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PM - Consumer protection groups warns of 'payday loan' schemes

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Reporter: Brendan Trembath

MARK COLVIN: Companies which offer easy cash advances seem to be thriving as Australia's cost of living rises.

The lenders advertise so called "payday loans" as an easy way to cover unexpected bills.

But consumer protection groups warn that the interest rates are usually high. What's worse, if the loans aren't repaid right away they can get bigger very quickly.

Some states have placed restrictions on payday lenders, consumer protection groups say the same rules should apply around the country.

Brendan Trembath reports.

BRENDAN TREMBATH: It used to be that payday lenders would set up shop in a low rent area, but now many lenders have moved to the internet.

Nick Auchincloss is the new chief executive of a Queensland-based company called Cash Doctors.

NICK AUCHINCLOSS: We have 25 full-time employees and we turnaround, around 1,500 loans a month at the moment.

BRENDAN TREMBATH: What sort of amounts are these loans generally?

NICK AUCHINCLOSS: Average loan size is about \$300.

BRENDAN TREMBATH: Can you give me an example of how a loan would work?

NICK AUCHINCLOSS: Very, very simple. People apply to us online. The entire sort of approval process is done online, including sort of identification, verification of their work and what have you. Then, within an hour for new customers, we deposit cash into their accounts to make sure they've got free and easy access to the money. Within a specified period, but normally sort of within their next pay cycle, they would repay the loan in full, having been then able to pre-plan for it plus the interest charged.

BRENDAN TREMBATH: How much is the interest?

NICK AUCHINCLOSS: The interest is charged, currently, at around 11 per cent per week but obviously the key thing with this is to ensure that it is a short-term borrowing. It is not a long-term borrowing. However, we obviously are reviewing our costing structures in line with some of the regulations coming out at the moment.

BRENDAN TREMBATH: But consumer credit groups object to payday loans. There's the high interest and the fees.

Karen Cox is the co-ordinator at the New South Wales-based Consumer Credit Legal Centre.

KAREN COX: These loan providers actually have a large penetration into the lower socio-economic groups. So a lot of financial counselling clients will turn up with loans to some of these non-bank establishments. The problem for a lot of these people is they do actually have difficulty obtaining traditional finance so the only option available for them is the alternative suburban lenders who often lend at very high rates that those people simply can't afford.

BRENDAN TREMBATH: Several states have cracked down on payday lenders and made them subject to consumer credit codes but it gets complicated when the internet is involved.

Karen Cox again.

KAREN COX: We get cross border enquiries all the time, particularly with the Queensland border, from people who have gone from New South Wales into Queensland and borrowed money and then run into trouble.

BRENDAN TREMBATH: The Australian Consumers Association is also wary of payday lenders.

Spokesman Christopher Zinn says they should be federally regulated.

CHRISTOPHER ZINN: All lending should be regulated by ASIC (Australian Securities and Investments Commission). It's really not good enough for, you know, one or two states to move and the others to move differently or have different sets of regulations. We experience that kind of duplication and confusion in all sorts of other areas. Basically, in terms of lending, we need to have one regulator on a national basis and ASIC is well set up to be that regulator.

We've seen figures that suggest many of the people who were loaned money are actually on social security benefits anyway, despite what the websites say that they just lend to people who actually have incomes.

BRENDAN TREMBATH: Nick Auchincloss from Cash Doctors says they don't oppose increased scrutiny of payday lending.

NICK AUCHINCLOSS: There's a great opportunity when regulation comes in for people who have a transparent and honest attitude and who are here to provide a service to customers. And potentially, because it eradicates the less scrupulous players in the market, it means that there's more customers to go around who needed genuine help to look after properly.

BRENDAN TREMBATH: The Australian Consumers Association is concerned about payday lenders which seem to be taking money out of people's social security accounts, people who don't have employment. Do you do that?

NICK AUCHINCLOSS: Not at all. Not at all. Every single one of our customers has to be in full-time employment and earning less, sorry, more than \$400 per week and we guarantee that and confirm that with every payroll for every single customer.

MARK COLVIN: The chief executive of Cash Doctors, Nick Auchincloss, speaking to Brendan Trembath.

Centrelink tells PM it does not monitor how many customers use payday lending. But the organisation says it does not condone the practice.

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