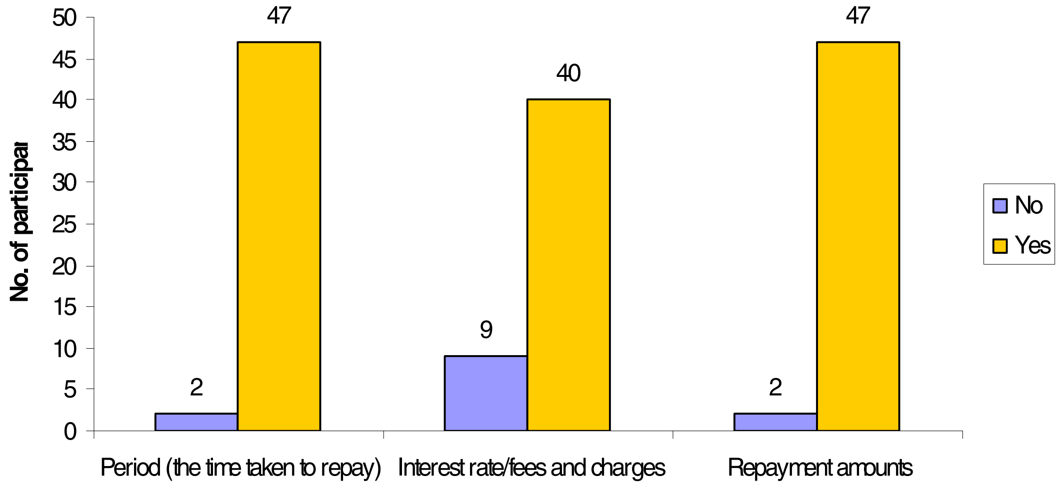
Would you recommend getting a loan from a payday lender to anyone else?




## *Conditions of loan*

Participants were asked to rethink their most recent payday lending experience, and specifically whether they had understood the conditions of the loan. The majority of participants stated that they had understood the conditions of their loan including; the time to repay the loan (n=47), the interest rate/fees and charges (n=40) and the repayment amounts (n=47).

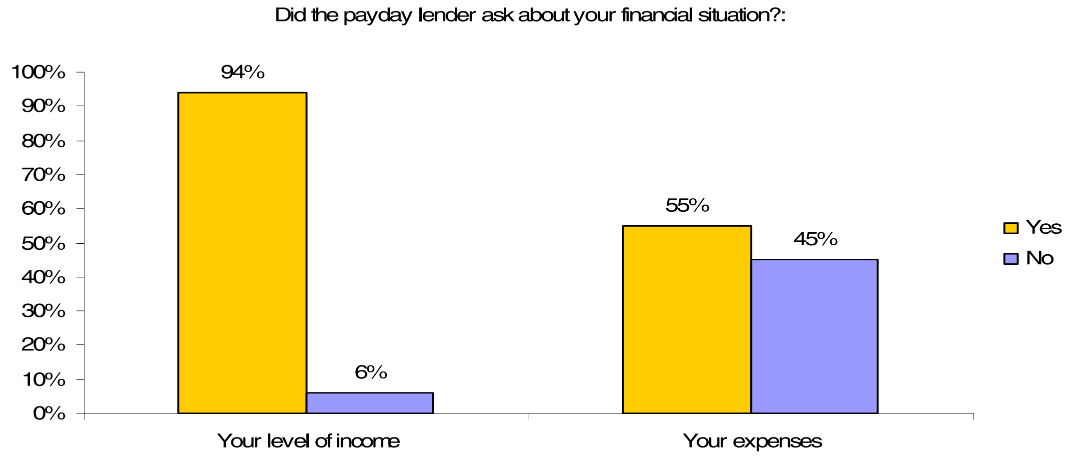
Thinking about your most recent payday loan,
did you understand the following conditions of the loan:



## *Income and expenses queried*

When asked if the lender had enquired about their income and expenses, only 6 percent stated that they weren't asked about their level of income, with the remaining 94 percent stating that they were asked and in fact required to provide income statements from Centrelink, identifying their income.

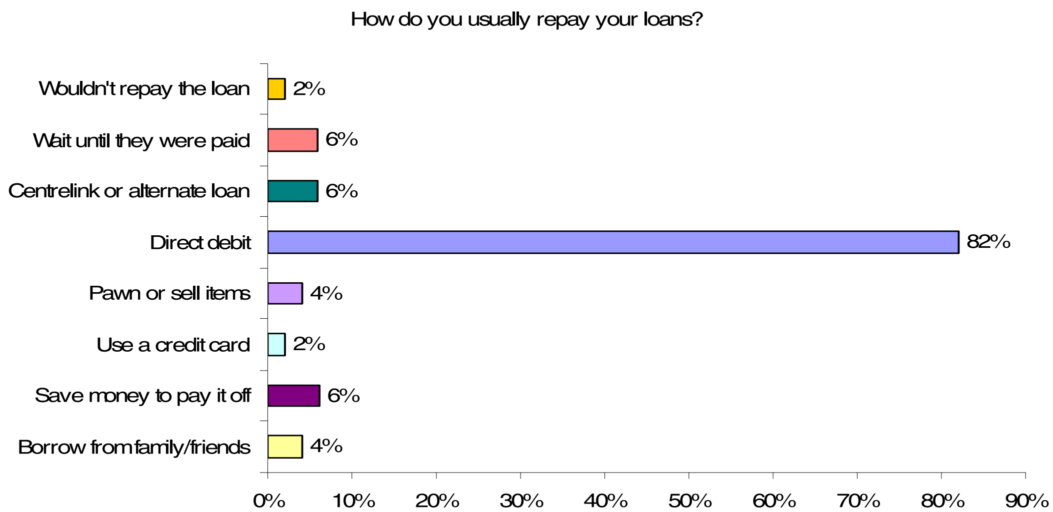
However, when asked about whether their expenses were questioned, nearly half (45%) stated that they weren't. Of those who had stated that their expenses were inquired about, several participants were quick to clarify that it was only the cost of their rent that was required.




## *Loan repayment*

When asked how they repaid loans, participants identified that they would borrow from family/friends (n=2), that they would save to pay off the loan (n=3), that they would use a credit card (n=1), would pawn of sell items (n=2), access a Centrelink or alternative loan (n=3), wait until they were paid (n=3), or not repay the loan (n=1).

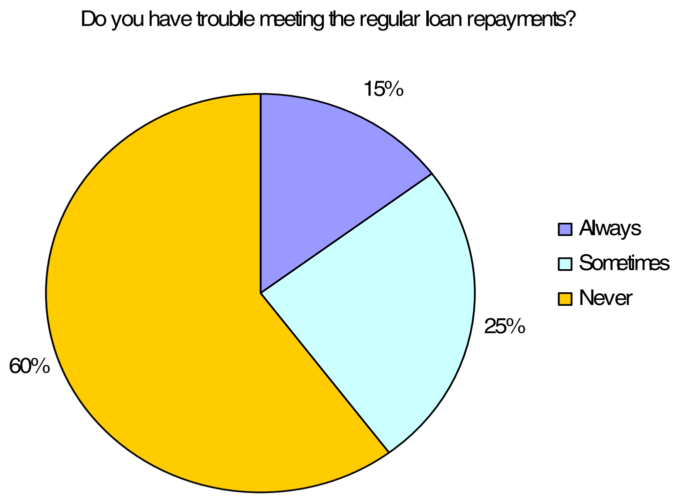
Interestingly over half the sample identified that they repaid their loans via direct debit (n=40).




*Percents do not add up to 100 given multiple responses

## *Difficulties in repaying loans*

Participants were asked if they ever had difficulties in meeting the loan repayments. One person chose not to answer, however of the 48 who responded, 60 percent stated that they had never experienced difficulties repaying their loan, which may be attributed to the option of repaying the loan via direct debit.

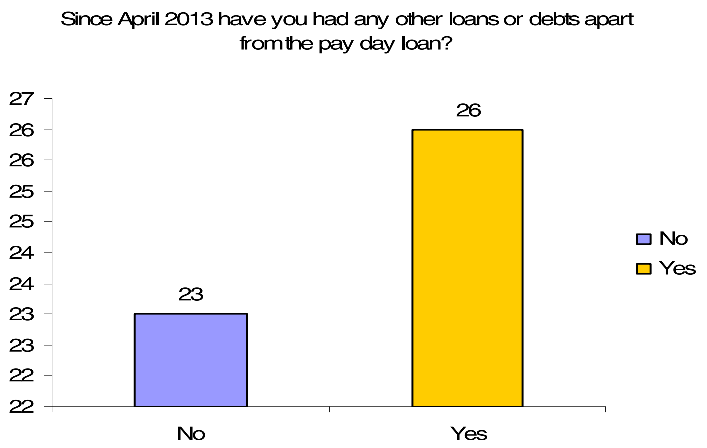



## *Inability to meet loan repayments*

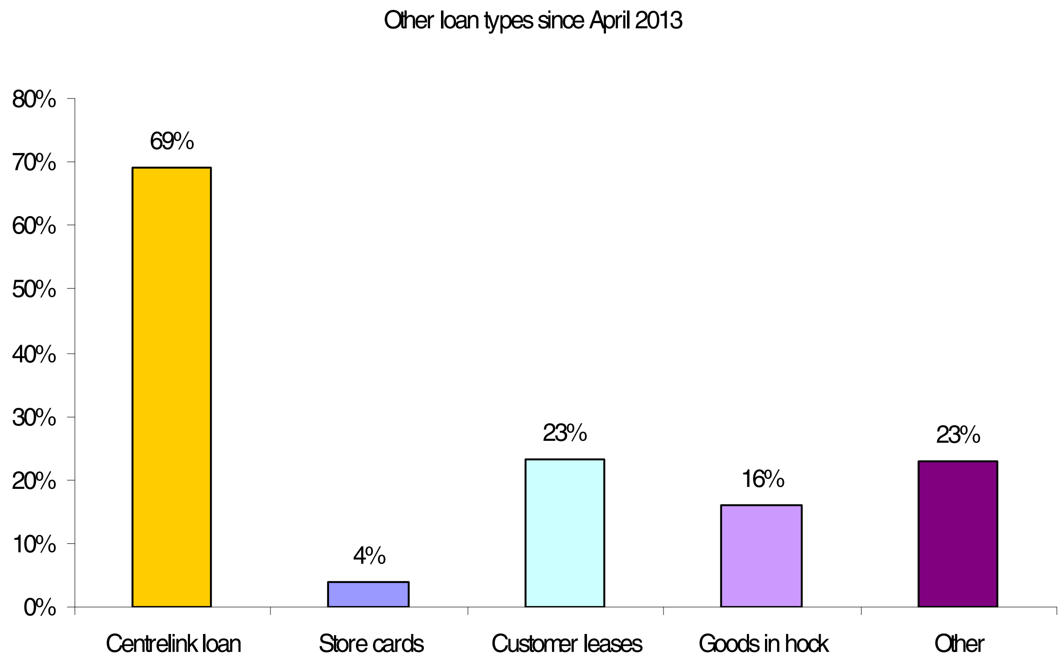
When asked if there had been a time since April 2013, that they were unable to make a loan repayment, just under a third (29%) responded with a 'yes'. Of these, 43 percent stated that the reason why they were unable to make the repayment was because they were unable to afford the loan, 29 percent stated that they had to pay for other essentials, 7 percent identified that they were paying off another loan, while 29 percent identified other. This included accommodation prices increased, paying for birthdays, paying for specialist and one respondent identified that they were using drugs at the time and repayment of loans was not a priority.

## *Alternate loans*

All participants were then asked if they had any other loans since April 2013, 23 people said no, while 26 people stated that they had.



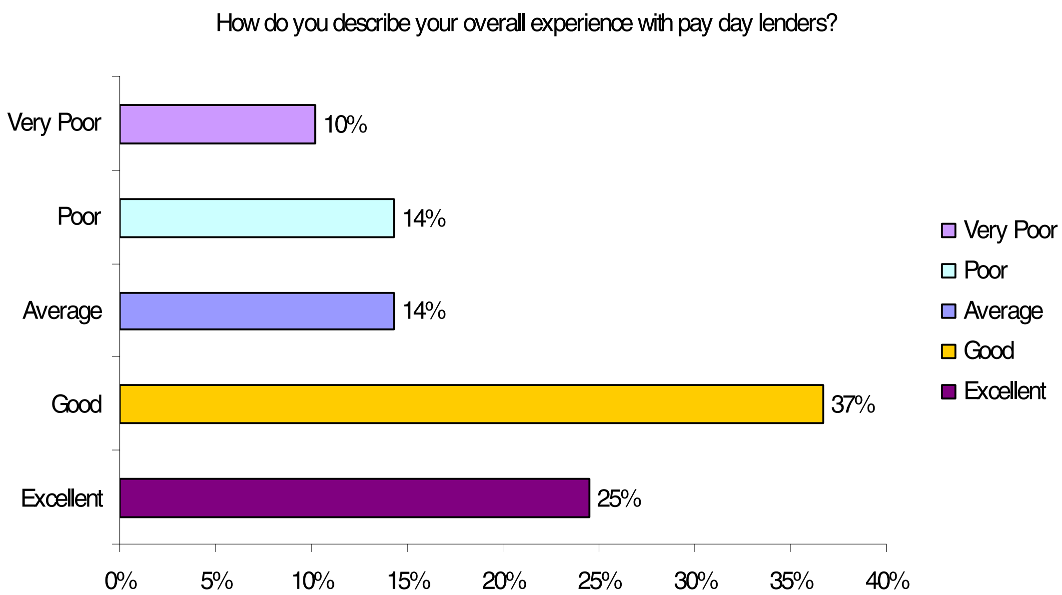
Of the 26 who had accessed other loans, 69 percent identified they'd had Centrelink loans, 23 percent had consumer leases, 16 percent had goods at the pawn brokers and 4 percent had store card loans. 'Other debts' that participants highlighted included; credit card and utility debts (n=2), cash advance on top of their payday loan (n=1), a bank loan (n=2), an overdraft (n=1), rent debt (n=1), and a debt to an op shop for furniture (n=1).




*Percents do not add up to 100 given multiple responses

## Overall Payday lending experience

When asked to describe their overall experience with payday lenders, interestingly, 62 percent stated that they had either a good or excellent experience with payday lenders.



## 4.6. Future financial options

Findings presented in this section focus on participants' future financial options. Participants were asked to consider how lenders should change the way that they work with borrowers, the use of payday lenders in the future, alternatives to payday loans, known services in the City of Greater Dandenong, and a referral opportunity.

### *Changes to payday lending*

Around two-thirds (67%) of participants thought payday lenders should change the way they work with borrowers. Their responses related to three key areas of payday lending practice: accessibility to loans, interest rates, and flexibility with repayments.

1. Accessibility to loans

A number of participants identified that they felt payday lenders provided loans too easily to those in receipt of Centrelink benefits, who have poor credit histories or who may live with a mental illness or substance addiction. Other participants also identified that there was not enough consideration given to their other expenses, not just their rent, especially with unforseen expenses such as medical bill"

*"People on government benefits and poor credit history shouldn't be able to receive them"*

*"People with mental illness or drug addictions should be spotted and some sort of safeguard by Centrelink should be in place"*

*"Daily expenses should be considered (ex food, medication, petrol)"*

2. Interest Rates

Fourteen participants suggested that the interest rates be decreased; however others understood that payday lending is a business.

*"There needs to be other alternatives for people in my situation to lend money without the large interest rates to pay back."*

*"Reduce interest rate, would have pawned items if had anything of value"*

*"It is their business; it is how they choose to run it".*

3. Flexibility with repayments

A few participants felt that there needed to be an option to repay a lower amount of the loan over a longer period of time, even if the overall repayment amount was slightly higher.

Participants also wanted more flexibility around the way in which lenders worked with borrowers, stating that they felt it was too severe if they missed a payment and were then charged double.

*"Bit more flexibility and leniency. Not double the repayment amounts (if you miss a payment)"*

*"They should have more flexibility around the time to repay the loan. More than 4 weeks to repay the amount, maybe up to 12 weeks. Vary the repayment frequency, based on a person's income. And lower the interest".*

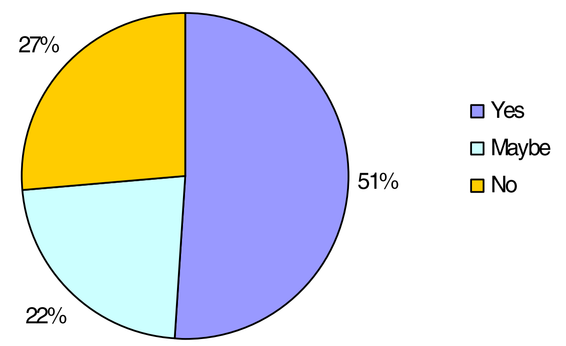
## *Use of payday lenders in the future*

When asked if they would use payday lenders in the future, if they were again experiencing financial trouble, half (51%) stated that they would; while more than a quarter (27%) would not; a fifth (22%) were ambivalent.

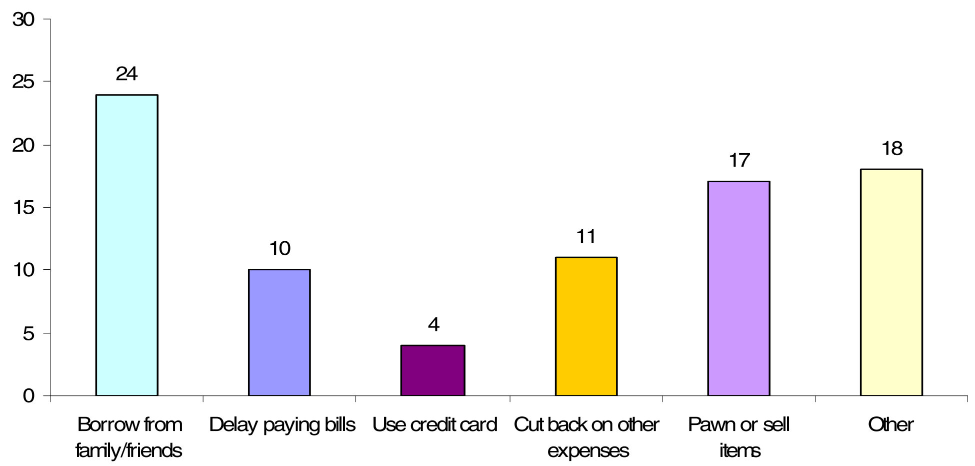
In terms of alternatives, if payday loans did not exist and money was needed, most people would borrow from or friends (n=24), or sell or pawn items (n=17), or cut back on expenses (n=11), or delay paying (n=10) or use credit cards (n=4).

Others talked about accessing Centrelink for support (n=4), working more (n=2), using Centrepay (n=1), asking or begging for money, contacting welfare agencies, accessing superannuation (n=8), or engaging in illegal activity (n=4).

If you are in financial trouble again, would you take out a payday loan?




What would you do if payday loans did not exist and you were short on cash?




*Percents do not add up to 100 given multiple responses

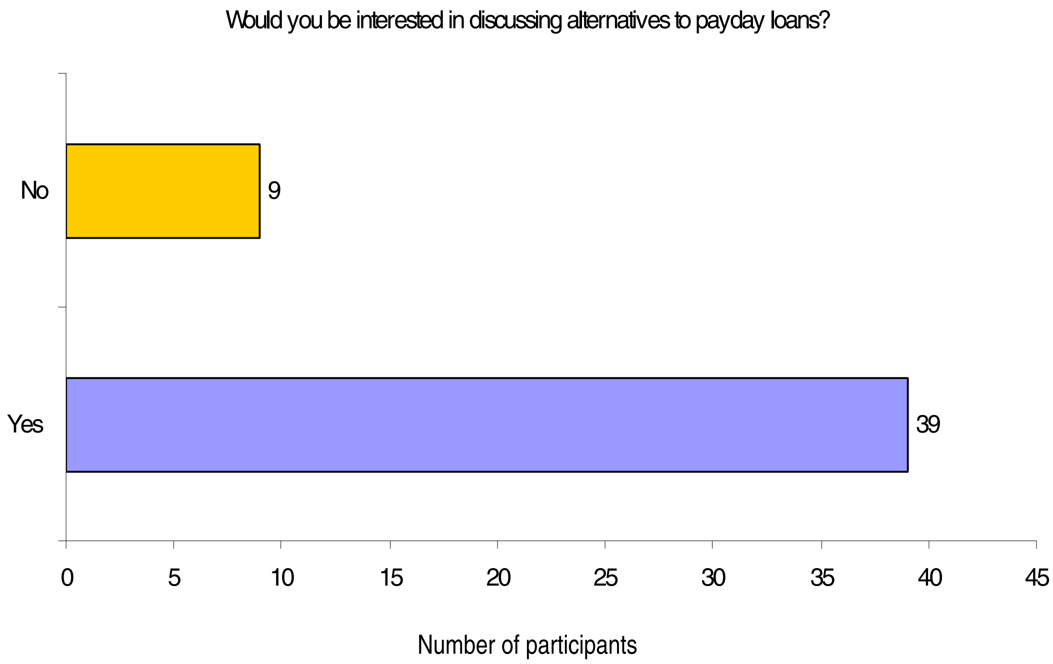
*Knowledge of services in the City of Greater Dandenong*

The survey asked participants to identify if they had heard of a number of the services located in the City of Greater Dandenong, including: The Good Money Finance Hub, Hanover Welfare Services, Consumer Action Law Centre, Southern Migrant and Refugee Centre, Dandenong Community Advisory Bureau and Casey Cardinia Legal Centre. Nearly three-quarters (74%) were aware of Hanover, more than a third (39%) knew of the Good Money Hub, 10 percent knew of the Southern Migrant and Refugee Centre, 10 percent knew of the Dandenong Community Advisory Bureau, 8 percent knew of the Consumer Action Law Centre, and 8 percent of the Casey and Cardinia Legal Services.

When asked whether or not they had tried to access financial support from any of the services, two-thirds (67%) stated they hadn't; most because they had either not heard of the service or that they had received material aid from the services. Of the third (33%) who had accessed support from one or more of the organisations, again they highlighted that they had received either material aid, case management support, or that they had applied for/been successful for a NILS loan.

*Referral Opportunity*

The final question asked if they would be interested in discussing alternatives to payday loans. The majority (80%, n=39)) of participants were subsequently referred to the Good Money Hub; nine were already linked with a service. One person was ambivalent.



## 4.7. Summary

A total of 49 people participated in the project and shared their past and current experiences with payday loans by completing an anonymous and structured survey. Each survey took about 30 minutes to complete and focused on pathways into debt or financial crisis, how money and debt were managed, where participants turned for support, particularly if they were unable to repay a loan, and financial services accessed.

Most had heard about payday loans through family and friends. In general, payday loans were used to pay for basic necessities such as food and bigger expenses such car expenses and housing costs. While all struggled financially, most had not been to banks, believing they would not be eligible for loans and very few participants were aware that they could contact the ombudsman if they had complaints related to their payday loans.

In the context of the amended legislation, which came into effect in April 2013, most participants reported that they had understood the terms and conditions of payday loans and they had been asked to provide proof of their income. However, almost half were *not* asked about their everyday living expenses. While participants had to complete more paperwork (such as providing bank statements or Centrelink statements as proof of income) prior to receiving a payday loan, this tended to happen only during the initial contact with the payday lender. Following this, borrowers were able to return to access more loans without re-presenting proof of their income.

In general, payday loans were seen as helpful and stress levels were certainly reduced. However, for many participants, such feelings were often short-lived. This was especially so for the more than half who had more than one loan to repay (not necessarily a payday loan) since April 2013. This means that many participants, who already lived on a very low income, had it further eroded as a result of multiple loans, thereby exacerbating their stress levels and adding to their financial burden. The majority used direct debit to repay their loans, which was efficient for the lender in ensuring repayment.

# 5. Sector Capability

This section outlines the elements of the Sector Capability Phase of the project. It also summarises the results from a short survey completed by participants, before and after taking part in a two-hour training session. The survey involved three key questions: level of understanding around consumer credit and financial services; level of confidence in providing financial support; and awareness of local financial services. Once training was completed, there was an informal debriefing session with workers; reflecting on topics identified in the training as areas workers needed additional support in and issues that had been identified in borrowers' surveys. This lead to the development and streamlining of tools to assist workers supporting clients in financial crisis.

### *Aim of Sector Capability Phase*

The aim of this Phase was to:

- enhance sector capacity through frontline training with workers so they could better understand the financial services environment and therefore, be better equipped to support clients in financial stress, and
- achieve better coordination of the local service sector so workers, through the refinement of tools and other key resources and links to local services, including advocacy and legal services.

### *Content of the Sector Capability training*

The Consumer Action Law Centre was funded by the Legal Services Board in 2011 to develop a civil law support project which developed a training package covering the legal implications, and client options, when a low-income client is faced with legal action in relation to a debt. The training package, intended for Victorian community legal services, was adapted for training of non-legal community workers, providing them with the tools to identify legal need relating to debt, particularly (but not only) relating to payday loan debt.

The training provided an overview of the legal protections for low-income borrowers, including those that rely on payday loans. This training encouraged workers to apply the 'lens' of their client's financial position, and to consider whether low-income borrowers must always repay debt.

It included an overview of the protections associated with Centrelink income, as well as options to seek a debt waiver, negotiate, or make a complaint through an ombudsman service. It also considered other options such as bankruptcy, and encouraged workers to obtain advice from Consumer Action's lawyers or refer clients to legal advice or the MoneyHelp financial counselling service.

### *Mode of delivery*

Information on financial services was delivered to workers via a two-hour training session (Appendix E) and run by the Consumer Action Law Centre.

## 5.1. Results of Pre- and Post-Training Survey

Results from the survey are summarised in the table below. As illustrated, overall, the results are positive and show that among the 30 workers who participated in training, level of understanding around consumer credit and financial services had increased and so too had worker confidence in relation to referring clients to financial services. Additionally, more participants were able to identify the particular services providing financial support in the local area.

| Number of participants = 30 | Pre-training | Post-training |
|---|---|---|
| High Level of understanding | 43% | 74% |
| High Level of confidence | 33% | 74% |
| Awareness of local services | 12 services identified | 17 services identified |

Workers appreciated the things that they had learnt in the training:

*'Knowing more about what Consumer Action Law Centre can do is awesome';* and

*'I feel well informed and are much clearer about referring clients to other financial services as well as contacting Consumer Action Law Centre myself for further support and clarification via the 'worker only' phone line'.*

Others wanted to learn more about financial services and the legal implications:

*'More local training options (money management) for those who provide case management support';*

*'Maybe more about terms and conditions of loans - legal requirements'.*

As illustrated below, participants were also keen to know about specific issues including dispute resolution, credit default and asset protection:

*'What is the longest term for hardship variation on a repayment through dispute resolution?*

*'What alternative avenues can be taken to assist clients around credit default?* And

*'For clients with payday loans, what can they do around asset protection?'*

## 5.2. Tools

Several tools were developed to assist frontline workers. One of the tools developed for workers was a question and answer information sheet (Appendix F). It was intended for use as a quick reference guide for workers. This guide comprised a range of topics, highlighted by participants during the training; it was subsequently sent out to all who attended the training.

A second tool was a financial health checklist (Appendix G), which was developed by volunteers from Mortgage Choice. The tool was designed to help workers identify financial risks and level of debt experienced by clients with the goal of referring clients to financial counsellors in a timely manner. The Financial Health Check Tool will be trialled at Hanover Dandenong during 2014.

## 5.3. Improving access to community financial services

Backed by the Victorian Government, Good Shepherd Microfinance and the National Australia Bank, the Good Money Community Finance Hub in Dandenong opened on the 1st November 2012[21]. Since then, more than 3,200 people have made enquiries at the one-stop retail store. The Dandenong Community Advisory Bureau has appointed a financial counsellor in response to an increased need among clients around financial literacy and support.

Additionally the Consumer Action Law Centre has experienced an increase in the number of calls made to their MoneyHelp phone services. As illustrated in the table below, there was a 47% increase in calls received by MoneyHelp between February 2013 and February 2014. While no definitive claim can be made, it may well be that the increased number of calls received by MoneyHelp may have been related to the training that community workers received in August or September 2013.

| Enquiries to MoneyHelp in Greater Dandenong | |
|---|---|
| July 2012 to February 2013 | 158 calls |
| July 2013 to February 2014 | 232 calls |
| % change | 46.8% increase |

## 5.4. Summary

The aim of the sector capability phase was to enhance sector capacity around financial practices so that support workers can provide reliable and appropriate information to those who identify as low income people in financial stress. It also aimed to improve communication and relations between workers from different sectors working within the same geographical area, in order to effect rapid referral to appropriate services for financially vulnerable households.

Following the training, support/case workers from community agencies and other services felt better informed and more confident in relation to supporting clients with financial difficulties. Further, they were keen to gain greater insight into the support available to clients, not only around payday loans, but also more generally around legal and financial options. For example, workers wanted to learn about the new legislation related to payday loans, especially the obligations that were now required of payday lenders.

[21] www.goodmoney.com.au

# 6. Conclusion

*Taking the Stress Out of Managing Money* was a collaborative project between Hanover, the Consumer Action Law Centre and Good Shepherd Microfinance in 2012. With funding from the Legal Services Board Victoria, this project investigated the causes and impact of payday loans, for vulnerable consumers in the City of Greater Dandenong, Melbourne's most disadvantaged area.

Guided by principles of action research, the project aimed to gain insight and understanding of the experiences that low-income borrowers had with payday loans. Moreover, a key goal was to provide training in order to enhance sector capacity around financial practices so that support workers can provide timely, reliable and appropriate information to vulnerable people in financial stress.

The changes to the Consumer Credit Legislation Amendment Act 2012 (Cth), which came into effect April 2013, imposed more stringent obligations on payday lenders. It meant that payday lending should only be approved to those borrowers who had managed to repay their previous loans, and only if taking on a debt would not place them into further hardship. However, such regulatory responses have little impact on the practices of lenders without effective enforcement.

## 6.1. Ongoing financial hardship

The findings illustrate a picture of ongoing financial adversity. The 49 borrowers from the City of Greater Dandenong who participated in the project were highly disadvantaged and experienced significant financial hardship. Many were without paid work and relied on income support, either Newstart or the Disability Support Pension. They generally had low levels of education and limited or no financial literacy skills that included only a basic ability in handling money. This profile is not surprising given that recruitment occurred at various community support and specialist homelessness agencies.

## 6.2. Experience with payday lenders

Overall, borrowers reported a relatively positive experience with payday loans, but in many cases this was short-lived. While the loan provided them with some quick financial respite, it could lead to ongoing reliance. The main issue identified by borrowers was repaying the relatively high interest rates. Borrowers suggested that interest rates be lowered and the loans extended over longer periods of time, to support the unexpected financial matters, which impacted heavily on their very limited finances. Despite high interest rates, this sample of borrowers was not deterred from payday loans. Many reported that they would access payday loans in the future, essentially because such loans were quick to obtain, which meant that their immediate needs were able to be met.

Many borrowers reported that lenders did not ask about their full financial situation (their expenses), which may indicate that lenders were not complying with responsible lending obligations. Where lenders did ask about their expenditure, borrowers stated that only housing costs were considered; they were not asked about other obligations. It was also reported that after an initial loan was established, the level of assessment by the lender was reduced. Most loans were repaid through a direct debit authority, which was a very efficient mechanism for lenders.

## 6.3. Responding to the needs of people financially excluded

Within the City of Greater Dandenong, there are a range of financial services offering support with money management, budgeting and assistance with dealing with debts. People experiencing financial hardship can, for example, access loans through a Good Shepherd Microfinance NILS loan or a Good Shepherd Microfinance low interest StepUP loan, to purchase white goods or pay for car related expenses, such as maintenance and repairs.

They can also access support from the Dandenong Community Advisory Bureau and the Benevolent Society, as well as the local Salvation Army, for food parcels and vouchers. But these can only be accessed a couple of times a year. Residents who find themselves behind in their rent may access Rent In Advance from the local housing access point, WAYSS. Those on Centrelink payments may also access Centrelink loans twice a year, of up to $1000.

However, few of the participants were aware of these community services. Also, limited resources generally mean strict eligibility criteria that tend to restrict peoples' access to needed support and services. Access to financial support is not always available to people struggling financially whenever they require it. Long waiting times are also a feature of limited resources and strict eligibility requirements. These issues leave vulnerable people with very few options to address their financial difficulties. Within this context, payday loans present an attractive, and inevitable, alternative.

Having said this, however, it is important to understand that, in some circumstances, additional loans will further disadvantage households. For many indebted financially vulnerable people, additional credit, even if it is "safe" (such as a no-interest-loan) will not assist them. It could even be deemed irresponsible to give a person a no- or low-interest-loan if they cannot pay it back. It is really only when their financial circumstances have stabilized, that is, the debt is repaid or wiped, that community services that offer no- or low-interest loans are better placed to support vulnerable households.

The results from the training with thirty agency workers indicated that they had benefitted from the training. Both their level of knowledge increased as did their confidence in referring clients on to appropriate financial services. Referring clients to financial counsellors is particularly important when dealing with people who experience financial difficulties and hardship; it means that credit and debt matters can be dealt with in a timely and effective manner.

## 6.4. Strengths and limitations

The strength of this pilot project is that it builds on the findings of major reports that have provided important context around the practices of payday lenders and experiences of low income households by providing a place-based component. It would therefore be possible to replicate the project in other disadvantaged areas, with a view to implementing an early intervention localised response. This would entail training frontline workers to identify early warning signs of financial stress, and to make appropriate referrals to support clients with appropriate financial assistance and guidance. The project demonstrated that people continued to seek help when it was often too late to avoid a debt trap and financial crisis.

A major limitation of the project was the difficulty experienced engaging low-income households from the CALD community. Despite considerable effort and strategies to recruit, such as translated brochures and the use of translators, only a handful of eligible people agreed to be involved.

Two issues emerged around recruiting participants from CALD communities: the first related to a general reluctance to discuss or share information regarding private financial circumstances, not only with strangers but with other community members. The second issue related to literacy skills. Workers indicated that often clients they were seeing from the CALD communities had literacy difficulties with English as well as their own language.

A further limitation relates to the absence of input from payday lenders. Due to limited resources, it was not possible to include their perspectives, especially in relation to the extent to which legislative changes may have impacted on their lending practices.

## 6.5. Recommendations

The following recommendations are based on the findings of the *Taking the Stress Out of Managing Money* project.

### *Policy*

- More active enforcement of responsible lending obligations and practise by ASIC;

- Review and assess the market competition for payday lending to ensure it provides fair and efficient outcomes for borrowers. Additional rules could be considered, including:

- Limiting repayments on payday loans to a small percentage of monthly income (say 5%) to ensure a borrower's essential expenditure and other liabilities are considered;
- Limiting the total amount of loans provided to a borrower each year, to reduce the likelihood that a borrower becomes reliant on payday lending; and
- Further limit the costs and interest that can be charged by lenders.

- Review the level of income support by government for vulnerable people who become trapped in financial hardship and who are financially excluded from mainstream banking.

### *Program/Practice*

- Better communication within the local community services sector - especially about where borrowers can turn when they feel aggrieved; and/or to make a complaint against a payday lender.

- Prevention and early intervention – the level of debt that financially vulnerable people endure is an ongoing risk factor causing overwhelming stress – perhaps there could be an *amnesty on debt.*

- Training for frontline staff about the warning signs of financial stress, about how to respond promptly and how to refer to relevant services for support.

### *Research*

- A longitudinal perspective would be useful to more comprehensively explore the effectiveness of interventions.

- A different strategy to recruit borrowers from CALD community and forge better links with the agencies that work with CALD communities – this remains a major gap in the study.

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## Appendix A: Recruitment poster


Good Shepherd Microfinance

consumer action law centre

Hanover
HOUSING - SUPPORT - RESEARCH

# Appendix B: Plain language information

**Taking the Stress Out of Managing Money Project**

2013

Dear

Thank you for agreeing to complete a survey as part of the **Taking the Stress Out of Managing Money Project**

**Purpose of Survey**
To understand the borrowing practices of families from culturally and linguistically diverse backgrounds in the City of Greater Dandenong. We also are seeking information to help provide better financial services in the Dandenong region..

**Voluntary Participation**
Your participation in the survey is completely voluntary. This means that you can stop participating at any stage. It will not make any difference to your ability to receive services from Hanover if you choose not to take part in this survey.

**Interviews**
All interviews will be conducted in person and will take approximately 30-40 minutes.

**Confidentiality**
All the information you provided is treated as confidential. It will not be passed onto any agency or organisation. Your personal details will not appear in any written reports and there will be nothing that can identify you in written reports.

**A thank you gift for your time and contribution**
We are happy to offer you a $30.00 gift voucher as a small token of our appreciation of your time and contribution that you have given

**Questions**
If you have any questions about this survey please contact **Rob Monaco**, Manager of Business Development on 0422230744.

**Concerns**
If you have any complaints or concerns about the conduct of this survey, you can contact Shelley Mallet, General Manager Research Policy & Service Development, Hanover on 03 9288 9808

Yours truly,

Ely Lee
(Project Co-Coordinator)

Good Shepherd Microfinance　　consumer action law centre　　Hanover HOUSING - SUPPORT - RESEARCH

# Appendix C: Consent to participate

CONSENT FORM FOR SURVEY PARTICIPANTS

**TILE OF PROJECT:** **Taking the Stress Out of Managing Money Project**

**NAME OF INTERVIEWER:** **ELY LEE**

I..........................................have read ( or had read to me) and understood the information provided in the **Information Letter to Participants**. Any questions asked have been answered to my satisfaction. I agree to

☐ 30 to 40 minute in person interview.

I understand that I can withdraw from the survey at any time without having to give an explanation, and this will not affect the services I receive from Hanover or other agencies.

☐ I would like to be notified when the report is available.

If yes, please provide your email address so we can send you the details of where it can be found___________________________________

Name of Participant.......................................................

Signature..................................................................

Date.........................................................................

Signature of Interviewer...................................................

Date.........................................................................

# Appendix D: Survey

## Taking the Stress Out of Managing Money

A collaborative project between Hanover, the Consumer Action Law Centre and the Good Shepherd Microfinance Unit

GUIDE FOR INTERVIEWING BORROWERS
Note to interviewers:

1. The main aim of this survey is to get a sense of people's story around how they manage money and debt, where they go when they're in a financial bind, what happens when they're unable to pay a loan back, their access to financial services, preferred borrowing options and conditions, and pathways into debt/crisis.

2. 100 participants will be surveyed as part of the project. Preference is for surveys to be conducted face-to-face.

3. The survey has been approved by the Hanover Research Ethics Committee.

4. The data collated from the surveys will feed into a research report that will provide key recommendations to government to improve existing lending regulatory arrangements to better protect vulnerable consumers.

5. Survey participants must read and sign the following key documents prior to undertaking the survey:
   - Consent Form
   - Information for Participants

6. It should be made clear to participants that all answers will remain anonymous and that they are free to terminate the survey process at any stage.

7. The National Translating and Interpreting Service (TIS), a free interpreting service, should be arranged where necessary.

8. If you discover that participants are not linked in to appropriate financial services, they should be referred to the Dandenong Good Money Hub.

9. The participant is to receive $30.00 once the survey has been completed. A receipt is to be completed and signed.

## Section A:
## Opening

Something like:

Hi, my name is [NAME ]. You originally spoke to [ ] from [ ]. Thanks for agreeing to participate in our study.

We're particularly interested in your use of pay day loans or cash advances where you borrow money and have to repay it over a short period.

Before we begin I want to remind you that your answers will remain anonymous –however we will retain your basic details separately to the survey, so that we can follow up with you in the coming months and provide support through connecting you with appropriate services if necessary.

If there is anything we ask you that you don't want to answer or you feel uncomfortable answering, just say so, and we'll move on, or we can stop the interview at any time. It's up to you. Your participation will not impact on the level of service you receive from any organization.

As a thank you for your time and participation we will be providing you with a $30 Coles voucher on completion of the survey.

Are there any questions?

## PAST EXPERIENCE

The first set questions ask about your past experience with payday lenders and cash loans so that we can understand what support you have received when accessing a loan.

**1.** Where did you first hear about payday lenders?

□ friends □ tv □ family □ radio □ other ____________________________

**2.** When you **first** borrowed money from a payday lender, did you need the money to pay for any of the following expenses?

□ housing costs/ rent □ food/groceries □ phone/iphone

□ mortgage □ medication □ tv

□ holiday □ utilities □ pay off another loan

□ public transport □ car expenses □ white goods

□ clothes □ education costs

□ other______________________________________________________________

**3.** How often (on average) have you used payday lending?

□ each pay day □ once a month □ every few months □ once a year

□ other ____________________________

**4.** Have you found that using payday lending: *(select one of the following)*

□ Significantly reduces your stress levels

□ Somewhat reduces your stress levels

□ Makes no difference to your stress levels

□ Somewhat increases your stress levels

□ Significantly increases your stress levels

**5.** Have you found that pay day loans are: *(select one or more).*

□ Always helpful

□ Sometimes helpful

□ Rarely helpful

□ Never helpful

**6.** Did you know that you can complain to an authority, called an Ombudsman, about bad experiences with payday lending?

□ yes □ no

**7.** Have you ever applied to banks for a loan **before** going to a payday lender?

- ☐ yes
- ☐ no –

If no to Q7, why didn't you apply?

- ☐ I thought I would not be approved
- ☐ I don't feel welcome at banks
- ☐ too much paperwork
- ☐ I'd have to wait too long for the loan
- ☐ I already had a loan with the bank
- ☐ other ______________________________________________________

**8.** If yes to Q7, were you successful in getting a loan?

- ☐ yes
- ☐ no - why were you not successful?
  - ☐ poor credit history
  - ☐ below income / assets limits
  - ☐ other ______________________________________________________

**9.** How would you describe your overall experience with services provided by a bank?

☐ excellent ☐ good ☐ average ☐ poor ☐ very poor

**CURRENT EXPERIENCE (Since April 2013)**

The next set of questions ask about your current experience with payday lenders, that is, since April 2013..

**10.** Have you borrowed money from a payday lender since April 2013?

 yes  no – go to question 14

**11.** If yes to Q10, to pay for any of the following expense(s)?

| | | |
|---|---|---|
|  housing costs/ rent |  food/groceries |  phone/iphone |
|  mortgage |  medication |  tv |
|  holiday |  utilities |  pay off another loan |
| public transport |  car expenses |  white goods |
|  clothes |  education costs |  other_______________ |

**12.** Have you had more than one payday loan (at the same time) since April 2013?

No

Yes -  2  3  4  5+

**13.** If you answered "Yes" to Q 12, were the payday loans with the same lender or different lenders? (How many?)

_________________________________________________________________________

**14.** Who is/are your preferred payday lender(s).

_________________________________________________________________________

**15.** Would you recommend getting a loan from the payday lender to anyone else?

 Yes  Maybe  No

Why: ____________________________________________________________________

**16.** Thinking about your most recent payday loan, did you understand the following conditions of the loan?

| | | | | |
|---|---|---|---|---|
| (a) period (the time taken to repay) |  | yes |  | no |
| (b) interest rate / fees & charges |  | yes |  | no |
| (c) repayment amounts |  | yes |  | no |

**17.** Did the payday lender ask you about your financial situation?:

| | | | | |
|---|---|---|---|---|
| Your level of income |  | yes |  | no |
| Your expenses |  | yes |  | no |

**18.** How do you usually repay loans?

- ▯ borrow from family/friends
- ▯ take out another short term loan
- ▯ save money to pay it off
- ▯ pawn or sell items
- ▯ use credit card
- ▯ Centrepay
- ▯ other ____________________________________________________________

**19.** Do you have trouble meeting the regular loan repayments?

▯ Always ▯ Sometimes ▯ Never

**20.** Since April 2013, has there been a time when you were unable to make a loan repayment?

▯ yes ▯ no

**21.** If Yes to Q19, why was that?

- ▯ paying for other essentials
- ▯ unable to afford the repayment
- ▯ paying off a Centrelink loan
- ▯ paying off another loan
- ▯ other ________________________

**22.** Since April 2013 have you had any other loans or debts apart from the pay day loan?

▯ no

▯ yes -which of the following?

- ▯ Centrelink loan
- ▯ store cards
- ▯ rent to buy
- ▯ other ____________________________________

23. How do you describe your overall experience with pay day lenders?

▯ excellent ▯ good ▯ average ▯ poor ▯ very poor

**THE FUTURE**

These last few questions are about how you might borrow money differently and how we can support consumers in the City of Greater Dandenong around their financial support needs.

**23.** Do you think payday lenders should change the way they work with borrowers?

☐ yes ☐ no

If Yes to Q23, in what way? ____________________________________________________________

**24.** If you are in a financial trouble again, would you take out a payday loan?

☐ Yes ☐ Maybe ☐ No

**25.** What would you do if payday loans did not exist and you were short on cash? *(select one or more)*

☐ borrow from family/friends ☐ cut back on other expenses

☐ delay paying bills ☐ pawn or sell items

☐ use credit card ☐ other ____________________________________________

**26.** The following local organisations offer financial support. Have you heard of any of them?

| | | |
|---|---|---|
| Good Shepherd (Good Money) | ☐ yes | ☐ no |
| Hanover | ☐ yes | ☐ no |
| Consumer Action Law Centre | ☐ yes | ☐ no |
| Southern Migrant and Refugee Centre | ☐ yes | ☐ no |
| Dandenong Community Advisory Bureau | ☐ yes | ☐ no |
| Casey Cardinia Legal Centre | ☐ yes | ☐ no |

**27.** Have you tried to access financial support from any of these services?

☐ yes What happened?__________________________________________

☐ no Why not?_______________________________________________

**28.** Would you be interested in discussing alternatives to payday loans?

☐ yes Refer to "Good Money"

☐ no

## Section C:
## Demographics

To finish up I just need to get some basic information from you:

1. **Gender** ❑ Male ❑ Female
2. **Age**

❑ 18-20 ❑ 31-40 ❑ 51-60 ❑ Over 70
❑ 21-30 ❑ 41-50 ❑ 61-70

**3. Relationship Status.**

a) Are you: ❑ Single ❑ Married/De facto ❑ Separated/Divorced ❑ Widowed

b) Do you have any children under 18 years old living with you? ❑ No ❑ Yes → If YES – how many?

**4. Accommodation**

a) Which suburb/town do you live in? ______________________________________________

b) Is your accommodation: ❑ Private rental ❑ Social/Public Housing ❑ Own home
❑ Crisis accommodation ❑ Community housing
❑ Staying with friends ❑ Other: __________________

c) How long have you been living there (approx)?_________________________________

**5. Education and Employment**

Highest educational qualification? ____________________________________________

What is your main occupation?_______________________________________________

**6. Are you eligible for Centrelink Payments?** ___________________________________

**If yes, which one:**

**If no, are you ineligible because of** **a) income level**

___ **b)Refugee status**

**c) Other visa requirements**

**d) Other**_______

7. **Income** (gross

❑ 0-$10, 000
❑ $11,000 – $20, 000

❑ $21, 000-$30, 000

❑ 31, 000- 40, 000
❑ 41, 000 – 50, 000

- ❑ 51, 000 - $60, 000

- ❑ 61, 000 – 70, 000
- ❑ 71, 000 – 80, 000
- ❑ Above $81, 000

**8.Language & Culture:**

a) What country were you born in?_____________________________________

b) What languages do you speak at home?__________________________________

c) Are you Aboriginal/Torres Strait Islander background?___Y________N

**Section D:**
**CLOSE OF INTERVIEW**

- Thanks for your time, do you have anything else you want to add?

  ____________________________________________________________
  ____________________________________________________________
  ____________________________________________________________

- Is there anyone you know who accesses pay day loans who might be willing to talk to us as you have done? If yes, brief note about who (no names, but use broad titles eg relatives, friends, etc) and how many.

  ____________________________________________________________

- If you have any concerns – or even any other ideas – please feel free to contact Hanover on ph. 9792 0750.

LOGOS

**Receipt of payment**

# Taking the Stress Out of Managing Money

## A collaborative project between Hanover, the Consumer Action Law Centre and the Good Shepherd Microfinance Unit

I have received payment of a $30.00 voucher for participation in an interview for the pay day lending project.

Name ____________________________________________

Signature __________________________ Date: ___________

**Future Contact**

# Taking the Stress Out of Managing Money

## A collaborative project between Hanover, the Consumer Action Law Centre and the Good Shepherd Microfinance Unit

I am willing to be contacted in the coming months to talk about how my financial situation has changed since participating in the survey

Name ____________________________________________

Contact Phone number:________________________________________

# Appendix E: Training by CALC

Appendix E Training by CALC_Stopping th

Enhancements Bill CPD - February 2013

# Appendix F: Training Questions and Answers

## Taking the Stress Out of Managing Money

**- Service Providers Training Questions and Answers -**

The initial thing to remember is that you don't need to know the ins and outs of all credit law…call the Consumer Action Legal Centre, that what they do!

---

*What is the longest term for hardship variation on a repayment through dispute resolution?*

A reasonable time period will generally be agreed upon, depending on the reasons for the application.
NB* There is also the option for a moratorium

*Will this be reflected on the legal/credit file?*
Yes, for a period of 7 years, the same as bankruptcy.

---

*Bills and debts*

A client has to be 60 days or more in arrears before a bill default can be added to a VEDA (http://www.veda.com.au/)

If a client has a debt and is called to attend court regarding this debt often a default judgement occurs in court, as clients do not present a defence. To prevent this, clients are encouraged to attend a legal centre, and get assistance to send a defence to the court and the creditor.

---

*Bankruptcy*

You can be elected or can choose to be elected bankrupt.

Bankruptcy will be on your credit report for 7 years, however will only be relevant for 5 years.

Reporting agent: Financial Ombudsman (http://www.fos.org.au/centric/home_page.jsp) or Credit Ombudsman (http://www.cosl.com.au/)

*VEDA credit report*

VEDA credit, gives you a credit rating which other companies can access to assess your eligibility for services and products. This score takes into consideration your past ability to repay loans and products that you have purchased.

---

*Where can I find more information on consumer credit law?*

Contact the Consumer Action legal Centre to assist, as they are the best equipped to handled legal matters which involve credit. (http://consumeraction.org.au/)

---

*What can be done to support clients with infringement notices and what is the procedure?*

As this is a legal matter against an individual or group involving the police or another authority, this is not something that the Consumer Action Legal Centre can assist with. However, it would be best to refer a client to the local Legal Aid (http://www.legalaid.vic.gov.au/) or alternatively to PILCH (http://www.pilch.org.au/).

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# Appendix G: Hanover Financial Health Check

*This health check is a means by which to identify financial risks of clients and to establish what supports may be required by the client. Once the situation is fully understood by the worker, the client should be referred onto a financial counsellor or for further legal advice to the Consumer Action Law Centre.*

Name: ________________________________________ DOB_________________

Marital Status: _________________________________

Dependants (ages): _____________________________ Source of Income:_____________________

| | | | |
|---|---|---|---|
| When did you first experience financial hardship? | | | |
| What do you believe the initial cause of your financial hardship was?<br>loss of employment ☐ relationship breakdown ☐<br>pregnancy ☐ loss of accommodation ☐<br>other ☐<br>(Please list)........................................................................................................................................ | | | |
| Are you aware of any bad credit history on your credit file?<br>Company<br>..........................................................................................<br>..........................................................................................<br>..........................................................................................<br>..........................................................................................<br>.......................................................................................... | | | Amount<br>..............................................<br>..............................................<br>..............................................<br>..............................................<br>.............................................. |
| Please list your current debts:<br>Are these debts Shared (Sh) or Individual(Indi) | Sh | Indi | Amount |
| Accommodation | | | .............................................. |
| Bond | | | .............................................. |
| Overdraft | | | .............................................. |
| Credit Cards | | | .............................................. |
| Payday Loan | | | .............................................. |
| Centrelink Loan | | | .............................................. |
| Bank Loan | | | .............................................. |
| Utilities bills | | | .............................................. |
| Personal Loan | | | .............................................. |
| Car Loan/Car Finance | | | .............................................. |
| Rent to buy/Store cards | | | .............................................. |
| Property at pawn brokers | | | .............................................. |
| Fines and Infringements | | | .............................................. |
| Debts at creditors | | | .............................................. |
| Gambling debt | | | .............................................. |
| Student debt | | | .............................................. |
| No Interest Loan/Step Up Loan | | | .............................................. |
| Other debts | | | .............................................. |
| ........................................................................... | | | .............................................. |
| | | | |
| Have you previously declared bankruptcy?<br>If yes, when? | | | Yes ☐ No ☐<br>.............................................. |
| Have you received any assistance in regards to budgeting?<br>If yes, who from | | | Yes ☐ No ☐<br>.............................................. |
| Do you have any other sources of income?<br>If yes, what form | | | Yes ☐ No ☐<br>.............................................. |
| Do you have any savings?<br>If Yes, how much? | | | Yes ☐ No ☐<br>.............................................. |
| Are you currently linked in with any other support services? | | | Yes ☐ No ☐ |

## Appendix H: ASIC's complaint form

| | |
|---|---|
| **Complaint Details** | |
| Date of Complaint is being made | |
| First name of complainant | |
| Surname of complainant | |
| Contact Number | |
| Can we contact you on this number (Y/N) | |
| Email | |
| Are you assisting someone to complete this complaint? If so, please provide your name and contact details, as well as your relationship to the person. | |
| Are you a customer of this company (Y/N) | |
| **Company Details** | |
| Date of matter being reported | |
| Name of company involved | |
| Company location (Town or State/Territory) | |
| Company contact details/ABN (if known) | |
| Person you spoke with at the company / made the complaint to | |
| Describe in details and accurately, the nature of your complaint | |
| Did the company offer you any support or compensation to resolve this matter? | |
| Signature of Complainant_________________________ | Date |
| Complaint recorded by___________________________ | Date |

To be faxed to ASIC's at Fx. ________