



National Consumer Credit Protection Amendment (Small Amount Credit Contract and Consumer Lease Reforms) Bill 2019

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Statement of Recognition

The Salvation Army acknowledges the Traditional Custodians of the lands and waters throughout Australia. We pay our respect to Elders, past, present and emerging, acknowledging their continuing relationship to this land and the ongoing living cultures of Aboriginal and Torres Strait Islander peoples across Australia.

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Executive Summary

The Salvation Army welcomes the opportunity to make this submission on the National Consumer Credit Protection Amendment (Small Amount Credit Contract and Consumer Lease Reforms) Bill 2019 (the Bill).

The Salvation Army is one of Australia's largest providers of social services and programs, including our work with people in, and at risk of, financial hardship. The Salvation Army provides a wide range of services and support to people across Australia as part of realising our vision and living our values.

The Salvation Army strongly supports this Bill and recommends that it be passed in its current form.

The Salvation Army's Moneycare service

Moneycare is The Salvation Army's financial wellbeing and capability service. It has been operating for over 30 years in Australia, delivering a range of free and confidential services such as financial counselling, financial capability support, financial literacy and capability workshops, and microfinance. The services seek to support people in financial hardship by addressing their immediate crisis situation and to help them build their long term capability and resilience in managing financial hardship.

With The Salvation Army's mission and values as the foundation, Moneycare services are delivered with empathy and dignity, and an emphasis on building trusting relationships with people who are accessing their services. Since 1990, Moneycare has helped thousands of people experiencing, or at risk of experiencing, financial and social exclusion.

The value of Moneycare services is evidenced by two key pieces of research. In 2012 Swinburne University of Technology found that The Salvation Army's financial counselling services had a positive impact across the domains of debt resolution, wellbeing, financial capability and advocacy, with 94 per cent of those surveyed wishing that that they had sought help sooner.¹

In 2016 new outcomes measurement tools were developed to measure the changes made in the first three months of a person's journey with Moneycare's financial counselling and capability services. A pilot of the tools across three jurisdictions in the 2017/18 financial year found that Moneycare helped community members address financial hardships, build financial resilience, and improve their mental health and overall wellbeing and spirituality. Seventy-nine per cent of respondents reported improvement in their financial resilience and 67 per cent reported improvement in their mental health within the first three months of connection with Moneycare²

Moneycare's client feedback on casework services also reaffirms the impact of its service delivery. Out of 2,207 responses received in 2017/18, 95 per cent of respondents reported increased money management knowledge or skills, 96 per cent reported an improved ability to handle their own financial situations, and 93 per cent reported that their financial difficulties were resolved or mostly resolved.

¹ Brackertz, N. (2012). *I wish I'd known sooner! The impact of financial counselling on debt resolution and personal wellbeing*. The Salvation Army. Retrieved February 13, 2020, from <https://researchbank.swinburne.edu.au/file/d9786ab2-4879-4344-9533-e7f04932a438/1/PDF%20%28Published%20version%29.pdf>

² Misra, G., Loo, J., and Susanto, J. (2018) *Strength in Numbers: Moneycare Outcomes Measurement (ACT, NSW, QLD)*. The Salvation Army Australia, Sydney.

The Proposed Bill

The Salvation Army understands that the proposed Bill would amend the regulatory framework for Small Amount Credit Contracts (SACCs, commonly known as payday loans) and consumer leases (known as rent-to-buy schemes). In addition, the Bill would make amendments to the *National Consumer Credit Protection Act 2009* (the Credit Act).

In summary, the Bill would:

- Introduce a cap on the total payments that can be made under a consumer lease
- Require small amount credit contracts (SACCs) to have equal repayments and equal payment intervals
- Remove the ability for SACC providers to charge monthly fees in respect of the residual term of a loan where a consumer fully repays the loan early
- Prevent lessors and credit assistance providers from undertaking door-to-door selling of consumer leases at residential homes
- Introduce broad anti-avoidance protections to prevent SACC loan and consumer lease providers from circumventing the rules and protections contained in the Credit Act, including the National Credit Code
- Strengthen penalties to provide incentives for SACC providers and lessors to comply with the law.

This Bill would also make changes to the Credit Act to facilitate the making of regulations including:

- Amending the credit regulations to reduce the protected earnings amount for SACCs from 20 per cent of a consumer's gross income in relation to Centrelink recipients, to 10 per cent of a consumer's net income for each payment period. SACCs providers would be prevented from issuing loans where this would mean that the repayments of all of the customer's SACCs would exceed this proportion of their income
- Amending the credit regulations to implement a new similar protected earnings amount for consumer leases for household goods. Lessors would be prevented from entering into a lease contract where this would mean that the repayments under all of the customer's consumer lease contracts would exceed 10 per cent of their net income for each payment period.

Impact of the Bill on people

The Salvation Army has extensive experience working with people seeking financial counselling and capability services primarily due to unexpected changes in their financial circumstances. To combat financial disadvantage, The Salvation Army operates Moneycare, a program that offers free financial counselling to those in need. Through Moneycare, qualified financial counsellors provide crisis intervention and financial resilience services.

Our experience shows that there is a significant correlation between engagement with payday lenders and consumer lease providers, and individuals in lower income brackets and/or poverty.

Our data³ shows that people accessing Moneycare typically:

- Spent less on basic necessities compared to Australian households, specifically on food, transport and health. This likely reflects a prioritisation on payments for unavoidable costs such as housing and utilities, resulting in people not being able to afford things that average Australians normally enjoy, such as eating out, owning a car or having private health insurance
- Had stagnant incomes, and housing costs were a continuous source of stress. People accessing Moneycare generally spent 35 per cent of their income on housing, compared to 20 per cent in average Australian households
- Had a much higher incidence of housing stress, with 64 per cent experiencing housing stress in 2017/18. People in the private rental market were most at risk of housing stress. In 2017/18, 74 per cent of participants in private rental properties experienced housing stress, compared to other housing types: owners with mortgage (61 per cent), social housing (42 per cent), and rooming/boarding house (68 per cent).

We know, from our on-the-ground experience, that people in crisis experience cognitive overload, which impacts their decision making. Their focus, understandably, is on meeting their most pressing and immediate needs, often to the detriment of their long term financial health.

Quick access to the finances they need to get through the week is particularly appealing for someone who needs to find a way to:

- Pay the rent to avoid eviction
- Pay their next car loan instalment to avoid repossession so they can get to work
- Pay a higher-than-expected electricity bill to keep the lights on.

Sufficiently robust regulatory controls on predatory lending prevents people in this situation from being sold a 'quick fix' that is ultimately more harmful in the long term.

The Bill will have a positive impact on people experiencing hardship and financial stress as it seeks to strengthen controls around lending practices, particularly the practices of credit providers in regard to credit cards, payday loans and consumer leases.

³ Moneycare: Ten Years On accessible at <https://www.salvationarmy.org.au/scr/be/sites/auesalvos/files/about-us/TSA-moneycare-10-year-analysis-report.pdf>

Jim's* Story

Jim was referred to Moneycare because he was unable to register his car, which meant he was not able to get to his medical appointments. He told us that his current financial stress and his feelings of being unable to get ahead had caused an escalation in his depression to the point where he experienced suicidal ideation.

Jim has complex mental health issues and Jim's wife also has a mental health condition and Type 1 diabetes. Jim frequently used payday loans to meet everyday needs because he saw them as being quick and easy. Initially, we were focused on getting his car registered but as we worked more closely with Jim, the extent of the issue with his payday loans became apparent.

We worked with Jim to go through all of his loans. Some credit agencies were very helpful, waiving his debt due to hardship, but others were displayed extremely concerning behaviours.

With one provider, Jim had refinanced his loan five times – he started with a loan of \$2,000 in September 2017 and now has a debt of \$6,800 with this provider alone. Jim already had six other payday loans when he took out the initial loan in 2017, a fact that would have been evident to the lender from his bank statements.

Jim receives more than 50 per cent of his income from Centrelink and the loan repayments for all his payday loans are worth more than 20 per cent of Jim's gross income. He has no capacity to repay this debt.

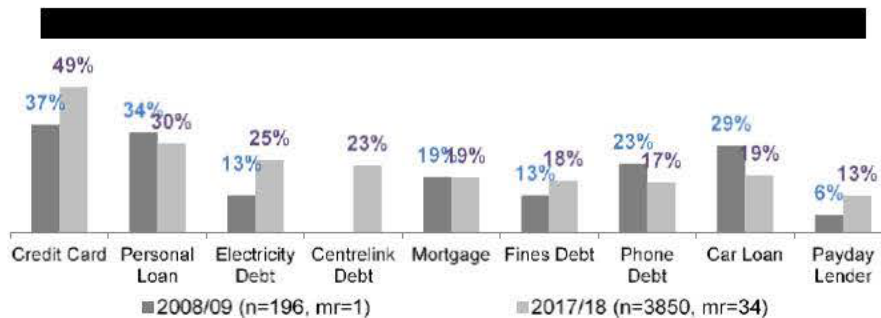
In the course of working with Jim, we have also witnessed predatory and intimidating behaviour directed toward Jim (and on occasion, toward our staff).

We are using the official channels to seek a resolution for Jim but his situation highlights the desperate need for reform of short term credit arrangements in Australia.

*Name has been changed

The impact of payday lenders and consumer lease providers on the community

The Salvation Army serves people who are experiencing marginalisation and vulnerability, the same people who often find themselves financially troubled with predatory debt. Predatory debt is amongst the most rapidly growing debt categories ('Payday Lender') that our community members present with (see figure below).

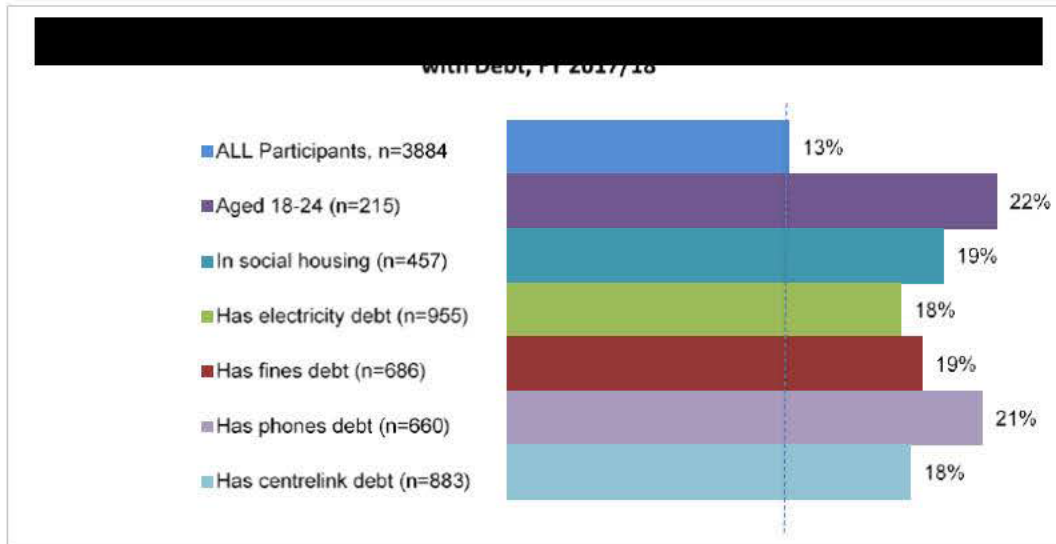


A recurring theme from our front line staff is that payday loans and consumer leases are far too easy to access (as a result of rapid digital access growth) with few barriers to qualify. Evidence from our Moneycare services has found that the incidence of people with payday loan and consumer lease debts has increased significantly over the last decade, particularly for people aged 18-24 years. The proportion of people with predatory debt grew from 6 per cent in 2008/09 to 13 per cent in 2017/18 and tripled in real terms to a median value of \$1,383.

Median Payday Loan



In 2017/18 more than 2 in 10 of 18-24 year olds accessing our services had payday loans or consumer leases. Our experience also suggests that people who live in social housing and those who have other forms of unsecured debt are also more likely to access payday loans and consumer.



Bushfire Affected Communities

The Salvation Army will continue to provide extensive free financial counselling in communities that have been affected by the recent bushfires as we have in the wake of many natural disasters before.

Sadly, we know from experience that this time of stress and devastation will leave people vulnerable to predatory lending practices. We will absolutely be encouraging people to explore alternative options, such as:

- Accessing government and community grants related to bushfire recovery
- Speaking to a free financial counsellor, who can also provide advocacy and suggest alternative options
- Emergency relief provided via community organisations (for food, utilities, rent etc.)
- No interest loans provided via community organisations (for white goods, car repairs etc.)
- Negotiating affordable repayment arrangements with creditors (e.g. telecommunications and utility companies, landlords etc.) with the help of a financial counsellor, if necessary
- Centrelink advances up to \$1,000 (depending on Centrelink payment type)
- Saving prior to purchase.

But we know that, without reform, there is a real risk that people will be left in even more dire financial situations because of short term credit arrangements.

This Bill, by preventing door-to-door selling of consumer leases, introducing caps on the total payments that can be made under a consumer lease, and introducing broad anti-avoidance protections that prevent SACC loan and consumer lease providers from circumventing the rules and protections contained in the Credit Act and the National Credit Code, will benefit these vulnerable communities.

About The Salvation Army

The Salvation Army is an international Christian movement with a presence in 128 countries. Operating in Australia since 1880, The Salvation Army is one of the largest providers of social services and programs for people experiencing hardship, injustice and social exclusion.

The Salvation Army Australia has a national operating budget of over \$700 million and provides more than 1,000 social programs and activities through networks of social support services, community centres and churches across the country. Programs include:

- Financial inclusion, including emergency relief
- Homelessness services
- Youth services
- Family and domestic violence services
- Alcohol, drugs and other addictions
- Chaplaincy
- Emergency and disaster response
- Aged care
- Employment services.

As a mission driven organisation, The Salvation Army seeks to reduce social disadvantage and create a fair and harmonious society through holistic and person-centred approaches that reflect our mission to share the love of Jesus by:

- Caring for people
- Creating faith pathways
- Building healthy communities; and
- Working for justice.

We commit ourselves in prayer and practice to this land of Australia and its people, seeking reconciliation, unity and equity.

Further Information

The Salvation Army would welcome the opportunity to discuss the content of this submission should any further information be of assistance.

Further information can be sought from **Major Paul Hateley**, National Head of Government Relations, at [REDACTED] or on [REDACTED]