

Press Release 15 October 2018

Loan shark net tightens, but holes still remain

Ngā Tangata Microfinance (NTM) welcomes the new measures announced by Minister for Commerce and Consumer Affairs Kris Faafoi, that will strengthen the net of protection for vulnerable consumers in the Credit Contracts and Consumer Finance Act (CCCFA).

The reforms of 2015 and the introduction of a Responsible Lending Code have proved insufficient. Amongst the proposed new changes are a cost of credit cap of 100% of the principal borrowed from ‘high cost’ lenders, increased requirements around loan affordability and suitability, regulation of debt collection, introduction of a ‘fit and proper’ test for lenders and tougher penalties for irresponsible lending.

While some loan sharks will be caught or their activity curtailed by the strengthened “net” of the proposed new legislation, the task of mending the still-remaining holes needs to be a priority.

A high cost lender is deemed to be where interest of 50% or more is charged annually. While the changes will capture short term high cost ‘pay-day’ lenders who often charge interest in excess of 300% per annum, finance companies who lend larger amounts over longer periods at still-high interest rates (but less than the nominated level), will not be affected by the proposed cap.

NTM works in partnership with Kiwibank, JR McKenzie Trust and Budgeting Services to provide no interest debt relief loans to assist low income families who have been trapped by high interest debt.

Executive Officer Robert Choy says “ Ngā Tangata’s experience over many years with low income clients is that it’s the larger amounts borrowed from second and third tier finance companies that often ensnares borrowers in punitive debt spirals, when payments get behind and associated penalty interest and charges escalate”.

Mobile truck traders often charge 3-4 times the retail price for goods and while a ‘fit and proper’ person test will now apply, there is nothing in the new legislation to curtail this practice. Mr Choy laments “Our submission to the CCCFA review proposed the enfolding of mobile traders’ practice within the credit legislation to ensure greater protection for consumers; it is disappointing this opportunity has been missed”

A recommendation from Ngā Tangata and FinCap (the national network of budgeting services), was for a comprehensive creditor licensing system, along with improved monitoring and enforcement. Regrettably, this was not incorporated in the proposed changes.

The heralded reforms are warmly welcomed and a great start. But protective measures need to go much further to ensure a safe fair and ethical credit environment is established for those financially vulnerable in Aotearoa.

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Background information on Ngā Tangata Microfinance

- Established in 2010 with a vision of building a more just and equitable society for people on low incomes
- Offers two loan products which are offered at no interest or fees. The first, NILS[®], is to assist with family asset building and well-being or essential items or services. The second loan product, DRLS, is for relief from high interest debt, and debt consolidation.
- Qualifying conditions for all loan applicants include a Community Services card or a low income and the willingness and capacity to repay the loan within 2 years.
- Ngā Tangata values the relationship that clients have with a financial mentor. Financial education occurring alongside our loans is encouraged.
- The three establishing organisations of NTM are Child Poverty Action Group, New Zealand Council of Christian Social Services, and New Zealand Federation of Family Budgeting Services.
- The loan capital is provided by Kiwibank. J R McKenzie Trust provides funding for operational costs. Good Shepherd Microfinance in Australia and Good Shepherd NZ, has provided advice, support and information.
- In 2013, Ngā Tangata Microfinance Trust and Kiwibank were supreme winners of the NZI Sustainable Business Awards.