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Features Article

Borrow At Your Own Risk!

With the opening of school and tertiary students getting ready to begin classes soon, many parents and guardians are left with a hole in their pocket as they try to meet each and every need of their children. In this tight financial state, some of them would be desperate to have more cash in their hands.

And, for many, getting a loan from the banks or other financial institutions is simply impossible, so they look for quick and easy means to take loan and such rescuers happen to be the moneylenders or loan sharks.

In Fiji, we have quite a many of them, locating in the abuzz corners of our towns and cities, most of them lending money at exorbitant interest rates.

Some of the loan sharks can also be found in rural areas and in maritime provinces, coming to the rescue of many cash- strapped people, who have no or very little choice than to borrow money to meet emergency needs.

And, what is the easiest bit about borrowing money from these loan sharks is that there is absolutely no or little ‘paper work’ between the parties, contrary to what the *Moneylenders Act 1978 (Cap 234)* requires.

This is well- reflected in the nature of complaints recorded by the Consumer Council of Fiji over the years – whereby, some complainants who borrowed money from the moneylenders regret their decision.

Some people had their atm bank cards, their passports and other valuable items taken by the loan sharks in form of security as they continue paying their loan for years and years, caught in this vicious cycle.

A borrower can experience these risks

- having to pay back a huge amount of money as a result of high interest rates. which can be as high as 250 % to 500%;
- being charged additional fees without the knowledge of the borrower;
- having to continue paying money in the absence of any signed documents even though loan amount has been repayed; and
- unnecessary mental stress resulting in domestic disputes.

A research conducted by the Council on money lending in Fiji shows that the single largest reason for borrowing was to handle cash flow problems in the household, second was meeting daily family needs including children's educational needs. One other specific reason for borrowing was to meet funeral expenses. This was especially true for *i-taukei* borrowers.

Some of these moneylenders operate without license charging gigantic interest and border on extortion, harassing consumers to pay them by turning up at the workplaces of the borrowers.

Describing this sort of borrowing as 'moral hazard', the research points out that people could avoid the trouble if they stick to their budget and lived within their means.

The Council is mindful that while moneylending is becoming a popular source of credit for low-income earners, there is certainly a need to relook at the the *Moneylenders Act*. A Council commissioned report: *Review Report on Existing Consumer Protection Laws in Fiji* in 2012 reveals that a few borrowers are aware of their rights under the Act with numerous breaches of law, particularly regarding interest rates, record keeping and illegal money lending. What makes the legislation weak is the absence of enforcement and monitoring aspects which is not clearly provided for in the Act, nor is the necessary penalties. There is an urgent need to modify this legislation to better protect the low income earners who cannot secure loans through the traditional means.

Council's advice

Consumers who intend to access services of a moneylender should first and foremost:

- find out whether the moneylender is registered or not and this can be done by asking for his/her licence. Remember, if you borrow money from someone who doesn't have a licence you haven't broken the law, they have;
- get a written contract which must state the loan amount, the interest rate and the time frame by when the loan must be repaid;
- the interest rate must not be **more than 12 per cent per annum** on every loan;
- avoid multiple borrowing from moneylenders as this will only lead you to more uncontrolled debt and
- keep track of the amount being paid so that you do not end up paying more than what you owe.

Remember you are far better protected and will get a better deal from a licensed and reputable lender than to rely on unregistered moneylenders.