MEDIA BACKGROUNDER

Fast loans and the *Watch Your Nuts* campaign

What are fast loans?

Fast loans (aka payday loans, aka 'small' loans, aka small amount credit contracts) are short term, high-cost loans of up to $2,000 for a period of 16 days to 12 months. They typically attract fees that equate to interest rates of between 407.6% and 112.1%[1]. The vast majority of fast loan lenders charge the maximum amount permitted by legislation[2].

Easily accessible online, via mobile apps and by phone, fast loans are extremely expensive, can trap people in harmful debt spirals and have traditionally been targeted at low-income financially distressed people.

However, research by Consumer Action Law Centre (Consumer Action) and Financial Rights Legal Centre (Financial Rights) indicates that 'lifestyle borrowers' are now being targeted by these lenders and are the fastest growing market for these loans. 'Lifestyle borrowers' are typically employed and computer savvy and are enticed to take out a fast loan by the promise of quick or instant-access cash to fund life's little extras.

How much do fast loans really cost?

The table below compares the cost of borrowing $1,200 over 9 months from a fast loan provider, on credit card and as a personal loan from a bank.

	Fast Loan	Credit Card	Bank
Sum borrowed	$1,200	$1,200	$1,200
Length of loan	9 months	9 months	9 months
Loan cost[3]	$672	$92.12	$62.65
Total repayments	$1,872	$1,292.12	$1,262.65

[3]Fast loan cost charged at the statutory cap; credit card cost charged at 18.97% APR (average platinum card rate); bank loan cost charged at 12.99% APR (typical bank rate).

What is the *Watch Your Nuts* campaign?

Consumer Action and Financial Rights have identified employed males aged 18-35 years of age in predominantly 'blue collar' professions as the group most at risk of taking out fast loans due to pressure to keep up their lifestyle and the pressure to consume, coupled with a 'why wait, I want it now' mentality.

Designed to appeal to this demographic, the campaign website can be accessed at www.watchyournuts.com.au and you can view and share the 44 second video via YouTube. Original video files can also be provided upon request.

The purpose of the *Watch Your Nuts* digital media campaign is to alter the mindset and effect a shift in the attitude of this and the wider lifestyle borrower group by challenging their use of fast loans so that they think twice before they access 'quick cash' via an app, online or over the phone.

[1] Comparison rate calculations completed using RiCalc software assuming maximum permitted fees and charges, and fortnightly repayments. 407.6% comparison rate calculated using a 30 day loan of $200 with total repayments of $248. 112.1% comparison rate calculated using a 12 month loan of $1,000 with total repayments of $1,680.

[2] https://static.treasury.gov.au/uploads/sites/1/2017/06/C2016-016_SACC-Final-Report.pdf p 21. These findings are consistent with findings of the Competition and Markets Authority (**CMA**) in the United Kingdom, which found that customer demand responded weakly to prices and that competition between payday lenders on prices was largely ineffective: Financial Conduct Authority, *High-cost credit including review of the high-cost short-term credit price cap*, July 2017, p. 23, available at: https://www.fca.org.uk/publication/feedback/fs17-02.pdf.

Some facts about 'lifestyle borrowers'

- Lifestyle borrowers tend to be young people taking out fast loans primarily to have fun/enhance a lifestyle that their basic income cannot cover. Lending to this group increased by 85% from 2015 to 2016 alone.
- Lifestyle borrowers are becoming the industry's cash cow and it is feared that the industry is grooming them to drive already significant profit margins, while potentially creating a generation of debtors and defaulters.
- The growth of easy access to lending via apps and online has a strong correlation to the increase in lifestyle borrowing.
- Lifestyle borrowers have jobs – mainly agribusiness, construction, transportation, administration and sales.
- The majority own their own home and live in urban areas.
- The majority are in their 30s. Those in their 50s make up a notable group also.
- The vast majority have not gone on to tertiary education but are active online and are computer and internet savvy.
- Lifestyle borrowers are generally financially overcommitted. Their credit card debt is higher than average and they also owe money to family & friends,
- The suspicion is that a fast loan is the nearest, easiest and most logical option at a moment in time, it is not necessarily a last resort.

What is being done about fast loans?
Not a lot. The Government has sat on new, much needed draft legislation since October 2017.

New legislation emerged following a review of the small amount credit contract (SACC) laws announced by Assistant Treasurer Josh Frydenberg on 7 August 2015. The review was a statutory requirement, built into the law, to see how effective the laws were. It was an important check in, as these are the laws that govern high cost small loans (commonly known as payday loans) and consumer leases (the household goods "rent-to-buy" market).

The report of the independent panel was released for further comment by the Government on 19 April 2016. The Government announced its response on 29 November 2016 endorsing most of the recommendations and released exposure draft of the legislation on 23 October 2017. Since then, virtual silence.

The key proposal from the independent panel was to limit repayments on payday loans to less than 10% of the borrowers net income, so it is less likely that high repayments result in someone having to get another loan.

Research commissioned by Consumer Action reveals that since the Government released the Review report in April 2016, three million additional payday loans, worth an estimated $1.85 billion, have been taken out by about 1.6 million households, generating a tidy profit of about $250 million in net profit for lenders. Around one fifth of them (about 332,000 households), were new payday borrowers.

The report also indicates that over a 5-year period around 15% of payday borrowers will get into a debt spiral which leads to events such as bankruptcy.

Read the full Costs of Inaction in Payday Lending report here.

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