Submission on discussion document: Consumer Credit Regulation Review

Your name and organisation

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Organisation	SIO Waikato

Responses to discussion document questions

Regarding the excessive cost of some consumer credit agreements

1	Do you agree that the problems identified with high-cost lending (even where it is compliant with the CCCFA) are significant? Do you have any information or data that sheds light on their frequency and severity?
	Yes. Since the changes in 2015 there has been a culture of easy credit or buying goods on interest free terms. *Advertising by high interest lenders and the introduction of loans by mobile phone.* *Instant gratification by the purchasing of goods rather than thinking whether you need those goods.* *In this time there has been no nationwide public education programmes dealing with issues around obtaining consumer credit.*
2	Do you support any of the extensions of Cap Option A? What would be the impact of these extensions on borrowers, lenders and the credit markets? Do you have any information or data that would support an assessment of the impact of these extensions?
	Yes, support all the extensions. *1. Person should **never** be offered another high cost loan when in default.* *Impact-person would seek other finance elsewhere, lender would miss out on additional income.* *2. Limiting the number of high cost loans per borrower and cooling off period.* *Impact- Again persons will seek out other irresponsible lenders. Suggest 30 day cooling off period and person to seek independent budget advice about taking out another loan.*
3	Do you agree with our assessment of the costs and benefits of the options for capping interest and fees? Are any costs or benefits missing? Do you have any information or data that would help us to assess the degree or estimate the size of these costs and benefits?
	Yes *Concerned that lenders will make larger and longer-term loans, so their businesses will still be*

	viable. *It is evitable that whatever the cap the lender will use this as the norm.*
4	Do you have any suggestions for the design of options for capping interest and fees? If so, what would be the impact of your proposed design on borrowers, lenders and the credit markets?
	No
5	Which interest rate cap options, if any, would you prefer? Which interest rate options would you not support? Please explain how you made your assessment.
	Prefer Cap Option B *Total loan balance is capped. Repayment amounts are less. The loan balance is reached in 3.5 months, possibly the person would be referred to an independent budget advisor during this time frame and possibly payments may resume if appropriate.* *If the loan balance is reached in 6 weeks the lender will most likely send to collection agency immediately and then the collection agency will add their fee.* *The 3.5month time frame gives the person and the lender some breathing space to assess the situation.* *Not prefer-Cap Option C* *Lending will go underground and outside any controls.*

Regarding continued irresponsible lending and other non-compliance

6	If directors have duties to take reasonable steps to ensure that the creditor complies with its' CCCFA obligations, should any duties apply to senior managers?
	Yes, Managers set the tone for their business organisations and if they are unscrupulous and irresponsible then this is considered the norm in the organisation. *Concern-Managers may have to take out public liability insurance. May put off employees taking on this role within the business.*
7	If there are to be more prescriptive requirements for conducting affordability assessments, what types of lenders or loans should these apply to?
	All lendesr should use evidence-based assessments to make decisions about loans or referred to an independent budget advisor for assessment.
8	Should there be any change to the requirement that lenders can rely on information provided by the borrower unless the lender has reasonable grounds to believe the information is not reliable? What would be the impact of such a change on borrowers, lenders and the credit markets?
	Yes, evidence-based assessments by way of 3 months of bank statements to make decisions

	about loans. *Some borrowers are desperate and will say and do anything to get a loan.* *Example- Borrower may not disclose other loans they have with other lenders. This has an immediate outcome on their affordability.* *Set a percentage factor for income to be for debt repayment e.g. 30% of income for debt repayment.*
9	Do you consider there should be any changes to the current advertising requirements in the Responsible Lending Code? If so, what would be the impact of those changes on borrowers, lenders and the credit markets?
	No comment
10	Do you agree with our assessment of the costs and benefits of the options to reduce irresponsible lending and other non-compliance? Are any costs or benefits missing? Do you have any information or data that would help us to assess the degree or estimate the size of these costs and benefits?
	Yes
11	Do you have any suggestions for the design of options for reducing irresponsible lending and other non-compliance? If so, what would be the impact of your proposed options on borrowers, lenders and the credit markets?
	No comment
12	Which options for reducing irresponsible lending and other non-compliance would you support? Which would you not support? Please explain how you made your assessment.
	Support - Registration Option C- more robust the better to weed out people who are unsuitable and dishonest. If you are a financial advisor, you must be registered by the FMA. *Support all the Enforcement Options* *Support all the Responsibility Options especially disclosure in the same language.*

Regarding continued predatory behaviour by mobile traders

13	Do you agree with our assessment of the costs and benefits of the options for covering additional credit contracts under the CCCFA? Are any costs or benefits missing? Do you have

	any information or data that would help us to assess the degree or estimate the size of these costs and benefits?
	Yes
14	Do you have any suggestions for the design of options for covering additional credit contracts under the CCCFA? If so, what would be the impact of your proposed options on borrowers, lenders and the credit markets?
	No comment
15	Which options for changes to cover additional credit contracts would you support? Which would you not support? Please explain how you made your assessment.
	Support – Option A this will give further protection to consumers who purchase from mobile trucks. Also, a written agreement will be required to be signed. *Support - Option B – it should be clearly stated what the cash price and the credit price for the item being purchased.*

Regarding unreasonable fees

16	If prescribed fee caps were introduced, who should they apply to, and what process and criteria should be used to set them?
	All lenders. An average across the sector. This will allow the consumer confidence in the fees charged and comparison between lenders.
17	Do you agree with our assessment of the costs and benefits of the options for capping interest and fees? Are any costs or benefits missing? Do you have any information or data that would help us to assess the degree or estimate the size of these costs and benefits?
	Yes
18	Do you have any suggestions for the design of options for reducing unreasonable fees? If so, what would be the impact of your proposed options on borrowers, lenders and the credit markets?
	No comment
19	Which options for changes to fees regulation would you support? Which would you not

	support? Please explain how you made your assessment.
	Support – Option B *Not Support-Option C- consumers who have low financial literacy will be confuse by the 'equivalent interest rate'*
20	Have you seen issues with excessive broker fees, or other unavoidable fees charged by third parties, being added to the loan? If so, are there any specific changes that should be made to the regulation of third-party fees? What would be the impact of these changes on lenders, borrowers and third parties?
	Work and Income beneficiaries having income or disability insurance added to their loans. This type of insurance is not valid because the W & I beneficiary will always have an income.

Regarding irresponsible debt collection practices

21	Is this an accurate picture of the problems for consumers experiencing debt collection? Do you have information that confirms or refutes these issues, or sheds light on how widespread or severe they are?
	Yes. These are common issues that as a budget advisor you would see on a day to day basis. ***Example 1:*** *Collection Agency A gave written notice to the debtor.* *Debt was $1819.41 with a collection fee of $523.18. This is a collection fee of 28% and I feel very unreasonable.* *The notice also stated that further action could be taken if full payment was not received in 7 days.* *Further action:* *1. A visit to home or workplace by our Agent* *2. Default on personal credit report* *3. Legal proceeding including possibility of Bankruptcy/Liquidation* *All the above are over the top tactics by the collection agency to get a reaction from the debtor.* *In my opinion the collection agency would never take legal proceeding for this amount as it would cost them more in legal fees to make a creditor petition to the District Court. Also, there is never any guarantee that the collection agency will receive repayment.* ***Example 2:*** *Collection Agency B sent a notice to the debtor.* *The original debt was $27809.34 with a collection fee of $4727.59. Collection fee is 17% of the original debt.* *Collection Agency gave the debtor 7 working days to pay in full.* *Notice said that default had been listed.* *Consumers are unaware what the different between the collection agency being an* ***agent*** *and*

	*the collection agency **buying the debt**.*
22	What information should be provided to borrowers by debt collectors? When and how should this information be provided?
	Full disclosure of where the debt has originated including reference numbers. This is important as some debts go from one collection agency to another. The amount of the debt and the collection fees applied. Breakdown of the collection fee as this can be in the thousands of dollars. Whether the collection agency is an agent or buying the debt. Whether interest is accruing. *Repayment plan options e.g. weekly repayments over a reasonable timeframe e.g. 3 years* *Information on contacting a budget advisor/Citizen Advise Bureau or similar.* *This information should be supplied by letter/email or txt. Possibly a short phone call to alert the debtor that the information is on its way.*
23	Do you agree with our assessment of the costs and benefits of the options for addressing irresponsible debt collection? Are any costs or benefits missing? Do you have any information or data that would help us to assess the degree or estimate the size of these costs and benefits?
	Yes, agree with all the options. *Would like to suggest that if the debtor is able to start a repayment plan that the original creditor be offered the option that the debt be returned to them. This would mean that the collection fee would be cancelled, and it would take a shorter timeframe for the debtor to repay the debt.*
24	Do you have any suggestions for the design of options for addressing irresponsible debt collection? In particular, what is an appropriate frequency of contact with debtors before (and then after) a payment arrangement is entered into? Please state the likely impact of your proposed options on borrowers, lenders and the credit market.
	Debtors should be contacted on a weekly basis before a payment arrangement is set up. Then a gradual extension from weekly-fortnightly-monthly as the payment arrangement is in place and payments are being made regularly.
25	Which options for changes to the regulation of debt collection would you support? Which would you not support? Please explain how you made your assessment.
	Support all options.

Regarding other issues

26	Are you seeing harm from loans to small businesses, retail investors or family trusts as a result of them not being regulated under the CCCFA?

N0	*No comment*
27	Do you think small businesses, retail investors or family trusts should have the same or similar protections to consumers under the CCCFA? Please explain why/why not.
No	*No comment*
28	Are there any other issues with the CCCFA or its impact on vulnerable people that are not addressed in this discussion paper? If so, what options should MBIE consider to address these issues?
[Insert response here]	No comment

Any other comments

	We welcome any other comments that you may have.
	Issue 2 Section 39d Guarantors. *I would like to see personal guarantees banned for consumer lender. Usually these are made by a family member e.g. parent or grandparent.* *If the main debtor cannot pay, then the lender has the right to pursue the guarantor.* *This brings financial hardship not only to the original borrower but to another person/family.* *Double the amount of stress and anxiety within the same family circle.* *If the lender is not happy with the security provided, then the loan should not be approved. By getting a guarantor the lender in fact has double the security e.g. the goods and the guarantor.* *All guarantors should get independent legal advice before signing any documentation.* *I would also refer you to Aged Concern where they regularly see cases of elder abuse in this situation.*