# Redfern Legal Centre

15 October 2015

SACC Review Secretariat
Financial System and Services Division
Markets Group
The Treasury
Langton Crescent
PARKES ACT 2600

By email: consumercredit@treausury.gov.au

Dear SACC Review Secretariat,

Thank you for the opportunity to contribute to the review of the small amount credit contract laws and comparable consumer leases ('SACC Review').

Redfern Legal Centre ('RLC') welcomes the SACC Review's timely revision of the regulations governing small amount credit contracts ('SACCs') and comparable consumer leases ('CCLs').

RLC regularly encounters vulnerable consumers who have been adversely affected by their use of SACCs and CCLs. These products are marketed towards vulnerable consumers as a 'fair go' low cost and low risk alternative. This approach is inherently misleading. They are in fact the most expensive way to access credit or buy basic consumer goods

Our casework experience illustrates the way in these products entrench social and economic disadvantage. The structure of SACCs and CCLs require the poor to pay more for basic consumer credit and household goods.

Our submission considers a number of measures, which we believe will improve the balance between consumer protection, fairness and appropriate regulatory compliance. We would welcome the opportunity to appear before the Consultation panel or to meet with you to discuss our submission further.

Yours faithfully,
**Redfern Legal Centre**

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## Executive Summary

- A simple and efficient way to improve fairness and consumer protection, and reduce complexity, is to regulate for a fixed cap of 48% that encompasses all interest, fees and charges.
- CCLs are in effect providing the same credit product as SACCs. The regulations and restrictions that apply to SACCS should equally apply to CCLs.
- Under SACCs and CCLs, poor consumers pay more for basic credit and household goods – significantly more. SACCs and CCLs entrench disadvantage and trap vulnerable consumers in vicious cycles of debt and disadvantage.
- From RLC's casework experience, the majority of consumers who access SACCs and CCLs do so from entrenched positions of financial hardship, vulnerability and disadvantage. After accessing these products they are inevitably left in a worse financial position.
- The Good Shepherd Microfinance 'No-Interest Loan Scheme' (NILS) and Step Up Loans are the fairest and safest option for low-income consumers to access basic credit and buy basic household goods.
- RLC queries whether there is any appropriate market for SACC and CCLs when a low risk, accessible and trustworthy alternative exists in the form of NILS. Government should support and promote the Good Shepherd Microfinance NILS and Step Up Loan schemes.
- The regulation of SACCs and CCLs to date has not established adequate or effective protection for vulnerable consumers, particularly those receiving the majority of their income from Centrelink.
- SACC and CCL providers continue to market their products directly to consumers who receive the majority of their income from Centrelink. SACCs and CCLs generate profit through the exploitation of disadvantage, desperation and low levels of financial literacy.
- RLC continues to regularly encounter undue influence, unjust agreements and unconscionability in both SACCs and CCLs.
- The Credit Act does not provide adequate protection to consumers with cognitive impairments, mental illness or low levels of financial literacy. Assessments of suitability must require lenders to reasonably consider a consumer's cognitive capacity and their ability to provide genuine and informed consent.
- Some CCL providers continue to have access to the Centrepay system. The guarantee of payment reduces their default risk and costs. This is, in effect, a public subsidy of usury.
- Financial Counsellors and Community Legal Centres continue to expend a significant volume of finite and publically funded resources extricating vulnerable consumers from the exploitative arrangements created by SACC and CCL providers.

## Introduction: Redfern Legal Centre

Redfern Legal Centre ('RLC') is an independent, non-profit, community-based legal centre with a particular focus on human rights and social justice. Our specialist areas of work are domestic violence, tenancy, credit and debt, employment, discrimination and complaints about police and other governmental agencies. By working collaboratively with key partners, RLC specialist lawyers and advocates provide free advice, conduct case work, deliver community legal education and write publications and submissions. RLC works towards reforming our legal system for the benefit of the community.

## RLC's work in Credit & Debt

RLC recognises that the protection of financial and consumer rights is essential to securing other rights and freedoms such as secure housing, effective education and social and economic participation. Since 1977, RLC has run a specialist credit and consumer law practice and targets our work towards vulnerable and disadvantaged consumers.

## Response to Discussion Questions

### Question 1: Competing Objectives

Access to affordable, fair and appropriate credit is a basic right for participation in civil society.

Vulnerable consumers often cannot access conventional forms of credit due to insecure employment, low income or social security dependency and poor credit records. The SACC and CCL industry market their products as a 'fair go' and affordable alternative to alleviate short-term financial hardship. This is inherently misleading. These products are in fact the most expensive way to access credit or buy basic consumer goods.

There is a stark contrast between the purported social benefits claimed by the SACC and CCL industry - access to basic credit for all - and what occurs in practice – profiting on the backs of the poor. After accessing a SACC or CCL, the interest, fees and charges trap vulnerable people in a 'debt cycle'. After accessing a SACC or CCL, consumers are inevitably left in a worse financial position than when they started.

Vulnerable consumers with a well intentioned, but misguided, attempts to better manage their diminutive incomes, are being exploited by for profit operators who trap them in a cycle of disadvantage that reduces their capacity for financial and social inclusion.

Short-term financial hardship is most effectively navigated through recourse to hardship schemes, which all credit and major service providers must provide.

In our view, the current regulations remain skewed towards underwriting industry viability at the expense of vulnerable and marginalised consumers. Where 'No Interest Loans Schemes' (NILS) and 'StepUp Loans'[1] provide a fair, low risk and benevolent alternative, we query whether the viability of an industry built on misleading and exploiting society's most vulnerable consumers is something the government should actively support.

In our view, the best way for Government to ensure that vulnerable consumers can access basic credit, consumer goods and manage basic living expenses is to better resource NILS and Step Up Loan schemes and Financial Counselling.

### Question 2: Complexity

The current legislation is difficult to navigate, interpret and enforce. From our casework experience, we regularly encounter SACC providers who misinterpret their responsible lending obligations. Most of the consumers we encounter simply have no idea of the interest, fees and charges they are incurring under SACCs and CCLs.

The current regulations retain a high level of discretion in the hands of the Credit Representative to interpret discretions in the Credit Act when conducting suitability assessment. The cases we see regularly involve misinterpretations, which lead to inaccurate, inappropriate and inconsistent lending decisions.

Interest, fees and charges

[1] See http://goodshepherdmicrofinance.org.au/

In our view, a significant cause of complexity is the current division and distinction between interest, fees and charges. The currently regulatory regime has several different restrictions and rates - for interest, establishment fees, monthly fees, account keeping fees and default fees.

The current approach leads to unnecessary complexity and confusion.

RLC's suggestion to reduce the current complexity is to prescribe a single uniform interest rate cap, which is inclusive of all other fees and charges.

RLC proposes a fixed rate cap of 48% - inclusive of all interest, fees and charges.

Replacing the current terminology and process around establishment fees, monthly fees and other discretionary fees and charges, with a single all-inclusive uniform interest rate, is a simple way to reduce complexity.

It is a simple way to minimise avoidance practices, and the regulatory burden on industry.

Rebuttable presumptions

In RLC's view, the rebuttable presumptions in relation to unsuitability (in relation to defaults under another SACC or two SACCs in the previous 90 days) create unnecessary complexity.

The replacement of rebuttable presumptions with a 'bright-line' rule, which proscribe SACCs in certain circumstances, will improve the accuracy of suitability assessments and reduce unnecessary complexity.

Our submission discusses this proposal in more detail at question 5.

Standard form terms and conditions governing SACCs and CCLs

The terms and conditions governing many SACCs and CCLs agreements are, by and large, completely incomprehensible to the consumers who access these products. By way of example, we draw your attention to the standard form terms and conditions for a Radio Rentals CCL.[2]

These standard form terms and conditions run to 25 pages. They are drafted in complex and obscure legalese. The information statement prescribed by s175 (1), National Credit Code is buried at page 23 of these terms and conditions. There is no conspicuous or prominent disclosure of this critical information.

The terms and conditions of SACC and CCL agreements are entirely esoteric for most people.

The complexity of the terms and conditions governing these agreements means that the vast majority of consumers simply have no understanding of the material terms of the agreements they have acceded to. They have no genuine understanding of cooling off or exit rights and feel 'locked in' by the complexity of these onerous agreements.

RLC suggests the Committee consider regulating for the mandatory provision of 'Critical Information Summaries' for all CCL products. Critical Information Summaries should be no more than one page of plain English language information about the critical provisions of an agreement.

Critical Information Summaries should disclose the:

[2] https://www.radio-rentals.com.au/media/wysiwyg/pdf/Radio-Rentals_T&CsBooklets.pdf

Critical Information Summaries should disclose the:

- retail price;
- effective interest rate;
- total cost paid for the consumer good over the term of a CCL agreement;
- cooling off and exit rights; and
- referrals to NILS schemes and financial counsellors

Our submission will discuss this proposal further at questions 14 – 16.

## Question 3: Sanctions

From RLC's casework experience, irresponsible lending by SACC providers is systemic. All too often we encounter vulnerable consumers who have been provided with unsuitable credit that they simply cannot afford to pay after they have covered their basic living expenses.

The current sanctions regime has not driven the required level of behavioural change within the SACC and CCL industry.

The ASIC Report 426[4] noted that lenders are regularly failing to comply with basic record keeping requirements. When attempting a review of lender's files, they noted that some loans may have triggered the presumptions but they could not investigate as the lender's had no further information on file indicating the basis for which the loan applications had progressed. The poor documentation and record keeping of many SACC and CCL providers creates many difficulties when investigating responsible lending complaints in practice.

Given the vulnerability of many consumers who raise complaints against SACC providers, obtaining clear or verified accounts of their interactions during the assessment process remains problematic. The inadequate record keeping of assessments circumvents the efficient investigation and resolution of complaints by ASIC and External Dispute Resolution schemes.

Given the high rate of non-compliance with the Credit Act, general deterrence under the current sanctions regime is not effectively dissuading non-compliant behaviour. ASIC remain under resourced to enforce the current regulations effectively

The internal investigation and resolution of complaints against SACC and CCL providers remains inefficient and poorly administered. In the absence of an advocate, it is very difficult for vulnerable consumers to receive a properly investigated or considered response to their complaint. The hardship policies and procedures of most SACC and CCL providers are also poorly administered, difficult to access and elusive for most consumers.

## Question 4: Obligation to obtain and consider bank account statements (TOR 1.1)

The review of bank statements remains an important step to verify information relevant to a suitability assessment. Bank accounts provide a good general overview of income and expenditure. However, the review of a bank statement does not necessarily provide a complete statement of a consumer's financial position. A transaction banking statement will generally not disclose a consumers other debts or liabilities.

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[4] Australian Securities and Investments Commission, 'Report 426; Payday lenders and the new small amount lending provisions', March 2015

Bank statements contain personal and private information and should be treated accordingly. The use of bank statements for any purpose other than complying with responsible lending obligations is entirely inappropriate.

On balance, the requirement to obtain and consider bank statements should be retained.

## Question 5: Restrictions on repeat borrowing (TOR 1.2)

Consumers who access SACCs invariably do so because they are already in financial hardship and are struggling to make ends meet. Research conducted by Digital Finance Analytics indicates that SACCs are usually taken out to cover basic living expenses, such as rent, food and utilities, rather than 'one-off' expenses.[5]

After accessing SACCs, the onerous repayments obligations trap many vulnerable consumers in a cycle of repeat borrowing. Repeat borrowing on unfavourable terms entrenches financial hardship.

An unequivocal restriction on repeat borrowing is essential.

The 'presumptions of unsuitability' in s118 (3A) Credit Act, have not worked effectively.

The ASIC Report 426[6] found that "approximately 62% of the 288 files reviewed indicated that the payday lender had entered into a loan with a consumer who triggered one of the presumptions of unsuitability." This statistic indicates that more than half of SACC providers cannot exercise a reasonable discretion and generally have poor judgment when assessing these rebuttable presumptions.

RLC strongly supports the introduction of 'bright-line' enforcement rules to replace the 'presumptions of unsuitability'. This is a simple and effective mechanism to improve consumer protection, reduce complexity and improve the effectiveness of sanctions and enforcement.

RLC supports the use of a prescribed benchmark, to improve the current approach to assessing basic living expenses. RLC does not have a view on whether the Henderson Poverty Index or Household Expenditure Measure is a more appropriate margin.

We are strongly of the view that either measure must include an added 'buffer' margin. These indexes demonstrate the fine line between making ends meet and living in poverty. Any change in regulations should increase this buffer to improve consumer protections and fairness.

## Question 6: Ban on short-term credit contracts (TOR 1.3)

From our casework experience, the prohibition on loans with a term of 15 days or less has, by and large, been effective in preventing lenders from offering these loans.

This is a good example of the effectiveness of proscriptive 'bright-line' rules, rather than discretionary rebuttable presumptions, as an efficient means of reducing the complexity, and avoidance, of SACC regulations.

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[5] Digital Finance Analytics, 'Payday lending hotspots,' 24 April 2015, available at: http://www.digitalfinanceanalytics.com/blog/pay-day-hot-spots/

[6] Australian Securities and Investments Commission, 'Report 426; Payday lenders and the new small amount lending provisions', March 2015

RLC is not aware of any unintended consequence in relation to the prohibition of loans with terms of 15 days or less.

## Question 7: Warnings (TOR 1.4)

RLC supports the marked enhancement of disclosure requirements to warn consumers of the risks and costs associated with entering into small amount credit contracts. We do note however, that many people accessing SACCs and CCLs do so at times of desperation and warning statements may be ineffective to change their decisions.

ASIC Report 426[7] found that 5 of 13 lenders had a warning statement, which was not sufficiently prominent to attract consumers' attention.

The current warning statements can be easily overlooked and unnoticed. Improvements to warning statements should go to greater lengths to genuinely inform consumers of low cost and low risk alternatives to SACCs and CCLs – NILS and Step up Loans in particular.

The content of warnings should include:

- Detailed information about Good Shepherd Microfinance NILS and Step Up Loans Scheme.
- Referrals to Financial Counsellors and the Credit and Debt Hotline – 1800 007 007
- Links to the ASIC Money Smart Webite
- A comparison rate between SACCs and other forms of consumer credit

The regulations should require the conspicuous and prominent disclosure of warning statements.

Online applications for SACCs

RLC notes the significant growth in online SACC products. In February 2015 Cash Converters reported that the value of online loans written increased 65.2% in the half year to December 2014.[8]

The majority of concerns, raised in ASIC Report 426, around warnings relate to the shortfalls of warning statements on websites. Notably, statements were placed at the bottom of a webpage requiring the consumer to scroll down to access it and website material popped up and detracted from the prominence of the statement.

In our own brief review of a number of SACC websites, we found that the warning statements:

- Were at the bottom of a web page, and could only be seen after scrolling down;
- Contained in separate links displayed in small font at the bottom of the page;
- Did not require a 'check-box' confirming that the warning had been read;
- Did not include 'hyperlinks' in the referrals to Money Smart or the Credit & Debt Hotline;
- Were obscured by pop up windows; and
- Were not otherwise displayed prominently or conspicuously.

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[7] Australian Securities and Investments Commission, 'Report 426; Payday lenders and the new small amount lending provisions', March 2015

[8] Cash Converters (2015), ' Cash Converters Half-Year Result,' available at: <http://www.cashconverters.com/Investors/ASXAnnouncements>

We believe that significantly tightening the regulations around warning statements is a simple and low cost mechanism to improve consumer protection.

This is particularly important in relation to online SACC providers.

## Question 8: Cap on costs (TOR 1.5 & 1.6)

RLC reiterates our view that the most simple and effective mechanism, to reduce complexity and improve consumer protection and fairness, is to introduce a standardised fixed cap on interest at a maximum rate of 48%. The current regulations are inefficient and open to avoidance.

The cap on costs should apply equally to SACC and CCL products.

Establishing a single uniform interest rate cap, inclusive of all other fees and charges, will significantly reduce complexity. This in turn will reduce the compliance burden on industry, ensure that consumers are better informed and regulators can more efficiently identify and sanction breaches.

## Question 9: Protection for Centrelink Customers (TOR 1.7)

The Credit Act's purported protection for consumers who receive 50 per cent or more of their income from social security is not working effectively and does not go far enough. RLC regularly assists acutely vulnerable consumers who are struggling to meet basic living expenses after being approved SACCs on highly unfavourable terms.

Case Study

John is a 68-year old Aboriginal man who resides in social housing in the Redfern-Waterloo area of inner Sydney. He grew up in institutional care and did not attend primary or secondary school or receive a formal education. He worked in a blue-collar job until he was seriously injured in a motor vehicle accident at age 30. He has an acquired brain injury and cognitive impairment from this accident. He has remained solely reliant upon Centrelink income since.

John approached a SACC provider for a loan of $500. John had previously obtained, and defaulted on, a number of SACCs with the same provider. John provided a copy of his driver's licence and Centrelink income statement and the loan was approved on the spot, after John signed a direct debit authority.

John could not read the SACC agreement and did not understand what he had signed, but was happy to receive the $500, which he used to pay some utility bills. John came to RLC for advice after struggling to manage the repayments, and going without essential items, for some time.

RLC complained to the SACC provider, who denied they had done anything wrong. RLC then filed a complaint with the Credit and Investments Ombudsman. After 4 months, and a significant amount of RLC time resources and effort, the Credit and Investments Ombudsman found that the SACC provider had breached their responsible lending obligations and created an unjust agreement. After further negotiations, the SACC provider eventually agreed not to pursue John any further.

Our casework experience demonstrates that SACCs and CCLs will almost always be unsuitable for consumers solely reliant upon Centrelink income. SACC and CCL providers should be

required to actively redirect vulnerable consumers who apply for their products to NILS and Step Up Loans.

SACCs and CCLs, as the most expensive way to access consumer credit, are simply unaffordable and unsuitable for people who receive the majority of their income from Centrelink. These products will never meet the requirements and objectives of consumers in these circumstances.

We note the recent Federal Court decision in ASIC v the Cash Store[9], which held that SACC providers need to assess *'the real chance of their customer being able to comply with their pay day loans'*. SACC and CCL providers must be required to look beyond simply financial information and genuinely assess a consumer's position generally. Where someone has a long term reliance upon Centrelink income, particularly the Disability Support Pension, a SACC or CCL will always be unsuitable.

Assessment of living expenses

A common approach of SACC providers is to align repayments at 20% of a consumer's Centrelink income. People forced to live on 80% of their Centrelink income are living below the poverty line.

By way of example, the current rate of payment for a single person in receipt of Newstart Allowance is $523.40 per fortnight. After of 20% of this payment ($104.68) has deducted to repay a SACC, someone in these circumstances is left with $418.72 to cover their living expenses for a fortnight, or $209.36 per week.

Basic living expenses include rent, food and groceries, utilities, telecommunications, transport, clothing, health (medical, dental, optical and medication), grooming, entertainment and pets. Leaving $209.36 per week to cover these basic living expenses is simply not enough.

Managing repayments towards a SACC or CCL is often the difference between just keeping your head above water or living in poverty. It is totally inappropriate for SACC and CCL providers to be in a position of power where they can effectively determine whether vulnerable consumers are living in poverty or not.

We believe that the amount of protected earnings or income should align with the Centrelink Code of Operations.[10] Under this Code, a maximum of 10% of a welfare payment can be assigned towards making repayments on an overdrawn bank account. The same figure should apply to SACCs and CCLs.

Cognitive impairments, mental illness and the Credit Act

RLC continues to consistently encounter acutely vulnerable consumers, who are reliant upon the Disability Support Pension due to mental illness and cognitive impairments, who have been provided with SACCs or CCLs. People in these circumstances simply do not have the cognitive capacity to provide genuine or informed consent to enter into these agreements.

In the complaints we regularly raise with SACC and CCL providers about these situations, we are routinely told that SACC assessments not have to consider someone's social or medical circumstances, but only their finances. We strongly believe that responsible lenders should be required to properly consider an applicant's capacity, particularly when they are in receipt of the Disability Support Pension. The SACC Secretariat should look closely at improving regulatory

[9] http://www.judgments.fedcourt.gov.au/judgments/Judgments/fca/single/2014/2014fca0926
[10] http://www.humanservices.gov.au/corporate/publications-and-resources/code-of-operation

mechanisms to ensure that people with mental illness or cognitive impairments are not signed up to SACCs to CCLs.

RLC suggests an additional 'bright-line' rule that proscribes the provision of SACCs to consumers who receive the majority of their income from Centrelink. RLC strongly believes that SACCs should not be provided to people who receive the majority of their income from Centrelink.

We agree with the argument that people reliant on Centrelink still have a right to credit. The most appropriate, affordable and low risk scheme to access credit in these circumstances is through Centrelink advance payments and the NILS and StepUp loans schemes. We strongly of the view that the all SACC providers should be required to actively refer consumers in receipt of Centrelink income directly to the NILS and StepUp loans schemes.

**Question 10: National database (TOR 2.1)**

In general, RLC supports the establishment of a SACC database, but notes a number of concerns in relation to privacy and whether the costs of establishing such a database will deliver correlative benefits.

We note that the Comprehensive Credit Reporting ('CCR') regime already provides a relatively high level of access and information to assist SACC providers in complying with their responsible lending obligations. There is not however, mandatory reporting on the CCR database for all SACCs.

An additional SACC database could provide greater accuracy during the SACC assessment process. In particular, a SACC database could provide more readily accessible information in relation to defaults, the number of and the time since previous SACCs. We note however that much of this information can already be deduced reasonable inquiries and from the CCR scheme generally. The obligation to conduct reasonable inquiries already forms part of the SACC verification and assessment process.

We query whether the significant costs in establishing such as database would deliver a correlative benefit to SACC providers and consumers in terms of efficiency of assessments, fairness or consumer protections. The costs in establishing a database should be borne by industry and not passed on to consumers.

Privacy concerns are significant, particularly given the sensitive and personal information, which would be included on such a database.

**Question 11: Additional provisions for SACCs (TOR 2.2)**

RLC recommends additional provisions that more effectively restrict the marketing and promotion of SACCs. We are particularly concerned with the direct marketing of SACC and CCL products to Centrelink recipients. We also concerned with the advent inherently misleading nature of some marketing and promotions of SACCs.

All marketing information in relation to SACCs and CCLs should be required to disclose a prominent warning statement.

**Question 12: Anti-avoidance provisions (TOR 2.2)**

RLC recommends the inclusion of a general anti-avoidance provision, which should apply to both SACCs and CCLs. Throughout our long-term casework experience with SACC and CCL providers we have seen have a long history of avoidance tactics, which continue to evolve with changes to the regulations.

A general anti-avoidance provision will more readily enable courts and regulators to identify and respond to avoidance schemes, before they have resulted in detriments to the consumer at large.

## Question 13: Documentation of suitability assessments (TOR 2.2)

RLC's casework experience echoes the findings of the ASIC Report 426 in relation to systemic non-compliance with the documentation of suitability assessments. We routinely encountered SACC providers who have failed to keep proper records in relation to their suitability assessments.

As note in our response to question 3, poor documentation and record keeping practices creates many difficulties when investigating responsible lending complaints in practice. SACC and CCL providers should be regularly audited to demonstrate their compliance with these record-keeping requirements.

## Question 14: Comparable consumer leases (TOR 3)

CCLs are the same credit product as SACCs. They should be regulated as such. The current distinction between CCLs and SACCs, based on a right or obligation to purchase, is an illusory one. We strongly recommend that any distinction between SACCs and CCLs be removed.

The illusory distinction between SACCs and CCLs has lead to situations where CCL providers have been permitted to charge effective interest rates of several hundred per cent. The ASIC Report 447[11] has shown that CCLs with effective interest rates of several hundred per cent are the norm, rather than the exception. The report cites one example where a consumer was charged an effective interest rate of 884%.

Competition, fairness, efficiency and consumer protection all demand that CCLs are regulated in the same way as SACCs

In our casework with CCLs complaints, we see very low level of compliance with general responsible lending obligations and a routine failure to properly conduct assessments of suitability. In our view, a genuine engagement with responsible lending requirements would assess all CCL products as unsuitable and affordable for consumers who are reliant upon Centrelink income.

Upfront disclosures – effective interest rates and total costs

From our casework experience, consumer leases are marketed towards and targeted at consumers who are reliant upon Centrelink income or who have low levels of financial literacy. They are marketed as a 'fair go' alternative, when nothing could be further from the truth.

There are currently no regulatory requirements for up front disclosures of the effective interest rates or the total cost of consumer goods over the term of a consumer lease. We strongly

[11] Australian Securities and Investments Commission Report 447 'Cost of consumer leases for household goods', September 2015.

suggest the amendment of current regulations to require basic up front disclosures in the form of critical information summaries.

Access to Centrepay

Some consumer lease providers have access to the Centrepay direct debit system. Centrepay prioritises repayments to consumer lease providers before basic living expenses have been met. Access to the Centrepay system reduces CCL's providers default risk and amounts in effect to a public subsidy of their operations. Permitting consumer lease providers to access Centrepay is a tacit approval of these exploitative products. It is entirely inappropriate for the Department of Human Services to provide an effective subsidy to the consumer lease industry.

We strongly recommend that CCL providers be prohibited from accessing Centrepay.

**Question 15: Applying SACC provisions to comparable consumer leases (TOR 3)**

RLC strongly recommends the prominent and conspicuous disclosure of the material terms of CCLs.

the total costs paid Additional disclosure including the cash price of the goods, the total price of the goods, the cost of credit as a comparative interest rate and the cost of additional services (such as delivery and repair).

Yes, insofar as there is a cap on interest, fees and charges.

Additional bright-line rules about unsuitability should be tweaked for comparable consumer leases – the length of terms for consumer leases often longer than SACSS.
Small increases in monthly obligations can have a costly flow on effect over the term of a consumer lease.

We are strongly of the view that the regulations should mandate additional disclosure requirements for comparable consumer leases. Such as a requirement to disclose:

- The purchase or cash price of the leased good;
- The amount the consumer will pay in excess of the purchase or cash price;
- The cost of credit in dollar terms
- The cost of credit as a comparative interest rate; and
- The costs of other services financed through rental payments, such as delivery and repair

In our casework experience with vulnerable consumers who access CCLs, consumers are rarely aware of their liability or exposure across the term of a CCL. The terms and conditions of CCLs go to great lengths to bury crucial information about the cash price of goods, the total costs paid for goods over the term of a CCL and the effective interest rate. These products are targeted at people with low levels of financial literacy.

**Question 16: Cap on costs for consumer leases (TOR 3)**

We strongly recommend applying the 48% cap on costs to consumer leases. In calculating the cash price of the goods, the definition used for sales by instalment under the Code should be used.

Allowing consumer lease providers to set the cash price for goods to be used as a basis for applying a cap on costs is open to exploitation and potential avoidance of the intent and purpose of the Credit Act.

We suggest a standard maximum cap on effective interest rates, regardless of the cash price of the good. Ultimately, the nature of consumer good being purchased is irrelevant. It is whether the effective interest rates, which are being applied to this form of credit, are fair, transparent and appropriate. Aligning with our proposed cap on SACC effective interest rates of 48% is a good baseline.