

Strategies for reducing reliance on high-cost, short-term, small amount lending

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Feedback Provider:

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Who are SHAC:

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?***

Centapay: Can be an extremely useful tool in managing finances.

Recommend:

A review of Centapay facility being made available to Whitegood Rental Companies (as distinct from No Interest Loan Schemes). Very expensive form of credit, high pressure selling, people often leave overcommitted and locked into lengthy contracts (not unlike a fringe credit provider). Very questionable as to whether they are “playing a special role in assisting people to manage difficult times in their lives and to be as independent as they can be”.

Centapay facility to support savings.

Weekly payments: Can be an extremely useful tool in managing finances.

Advanced Payments: Anecdotally we do not see Advance payments being used as an alternative to fringe credit but often used in conjunction, and therefore compounding the debt the people are repaying.

Recommend:

We believe that Advance loans through Centrelink could be more effective as an alternative if the process for access was reviewed to include;

- A conversation at point of request that thoroughly details the options available in taking out a loan eg: taking what is needed and when it is needed rather than automatically having funds ‘roll over’ and automatically deposited.
- Providing information on alternative forms of support (NILS, Centapaying school fees, Bond Loans etc) and maintaining access to Advance Loan funds as a safety net or for other needs unable to be met through other means.
- A more thorough assessment around affordability (in line with changes to the credit code) as a matter of good practice.

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

Whether through FMP or an internal unit through Centrelink, access to Advance Loans should include a conversation/assessment re: affordability & other suitable alternatives.

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 but not sure how this would be regulated and if there would be a willingness from this sector as they are a “for profit” sector and are motivated by this. I believe there would only be motivation to refer on if they were unable to service the loan themselves.

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

Recommend:

Utilities companies promote existence of payment options at point of connection, as well as their hardship policy.

If fringe lenders were conducting a thorough assessment regarding affordability (and this would need to be standardised), then requests for basic needs such as food, electricity, rent etc would be a strong indication of financial hardship and therefore potentially ineligible for further credit.

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?***

Lots of advantages.

Recommend:

At point of connection, it would create a great opportunity to generate thinking about how the customer intends to manage their ongoing electricity charges in order to reduce 'bill shock'. If a balance between consumption and payment is not addressed in the early stages, it is often too difficult to then increase payment to meet usage whilst at the same time address the arrears. The issue will often then become chronic or potentially resolved through a fringe loan.

Hardship support should be clearly outlined on the bill and be able to be accessed directly rather than through a 'filtering system'.

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?***

Increase options for people to be able to have a broad conversation about financial hardship. Ideally through building capacity of both 'first to know' community agencies and specialist services. (See UK Models that support and fund work around financial hardship and 'fuel poverty' through social housing programs.)

Currently there are no dedicated funding streams available for those wanting to engage in financial literacy/financial hardship work (at an early intervention point – prior to a need for financial counselling).

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

See 6&7 responses

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?***

These programs could go a long way in addressing some of the 'cross over' need, not purely through the direct funding of items but via the financial conversation that is undertaken as part of the process ie:

applicants need to present with statements and accounts (including utilities) and therefore it becomes an opportunity to provide information, referrals & advocacy.

Currently many NLS programs are still unable to meet community demand (and therefore program reach). Our experience is, that NLS can be an extremely flexible & responsive tool to meet unique individual and community needs.'

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?

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

At a Federal level, continued pressure on financial institutions to service those who are financially excluded.

At a local & regional level -through funding of specific Community Development roles to facilitate linkages to existing programs/services.

9. ***What mechanisms would be most successful in encouraging mainstream lenders to improve access for low-income individuals to small amount loans?***

10. ***Would reporting be an effective mechanism for encouraging mainstream lenders to increase their small amount, short-term loan activity and, if so, what type of reporting would be most effective? Is it reasonable to expect financial institutions to support the CDFI sector through their corporate social responsibility activities?***

Should the growth of a CDFI sector in Australia be supported? If yes, what are the base requirements for growth of the sector? Would a UK style financial inclusion growth fund be an appropriate mechanism for developing a pool of capital funds that CDFIs could access?

Widespread, accessible alternatives to fringe lending need to be developed and supported.

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

Any increase in options to access support & information is a good thing. There is no one solution for all, so providing a variety of access points and service models that are responsive to community needs can only be positive.

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

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

As per Q12.

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

Positive, if in the context of financial counselling or case management.

13. 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?
14. 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?