



# Fit for purpose consumer credit legislation – high-cost credit contracts provisions

The Ministry of Business, Innovation, and Employment is seeking feedback on the high-cost consumer credit contracts provisions introduced, in 2020, by the Credit Contracts and Consumer Finance Act 2003 (CCCFA).

## Consultation and process

Public consultation will close at **5pm on 19 June 2024**. This is a mandatory statutory review required by section 45L of the CCCFA to assess the effectiveness of these provisions.

## What is a high-cost credit contract?



The CCCFA defines high-cost consumer credit contracts as a contract with an average annual interest rate of 50% or greater, or as a contract where the combined annual interest rate and default rate are likely to be 50% or more.

## What are the high-cost credit provisions about?



- The maximum costs of borrowing must not exceed the first loan advance.
- The maximum daily rate of charge cap is 0.8%
- There is a rebuttable presumption that default fees over \$30 are unreasonable.
- Compound interest is prohibited
- High-cost lenders are restricted from making high-cost loans to some repeat borrowers.

## What was the objective of these provisions?



The reforms are aimed at reducing financial harm caused by problem debt by:

- Addressing the excessive cost of credit for some types of loans
- Addressing repeat borrowing by vulnerable consumers.

## The impacts of the high-cost provisions:

Direct	Indirect
Elimination of the high-cost lending market	Take up of Buy-Now-Pay-Later loans
Double in lenders offering loans in the 30-50% interest range	Increased percentages of debts from other credit types
No longer debt spirals and repeated borrowing from high-cost loans	Increased hardship assistance from the government

## Issues we want feedback on



- Whether the interest rate that defines a high-cost consumer credit contract should be reduced to a rate between 30% to 50%
- Any feedback you might have on the operation and effectiveness of the high-cost credit provisions.

**MBIE particularly welcomes any views representing the perspectives of people who have used high-cost loans in the past. For example:**

In the absence of new high-cost loans, what other avenues are you turning to?

Is the unavailability of high-cost credit having positive or negative effects on you?

Have you experienced any issues with loans in the 30% to 50% interest rate range?

Are your needs for short-term and low-value loans fulfilled by non-high-cost loans?

Read the full consultation document [here](#). Submissions close at 5pm on 19 June 2024