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## Instant Credit Services and Their Tricks



When people run up large debts, it not only harms the national economy, but also ruins the lives of the debtors. More borrowed money means more debt repayment. Pressure from creditors sometimes leads to depression, psychosis, suicide, or crime.



Problems caused by instant credit services were clearly evident in 2005, which indicates the difficulty of eliminating poverty from Thai society. Incomes have risen quickly, but so have costs, so that many families have higher expenditures than incomes. Some families have to borrow money to pay off earlier loans, and find themselves overwhelmed by debt. These debts stem from people's spending habits, but also from unscrupulous behavior by loan sharks.

### No spending, no economic growth

To promote economic growth, the government has encouraged people to spend more and invest more. Credit services run by banks and other organizations have been heavily promoted. Access to rapid finance has brought both advantages and disadvantages.

Loans are sometimes used to help build businesses and assets that increase their value over time. If the loan is obtained from a legal source, the interest rate may not be too high.

However, if debtors do not have good financial discipline, easy access to credit is dangerous. This is especially true if the borrowed money is spent on goods that depreciate quickly or do not generate returns that can be used to repay the loans.

Whether the debt is a personal loan, a credit card debt, or a hire-purchase agreement, the debtor

faces the problem of finding money to repay, including principal, interest, and service charges stipulated by the Bank of Thailand.

In addition to these legal sources of debt, there are illegal sources, which are often more accessible. These sources are illegal because they involve exorbitant interest rates or inhumane methods of enforcing payments.

### **Thai people borrow more than they save and most debts are “irregular”**

Debt is clearly related to poverty. According to a 2004 report entitled “Poverty and in Thai Society and Household Debt” by the Kasikorn Research Center, Thai people’s debts have grown faster than their incomes. Research in 2005 on factors affecting people’s spending behavior and their work in old age made the following findings:

Domestic savings declined from a peak of 35% of incomes in 1991 to 31% in 2003. The decrease in net savings in the governmental and domestic sectors led to a decrease in national saving.

1. Domestic savings have decreased because of increased consumption of goods such as cars, mobile telephones, and electrical appliances. One reason for the increased consumption is expanded access to credit.

2. Consumption has increased in all agegroups. Low income earners save less than other groups.

### **Enforcing Repayment**

Creditors have a variety of methods to enforce payment when debtors default. Financial institutions often hire debt collectors, who may receive a commission of 20-40% of the money collected.

In some cases, the debt collectors use extreme methods. They threaten debtors and their families, or they embarrass the debtor by informing third parties about the unpaid debts.

With informal loans, the creditors are generally members of the local elite. They have various methods for enforcing payment which are generally more severe. There are media reports of debtors’ property being damaged or the debtors themselves being injured.

### **Personal Loans with Exorbitant Interest Rates**

Before July 1, 2005, non-bank financial institutions such as EasyBuy, GE Capital, Quick-Cash, and AEON provided “personal loan” or “instant finance” services, with advertisements emphasizing easy access. Many consumers did not realize that applying for a loan was easy, but freeing themselves from the debt was extremely difficult. On November 21, 2005, seven independent lawyers and consumers filed a complaint against Siam A&C Co., Ltd. or EasyBuy, accusing them of usury. This case attracted a great deal of attention in late 2005.

#### **The experiences of an EasyBuy customer**

- On May 13, 2004, the customer received a 52,000 baht loan.
- The upfront fee was 4,000, so they received 48,000 baht.
- The customer paid 2,000 installments each month, but the number of installments was not stipulated.
- 13 installments totaling 26,000 baht were paid.
- On July 7, 2005, the total balance outstanding was 51,042 baht. Of the 13 installments worth 26,000 baht 958 baht had gone to paying the principal, and the rest, 25,042 bath had gone to interest.
- **The implied interest rate was 48% per year.**

EasyBuy did not dispute the facts above, but noted that the customer entered into the contract before July 1, 2005, when the Bank of Thailand introduced controls over interest rates.

The new control rates stipulated that non-bank creditors could charge interest rates of no more than 15% per year, or 28% per year when delinquency fees, charges, and other out-of-pocket expenses are included.

More than 100 consumers facing exorbitant repayment regimes have now filed complaints. Financial institutions have attempted to avoid conflict by asking to amend these customers' contracts. The financial institutions' proposal was opposed by the consumer protection organization. Instead, it asked consumers to take their cases to court, so that the public could learn about the unacceptable conditions imposed by the creditors.

Current regulations on interest rates are inconsistent. The Bank of Thailand sets the maximum at 28%, including fees, while the Civil and Commercial Code sets it at 15%.

The Bank of Thailand has defended its regulations saying that the intention is to protect people from exploitation. Before it set the maximum, many people were paying interest rates of 30-50%, plus other charges and fees, plus service charge, delinquency charge, and fees for personal loans. If the Bank of Thailand's maximum is in fact unlawful, then it will have no legal force, and consumers will have no protection from loan sharks. Moreover, the maximum was set by executive order issued by the Ministry of Finance, which would also need to take responsibility for the error. Lawyers from a consumers' advocacy group are testing the rule in court.

### **Emergency loans and deceptive practices: Acts of opportunists**

In 2005, the Bank of Thailand found hundreds of cases of illegal loan provisions that took advantage of people, for example, asking a customer to use a credit card to buy goods, paying cash to the customer in an amount less than the goods' actual price, and withholding various fees. This can be considered making double profit with no risk since the burden of repayment belongs to the financial institution that issues the credit card.

Such tricks have been occurring in recent years but they have become a hot issue lately because debtors have finally begun to realize the severity of the problem.

Ads making promises such as **“if you are in need of money, we can help you-all you need is a credit card or loan card, no matter whether your**

**credit is used up already or not. Please call 01-xxx-xxxx”** can be seen plastered on electricity poles, telephone boxes, ATM machines, and buses, and found in newspapers and on the Internet. Those who are not in dire need of money may not be tempted by such sales pitches, but for those who are, these promises may prove irresistible and may seem to offer a solution to their financial problems, and the gullible consumer may not realize how easily such an apparent solution can become a nightmare.

The process of such securing such loan is that, after those urgently in need of money call the loan company, the broker will make appointment with them, normally at an electrical appliance or mobile telephone shop. He will then ask for the potential borrower's credit card number so that he can check the credit balance. If, say, 20,000 baht is requested and the available credit limit is 30,000 baht, the creditor will ask the borrower to enter into a hire-purchase contract for goods costing 30,000 baht, with the credit card company as lessor and the borrower as lessee, who is liable for repayment of 3,000 baht monthly installments for 10 months. As a matter of fact, such hire-purchase never happens.

After the hire-purchase contract is completed, the creditor will pay 20,000 baht to the borrower, withholding 10,000 baht as “processing fees” and an advance on the 10-month interest. The debtor has to repay the hire-purchase installment every month. If the repayment is complete, there will be no problem, but if the debtor fails to repay for 2-3 installments, the credit card company will ask for the return of the goods, which the debtor has never even seen since all he really has seen is the hire-purchase contract.

The debtor may end in jail as a result since the contract was a “hire-purchase” and not a “loan” contract. According to the law, ownership of the goods belongs to the lessor until the lessee makes all payments; the lessee possesses only the right to use the goods. If the debtor fails to return the goods to the credit company, the company will launch a criminal lawsuit charging embezzlement. Thus all this can be considered a “deceptive practice” since the real intention of the debtor was to enter into a “loan” contract, not a “hire-purchase” one.

In some cases, the debtor has no credit card but is provided with a loan from this source. It is the broker who takes potential borrower to apply for a credit card. After that, the borrower will be

asked to buy goods from a shop with a contract stating that the borrower is purchasing goods from this shop and agrees to pay in installments. The shop telephones to a non-bank financial institution without identifying the borrower. It is highly possible that the financial institution that issues the credit card without checking thoroughly the documents is conspiring with the loan provider. When the documents are checked and approved, the approval code will be given by the broker to the shop in order to validate the contract.

However, in such purchases, the borrower or customer does not take possession of the goods. Instead, he is given 70-80% of the price of the goods, with 20-30% going to the broker. This means the debtor has 3 burdens, namely

1. Interest from credit or personal loan card, usually at a 1% monthly rate;
2. The difference between the actual price of the goods and the percentage of this price (usually 70-80%) that he received in cash;
3. The interest that the debtor has to pay to the loan broker, ranging from 1 to 20%.

It is possible that the loan broker collaborates with the shop that offers the installment payment in allowing the goods to be resold at full price at the same shop since they are brand new goods; the broker may receive additional profit from this. Such fraud has spread widely due to lax credit card approval criteria, which has led to battles among banks, which have been competing fiercely for new customers.

Currently, these illegal “fast cash” service providers have expanded their tactics to include doing such business at IT shopping malls. They use laptop or IT accessory shops as their front. When customers see their telephone number in a brochure and make a call, the loan provider asks them to come to the shop. After that, customers are asked to buy a notebook computer using a credit card. After the purchase has been approved, the shop gives the customer the cash equivalent, minus 20-30% as commission. The customer is then advised to pay 2-3 installments before paying the first scheduled installment.

The purchased notebook computer is then sold as a refinanced computer, 10-15% below market price, either at the shop itself or through a website. This hurts shops doing business legally since such goods have an abnormal origin and their purchase is done without a tax invoice.

Such business practices have affected many consumers who bought laptop computers at below-market prices. Since such goods (whose model and serial numbers have been recorded) technically belong to the creditor identified in the credit approval application form, if the creditor informs the center of the customer's failure to pay the installments, the computer can be seized from the unwitting consumer who (re)purchased it and who may later be charged with receiving stolen property.

Apart from this, another kind of fraud that is found nationwide is the case in which a criminal syndicate opens a front company providing loans using a complicated method to conceal the details of the loan contract. The borrower is asked to enter into a contract involving hire-purchase of gold jewelry and to sell or pawn the item(s) at a gold shop in their network in order to receive cash. This is in order to avoid being charged with exacting illegally high interest. From then on the debtor continued to be hounded to repay. In case he failed to repay, he would be threatened or injured and, in some cases, accused of larceny and reported to the police.

### Stop falling into debt and start learning how to save

Such fast cash businesses have expanded during the last 2-3 years, affecting people's easy access to loan sources. This goes against the promotion of a sustainable economy and the government's campaign of “Saving money to avoid poverty.” The tendency to live beyond one's means and go into debt stems at least in part from attitudes and habits that grew out of an atmosphere fostered by the government, which aimed to increase consumption. The result was wasteful over-spending. In contrast, if the government had emphasized thriftiness and motivated people to save money, their lives and the country's economic basis would have been more stable.

As a result of loans that are too accessible, consumerism is spreading not only among urban people but also among those in rural areas. People in the villages seem to buy everything they see on commercials, even though their income is too low to afford such things. Everyone in the country seems to be infected with “debt popularism”, which will result in many social problems, such as suicide, psychosis, and the a weakened national security.

