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Submitted via: consumer@mbie.govt.nz

Consumer Policy
Building, Resources and Markets
Ministry of Business, Innovation & Employment
Wellington

RE: Guidance for lenders on assessing affordability: draft changes to the Responsible Lending Code Discussion Document

Ngā Tāngata Microfinance Trust (“NTMT”) supports the recommendations in FinCap’s submission. Clearly guided requirements for affordability assessments are a necessary step in preventing consumers from taking on unsustainable debt. Every dollar lent to a consumer without robust guidelines around assessing affordability is putting that consumer at risk.

Irresponsible lending often disproportionately affects vulnerable individuals, exacerbating social and economic inequalities. Features often found in such communities include low average hourly wage; higher than average number of occupants per household; shocking child poverty statistics; and internationally high rates of third world diseases among children. Other likely features are low rates of home ownership, high levels of mobility, and unmanageable levels of high-interest debt.

Guidelines ensure that lenders act ethically and in the best interests of consumers, while also maintaining the stability and integrity of the financial system.

Introducing our organisation and community

Nga Tangata Microfinance Trust was established in 2010 for the purpose of alleviating poverty by building a more just and equitable society with economic and social inclusion for all New Zealanders. We assist in the provision of safe and fair affordable finance options that strengthen financial independence by providing no interest, no fees loans to qualifying people. We also advocate on issues impacting families to drive systemic changes that address the root causes of financial difficulties.

NTMT works every day with people adversely affected by irresponsible lenders. NTMT supports FinCap’s recommendation for clear guidance. We often see situations where loans are close to affordable but not clearly within guidelines, often involve nuanced or borderline cases for example:

1. Multiple Commitments

Our clients have an average income of \$39,000, 80% of whom rely on a benefit. Our clients are the most financially vulnerable and are most likely to seek lending for small purchases - purchases for essential living costs. Our clients with multiple small loans might individually pass affordability assessments, but collectively, the total repayment burden might be too high. For example we see unaffordable lending via BNPL everyday, and this is on the increase. Thus multiple small purchase lending is not always obvious to lenders and as a result of multiple debt quickly spirals out of control and becomes unmanageable.

2. Fluctuating Income

Some of our clients have fluctuating incomes, such as seasonal workers and might appear able to afford a loan during peak earning periods but struggle during off-peak times.

3. Changes in Financial Situation

70% of our clients are single women with children. They are usually left with debt after separation or a new baby, which means increased future expenses are not fully accounted for in the affordability assessment.

4. Unforeseen Expenses

Around 90% of clients with tight budgets that might pass affordability assessments have little to no savings/buffer for unforeseen expenses like medical emergencies, car repairs or home maintenance.

5. Debt Consolidation

The majority of our clients seeking loans to consolidate existing debts might pass an affordability assessment based on the assumption of reduced overall repayments. However, if not managed properly, the new loan could become an additional burden rather than a solution.

Conclusion

Guidelines around affordability assessments are essential for fostering responsible lending practices. They protect consumers from financial harm, ensure compliance with legal and regulatory requirements, promote financial stability, and build trust in the financial system. By establishing clear, standardised practices for assessing a borrower's ability to repay a loan, these guidelines help create a fairer, more transparent, and more stable lending environment. This benefits not only individual borrowers but also financial institutions and the broader economy.

Thank you for considering our submission.

Please contact Jade at ceo@ntm.org.nz to discuss any aspect of this submission further.

Ngā mihi,



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