

Payday lenders target the financially vulnerable

5 June 2014, by Ryan Sheales



Payday lenders in Australia loan up to \$1 billion a year.

Payday lenders are targeting cash-strapped residents of poorer suburbs, a University of Melbourne study has determined.

Researchers analysed the locations of 123 payday lending stores across Victoria and found they were over-represented in areas of relatively greater socio-economic disadvantage.

The working class suburbs including Glenroy, Preston, Dandenong and Frankston all had five or more payday lending stores. In all, about 60% to 80% of payday lending stores are located in areas of relative disadvantage ([based](#) on Australian Bureau of Statistics measures for socio-economic disadvantage).

The research was led by Professor Ian Ramsay from the University's Melbourne Law School.

"Our study confirms that payday lenders are more likely to base stores in socio-economically disadvantaged areas, providing easy access to low-paid and struggling consumers."

Professor Ramsay warns that payday loans can entrench existing poverty, through the use of high interest rates and by people taking out loans to meet basic living expenses.

The use of direct debit from bank accounts—which

can prioritise the repayment of the payday loan over other expenses—is also an issue.

"The adverse effects of payday loans are also compounded when, as other research has shown, borrowers often have multiple payday loans or make continuous use of payday loans," he said.

Payday lending is big business in Australia with lending estimated to be up to \$1 billion a year and hundreds of thousands of consumers using payday loans.

Other research indicates typical payday borrowers already suffer from 'financial exclusion' – that is, they lack access to appropriate and affordable financial services and products. They are often on low incomes or dependent on welfare payments.

"This research rebuts the repeated claims of payday lenders that their borrowers are not financially vulnerable," Professor Ramsay said.

"Clearly more needs to be done to promote financial inclusion, including alternatives to payday loans that entrench disadvantage."

The research—co-authored by Melbourne Law School's Paul Ali and Cosima McRae—will be published in the Journal of Business Law.

Provided by University of Melbourne

APA citation: Payday lenders target the financially vulnerable (2014, June 5) retrieved 19 September 2021 from <https://phys.org/news/2014-06-payday-lenders-financially-vulnerable.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.