



## National Council of Women of New Zealand

Te Kaunihera  
Wahine O Aotearoa

National Office  
Level 4 Central House  
26 Brandon Street  
PO Box 25-498  
Wellington 6146  
(04)473 76 23  
office@ncwnz.org.nz  
www.ncwnz.org.nz

16 December 2014

S14.15

### **Submission to the Ministry of Business, Innovation and Employment on the Draft Responsible Lending Code**

The National Council of Women of New Zealand (NCWNZ) is an umbrella group representing 288 organisations affiliated at either the national level or to one of our 21 branches. In addition to our organisational membership, about 260 women are individual members of branches. NCWNZ's function is to represent and promote the interests of New Zealand women through research, discussion and action.

This submission has been prepared by the NCWNZ Economics Standing Committee and the Parliamentary Watch Committee, supported by previous submissions and established policy.

#### **Summary**

NCWNZ welcomes the development of the Responsible Lending Code, but the Council remains concerned that the code is non-binding. More vulnerable borrowers may be more likely to seek credit from less scrupulous lenders whose actions may be legal, but not compliant with the code. The Ministry should monitor adoption of the code, especially with respect to lenders operating in more economically deprived communities. Many major lenders already operate responsibly and will have little difficulty in meeting the requirements of the Code. However the lenders who operate in economically deprived communities have little incentive to adopt the Code voluntarily.

#### **Developing policies and staff training**

The Code requires lenders to implement and maintain policies on various matters, such as approving advertising material, how to assess credit applications and so on. Such policies may be costly for smaller lenders to develop, and as such, may be a barrier to implementation of the code. NCWNZ recommends that the Ministry develop some model policies which lenders could modify and use.

The requirement to implement staff training may also act as a barrier to adopting the code. Larger lenders may find it cost effective to run their own in-house staff training, but smaller lenders may find the cost prohibitive, both in terms of developing material, and releasing staff

from other duties in order to attend or present staff training sessions. NCWNZ recommends that the Ministry considers developing some staff training material, or facilitating the delivery of staff training courses for smaller lenders.

## Advertising

The rules in the Code setting out how interest rates, fees and total costs should be advertised (Section 3 of the code) are simple and effective. Often costs and fees can be hidden in fine print that is very hard to read. To make it easier for borrowers to find out about costs and fees, a minimum font size for “fine print” should be specified.

## High-cost short-term credit

High-cost short-term credit agreements should carry a risk warning (paragraph 3.7). Often the people seeking short term credit are on very low incomes, and paying the high interest rates associated with short term credit may only make their financial situation worse. The risk warning may prompt them to seek other forms of assistance.

High-cost short-term lenders should be required to make specific enquiries into the borrower’s requirements and objectives (paragraphs 4.5, 5.8, 6.9). Borrowers and lenders in this market often operate under significant pressure which can lead to taking short cuts, specifying the steps to be taken reduces this risk.

## Substantial hardship

Of the two options for assessing “substantial hardship”, NCWNZ supports option 1, which has more detail about what fundamental necessities a borrower needs to cover in addition to repaying a loan. Specifying items such as food, rent, power and so on makes the cost of living more concrete, instead of just making an abstract assessment of what “reasonable commitments” a borrower might have.

## Default and other problems

High-cost short-term lenders should be required to contact borrowers as soon as one payment is missed (paragraph 12.3). This is consistent with other provisions in the Code setting out higher standards for lenders operating in this market.

## Repossession

The guidance on repossession in section 13 of the Code, especially the specific steps to be taken by repossession agents (paragraphs 13.9 – 13.12), is effective, and if applied, should reduce the costs of repossession for borrowers, included the social costs of homes being entered and goods being taken, often by agents who are physically large and intimidating.

## Conclusion

The requirements of the Draft Responsible Lending Code are sensible, and should act to protect vulnerable borrowers. However it is not clear that the most predatory lenders will adopt and implement the Code, in part because of the costs of implementing the code, and in part because their business model may depend on practices that are not consistent with the Code. Barriers to implementing the Code should be reduced by the Ministry, possibly through the Ministry providing some services such as developing model policies for lenders to implement, and facilitating staff training.

The Ministry should also monitor the adoption of the Code, especially by lenders who target vulnerable groups. If the people who would benefit most from the Code are not covered by it, then the effectiveness of the Code will be substantially reduced.

Thank you for the opportunity to comment on the Draft Responsible Lending Code.

Rae Duff  
National President

Deborah Russell  
Convener, Economics Standing Committee