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17th February 2016

Ms Clare Sims
Business Law
Building, Resources & Markets
Ministry of Business, Innovation and Employment
Email: Redacted

Dear Clare

FAA Review

Thank you for your time last week at the FAA Review workshop. I appreciate the opportunity to place on record some of the issues confronting us in the marketplace and the degree to which this prevents a level playing field amongst participants. We were pleased to see the FMA's strong stand last year in their Monitoring Report regarding the banks handling of KiwiSaver transfers and highlighting that the interests of customers were not being put first. We totally agree with the FMA's view that this reflected poorly on the bank's attitude towards the customer.

One of the major out-takes from the workshop last week was the continued emphasis by those advisers present that ethical behaviour and protection of customer rights were still the top objectives of the industry.

As I suggested at the workshop, we are currently seeing another example of the same behaviour by the banks, as identified last year, in the mortgage and consumer debt market in the manner in which they sell home loans. We are consistently being told by our Members that if they approach a high street bank for mortgage assistance they are told that they will not get their home loan unless they also bring across their consumer debt as well.

This may seem a logical and sensible thing to do but the question remains "what is in the best interest of the customer?". Our view is that the customer is better off when they pay as little interest on borrowings as possible. It is clearly demonstrated by the following example that a short term (4 years) Personal Loan is cheaper than adding the same amount to a long term (15 years) mortgage:

$15,000 Loan	Interest over 4 years at 12.00%pa	$3,960.35
	Interest over 15 years at 4.75%pa	$6,001.91

Despite these situations clearly showing what is in the best interests of the customer, the banks continually push customers to consolidate their short term consumer debt and thereby pay much more interest than they otherwise would. We do not believe that this is acting in the best interests of the customer and is in fact, putting the bank's interests first.

Customers know what is happening but feel powerless to do anything about it. We recently conducted a survey amongst our membership to determine what they thought was the best approach to managing their finances in this situation. Their view was very clear (by 86% to 14%) that paying off a short term Personal Loan was cheaper and better for them than adding it to their mortgage. Yet the banks still persist in this approach to maximise their mortgage portfolios and profit.

We would recommend strongly that the FMA investigate this practice in the same manner as it did with the banks' KiwiSaver behaviour and encourage a change in their attitude to customer interests. So long as this practice goes unchallenged, customers will continue to pay more for their borrowings than they should have to.

I am more than happy to discuss this further it you wish.

Yours faithfully

Redacted

Rob Collins
General Manager