Online loans likely to lead to the payday debt spiral

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Resorting to the mobile phone for a quick injection of cash is on the rise as more online lenders join the market, a trend likely to lead more Australians into a spiral of debt, says QUT poverty researcher Professor Greg Marston.

Online lending is a form of payday lending - a small monetary fix to take care of a sudden urgent bill to be paid back next payday - at least that's how the theory goes, says Professor Marston said.

"The payday lenders' core business model is, however, repeat loans to low-income customers," said Professor Marston, from QUT's School of Social Work and Human Services.

"They make little money on one-off loans that are paid off by the due date but have devised ways to trap vulnerable people into a cycle of debt that can be impossible to get out of, despite recent national regulation of payday lenders.

"The easy availability of quick-fix, no-security loans from online lenders could draw in young people and, like online gambling, become a debt trap."

Professor Marston said payday lending was part of the 'poverty industry' whereby players tailor products or services to the low-income market for a marked up price.

"We find this with fast food outlets, for example, and we find payday lenders set up shop opposite Centrelink," he said.

"The poor pay more for everything and they pay more for credit."

Professor Marston said new regulations to temper the flourishing demand for small, short-term loans were likely to worsen poverty without alternative financial resources being made available.

In a study of 112 Australian payday customers, Professor Marston said the researchers found the top seven reasons borrowers took out their first payday loan were to meet regular, weekly-type needs.

"Food, bills, rent and 'had no money' were reasons people resort to payday loans when they have no other choices available to them," he said.

"More than half the borrowers in the study said they had taken out more than 10 loans in the previous two years and most of the heavy borrowers (75 per cent) had taken out more than 20 loans.

"We found disability support pensioners were twice as likely to be heavy borrowers as those on the unemployment payment.

"Twenty-three per cent had 'spiralling' loans, they were refinancing a partly paid-out loan to start a new loan. Forty-four percent of borrowers were 'cycling' loans - taking out a new loan as soon as the old one was paid out."

Professor Marston said poverty pervaded the lives of most payday customers.

"Put simply, the poor don't have enough money to make ends meet. They don't have access to mainstream credit - just 7 per cent of people in the study had a credit card, as opposed to 87 per cent in the general population.

"However, most of the study participants agreed the payday lenders were a necessary 'evil' unless other changes were made to the conditions that underpinned the cycle of poverty they were in.

"To improve their situation, the study participants suggested moves such as receiving welfare payments weekly, rather than fortnightly.

"They said access to smaller Centrelink advance payments repayable over short periods would be a cost-effective, flexible and realistic alternative to market-based sources of finance."

Provided by Queensland University of Technology

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