

Feedback to AFCA – Approach to Responsible Lending Consultation paper

The Money Support Hub East Arnhem is a financial wellbeing and capability program based in Nhulunbuy and delivering services to communities across the remote East Arnhem region of the Northern Territory. Our services are available to anyone needing them, however our client base is predominantly First Nations people (98% in the first half of 2023).

The vast majority of our First Nations clients speak an indigenous language at home with English commonly a 3rd or 4th language. Comprehension of written English is problematic, particularly when it comes to technical or subject-specific language, for example legal and medical information. Unemployment is very high in the East Arnhem region with a majority of First Nations people reliant on Centrelink payments as their sole source of income, in an area where remoteness exacerbates cost of living pressures. East Arnhem has the highest rate of homelessness in Australia. Poverty is a genuine reality for many First Nation families, who continue to foster and utilise strong kinship relationships to survive with the fortnightly payment cycle.

While we must necessarily generalise we recognise there are exceptions to the rule, however the below feedback is relevant to most of our clients. This feedback applies to First Nations people from remote areas of the Northern Territory, and it may equally apply to people from other remote regions and communities across Australia and there may also be applicability to other First Nations groups in rural, regional and urban areas (particularly the reliance on family relationships to function financially).

When it comes to Responsible Lending, we wish to strongly emphasise that lenders need to take much greater care when assessing the unsuitability of credit products to First Nations people. It is a reality in Australia that First Nations people may experience multiple and complex vulnerabilities which may see them exposed to greater risk by lenders not meeting their responsible lending obligations to accurately assess a person's actual financial situation. Where lenders fail to meet their legal obligations it is incumbent upon regulators and EDR schemes to uphold the rights of vulnerable people.

The following points are made based on experience with actual clients and their circumstances.

- **High reliance on Centrelink payments as the sole source of income**
Families commonly spread payment days over the fortnight, so that one person's payment is accessed in full on one day, another person's payment the next day and so on. Many people on Centrelink income access SACC loans regularly. Different lenders are well known and options to access loans widely discussed.

When these avenues fail individuals and families access local services for Emergency Relief in order to meet their most basic needs; ER funding typically is exhausted in the first or second week of the monthly release.

- **Vulnerabilities to credit products**

The lack of sufficient income creates a power imbalance when people are trying to access money to survive. There is high motivation to secure credit to alleviate the impacts of poverty. Where English is a second, third or fourth language there are distinct risks that a person does not understand the credit product, how much they will be required to repay or their obligations to pay. In some circumstances additional fees or purchases (such as junk insurance on car loans) are added to a loan and our client has had no understanding of what these are for or how they have added to the cost of the loan.

- **Gurrutu**

This is a Yolŋu word referring to the complex system of kinship which governs how everyone and everything is connected in relationship to everyone and everything else. For our First Nations clients it is integral to how they view the world and everything in it. For surviving financially, it is how people and families share resources, whether they have Centrelink income, income from paid employment or indeed nil income. The continuing centrality of gurrutu is a strength we work with every day with our First Nation clients.

The basic point to understand is that people who have resources have obligations to support others who don't, and financially this sharing of resources is not always reciprocated because some people simply have very minimal resources to share in return. Gurrutu will also apply to extended family in a way non-indigenous Australians may struggle to comprehend.

This has very real implications for First Nations people in paid employment. They are particularly susceptible to irresponsible lending because they can gain access to credit and lenders either have no idea of the financial pressures they face or they deliberately set out to exploit it.

- **Red Flags**

Indicators that lenders often fail to take into account when assessing the unsuitability of a credit product, including for people with a very good income include:

- Poor assessment of living expenses that do not recognise the high additional costs of living in remote and very remote communities.
- Nil or low balance in a person's bank account very soon after their pay day; or their account is regularly overdrawn.
- Indications of regular SACC and/or MACC loans (especially concerning for clients with a very good income – why would they need these types of products?)
- A high volume of transactions in the person's bank statements, which may show substantial sums going out and coming in as money is moved around between family members.

Where these red flags exist lenders should take extra care and extra steps to verify that the applicant is going to be able to meet their financial obligations. Where a lender has not done this AFCA should take these factors into consideration when making an assessment or determination.

- **Impacts on remote First Nations people**

- Shame and dismay when the obligations of a credit contract they have signed and agreed to is fully explained, including understanding what items were added to the loan (when the lender realised the borrower didn't understand).
- Inability to meet basic living expenses, even when the person is gainfully employed, and sometimes in a well-paid position.
- Fear of saying 'No' to family because they are struggling financially, and the cultural implications of saying no.
- Stress and ongoing mental health impacts because of never feeling financially secure.
- Suicidal ideation.

- **HEM**

The HEM is inappropriate to use to assess household expenditure in remote Australia. Some reasons:

- The widespread use of higher cost pre-paid facilities for essential services such as power and telecommunications.
- Extremely high fuel prices.
- Lack of competition for various services and products in remote regions e.g. mechanics for car repairs, when the state of roads contributes to the constant need for repairs.
- Freight costs added to everyday essential items contributing to a significantly higher cost of living.