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Borrowers' pain demands “ambulance at top of cliff”

As submissions closed last Friday on the Credit Contracts Amendment Bill, the clarion call from Ngā Tangata Microfinance, FinCap, budgeting services and poverty focussed agencies throughout the country was unanimous: an interest rate cap must be a priority.

An interest rate cap is fundamental for protecting low income borrowers from being caught with expensive unaffordable repayments, driving them into a debt spiral of financial pain and poverty. Over 70 nations including the UK, Canada, and Australia implement an interest rate cap on high cost loans and no country imposes a total amount repayable limit (as is being proposed by the Government), without also implementing an interest rate cap.

Robert Choy, Ngā Tangata Microfinance's (NTM) Executive Officer explains, “an interest rate cap can be likened to *‘the ambulance at the top of the cliff’*. Placing such a protective measure when loans are extended or credit is initially provided, creates a fence that protects many borrowers falling into severe financial difficulty and hardship, because of the extreme burden of high interest. The financial pain, stress, and suffering on whānau and tamariki caused by having insufficient financial resources each week for the basic essentials, can surely be avoided.”

In partnership with Kiwibank, JR McKenzie Trust and Budgeting Services, NTM has been providing nil interest debt relief loans (DRLS) since 2012 to low income clients for the purpose of relief from high interest lenders (primarily fringe finance companies, mobile truck vendors, and pay day lenders). Over 350 DRLS loans totalling almost \$900,000, has been lent to clients to help them escape from the punitive financial, mental and social burden of high interest debt.

One of the key results from NTM's evaluation, was that nearly 80% of clients interviewed communicated a ‘huge’ improvement in well-being and peace of mind as a result of the loan supporting them to escape their high interest debt burden. Before receiving the NTM loan, one client described their high interest debt:

“I had been really stressed and I wasn't going anywhere [with my finances]. It was like chasing a rat.”

After receiving the NTM loan, clients frequently stated:

“This process reduced the stress massively, and by the end of each meeting [with the budgeter], we had achieved a lot in getting my finances more under control.” And: “My children and family stopped being worried about me.”

NTM certainly welcomes reform to the Credit Contracts legislation that will contribute towards a safer, fair and ethical credit environment for the financially vulnerable in Aotearoa.

The proposed limit on the total cost of borrowing for higher cost loans will provide some measure of relief, but only as an ambulance at the *bottom* of the cliff. Why not prevent the suffering and pain of high interest predatory lending at the outset by having an ambulance at the *top* – let's put in place an interest rate cap.

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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, and assisting them toward financial capability.
- Offers loan products at no interest or fees to assist with family asset building and well-being, essential items or services, and for relief from high interest debt.
- Qualifying conditions for all loan applicants include 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 in Australia and in NZ have provided advice and support.
- In 2013, Ngā Tangata Microfinance Trust and Kiwibank were supreme winners of the NZI Sustainable Business Awards.