

# Factsheet No.30

## Alternative types of credit



*This factsheet looks at some of the main types of alternative forms of credit; what types of alternate finance are available and how to access it.*

- Alternate Finance
- Payday loans
- Consumer leases and Rent to Buy
- Microfinancing
- Where to get help

### Alternate finance

Alternative forms of finance (or "alternate finance") are types of credit provided by institutions other than banks.

### Payday loans

#### What is a payday loan?

A payday loan is a small loan (up to \$2,000) that is repayable over a short period (between 16 days and one year).

Payday loans are typically repaid by either a direct debit from your bank account or a deduction from your pay.

If you receive at least half of your income from Centrelink the repayments on all of your loans must not exceed 20% of your income.

#### Risks associated with payday loans

While the fees payable on a payday loan are capped, they can still be very expensive. As a result you may end up paying more than if you had used other types of financing.

Payday loans generally have very short repayment periods and therefore need to be repaid quickly.

This can be difficult if you are already suffering from financial hardship. Additionally, payday lenders often have high fees for defaulting on the loan repayments. Avoid pay day loans at all cost.

### Credit law and payday loans

Payday loans (also known as "small amount credit contracts") are governed by the *National Consumer Credit Protection Act 2009 (Cth)* ("NCCP Act").

The NCCP Act places limits on the fees that you can be charged if obtaining a payday loan. Payday lenders are permitted to charge you:

- An establishment fee of 20% (maximum) of the amount loaned;
- A monthly account fee of up to 4% of the amount loaned;
- Government fees and charges;
- Default fees and charges; and
- Enforcement expenses (if you fail to pay the loan back, these are the costs of recovering the money you owe them).

The cap on fees only applies to organisations which are not Authorised Deposit-taking Institutions ("ADIs"). ADIs include banks, building societies and credit unions.

### Consumer leases and Rent to Buy

#### What is a consumer lease

Consumer leases allow individuals to hire items from a supplier or store and make regular

payments over a period of time, rather than an upfront payment. At the end of the lease period consumers have the choice to:

- Return the goods and stop making further payments;
- Make an offer to purchase the goods. The lease provider does not have to sell you the goods and if they do agree to sell you the goods you may need to pay additional money; or
- Return the item and upgrade to a newer item, in which case you will be asked to sign up for a new lease.

### **Rent to Buy**

Rent to Buy agreements allow you to take a new or used item from a store and make regular payments for the item over a set amount of time. At the end of the rental period you will pay any outstanding amount.

Unlike a consumer lease, with a Rent to Buy agreement you own the item from the beginning of the contract. You will also owe a debt to the supplier who will have security, such as a mortgage, over the items.

### **Risks associated with consumer leases and Rent to Buy**

Given payments are made over a period of time, what may initially seem affordable will result in you paying much more than the value of the item had you purchased it outright. You often don't in fact own the item you are paying off.

If the items are damaged or stolen you will still have to continue making repayments as required by the consumer lease or Rent to Buy contract.

Additionally, it can be difficult to get insurance on leased items, so the items you have under a consumer lease may not be covered by any existing insurance policy you have.

Consumer lease contracts also often have fees or penalties for missed payments.

Avoid consumer lease and rent to buy agreements at all cost.

### **Microfinance**

#### **Types of microfinance**

There are three common types of microfinance:

- No interest loans;
- Step Up loans; and
- Matched savings plans.

#### **No interest loans ("NILs")**

NILs are small loans (typically between \$300-\$1200) to be used by individuals for essential goods (such as fridges, washing machines and stoves) and services (such as medical, dental and education).

Repayments are made over a 12-18 month period. No fees or interest are charged on the loan.

You can get more information about NILs, including how to apply, at <http://nils.com.au/>.

#### **Eligibility**

In order to be eligible for a NILs you must:

- earn less than \$45,000 a year (after tax) or have a Health Care Card or Pension Card;
- have resided at your current address for more than 3 months; and
- demonstrate a willingness and capacity to repay.

#### **StepUP loans**

StepUP loans are small personal loans of between \$800 and \$3000 which can be used by individuals for

expenses such as car expenses, furniture, white goods, computers, education, and medical/dental care. StepUp loans cannot be used for cash, debt consolidation, holidays or bills.

StepUp loans are repayable over up to three years. Interest is charged on the loan at a low fixed rate. No fees are charged on the loan.

You can get more information about StepUp loans, including how to apply, at <http://stepuploan.org.au/>

### **Eligibility**

In order to be eligible for a StepUp loan you must:

- be receiving Family Tax Benefit Part A or have a Health Care Card or Pension Card;
- have resided at your current address for more than 3 months; and
- pass other eligibility criteria that will be discussed when you enquire.

### **Matched savings plans**

Matched savings plans match your savings up to \$500, dollar for dollar. Some institutions require matched savings to be used for a particular purpose (e.g. education-related expenses), while others allow savings to be used for any purpose.

You can get more information about matched savings plans, including how to apply, at [Good Shepherd MicroFinance](#), [ANZ](#) and [Human Services](#).

### **Eligibility**

Eligibility criteria for matched savings plans vary between the institutions providing them and you should make specific inquiries with the relevant institution. For example, you may be required to hold a Health Care Card or Pension Card, or have previously repaid a NILs or StepUp loan.

### **Where to get help**

If you require urgent assistance with living expenses you can seek help through:

- the Department of Social Services;
- the Salvation Army or St Vincent de Paul; or
- your local church, community centre or community organisation.

If you are struggling with debt or money management you can also contact your credit provider to discuss hardship options in relation to your repayments or a financial counsellor. Free telephone financial counselling services are available through the **National Debt Helpline** on 1800 007 007. The financial counselling hotline is open Monday-Friday between 9.30am and 4.30pm.

*Produced by Redfern Legal Centre.*

*This factsheet is a guide to the law in New South Wales, Australia. It is not a substitute for legal advice. If you have a legal problem seek legal advice from your local community legal centre or legal aid office.*

*January 2017*