

Kyabra Community Association's response to Strategies for reducing reliance on high-cost, short-term, small amount lending – Discussion Paper May 2012

1. **Currently the Government offers Centrepay, advance payments and weekly payments as mechanisms for customers to manage their money. Are there any other mechanisms that could be used for this purpose?**

Kyabra believes Centrepay can be better used by people on low incomes to manage their income. Specifically it should not only be used to pay bills, but also to contribute to household savings. Many people who make use of Centrepay have stated that they prefer to use Centrepay because they can pay bills or pay off a NILS loan with money before it goes into their bank account where funds can be quickly exhausted to meet day to day expenses. Centrepay provides a measure of protection and control of their funds. It effectively quarantines funds to allow for regular payments prior to these funds reaching their bank account.

Clearly the Centrepay facility has significantly contributed to the success of the No Interest Loans Program. With a proven track record on paying of a debt, it follows that Centrepay can also assist people to save. Kyabra believes its clients should have access to a range of microfinance options including savings options. It is important to reinforce that credit isn't always the solution to reach financial goals and that savings should be encouraged where possible.

To-date Centrepay have declined Kyabra's proposal for using Centrepay for its own matched savings program, this is despite one of the stated objective of Centrepay:

"Providing Customers with a means to budget and plan for their household and living expenses"

We understand Centrepay have also declined requests of other matched savings operators. Matched savings programs would achieve a much better outcome if the savings deposits of participants could be made through the Centrepay system.

We recommend to the Federal Government that

Recommendation 1: Matched savings programs to be an eligible "Service Reason" with in the Centrepay Policy.

2. **Should referrals be made to FMP services at a certain stage as a matter of course?**

Special consideration should be given for people on the lowest allowance such as Newstart, Youth Allowance and Austudy. While credit options such as NILS are available to people on these allowances, many simply do not have the capacity to repay.

It has been revealed in the QCOSS Cost of Living report that people living on the Newstart Allowance are typically unable to afford even a basic standard of living. QCOSS and many other commentators believe that the level of

especially Newstart Allowance is inadequate. The QCOSS study suggests a single person on Newstart needs at least \$300 per week for a very basic standard of living. As the current weekly rate of \$282, Newstart recipients are \$36 per fortnight short of a basic standard of living.

We recommend to the Government that:

Recommendation 2: To reduce the reliance on high-cost small amount loans, the Federal Government immediately increase the Newstart, Youth Allowance and Austudy by at least \$50 per week for singles.

3. **Should providers of high-cost small amount loans be required to advise individuals about the existence of hardship programs where the individual is seeking loans to pay a utilities bill?**

Yes. This should be a condition of being a responsible lender. Centrelink should also routinely inform people of this.

4. **How can individuals be encouraged to use these alternatives for paying utility bills rather than using high-cost small amount loans?**

Utility providers should encourage customers to pay via a payment plan in the first instance. If the customer is having difficulty in complying with the payment plan, the Utility provider should provide information – in writing - on applicable hardship programs.

5. **What are the advantages and disadvantages of requiring energy providers to provide information on their payment plans and hardship programs initially when contracts are entered into or renewed, and on each bill?**

Energy providers should be encouraging their low income customers to pay via Centrepay and provide the necessary resources for customers to take up this offer. This could be made mandatory if frequent non-payment of bills is occurring.

6. **Are there other support services that would help reduce energy hardship and the demand for small amount, short-term loans to pay energy bills?**

There is little point in taking out a loan for an energy bill if payment plan options are available.

7. **Should energy hardship programs be promoted more widely? If so, what mechanisms could be used?**

Energy hardship program should be promoted by energy companies when their customers after the first non-payment of bill.

8. **Is building upon existing programs and extending the criteria for accessing these programs, such as NILS and StepUP, an appropriate alternative to small amount, short-term loans?**

There are some fundamental differences between NILS and “pay-day lenders”, There is considerably more flexibility in loans form pay-day lenders then NILS. Most NILS providers have a strict criteria on what loans can be used for, the

process from inquiry to payment can be between 1-3 weeks, and loan funds are usually presented as a cheque made out to a supplier and not the individual. On the other hand pay-day lenders provide cash and is often available on the same day. The current NILS model is unable to 'compete' with the flexibility and timeliness of pay-day lenders.

As indicated earlier, a large part of the success of NILS is involvement of the Centrepay system. Many users of pay-day lenders are on low wages and therefore repayments of loans would be via direct debit. NILS loans based on direct-debit repayments have a much higher default risk than loans repaid via Centrepay.

9. **If yes, should the eligibility and purpose criteria for no interest and low interest loans be expanded and what should these criteria be expanded to include?**

Based on the points above, NILS is not the best alternative to a pay-day lender. While the CDFI provides some elements of an alternative model, it seems the current CDFI pilots are also 'hamstrung' by similar constraints as NILS such as longer lead times between enquiry to payment and non-cash payments (limited to cheque to supplier).

For there to be real competition between CDFI's and pay-day lenders, CDFI will need considerably more flexibility to provide cash payments in a timely manner.

10. **How more partnerships could be developed between community service organisations and financial institutions to increase the number of these products and their coverage?**

Kyabra Saver is example of a new service developed at the local level to encourage savings. Our intention with this program was to partner with a financial institution who would receive repayments via Centrepay. One institution, MECU agreed to pay the Centrepay transaction fees. Unfortunately Centrepay refused our request as a matched savings program was not a valid Centrepay 'service reason'.

Kyabra Saver is now operational, but we would have much better outcomes if we were able to incorporate both Centrepay and the MECU credit union.

Kyabra is able to develop new programs such as Kyabra Saver as it has an established Community Finance team which has been operational for over 10 years. In more recent times additional State Government funds have been allocated to the team which now employs over 3 positions. The 'professionalisation' of community finance is the key to the development of new partnerships between community service organisations and financial organisations. To foster innovation we must support diversity and not rely solely on the big players such as Good Shepherd Microfinance/NAB and the Smith Family/ANZ.

[We have not responded to Questions 11-13]

14. **Can a financial services hub provide a viable alternative to high cost small amount lenders?**

A financial services hub could provide an alternative to high cost small amount lenders. As indicated above, it would need to be based on a model that

- enabled the hub to have flexibility on the purpose of loans*
- have to option to pay out in cash*
- have the ability to provide funds in a timely fashion*

15. Would a hub approach make services more accessible for individuals who may be reluctant to visit major church providers for assistance?

While there are current pilots on effectiveness of the hub approach, there needs to be more pilots in other States which can assess the effectiveness of the hub model. The current NLS models do tend to attract a particular kind of borrower, usually a single mother with children and is less likely to attract lower paid male workers.

16. Are there other services that could be included in the hub model?

A time limited voluntary money management service could also be included in a hub model. Kyabra has referred a number of community members to existing money management services provided by Christians Against Poverty. We are also aware that some people elect to use commercial services such as MyBudget.

17. What are the advantages and disadvantages of debt consolidation loans in relation to the objective of decreasing the cycle of debt for vulnerable individuals?

Debt consolidation loans that are low or no interest may have a positive impact on a borrowers discretionary income. This may not be the case if loans are large in which case the best option is the negotiation of lowering or writing off the debt.

18. Is a not-for-profit debt advice service which includes capacity to implement and administer debt management plans, similar to the one implemented in the United Kingdom, desirable in the Australian context?

19. Is a national debt reduction project another potential mechanism for reducing demand for small amount loans? If yes, what types of debts should be covered and what other eligibility criteria for client participation should be applied? Should this be restricted to long term Centrelink customers?