

Making borrowing safer

Upcoming changes to the Credit Contracts and Consumer Finance Act 2003 (CCCFA)

When MBIE reviewed the law about borrowing and lending, we heard that some Kiwis were facing problems. We asked for feedback on ways to fix them. We received 86 submissions and heard from consumers at a number of events. After considering these responses, the Government has decided to make the following law changes.



An interest rate cap on high-cost loans, to stop debt spirals.

Interest and fees on high-cost loans will be limited to 100% of the amount borrowed (the loan principal). For example, if an individual borrows \$500, they will never have to pay the lender back more than \$1000, including all fees and interest.



More accountability for mobile traders.

Mobile traders will need to pass a 'fit and proper person' test, and register on the Financial Service Providers Register. 'Do not knock' stickers will be legally enforceable. This will lift professionalism in the sector and give consumers more power to refuse to engage with mobile traders.



Easier enforcement to ensure fees are reasonable.

Lenders will be required to prove (substantiate) that their fees are reasonable, if the Commerce Commission asks them to do so.



Greater transparency and access to redress during debt collection.

Key loan information will need to be shared with debtors at the start of debt collection activity.



Clearer responsible lending requirements, to increase compliance.

- › **Prescriptive requirements for affordability and suitability tests, to make it simple for lenders to comply.** This will also make it easier to complain and follow up where affordability is not properly checked.
- › **New rules about disclosure and advertising.** If a lender advertises in a language, they will also have to provide the loan disclosure documents in that language. Key elements of the current Responsible Lending Code guidelines for advertising will also be made binding.



Tougher enforcement for breaking the law.

- › **Tougher penalties for irresponsible lending,** including increased financial penalties, statutory damages, and banning orders.
- › **'Fit and proper person' test, to lift professionalism in the industry.** Directors and executives of consumer lenders will be required to meet a 'fit and proper person' test before the creditor can be registered on the Financial Service Providers Register.
- › **Duties on directors and top executives** to ensure that lenders comply with their obligations.

What happens next?

New legislation will now be drafted. There will be more chances to have your say on these proposals when the draft law is in Parliament.

MBIE will work with stakeholders, including lenders and debt collection agencies, to:

- › finalise the details of the new requirements around affordability assessments, advertising and debt collection disclosure.
- › create additional guidance in the Responsible Lending Code.

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