Exploring the role of fringe lenders in the lives of Queenslanders

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Abstract

The fringe lending sector in Australia has experienced considerable growth over the last decade. However, very little is known about the profile of the typical borrower or the typical lender – though much is assumed about the morality and motivation of both. Drawing upon findings from a pilot study conducted in Queensland during 2008-2009, we discuss the changing landscape of fringe lending in Australia before exploring how borrowers and lenders construct their respective motivations and actions. We conclude that the use of fringe lenders by low-income Australians provides useful insights into the growth of fringe lending in Australia and the limitations of policy responses that are trapped in the regulation versus non-regulation debate. We suggest that a more appropriate response must also consider the wider context of insufficient incomes to meet increased living costs. The policy debate needs to ensure that it acknowledges the complex demand and supply reasons for increasing demand for short term credit. The debate also needs to recognise that, in the absence of alternatives, fringe lending products will remain a prominent aspect of the financial management strategies of Australians living on low incomes.

Keywords: Fringe economy, payday lending, poverty

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Introduction

Low income Australians use a variety of coping strategies to overcome financial crises, among them high-cost short-term credit provided by payday lenders. There is a large and growing demand for this consumer credit and a rapidly expanding network of companies willing to supply it (Infosys Technologies Ltd 2008). Recent research indicates that fringe lending has a market size of $800 million and is the fastest growing part of Australia's financial landscape (Infosys Technologies Ltd 2008). The first payday lender appeared in Australia in 1998 and by 2001, 82 payday lending businesses were offering 12,800 loans per month (T. Wilson 2004). Given this expanding supply of payday loans it is clear that this form of lending is becoming a more prominent dimension of the financial management strategies of low-income Australians.

Concerns have been raised by State and national governments in Australia about the negative impact on consumers of payday lending, which has led to interest rate caps being introduced in a number of Australian States (Manning & de Jonge 2006). More recently, there has been a national push to standardise regulation of this sector at the national level (Treasury 2008; 2010). Despite these policy initiatives, there is a lack of robust evidence on which to base policy proposals, particularly evidence about borrowers' perspectives and experiences of payday loans. This article reports on some research aimed at addressing this situation. The pilot study, undertaken in Queensland in 2008 and 2009 and reported here, has explored the characteristics and motivations of those who borrow from payday lenders, as well as the perspectives of lenders on the idea of responsible lending.

Current policy and legislative responses to borrower harm are largely regulatory, such as more stringent licensing to encourage responsible lending, greater contract transparency concerning fees and charges, and mandatory conflict resolution schemes to ensure sufficient rights of redress. While important in their own right we contend that these measures, by themselves, will do little to address the demand for these loan products. Similarly, pressure on policy-makers to ban payday lenders may be well intended, but in the absence of alternatives, the loss of payday lenders could worsen people's lives. By listening to borrowers, and understanding their pathways to fringe lenders, we can rethink the problem and consider more well-rounded solutions than those proposed in the sometimes shrill tone of the regulation versus non-regulation debate in Australia.

Conceptualising payday lending in Australia

In mapping the range of responses to financial need, Burkett and Drew (2008) depict the financial sector as consisting of four types of providers. *Formal providers* tend to be mainstream services such as banks, registered financial institutions and insurance companies, and superannuation funds. The *welfare system* provides social security payments, small loans, emergency relief and microfinance No Interest Loans Schemes (NILS). Between these two systems there is also an emerging sector known as social enterprise, which seeks to

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harness public, private and community resources to enable the provision of fair finance alongside profits redistributed to meet social objectives (see Burkett, 2010, for a much more detailed discussion of this important development). At the other end of the financial sector spectrum are what Burkett and Drew call *informal systems* such as borrowing from friends and family, and the sector known as the *fringe economy* which includes payday lenders, pawn brokers and cheque cashers.

In this paper our focus is on a particular aspect of lending in the fringe economy, called 'payday lending'. Known also as a 'cash advance', 'deferred deposit loan', a 'payday advance', 'payday loan', or, more recently, in an intentionally neutral, if somewhat wordy, phrase, the 'for-profit small-amount short-term lending market' (Treasury 2010), it usually involves a loan of less than $1000, although some lenders specialise in larger amounts. These loans aim to assist people to get past an immediate cash shortfall (King & Parrish 2007). The loan term is usually about two weeks, the loan must be paid off in full at the end of the term, and fees are charged for the service (T. Wilson 2004). If the borrower cannot afford to repay the loan and fee, then they must renew it, paying an additional fee.

The financial services sector in Australia is a segmented market. Some credit products are aimed at people on middle and high incomes and others, such as payday loans, are primarily aimed at the working poor and people on full-time income support payments (Howell 2005). In Australia, researchers have argued that mainstream banks have increasingly discouraged low-income consumers from using their services, both by raising basic transaction costs and by removing financial products tailored to their needs (Howell & Wilson 2005). Putting it more provocatively, Leyshon and Thrift (1997: 226) suggest that mainstream 'financial capital is retreating to a middle class heartland'. Customers of fringe lenders tend to be on low incomes and are excluded from mainstream borrowing' (Infosys Technologies Limited 2008: 6). Alongside this, Australian researchers claim that many borrowers assume that mainstream lenders will not assist them, are wary of credit cards and do not trust larger institutions and banks (Howell 2005).

The mixed economy of financial services is changing in other ways, with a number of microfinance schemes now offered in Australia. Some of these schemes are two-way partnerships between banks and community groups and others are three way partnerships between government, banks and community groups. The uptake of small scale lending activities by banks is often part of their social responsibility activities (see, for example, research commissioned by the ANZ Bank (Chant Link & Associates 2004) and the National Australia Bank's No Interest Loan Scheme (NILS) program with Good Shepherd Youth and Family Service (National Australia Bank n.d.). While it is important to acknowledge the role of these lenders, many of the community-based microfinance schemes do not meet the same credit need as payday lenders, as the microfinance schemes tend to tie the loans to small capital purchases, rather than provide loans for recurrent items (such as utility bills, rent and food). The

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federal government, through Centrelink, the national income support agency, does offer a loan product that can be used for recurrent expenditure but is only available for pensioners in the form of an Advance Payment, which is a lump sum advance from future pension entitlement and is repaid from fortnightly pension payments over a period of 13 fortnights. The maximum amount of the loan is $1,074. Despite the availability of the Centrelink loan and the community-based microfinance schemes, the payday industry has continued to grow in response to increasing demand for small amounts of quick credit.

In addition to supply side explanations for the growth in fringe lending, there are also demand side explanations. Much of the research into the demand side of the fringe lending market has been undertaken in the United States, which has a longer history of payday lending than Australia. US researchers have found that typical payday borrowers are three times more likely to be seriously debt burdened and four times more likely than all adults to have filed for bankruptcy, while their average income ranged from $25,000 to $49,999 (Elliehausen & Lawrence 2001).

In an Australian study, Therese Wilson (2004) found a much lower average income for the typical payday borrower: approximately $24, 000 per annum, with many consumers earning less than $401 per week. Other Australian research has also found that nearly two-fifths (38 per cent) of people borrowing from payday lenders received Centrelink payments and that more than three-quarters (76 per cent) had no formal qualifications (D. Wilson 2002). Further, 20 per cent of payday lending customers had also accessed Centrelink advance payments (of $500) (D. Wilson 2002). Dean Wilson found that 79 per cent of Australian loans are used to maintain existing living standards or compensate for shortfalls in income (D. Wilson 2004). His research suggests that consumers use payday lenders as a lender of last resort, rather than from ignorance about other lending options. These findings echo Canadian research which indicates that people use payday loans to meet basic needs and that many payday borrowers' incomes are simply not sufficient to meet those needs (Lott & Grant 2002).

Clearly access to short-term consumer credit can help in covering unexpected emergencies and smooth out the cost of large purchases. However, there are individual and social impacts associated with high cost credit. Over-indebted consumers place strains on government, community and welfare services. Emergency relief, accessed through charities, becomes committed to debt repayment. Not having basic banking and financial services such as bank accounts and insurance products can also contribute to financial and social exclusion (Connolly 2005; Burkett & Drew 2008).

Financial exclusion is a highly complex terrain. The relationship between poverty, social exclusion and financial exclusion is not linear – but rather each of the three factors is itself both a cause and effect of the other two (Burkett & Drew 2008). Further, extending the discussion of what constitutes financial suffering, Malbon makes a distinction between people who are poor and people who are financially vulnerable or financially stressed (2005). Although not all

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borrowers may be technically 'poor', they do experience high levels of financial stress. Financial vulnerability may be temporary or enduring and stems from a broad range of sources, which includes job loss, injury, sickness, or addiction. Some members of the community are also more susceptible to financial vulnerability because of geographical location, race, age, or marital status.

Acknowledging these structural factors also means recognising the limitations and possibilities of financial literacy programs to address financial vulnerability. US research shows that credit counselling can a positive effect on personal debt levels, provides a buffer against financial hardship and facilitates long-term change (Courchane & Zorn 2005). If coupled with structured opportunities to save, financial education can increase participation in savings plans and increase the level of savings for people (Barr 2004). Whilst financial counselling can assist borrowers to develop the skills and knowledge they need – most people initially access counsellors for more corrective intervention to intervene when debt spirals out of control, to negotiate directly with lenders and banks and to assist people to re-establish financial control. In addition, situational factors such as low motivation, distraction, time pressures, conveniences, lack of domain specific knowledge, minor obstacles, language difficulties, people's mood and the influence of peers can all override the merits of expert advice and counselling (Harrison & Massi 2008). Moreover, financial counselling does not address the structural causes of poverty nor assist people to negotiate the money systems in which they are embedded (Landvogt forthcoming). There is also a need to acknowledge the cultural context and how the moral meaning of debt and credit changes over time and across space. In western countries, gaining access to money is also about attaining achievement and recognition, status and respect, freedom and control – all of which are seen by citizens as 'important symbolic attributes' (Mitchel & Mickel 1999: 569). From this perspective, the efficacy of financial literacy programs will continue to be limited until the social and cultural meaning of credit and debt becomes part of the literacy strategy.

This brief review of the research literature explains some of the reasons that more people are turning to payday loans and other forms of fringe lending to make ends meet. In summary, supply side explanations focus upon the way in which fringe lenders have filled the gap in the market for small amount short-term loans. In doing so, they emphasise the role of consumer choice and individual agency. Demand side explanations have focused upon the inadequacy of basic income levels especially for welfare recipients, and the use of small amount short-term loans to meet basic living expenses, thus emphasizing citizen need rather than consumer choice. It is the relationship between borrowers and payday lenders that has captured the attention of the Australian government in recent years as it has sought to introduce new regulations around access to credit. This move has been met with considerable resistance from the fringe lending industry. The following section outlines some of the key dimensions of this policy debate in Australia.

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The payday lending policy debate

The payday lending debate in Australia has intensified in recent years as consumer advocates have stepped up their campaign to have a national interest rate cap on payday loans in all Australian States and Territories, while the fringe lending industry maintains that the positioning of lenders by consumer advocates misrepresents their role and motivation. Within the fringe lending sector, lenders argue they offer an essential service, filling the market space vacated by the mainstream financial sector. The payday lenders argue they are fulfilling a need, but in doing so they need to be able to charge a higher premium for the potential risk involved, such as loan defaults. Lenders argue that the establishment and service costs of a small loan are comparable to a larger loan, but because the rate of return is so much lower, a higher interest rate is charged to make the practice financially viable for the lender (Lehman 2006). Payday lenders argue that charging 400 per cent annual interest is the only way their business can be profitable (King & Parrish 2007). Lenders also argue that the increased risk associated with their clientele necessitates higher charges.

However, the other side of this story depicts payday lending as 'predatory' and opportunistic (Malbon 2005: 225). For consumer advocates, payday lending has become synonymous with unscrupulous and irresponsible lending practices (see, for example, D. Wilson 2004). Consumer advocacy groups in Australia are critical of the ease with which loans can be secured by borrowers, without appropriate checks for ability to repay the loan. Similar concerns have been raised by consumer groups in the United States and the United Kingdom. Recent research undertaken by a consumer advocacy group in the United Kingdom showed that speed and convenience are key reasons why borrowers decide to take out a payday loan from these lenders. There is only a small amount of paper work and the transfer of funds is near instant (Burton 2010). And according to the US-based Association of Community Organizations for Reform Now, payday lending involves 'imposing unfair and abusive loan terms on borrowers, often through aggressive sales tactics, taking advantage of borrower's lack of understanding of extremely complicated transactions and outright deception' (cited in Malbon 2005: 25). Malbon asserts that this practice does not simply rely upon consumer ignorance, it also takes advantage of the financial vulnerability of its victims and the limited options they have for dealing with a financial crisis. As a recent report from the Consumer Action Law Centre (CALC) in Victoria explains, 'in this circumstance, the consumer finds they are not choosing to purchase the product but are instead locked into a forced cycle of repeat borrowing' (Gillam & CALC 2010: 204). According to Gillam and CALC, this impacts negatively on people's quality of life, prevents financial stability and reduces their participation in the mainstream economy.

Some State governments in Australia have raised similar concerns to those voiced by consumer groups. The Queensland Office of Fair Trading (2006: 13) argues that the potential consumer detriment flowing from high interest loans includes: an impaired ability to overcome financial difficulties, a depleted

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capacity to save and build assets, an increased likelihood of default on loan repayments, further exclusion from the mainstream market and bankruptcy. They also point to broader social impacts including increased strain on community and welfare services and reduced consumer spending in other areas of the economy. Although Consumer Affairs Victoria says that it is hard to identify the prevalence and severity of consumer credit problems, real detriment is likely to be understated and probably growing: 'Even if the proportion of consumers who suffer detriment is low, the size of the market means the number of individuals affected is large and the impact on individuals and families can be pronounced' (Consumer Affairs Victoria 2005: 3).

In response to the some of the concerns raised by consumer advocates and State governments the Australian Government is putting in place a more stringent national system of regulating access to credit and credit products. Part of the push for these new 'responsible lending' measures has come from consumer advocates concerned about the perceived ease at which credit can be obtained in the fringe lending market. As with the debate about the fringe lending itself, there are diverse views among stakeholders about whether the new licensing requirements are too heavy handed. One of the most controversial proposals is the introduction of a national interest rate cap. We do not have space to explore the pros and cons of the interest rate cap debate here (for a recent evaluation of the research into the effectiveness of interest rate caps in protecting consumer interests, see Corones et al. 2011); suffice to say that at the time of writing, industry representatives were intensifying their lobbying efforts to try and ensure that an interest rate cap is not introduced (see, for example, Barrymore 2011; Drummond 2011).

In Australia, personal loans have been regulated by the Uniform Consumer Credit Code (UCCC), which became law in 1994 in every State, and applies to loans for 'personal, domestic and household purposes' (Cleary 2000). While this sounds comprehensive, as Cleary observes, by simply altering the loan conditions, loans may be crafted to fall outside the Code, for example by the use of brokering arrangements and establishment fees in some States. As the Treasury's Green Paper on credit reform (2008) observes, due to time lag and certain reservations contained in the laws, the UCCC has not achieved the intended uniformity, resulting in marked differences across Australian States and Territories.

Consequently, the federal government announced an action plan to assume responsibility for all consumer credit (Treasury 2010). In the first phase of the plan the Commonwealth took responsibility for trustee companies, existing credit regulation and the UCCC by enacting at federal law. Phase One of the National Consumer Credit Protection reforms commenced on 1 July 2010, and included five key measures. Firstly, the National Consumer Credit Protection (NCCP) laws replaced the State- and Territory-administered UCCC. Second, registration of all small loans businesses is now required. This move introduces upfront entry and ongoing conduct requirements and provides access to external dispute resolution mechanisms. The third component is responsible lending

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conduct in which the lender must make reasonable inquiries about both the consumer's requirements and objectives and their financial situation, and take reasonable steps to verify the consumer's financial situation. Fourth, as a single national regulator, the Australian Securities and Investment Commission will be able to ban people from the industry and impose a range of penalties in enforcing the regime. Fifth, as part of this amendment, the Government has agreed to increase the range of information that credit reporting agencies (such as Veda Advantage) are able to collect. The stated aim of this move is to improve responsible lending practices and make it easier for some people on low incomes to obtain finance in the future, because partial credit reporting can disadvantage consumers as it limits their knowledge of how credit ratings are constituted and hence their ability to build an appropriate history of good credit management.

The second phase, currently in draft form, proposes Australia's first national cap on costs for 'small amount' contracts. From 1 July 2012, small amount lenders, who provide contracts with a credit limit of $2,000 for a term of less than two years, will be limited to charging a maximum establishment fee of 10 per cent of the total amount borrowed and a maximum monthly fee of two per cent of the total amount borrowed each month for the life of the loan. Alongside this is mooted a prohibition on refinancing or increasing the credit limit of small amount contracts, and a requirement that short term lenders disclose the availability of other options (Commonwealth of Australia 2011). While there has been much speculation about the impact of these various legislative reforms on both borrowers and lenders (Gillam 2010; Manning & de Jonge2006; T. Wilson 2004) there is very little independent analysis of actual experiences of accessing fringe-lending. To help address this gap, the following discussion provides some illustrative findings from a pilot study into payday lending in Queensland, Australia.

The project methodology

To explore how fringe lenders and borrowers construct their respective identities, motivations and actions, a mixed methods pilot study was conducted in Queensland, Australia.[1] The study involved written surveys and interviews with both fringe lenders and borrowers, as well as in-depth interviews with other stakeholders, including financial counsellors, government regulators and consumer advocates. Surveys included both closed and open items, and interviews were semi-structured. The data was collected in 2008 and 2009. Here we will report on the interviews with borrowers and the mail survey and interviews with lenders.

At the time of the lender mail survey the National Financial Services Federation – the industry representative body – identified 47 payday lenders as operating in Queensland. Questionnaires were sent to all 47 lenders to gain a snap shot of current business practices, including business size, loan turnover, lending conditions, penalties and perceptions of current issues of concern. The National Financial Services Federation emailed surveys to members on our behalf. Of the

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47 lenders sent questionnaires, only 13 responded (making a response rate of 28 per cent). These 13 respondents represented a range of providers in that they came from both metropolitan and regional centres, included independent owners as well as franchise managers, and owned single and multi-site operations. Two lenders agreed to an in-depth interview following the surveys.

To gather views from the other side of the counter street surveys were conducted with 20 borrowers. In-depth interviews were also held to discuss people's experiences in accessing payday loans, including the series of events that led them to apply for a loan, their experience of obtaining a loan and their views on payday loan products. Interviews were conducted with twenty-eight borrowers (including four who volunteered following the survey) – such that 44 borrowers were consulted in total. People self-selected for an interview by sending in a postcard made available at the loans centres, financial counsellors' offices and offices of Legal Aid. We used convenience sampling, in that we made only a limited attempt to ensure that the sample was an accurate representation of the larger population. We accept the limitations of convenience sampling for generalisibility; however we argue that this method is acceptable in pilot studies as it provides useful information on a field that been subject to little systemic research in Australia. Nevertheless, our conclusions are tentative and the field requires further research.

Who are payday borrowers?

Our pilot study confirms the typical age profile of payday borrowers found in other research in the United States and Australia, namely late twenties or early thirties (Lawrence & Elliehausen 2008). In terms of main source of income, our sample of borrowers was dominated by people on Centrelink income support payments. Of the 44 borrowers, only six had full-time employment, with another four people in casual, part-time positions. There were some participants who worked in the informal economy for cash in hand work, and three participants who admitted engaging in illegal means of securing some income (petty crimes and drug dealing). Many participants used words like 'surviving' and 'struggling' to describe their financial situation; a quarter routinely accessed emergency relief for food vouchers. For some participants loans were used to meet basic necessities like food, shelter and health expenses. The relationship between poor health, financial poverty and limited access to fair credit highlights the extent to which people face multiple barriers to breaking out of what some participants described as a 'vicious circle'.

Many of the people interviewed have intergenerational poverty patterns, some were refugees, others had experienced family illnesses and deaths, divorce, abuse and violence – a mix of latent and acute financial risks. Education, housing and relationships were interrupted. There were stories of young people forced to quit their education to attend work and contribute to the family's income. Another pattern that emerged was the damage caused by people allowing others to take advantage of their generosity or naivety when they were younger. The ripples of early mistakes in finances or personal relationships are felt years later, such

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that one borrower now sees herself as 'the temporary holder of other people's money'. Clearly, insufficient income to meet living expenses and repay existing debts is a major motivation for people accessing payday loans. The next section will explore some of the reasons why people in this situation access credit through payday lenders.

Access to payday loans: the views of borrowers and lenders

As in borrower research conducted in the United Kingdom (Burton 2010), simple application processes were a key factor in the decision to take out a payday loan. All of the borrowers in the pilot study saw payday loans as 'no questions asked' financial product with minimal and quick credit history checks, and relatively limited scrutiny of their ability to repay the loan. As a result, the experience was comfortable; without judgment or embarrassment compared to their expectations. For many, the price of a loan was a secondary consideration, given the need for speed and easy access based on the situation they found themselves in. There is also likely to be less stigma in accessing payday loans compared with accessing the limited loan options available through Centrelink.

Borrowers also indicated that they tended to struggle with the loan amounts and loan periods available in the mainstream financial sector. Banks were perceived as simply not providing what they needed. As one borrower said in explaining his choice of a fringe lender over a bank:

> The bank was willing to lend me the money – except it was so much money. I probably – in hindsight – would have been better off getting the $2000, paying the bill and then immediately taking the rest of the money and putting it back to pay off 90% of the loan. But I'd already decided that I wasn't going to get that.
> *(Male borrower, aged 41-50, Brisbane)*

Fringe lenders have capitalised on the negative perception of banks and typically provide a quick and easy service and they work hard to make customers feel welcome (Howell et al. 2008). As one lender reflected,

> We endeavour to treat our customers very, very well. As a generalisation we behave as unlike a bank as we possibly can.
> *(Lender, Gold Coast)*

This reasoning underpins the claim by industry representatives involved in the study that they offer a service of choice, rather than a service of last resort. The notion of choice is, of course, hotly contested. Recent US research found that, given their financial situation, most customers perceived that they had few, if any, alternatives to payday loans (Elliehausen 2009). And despite their positive attitude towards lenders, borrowers remain concerned about what they perceive to be the high cost of financial loans:

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> If I could go to a bank or a building society or someone who'd give me a loan at 8 or 10 or 15 per cent interest, I'd go to them rather than go to a loan shark or a loan company that'd charge you 50 or 60 per cent interest.
> *(Male borrower, aged 41-50, Central Queensland)*

In the context of facing a choice about having the electricity cut off at home or paying a high price for a loan in order to pay a utility bill it becomes a little easier to see why people will access a high cost loan, regardless of the charges and fees.

> If you're starving or hanging out or whatever and you can see them on the other side going and counting out $50 notes, you're pretty much going to sign … not everybody has the time or the desire to read the small print when the end result is the promise of money handed through a little window.
> *(Male borrower, aged 31-40, Brisbane)*

What can be concluded from the brief profile of typical borrowers and the purpose of the loan revealed through our study is that many fringe lenders are servicing low-income people experiencing financial stress. Although they play a role in poverty management, providers are reluctant to associate their service or their product with poverty and they seek to distance themselves from an identity of 'preying on the poor'.

This research suggests that the relationship between borrower and lender is more complex than critics have tended to depict. For example, one lender promoted the importance of lenders taking an interest in the welfare of the person and their capacity to repay. She pointed out that without this duty of care, lenders will not make money and will be just seen as a 'loan shark' (Lender, Gold Coast). At the same time lenders were keen to differentiate themselves from an essential service provided by the state. They pointed out that at the end of the day they offer a product in a marketplace:

> One of the first things that it's important to look at from a lender's point of view is, this is a business and it has to be managed as a business. The first thing is, in this case, it is a small retail business. The product just happens to be money.
> *(Lender, Gold Coast)*

During the same interview this market discourse is overlaid by recognition that this supply-demand relationship is a case of meeting a need for access to short-term credit:

> Most of the people I speak to are on Social Security payments, not because that's the way we want it but they're the ones who come to us because they can't go anywhere else. I am looking at the pay day lending area, and once again I don't see anything wrong with that, because it fills a need.
> *(Lender, Gold Coast)*

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This acknowledgement of consumers' limited options encourages fringe lenders to adopt an ethical position of 'responsible lender'. The NFSF Code of Ethics includes statements such as 'We believe the interests and needs of our business are best served by providing adequate protection for the interests and needs of our customers' and 'all representations shall be truthful, without exaggeration, concealment or omission'. There is a claim to professional recognition in the statement that 'Our staff regard the provision of financial services as an important and responsible profession' (NFSF, 2010). The message from the small fringe lenders in our pilot study appears consistent with the principles expressed in the NFSF Code of Ethics. One of the lenders interviewed for the study presented himself as somewhat of a reluctant lender:

> I don't care if I don't do a loan to you, but if you've got a real need I will give you a loan and I will tell you what it will cost. It's quite fascinating to have that attitude towards lending. I know there's a lot of lenders out there that are pretty 'sharky', but the same with lots of other industries, you can go a hire a bloody builder and he's a shark or get your car repaired and they over-service it.
> *(Lender, Brisbane)*

This differentiation between 'sharky' and ethical conduct was often expressed in terms of the difference in size of the operator. The small single site retail operations regularly contrasted themselves with the multi-site operators and large franchises. The idea of the small business allows these operators to align themselves with borrowers, in the sense that they are both up against exploitative 'big business' and 'big government'. This synergy of goals is expressed in the following quote from one of the lenders:

> Well basically, I'd just like to have my little business here looking after my customers, having it so they can say, 'Well you guys are better than Cash Converters', 'cause to me that's the sort of benchmark.
> *(Lender, Brisbane)*

What is interesting about this idea is that the anti-government and anti-big business stance was also echoed by borrowers, who demonstrated some sympathy for the small lenders:

> I think anything these days that is small, whether it's a person who is on a pension, whether it's a small business or whether it is a small moneylender that's trying to make a living for himself in helping other people out are unfairly treated by the government.
> *(Female borrower, aged 61-70, Brisbane)*

At the other end of the spectrum there are stories in our sample of borrowers who have been taken advantage of, through predatory practices, or complex contracts, for example:

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> You think that they've explained it properly to you and you think that, 'Well okay, they're the conditions', and what not and you sign away and you realise that it's really more that you're repaying than what was actually discussed and signed. So once you've signed it's a done deal … they just rip you off.
> *(Female borrower, aged 31-40, Brisbane)*

Lenders themselves acknowledged the 'few bad eggs' (Lender, Gold Coast) and 'sharks and cowboys' (Lender, Brisbane) in the system. Even the NFSF slogan of 'promoting responsible lending' is an acknowledgement that irresponsible lending practices exist and need correcting. There is also an acknowledgement on the part of borrowers about debt traps, a reality confirmed with metaphors such as 'sucked into a cycle', trying to 'get off the merry-go-round' and always 'running to catch up'.

> The thing is you can't get out of them, do you know what I mean? It's always something. Well, every time when you pay, your payments are that high, by the time you pay them back you're re-borrowing.
> *(Male borrower, aged 41-50, North Queensland)*

Although a small number of borrowers felt animosity towards the lenders, the majority of people interviewed framed the issue of access to credit within a systems perspective, and saw small lenders as being a necessary supplement to what they could obtain from mainstream financial services and income support payments from the state. The following quote reflects the standpoint of what we called the 'pragmatic borrower', which stood out as a dominant subject position in the borrower interviews:

> Look to be quite honest, I think (lenders) fulfill a real need because it comes down to credit rating, it really does. For me, for most people, most people not everyone, most people are aware that their fees are much more exorbitant than any bank or normal credit card. But the second you are in the system, and that credit rating has been affected by something – I can't even get a mobile phone contract – I think the regulation is important so that, of course, people don't get taken advantage of, but I honestly think they provide a service that's needed.
> *(Female borrower, aged 21-30, Brisbane)*

This statement is in part a reaction against the popular perception that fringe lenders are predominantly predatory, exercising coercive power to lure unwitting customers. One of the things that borrowers find attractive about fringe lenders is that they perceive them to be less bureaucratic than banks: they ask fewer questions and they have fewer forms to fill in. Most borrowers we spoke to see the repayment of debt at a higher price for what it is but, as stated earlier, most also accept that lenders need to make a profit.

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The issue of repayment becomes more controversial when the borrower gets into difficulty repaying the loan. Lenders can be criticised by policy-makers and financial counsellors for insisting that the borrower make their loan a priority in the multiple debts that a borrower may have. If the loan is secured against an asset, then the lender can also exercise coercive power through threatening to seize the fridge, the car or the television. In these situations, most of the borrowers we spoke with seek to utilise their relationship with the lender to buy some time. They seek to renegotiate the contract when they get into difficulty repaying under the original terms of the loan:

> So it's again just telling people that, 'This is where I am. I'm having a hard time. I can give you just a little out of each pay cheque. It will take me a little while but I'll catch up'.
> *(Female borrower, aged 61-70, Brisbane)*

Other borrowers use advocates, such as financial counsellors, to act on their behalf and speak with the fringe lender to renegotiate the loan. The many relationships that are involved in the repayment of multiple debts reminds us of Lipsky's (1980) observation that poorer citizens can start to accrue small armies of street-level actors intervening in matters of personal and public interest.

While much of the literature on credit reform has sought to define borrowers as a homogenous category of consumers, and to style products as well as regulations to meet their needs, what this pilot study suggests is that there are differences in the motivations for borrowing and the perceptions of lenders. On the lending side of the equation it appears that some small lenders are keen to promote responsible lending across this sector, but they also resist what they consider to be 'heavy handed' regulation as a means of achieving this objective. And in terms of rationalising why they exist, there is a strong view among the lenders surveyed that short-term credit is just a product like any other product in a market place, and that is a relationship between demand and supply where it is reasonable to extract a profit for the product. The lenders in the study did not accept the view that their existence leads to an increase in unsustainable levels of personal debt. On the contrary, many saw themselves as providing a much needed service to alleviate immediate financial needs.

Conclusion

As is appropriate with a pilot study we have not sought to use the research to offer definitive directions for reform in this paper. Rather, we have aimed to draw on the voices of borrowers and lenders to problematise simplistic assumptions about behaviour and motivation in the relationship between demand and supply in the fringe lending sector. The discussion illustrates that there are many interrelated problems and solutions that deserve further exploration. While there are some common themes, there is also divergence in the personal accounts of the causes and consequences of insufficient means to make ends meet. What is clear is that short-term credit is not a permanent solution for the majority of the people we spoke with. Short-term credit can help buffer the external shocks of living a life towards the bottom end of the

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labour and housing markets, but quick access to small amounts of credit can also become part of the problem due to the relatively high costs associated with loan defaults. At the same time we recognise that policy reforms aimed at limiting the costs of these loans and access to these products may be well intentioned, but they can also have unintended consequences, particularly if fairer credit alternatives are not made available. The current Phase 2 draft credit reforms put forward by the Australian Government go some way towards addressing this by increasing awareness, but there must be a corresponding increase in availability *and* accessibility for this measure to have any real impact.

Our research also shows the limitations of relying too heavily on an educational strategy to improve the financial literacy of borrowers so that they might choose other alternatives. On the basis of the pilot study, the main problem does not appear to be a lack of knowledge about the high costs of borrowing from fringe lenders. The decision to borrow appears to be pragmatic, made on the basis of economic and social constraints, in a context where there are few alternatives. In other words, people on low incomes are likely to borrow from fringe lenders regardless of the high costs of this form of credit.

This is not to suggest that the status quo is sufficient. Overall, it seems sensible to focus on ways to improve people's access to fair credit. This is not an easy objective to realise: fringe lenders have expanded their reach because the mainstream financial institutions have failed to meet the demand for short-term credit. Meanwhile, community based microfinance schemes do not provide loans for recurrent expenses and their geographical coverage is not nearly as great as that of payday lenders. Policy-makers also need to recognise that the fringe lending industry may be a costly option but it does appear to resonate with low-income people managing on low-incomes. As flagged earlier, the media and researchers have raised concern over the predatory practices of lenders. What we might conclude, at least for Queensland, is that lenders are not particularly ethical or unethical nor are borrowers particularly naïve or cunning; although all of these dispositions clearly exist in the fringe economy as elsewhere. Our research shows that the starting point for thinking more broadly about appropriate policy responses to this situation is to ask a social, rather than an economic question, a point echoed in a recent report on high-cost credit in the United Kingdom:

> We need to ask the question: should we accept that the poorest people are dependent on credit to make ends meet? Do we want to live in a society where contact with a debt collector is seen as important social service … do we really believe that the best way for poor people to make ends meet is to take out more and more credit? (New Economics Foundation 2009: 28)

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Endnotes

1. This pilot project finished in 2009, and has since been expanded into a National ARC funded project (targeting Qld, NSW, Victoria) being run jointly by The University of Queensland and RMIT, with industry partners National Australia Bank and Good Shepherd Youth and Family Service, in 2010 and 2011.

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