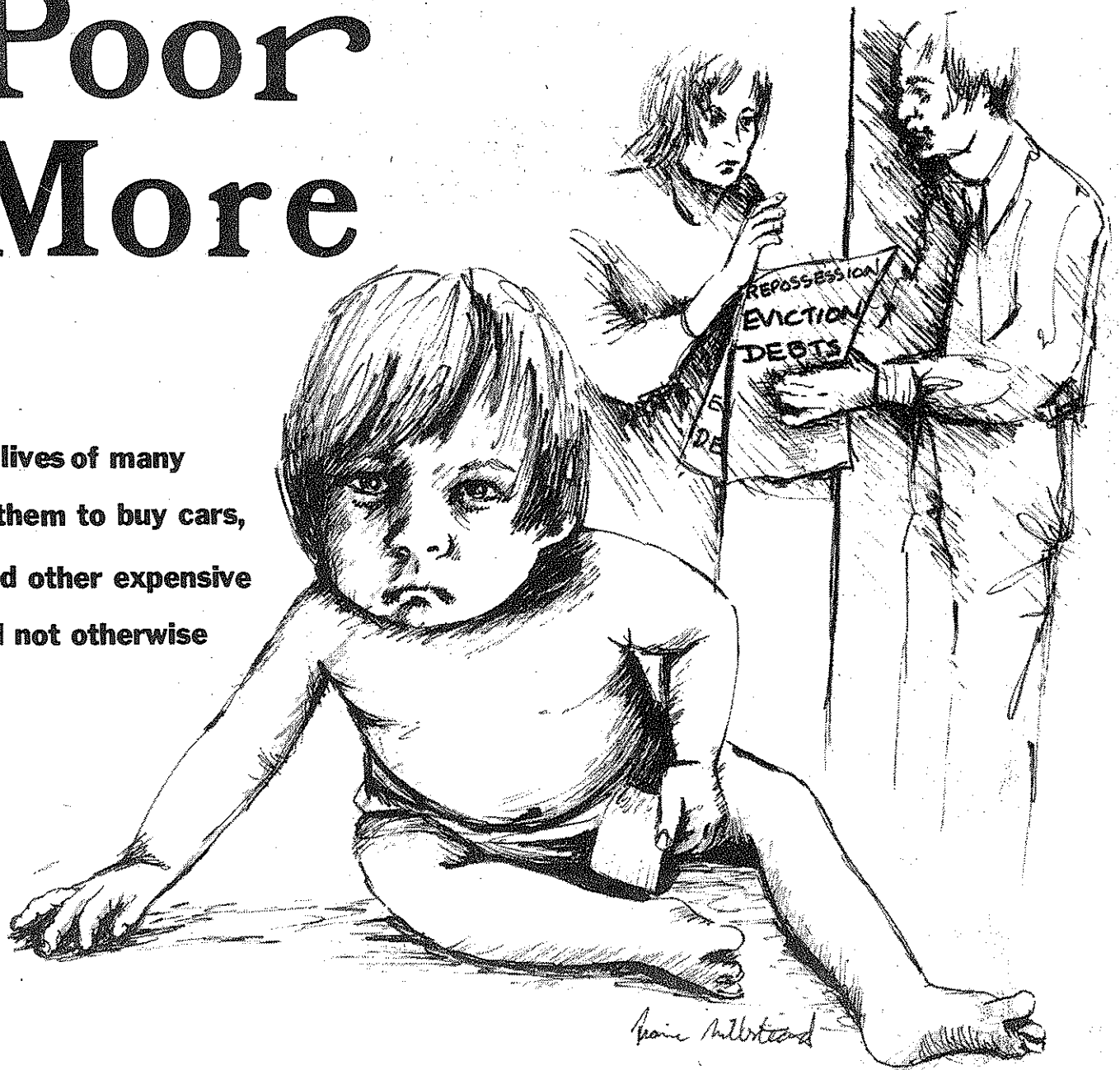


The Poor Pay More

Credit has radically altered the lives of many low income families. It enables them to buy cars, television sets, refrigerators and other expensive consumer goods that they could not otherwise afford.

By Ruth Mushin



Hire purchase and similar forms of credit have helped to make life more comfortable for low income earners.

At the same time, however, credit has been responsible for an increase in the number of people coming to social welfare agencies for help. Their problems are often caused by their inability to meet financial commitments.

Advertising and high pressure sales techniques are often responsible for people over-committing their incomes.

The continuous pressure to pay high interest rates and long-term credit instalments may put considerable stress on a family's budget.

A low income family may be able to meet regular credit payments as long as nothing unforeseen occurs to place extra demands on its resources. However, in a crisis, the delicate balance between credit and other commitments may be easily upset.

There are many reasons for failure to meet credit payments.

Social position

Defaulters are generally those who are in a more vulnerable social position than the rest of the population. Often they are migrants, pensioners, unemployed or ill.

Whatever the reason for credit problems of low income consumers, their limited resources must be divided between credit commitments and more basic needs like food, clothing, accommodation and medical expenses.

If credit payments are met at the expense of other needs, repossession, bankruptcy and similar measures may be avoided. But, an already precarious social situation will almost certainly be worsened.

For a family already depressed, buying consumer goods represents compensation for problems or hardship.

By using credit, those people who can least afford it are easily led into a vicious circle which is difficult to escape.

Outlined here are three cases which are typical examples of how families can become trapped in debt.

Case A

A family with four children moved into a War Service Home. The husband earned \$100 per week and was able to maintain regular payments for the home.

In earlier years the family had operated various hire purchase accounts, one at a time, and had handled these accounts successfully.

They decided to make their surroundings comfortable immediately instead of waiting several years to buy everything they wanted.

They first borrowed \$3000 from a money lending firm, repaying interest quarterly until they could later pay out the capital. They used this money to centrally heat their home.

They bought light fittings, carpets, tiles and oddments of furniture from a large retail firm for which they had to repay \$16.50 per week.

From another firm they bought curtains and blinds for about \$500, plus interest at \$10 per week.

Briquette fuel needed for the heating cost \$11.52 per week in winter months, and about \$6 per week in summer.

They bought a new refrigerator from a retail firm on hire purchase, and a deep freeze with food supplied by the vendor, for which they paid monthly instalments.

At the same time, they bought a set of encyclopaedias on time payment, and a second set of books which cost about \$200, for which they paid monthly instalments.

Husband and wife decided mutually to incur such heavy financial commitments.

When they applied for credit, they were approved without delay because they had an excellent credit rating. This rating was based on their past history of successfully paying off earlier accounts, one at a time.

As they applied for, and were given further credit from different firms, no firm refused them on the grounds that they were becoming too heavily committed.

This encouraged them to sink further and further into debt.

Eventually, from an income of \$100, the family's weekly outgoing payments totalled more than \$70, leaving less than \$30 for normal day-to-day living expenses.

They were not able to cope with these credit commitments and fell into arrears.

After a credit officer from one firm contacted his employer, the husband deserted his family. He did not send his wife any money after deserting and his address is unknown for maintenance action.

Case B

A migrant couple with five children came to Melbourne with very little money.

They bought a house on a low deposit with very high weekly repayments. The husband's take-home pay was \$70 per week. House repayments were \$25 per week. With four school-age children, it was difficult for this family to meet its financial commitments.

After they had lived in the house for 12 months, they were visited by an inspector from the Housing Commission who told them that their house would be condemned unless it was repaired. He gave them 12 months to carry out repairs.

One day, the wife returned home to find a man taking photographs of the house.

He told her that he was a salesman from a large manufacturing company who wished to use the house as an advertisement for one of their products by cladding it with a special chemical coating.

He did mention that the family would not have to pay the cost of cladding the house. He told the wife that she would receive a commission for every order the firm received as a result of the advertisement.

He also said the firm would pay the family \$100 in cash.

Both husband and wife agreed to this proposition and signed several documents.

Five weeks later, a letter arrived from a finance company to inform the couple that they owed this company \$1500; \$1000 of this was for the cladding job and the remainder was for interest charges.

The contracts that had been signed included an authorisation allowing the manufacturer to borrow money on their behalf. The couple had not understood this at the time.

Because the weatherboard house was in poor condition, it should not have been repaired in this manner. The cladding deteriorated rapidly.

The family's complaints about the poor quality work were ineffective as they were dealing directly with the finance company who were only interested in recovering the money owing to them.

The family was left with a sub-standard house, high interest rates and weekly payments for the house cladding job, and little money left to meet their other needs.

Case C

A man with a wife and four young children to support had an unstable work history. He was not able to cope with responsibility.

The family ran several credit accounts and were often visited by debt collectors, or issued with summonses.

There were arguments in the family about lack of money, the man's frequent unemployment and his inability to provide regular money. The husband would often resort to heavy drinking while his wife would go shopping as an outlet for her frustration.

The house payments for the family's War Service home were in arrears. There was a warrant of ejection at the local police station.

Other debts included \$10 per week to a large retail firm; \$50 per month to a finance company; credit accounts with three other retail firms; family medical expenses of about \$250 which were being reduced at \$2 a week; three small budget accounts at local shops totalling \$6 a week for clothing; instalments for a hired television set.

There were other accounts at local shops for groceries, bread and milk.

When the husband was working, he earned about \$70 per week.

The family was committed to a weekly outgoing expense of about \$59, leaving \$11 per week to support six people.

The wife could not work due to bad health and a nervous disorder aggravated by the domestic situation.

Child endowment, the only other income, was used to pay electricity bills and other small accounts.

The husband died as a result of a car accident. His wife had no money. She was forced to obtain grants from several voluntary agencies to sort out her desperate financial situation.