Name	Lending Matters Lending Matters is a network of Social Service providers and key community stakeholders in Dunedin who are concerned about the amount of unsustainable debt our services users have, and are able to acquire. Agencies within this network: Presbyterian Support Otago, Salvation Army, Dunedin Budget Advisory Services, The Salvation Army Oasis Dunedin (Gambling Support), Te Hou Ora Whānau Services, Christians Against Poverty Dunedin, People First New Zealand, Cosy Homes Trust, St Francis of Assisi Trust and Dunedin Curtain Bank.
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We've heard that Kiwis are facing problems when borrowing and lending. . .

We've heard that Kiwis are facing issues when borrowing and lending:

Have you experienced problems with consumer credit? What happened?

The Mobile shopping trucks are of concern as they target the low socio-economic suburbs and park up outside particular clients' houses as they know the person is vulnerable or because that person owes money. In our collective experience we have had numerous cases where the staff member door knocks and elicits clients into the trucks through persuasion and intimidation techniques.

We are particularly concerned around the lack of adequate assessment around a clients' ability to repay a loan. On many occasions our network has seen first-hand, clients being allowed to get a loan, and their income is not sufficient for them to be able to service the interest on the loan let alone the actual principle of the loan.

Our network regularly sees lenders assess a client's ability to repay an initial loan, but the subsequent loans/credit contracts offered to the client are not assessed.

We have observed a significant lack of understanding around the specifics of the loan or credit contract being entered into. The clients we see generally do not understand the rate of interest on their loan or the fees that will be charged, therefore they are not making informed decisions.

The Social Service agencies within this network work with some of the most vulnerable people in Dunedin. One of the agencies within our network notes that the debt level for their clients in the Dunedin area for the previous financial year was $5,941,851.24.

We regularly see that the clients are not supported in making informed decisions, that bully tactics are used to get people to sign the contracts and get into debt and that the clients are often going to these providers out of desperation without realising that they have other options.

Are these issues serious enough to need a change in the law?

Yes, the impact of people getting into unsustainable debt has a ripple effect on families and communities. It impacts on the ability of families to meet their basic needs and reduces participation in community which negatively impacts on waiora (total wellbeing), as well as: taha tinana (physical), taha hinengaro (mental), taha whānau (family) and taha wairua (spiritual) wellbeing. This impacts on a person to have waiora (total wellbeing). Often the people getting into these loans and credit contracts are doing so out of desperation, they require an essential household item, they require fast cash for car repairs or to repay other loans and they do not realise that there may be other avenues for obtaining these goods without getting into significant financial hardship.

Unsustainable debt creates generational hardship, as the money is going towards loans and credit contracts instead of the essential items. The children brought up in these homes are less likely to be actively participating in their community, meaning school attendance is impacted and access to basic resources is affected. “Having insufficient economic resources limits people’s ability to participate in and belong to their community and wider society, and otherwise restricts their quality of life. Long-lasting, low family income in childhood is associated with negative outcomes, such as lower educational attainment and poor health.” (MSD the Social Report: 2016).

Law changes could help fix these problems.

Here are some ideas for how to fix these problems. Tell us what you think.

Should we cap the cost of some loans?

And if so, what is the best way to limit interest and fee costs?

- limiting the interest rate
- limiting the total amount that borrowers have to pay back

How can we address illegal behaviour?

Options include:

- increasing the requirements for who is allowed to be a lender
- increasing penalties for breaking the lending rules
- increasing the current levy on lenders to help fund enforcement
- making the rules more specific around affordability testing and advertising

What steps can address mobile shopping trucks’ behaviour?

We are looking at ways to:

- include more sales of goods on credit in the CCCFA
- require a fair sale price

How can we make sure that lenders’ fees are reasonable?

Options include:

- capping fee amounts
- requiring lenders to prove their fees are reasonable

Should there be more rules about debt collection?

Options include:

- increasing disclosure requirements
- requiring debt collectors to offer affordable repayment plans
- setting appropriate levels of contact

Tell us your thoughts on them.

Capping loans: We agree to the capping of the interest and fees to 100% over the life of the loan. We have concern that this would only apply to high-cost lenders as this is extremely vague, it would be best if this was capped for all loans and credit contracts, with a particular note around lending to those on benefits and low incomes. Instead of putting the terms just on the lender, the vulnerability of the borrower should be considered in this too. We note here that mortgages are slightly more complex and may need to have specific terms and reference made to them.

Illegal behaviour: We would like to suggest that all staff within this industry should be held accountable, not unlike the responsibility put upon frontline staff in regards to the sale of liquor. The harm that irresponsible lending does is significant to families and communities and often the front line staff are responsible for approving loans and liaising with the borrowers, if they were more accountable, alongside their managers we would see a significant shift in the availability of debt. This would also remove a managers' ability to blame staff below them for any misconduct, as we see this happen too, ignorance around the legislation would not be a valid excuse.

Mobile shopping: We would like to see these trucks limited to how often they can be in each suburb. We would like them to have to display on their webpage where they are going to be and what time they will be there, so the locations are specifically noted and planned ahead. This would mean a reduction in the bully tactics used. We would like to see them not being able to park outside residential addresses, they should be required to move often, so that they cannot target a particular community over and over.

Reasonable fees: If the fees and interest is capped for all loans this would take away the ambiguity of the term 'reasonable.' The fees would be relative to the amount borrowed and would mean that no matter what type of loan or credit contract a client gets into they would never pay any more than 100% interest of the original loan price.

Debt collection: There should be a clear process that is followed by all lenders before a debt is sold to collection agencies, and this should be well evidenced and there should be proof of the correspondence with the borrower around the loan getting to this stage of action. In our experience too many lenders have not followed their own hardship criteria or even informed the client of the option of hardship but it has been sent to a debt collector anyway.

What are the pros and cons of these ideas?

Capping loans pros: The benefit of this is that it is transparent, clear and easy for all borrowers to understand. It provides a clear cut line in the sand for what a lender can collect and it means that a borrower could easily calculate the maximum amount of money that they would have to repay if things didn't go to plan, due to an unforeseen event.

Capping loans cons: The fact that this will only target high-cost lenders provides opportunity for lenders to become creative around how they get around these rules. A blanket rule would reduce ambiguity. There may need to be specific provisions put onto mortgages, as these are slightly different.

Illegal behaviour pros: Harsher penalties will be a great deterrent and ensuring these are actually enforced would be even better, so increasing the current levies would help with this. More specific rules around affordability testing would be beneficial, as when working with clients we would know clearly if they have been given a loan without adequate testing.

Illegal behaviour cons: The legislation is currently extremely vague which allows for different interpretations. There is no levy or fee associated with the damage lenders cause and the drain unsustainable debt puts on social service providers, part of the penalties for illegal behaviour should be that the lender has to donate to a social service agency that provides financial mentoring/budget advising.

Mobile shopping trucks pros: We think it would be great if all goods acquired through credit be included in the CCCFA (including afterpay/new layby options), would make it clear and transparent and provide tougher guidelines for those who are currently not covered.

Mobile shopping trucks cons: There is nothing noted about where the trucks can park up and how often, specifying this would be helpful in ensuring certain areas and people are not frequently targeted.

Are there other solutions that would work better?

We propose that lenders have to offset their financial harm in the communities they operate within. A company's financial footprint should be calculated and they should be required to fund services and supports that aid in financial wellbeing and stability. The impact of this would be that lenders would become aware of the services and supports provided in their communities and become more socially conscious about how they are operating. It would also mean Social Service providers are given more resources to cope with the increasing demand on their services.

The information received from borrowers should be required to be evidenced. It is too easy to leave out significant information and therefore get the debt required. If someone has a bad credit rating, it should be a requirement that the borrower has to get a budget completed by a Financial Mentor or Budget Advisor before any further debt is given.

As budget advisors, financial mentors and social workers, it would be great to get very clear and specific rules around how to apply for hardship, and would be even better if these were consistent across all lenders. There would be significant benefit in having one central agency that people could apply for hardship through, this would mean data around unsustainable debt would be collected nationally and would take away the lenders ability to turn down an application due to bias or assumptions made about the borrower.

Limiting advertising: Lenders should not be able to advertise loans that require no credit checking or that imply if you have bad debt you can use their service, this is encouraging irresponsible borrowing and lending. We would like to see the time band of lending advertisement to fall within the 'adult only' area of 8:30pm onwards, as per the Broadcasting Standards Authority.

If you need more information about the issues Kiwis are facing or the proposed solutions, click here.

Thank you for contributing. Your ideas will help find the best ways forward.

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