

Just kidding about the kid

Background

Gary* borrowed \$1,200 from a small local lender. Records from the lender show that the entire transaction, from making an application to the money being transferred into his account, took less than 90 minutes.

The loan was offered over a period of several months at a high interest rate, with additional establishment fee charges on top. Gary was able to make the first 10 weeks of payments from his benefit and made sporadic payments thereafter, but he was not able to keep up with regular payments.

He approached a social support provider for assistance. The support person laid a complaint with FDRS that the lender did not undertake an adequate affordability assessment before lending this money to Gary.

Next steps

On looking into the matter, it became clear that there was fault on both sides.

Gary had told the lender that he had a child and was receiving weekly child support from the child's mother as well as the Working for Families tax credit which added significantly to his income, but this was not true.

While the lender took Gary's word that he had this income, the expenses he included in his budget were clearly only for a single man and not for a man with a teenage child. For example, there was no allowance for school expenses, food or activity costs for a teenager.

It was clear that the borrower had not been honest, but FDRS also had to consider if the lender acted reasonably in accepting the information Gary provided without further investigation. It was then necessary to consider whether the lender adequately assessed the borrower's expenses which, if he was supporting a teenage child, would have been woefully inadequate.

Outcome

With fault resting on both sides, a compromise solution was needed.

By the time the matter came to FDRS the borrower had repaid several hundred dollars, but the interest and various fees and costs which had been added over time had increased his balance to almost \$1000.

The FDRS order was that the lender retain the amount paid to date which covered most of the principal and that Gary was not required to pay anything further. In effect this abated all interest, fees and costs associated with the lending.

Lessons learned

This complaint highlights the responsibility of lenders to check information that borrowers provide (especially new borrowers) and not rely on high interest rates to cover their risk. It also highlights the responsibility of customers to behave honestly and responsibly when dealing with credit providers.

** Names and identifying details have been changed to protect our customers' identities*