

Submission on discussion document: *Guidance for lenders on assessing affordability: draft changes to the Responsible Lending Code*

Your name and organisation

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Responses to discussion document questions

Guidance (5.1-5.4)

1

Do you have any concerns with changes proposed to paragraph 5.1, or other changes we should consider?

Squirrel has no concerns regarding the proposed changes.

We agree with the assessment that the more examples provided, the more likely it is to feel like an exhaustive list. We believe that the examples given in paragraph 5.1 provide clear guidance to lenders – entrusting them to determine what is appropriate, or not – without being too prescriptive.

2

Do you have any concerns with any of the changes proposed to guidance on responsibly estimating the payments that will be required/made under the agreement?

Squirrel has no concerns regarding the proposed changes.

3

Do you see any other guidance on this topic as desirable? If so, please explain.

Squirrel does not believe any further guidance on this topic is necessary.

Lenders have a duty to protect their customers from the risk of substantial hardship, and to be able to prove that the decisions made as part of assessing loan serviceability (including the application of any buffers) meet this obligation. In our experience, it is an obligation that lenders take extremely seriously.

As such, it feels appropriate that lenders be given the scope to determine what constitutes a “reasonable” buffer. Lenders’ experience and expertise in managing credit risk means they are well qualified to make these decisions, and indeed, already do so very effectively as part of any loan serviceability assessment.

Any further guidance on this topic would risk becoming too prescriptive – and therefore, in Squirrel’s eyes, is best avoided.

Purpose of inquiries (5.5-5.6)

4

Do you have any concerns with the guidance proposed in paragraph 5.5? If so, what changes should we consider?

Squirrel is broadly happy with the guidance proposed in paragraph 5.5, but has concerns that the current phrasing of point b) creates some potential for confusion.

Drawing on the wording of paragraph 5.7.c, a better alternative might be “any other means the borrower has, or expects to have, of making any payment under the agreement (such as inheritances)”.

5

Do you believe the Code should provide general guidance on use of surpluses, buffers and adjustments to account for uncertainty that the loan will be affordable? If so, what would you suggest it say, noting the potential for excessively conservative approaches by lenders.

Squirrel does not believe it is necessary, or advisable, to provide additional guidance here, as codifying what is reasonable would risk becoming too prescriptive.

Given their extensive experience and expertise in managing credit risk, lenders should be given the scope to determine what is reasonable, or not, based on the circumstances of the customer in question – and be trusted to do this well.

Scope of inquiries (5.7-5.11)

6

Do you have any concerns with the changes proposed to guidance on inquiries into income, or believe we should consider any other changes?

Squirrel has no concerns regarding the proposed changes.

7

What wording do you think would work best (in paragraph 5.9.c) to capture other, less essential expenses that may be important for the lender to account for?

Squirrel believes that the current proposed wording of paragraph 5.9.c works well.

8

Do you have any concerns with other changes proposed to guidance on inquiries into expenses, or believe we should consider any other changes?

Squirrel has no concerns regarding the proposed changes.

9

Do you believe guidance on joint expenses would be worthwhile. If so, would you have any issues with paragraphs 5.28 – 5.32 of the current Code being used?

Squirrel does not believe that it is necessary to provide additional guidance on joint expenses.

10

Do you believe guidance on inquiring into spending through use of Buy Now Pay Later facilities is necessary? If we were to do this, would paragraph 5.33 of the current Code be a good approach?

Squirrel does not believe that it is necessary to provide additional guidance into spending through use of Buy Now Pay Later facilities.

11

Would you have any concerns, based on the proposed guidance, about lenders making unreasonable assumptions that the borrower will reduce certain expenditure? If so, please explain why and what the Code might do to address this.

Squirrel has no concerns, based on the proposed guidance, about lenders making unreasonable assumptions that the borrower will reduce certain expenditure.

Given their extensive experience in these matters, lenders generally have a very good understanding of how expenses change and are likely to change – and should be trusted to make reasonable assumptions in this regard.

Method inquiries (5.12-5.17)

12

Do you have any concerns with the 2017 guidance on methods of inquiry? Please explain.

Squirrel has no concerns regarding the 2017 guidance on methods of inquiry.

13

Do you believe further guidance on use of statistical information is necessary? If so, why?

Squirrel does not believe it is necessary to provide further guidance on the use of statistical information.

14

Do you agree paragraph 5.14 is desirable to make lenders aware of their obligation under the Privacy Act 2020?

Squirrel believes the inclusion of paragraph 5.14 is appropriate.

15 *What might be the implications of using the 2017 guidance on verification? What changes, if any, would you suggest?*

Squirrel has no feedback regarding this question.

16 *Do you have any other feedback on guidance relating to verification or use of information provided by intermediaries?*

Squirrel has no further feedback on guidance relating to verification or use of information provided by intermediaries.

Extent of inquiries (5.18-5.21)

17 *Do you believe the proposed guidance on extent of inquiries would encourage lenders to make their inquiries more proportionate to affordability risk, as intended? What changes might help to achieve this?*

Squirrel believes that the proposed guidance on extent of inquiries is appropriate, and will be effective in encouraging lenders to increase or decrease the extent of their inquiries, in proportion with affordability risk.

18 *Do you have any other feedback on guidance to support lenders in assessing affordability risk and what that means for how they should approach inquiries?*

Squirrel has no feedback regarding this question.

Record keeping (5.22-5.25)

19 *Do you have any views on the need for guidance on record keeping and changes we should consider?*

Squirrel has no feedback regarding this question.

High-cost consumer credit contracts (5.26)

20 *Do you have any views on the need for guidance on assessing affordability of high-cost credit and whether changes are desirable?*

Squirrel has no feedback regarding this question.

Pawnbroking (5.27-5.28)

21 *Do you have any views on guidance for assessing affordability in the case of pawnbroking?*

Squirrel has no feedback regarding this question.

Other

22 *Do you have any other feedback on how the draft content for Chapter 5 can better meet its objectives, including anything that might be missing?*

Squirrel has no feedback regarding this question.

23 *Do you have any suggestions for how this content could be presented more clearly or usefully to users?*

Squirrel has no feedback regarding this question.

Other comments

Squirrel believes that the proposed changes to Chapter 5 of the Responsible Lending Code have done a good job of addressing the challenges presented by the previous version. These changes acknowledge the fact that credit providers in New Zealand are experts at managing risk – both from the perspective of the customer, and in terms of their own operations – providing clear and effective guidance on key issues, without being too prescriptive.