

Petition 2014/87 of Gwenyth Wright on behalf of the Thames Coromandel Women's Loan Fund (Wahine Pūtea)

Report of the Finance and Expenditure Committee

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Recommendation

The Finance and Expenditure Committee has considered Petition 2014/87 of Gwenyth Wright on behalf of the Thames Coromandel Women's Loan Fund (Wahine Pūtea), and recommends that the House take note of its report.

Introduction

We have considered Petition 2014/87 of Gwenyth Wright on behalf of the Thames Coromandel Women's Loan Fund (Wahine Pūtea), requesting

That the House of Representatives note that 221 people have signed a petition requesting that there be a cap on interest rates charged in New Zealand.

Issues raised by the petitioner

The Thames Coromandel Women's Loan Fund (Wahine Pūtea) was set up in 2005 to provide interest-free loans to women who struggle to access affordable credit.

The Women's Loan Fund expressed concern that interest rates are not capped in New Zealand. They believe most other developed countries cap interest rates. In their view, non-bank lenders are taking advantage of vulnerable people who do not understand the loans and layby agreements they sign. Many of these people end up owing large sums of money which they struggle to repay. Those speaking on behalf of the petitioner said that a cap on interest rates would help people with loans from non-bank financial institutions repay the loans without their debt spiralling out of control.

We also heard that the 2014 reforms to the Credit Contracts and Consumer Finance Act 2003 have not reduced the problem.

Responsible ministry's view

The Ministry of Business, Innovation and Employment said that the introduction of a cap on interest rates was considered during the 2014 reforms to the Credit Contracts and Consumer Finance Act. The decision was made not to include such a cap because of concerns that it might cause unintended consequences. For example, the capped rate could act as a target interest rate for lenders, rather than an upper limit.

While no interest rate cap was included, the ministry said that the 2014 reforms were intended to address irresponsible lending practices in other ways. Lenders are now required to make information about their loans publicly available, and to provide borrowers with key information before entering a loan agreement. The reforms also led to the introduction

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of lender responsibility principles. These require lenders to help borrowers to make informed decisions and to be satisfied that the loans are suitable and affordable.

The ministry said it intends to undertake a formal evaluation of the reforms by the end of 2017, to assess the effects of the reforms and the need for any further changes. It said interest rate caps are one option that could be reconsidered.

Committee view

We share the concerns of the Women's Loan Fund about the high rates of interest being charged by some lenders in New Zealand. Such irresponsible lending has caused many New Zealanders to find themselves in considerable financial hardship. However, we agree with the ministry that a cap on interest rates could have unintended consequences, as outlined above. Some of us believe that the question of a cap needs further investigation to assess if the unintended consequences would occur, and this should be considered as part of the ministry's review.

We are encouraged to see that the Commerce Commission recently concluded an investigation into the lending practices of mobile traders. In 2016, 11 such traders were prosecuted and another 12 traders are currently under investigation. The Commission has also commenced an investigation into lenders of high-cost, short-term loans. We look forward to seeing the results of this investigation.

We are pleased to hear that the ministry will conduct an evaluation of the 2014 reforms to the Act by the end of 2017. We note that many borrowers do not fully understand how interest rates work, which has contributed to poor financial decision-making. We recommend that the ministry take this into consideration in its evaluation.

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Appendix

Committee procedure

The committee met between 9 November 2016 and 3 May 2017 to consider this petition. We received evidence from the petitioner and the Ministry of Business, Innovation and Employment.

Committee members

Chris Bishop (Chairperson) Andrew Bayly
Hon Clayton Cosgrove Hon Craig Foss

Brett Hudson
Rt Hon Winston Peters Grant Robertson Alastair Scott
David Seymour
James Shaw
Michael Wood