

Hon Kris Faafoi
Minister for Consumer Affairs and Commerce
30 July 2018

Dear Hon Faafoi

Review of Consumer Credit Law

As a background I am a banker having been the _____ previously. Prior to that I had worked for the _____ and _____ for about 30 years. There are two issues that I wish to point out in relation to the banking practice used by all trading banks:

1. Second Mortgage Lending

When a customer raises a mortgage (eg for \$300 000), the banks create a mortgage amount of two or three times the loan amount(600 or 900K). Many consumers have equity in their homes but are unable to raise a second mortgage loan simply because of the stranglehold of the banks by taking a mortgage priority of such large amounts. Banks will argue that they take that amount of priority to enable further loans to be made to the customer - this does not happen always as the loan requests are governed by the customer's ability to repay. In any case if the customer wanted to borrow further monies , then it is a simple matter of upstamping their mortgage at that point.

Due to this practice, the customer is restrained from using the equity in their property to raise a second mortgage forcing them to go to fringe lenders at high interest rates. If they were able to use their remaining equity in the property they could easily raise a second mortgage at more reasonable rates.

I believe that Banks should be restrained in this respect to limit their mortgage document to the loan amount plus two years interest .

2. Credit Card Debts.

Credit card debts are deemed to be unsecured lending which is why Banks charge 17/20% interest rates. However, in practice this is far from the truth.

If a customer sells his/her property and wishes to repay the bank in full, the banks will insist that the credit card debt be repaid in full before they will discharge their mortgage particularly if the customer has previously failed to meet the minimum monthly payment required. This practice effectively treats the credit card debt as being secured by the mortgage but at very high interest rates.

So the Banks are winning both ways- they have the comfort of the customers mortgage to fall back on whilst at the same time charging high rates by giving the credit card a false name as "unsecured " debt.

I honestly believe that the above two matters must be addressed in any review of the legislation.

3. General

I have been keenly watching your progress from TV to the political arena- congratulations. I am a supporter of Labour's policies since Mr Lange allowed many of us from Fiji to migrate to New Zealand in 1987. With my commercial experience and wide community involvement, I would be keen to serve on any committee in future which will provide a bit more diversity .

Yours sincerely

Balvant Singh
Secretary- East Auckland Indian Association
Marriage Celebrant & Justice of the Peace for New Zealand
District Coordinator- Eastern Support Group- Auckland Justice of the Peace Association.