

Submission on discussion document: Consumer Credit Regulation Review

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Organisation	The Salvation Army New Zealand Fiji and Tonga Territory

Regarding the excessive cost of some consumer credit agreements

1

Do you agree that the problems identified with high-cost lending (even where it is compliant with the CCCFA) are significant? Do you have any information or data that sheds light on their frequency and severity?

Background of submission:

The Salvation Army strongly agrees with the problems with high-cost lending identified in the MBIE Discussion Paper. We are integrated with the National Building Financial Capability Charitable Trust (NBFCCCT) and therefore fully endorse their submission to this Review. However, we also have our own fairly large network of frontline financial mentors (budgeters) and a Community Finance service providing no and low interest loans for vulnerable consumers. These frontline workers of ours are working with clients under huge amounts of stress because of the effects of harmful debt and high-cost lending. This submission has been prepared by the Social Policy and Parliamentary Unit of The Salvation Army. But it has been hugely informed and shaped by our frontline financial mentors and Community Finance workers.

Our clients:

In terms of an overview, in 2017, our front line financial mentors undertook 15,173 budgeting sessions with 4,824 specific clients across the country. These numbers clearly indicate that several clients were repeatedly using our services seeking financial help. This shows the complexity that many vulnerable consumers that we engage with face.

In terms of our Community Finance service, in 2017, 1,058 people were given a low or no interest loan through this scheme operated in partnership with the BNZ. We would clearly love to expand this scheme. Again these figures are an indication that desperate consumers are indeed seeking more ethical and cost-effective forms of lending apart from the traditional payday lenders that seem to focus their efforts on more vulnerable customers.

The reality is that this high-cost, often short-term lending industry exists because there is a demand for these types of loans. Debt spirals are a very real problem because of these types loans. In 2017, The Salvation Army provided nearly 59,000 food parcels to struggling Kiwis across New Zealand, specifically in the more socially marginalised and challenged communities in our country. This food welfare has a direct correlation to debt spirals and the use of high-cost lending in that many vulnerable people essentially do not have enough money to live and survive on in their everyday lives. Mountain-loads of financial debt coupled with other risk factors (e.g. addictions, unemployment, housing problems etc.) illustrate the co-morbidity of vulnerable consumer issues with many other social factors.

Realities of high cost lending:

Christchurch - One sad reality about this high-cost lending is just quickly a loan debt can grow. One client using one of our Christchurch financial mentoring services gave us information about a \$500.00 loan they had taken out on 08 May that had essentially doubled in three-months because of a series of fees and interest charges. By 09 July, the debt was now over \$1,000.00. Our financial mentors work hard towards ensuring clients make payments of appropriate debts they owe. But for unfair arrangements that are clearly or possibly in breach of consumer protection law, the financial mentors become strong advocates against unfair practices. This client's situation in Christchurch illustrates the reality of the problems identified in the Discussion Paper and our workers are assisting this client as best as possible to pay their debt back and gain some sort of financial stability.

Porirua – A Salvation Army financial mentor in Porirua states that the main issue they see as is the high interest loans and the high repayments expected of the client. They added that the majority of clients we help here at the Porirua Salvation Army are struggling with one or more high interest short term loans. Clients that are receiving benefits and getting loans from these places are expected to pay them back within a few weeks. Often something unexpected happens in life that results in a default on a payment and the interest and fees start to compound. This leads to the loan quickly spiralling out of control with little or no way of catching up. Often the companies offer a hardship option but this is usually a difficult and overly complex procedure for our clients. They most often don't know that this is an option. We notice that this option doesn't stop the interest or fees so the client struggles to actually get on top of the loan.

Example of a client who got a high interest loan.

Original loan + top-up	Interest and fees over the last 7 months	Payments made	Loan balance today
1,993.70 + 556.30	\$1,938.44	\$1003.60	\$3,480.65

This mentor adds that generally longer term loans have a much lower interest rate and repayment and they do not see a lot of people who struggle with these types of loans as much as they do the high interest loans. They often see clients default on the high interest loans first and then there is this serious downstream impact where the clients cannot keep their head above water. It is this domino effect that we see happening where the short term loans get into arrears.

Summary:

There is a contentious point here between personal and collective responsibility. The Salvation Army believes that both are crucial to a well-functioning individual, family, society and nation. People have to be accountable for their decisions, even if they are vulnerable or at-risk consumers. But the truth is, it is extremely difficult to make good decisions for you or your whanau if the only options in front of you are bad ones. That is the reality facing thousands of Kiwis we journey alongside with. At the same time, there is a collective responsibility through mechanisms such as the CCCFA to ensure that all people or consumers are not being exploited or preyed upon by businesses.

Finally in this section, we want to acknowledge that ideas of protecting vulnerable consumers in the market place are core to our Christian beliefs and worldview. The Bible is full of both ethical business advice, and challenges to ensure that people are not taken advantage of in business dealings. In numerous passages, particularly in the Old Testament, there are explicit references to usury, debt, lending and showing high ethical standards in these practices. Many of these verses also talk at length about this tension between personal and collective responsibility that is often at play in modern situations of lending and borrowing. These

Biblical views and principles shape and guide The Salvation Army's financial mentoring and Community Finance in our local communities, particularly with vulnerable consumers.

2

Do you support any of the extensions of Cap Option A? What would be the impact of these extensions on borrowers, lenders and the credit markets? Do you have any information or data that would support an assessment of the impact of these extensions?

The Salvation Army supports both extensions in Paragraphs 31 and 32 of Cap Option A. In our opinion, the cooling off period in Paragraph 32 is a particularly good extension. As mentioned by our Porirua financial mentor in Section 1 above, many of their clients in Porirua struggle with one or more of these short-term, high cost loans. This feedback has been supported by other Salvation Army financial mentors from across the country. Although this feedback is subjective, we believe this information is valid and truly reflective of some of the realities these consumers face. The potential cooling-off period extension could really help vulnerable consumers to not jump from one high cost loan to another which could further compound their financial difficulties and other socio-economic challenges. We submit that this period should not be less than 90 days.

We submit that during the mandated cooling-off period, there should be significant efforts made to direct this client towards independent financial mentoring and advice (if they are not already engaged with an NGO and/or mentor). This connection could help build the client's financial capability further, discourage them from further high-cost loans, and even present more ethical lending options to them. This element is crucial given that in our experience, people use these types of loans because they desperate for financial assistance and need money urgently.

3

Do you agree with our assessment of the costs and benefits of the options for capping interest and fees? Are any costs or benefits missing? Do you have any information or data that would help us to assess the degree or estimate the size of these costs and benefits?

Yes we agree with the assessment on costs and benefits. We do not believe any costs or benefits are missing from this assessment. We believe some of these costs and benefits are more likely to occur than others. For example, a cap on the total cost of lending would greatly help vulnerable consumers. But as MBIE has identified, a cap could lead to an increase to an illegal lending or even the removal of the high-cost, short term loan industry from the market. But the demand for these types of loans will remain because of the financial and social hardship that many of our clients are experiencing. One key challenge will be where these vulnerable people go to seek these types of loans if these (good) caps are placed on lending and the high-cost, short-term loan industry is effectively stopped.

The truth is that there is illegal lending already happening in local communities. Therefore the role of the Commerce Commission(ComCom) and other authorities is vital to remove these illegal lenders once they are aware of them. What is more difficult is removing the demand for these high-cost loans. Strong, comprehensive and effective legislation is necessary. But that alone will not remove or even reduce the demand given the complex socio-economic problems many Kiwis are facing in the here and now.

4

Do you have any suggestions for the design of options for capping interest and fees? If so, what would be the impact of your proposed design on borrowers, lenders and the credit

markets?

Feedback we received nationally from our frontline workers focussed on:

- A cap on the total cost of lending would be hugely beneficial to vulnerable consumers. The Cap Option A therefore in our opinion has some real merit as a means to put a limit on the amount that can be repaid so that it cannot exceed 100% of the principal amount;
- Affordability assessments are crucial for vulnerable consumers. Affordability should consider all the potential interest, fees and other charges that lenders charge so the client is fully aware of their obligations. One of our mentors commented that in their experience, it can be problematic trusting lenders to always perform robust affordability assessments. That is why having an objective standard or cap is so helpful for clients with real debt issues.

5

Which interest rate cap options, if any, would you prefer? Which interest rate options would you not support? Please explain how you made your assessment.

The Salvation Army strongly supports Cap Option C.

We have looked at all the options presented by MBIE. As stated above, Option A definitely has merit and would help many vulnerable consumers and so we support that as well. We would support the use of Option A as well in conjunction with Option C.

But if Option C in our opinion provides the greatest protections for consumers facing real socio-economic challenges. The Salvation Army has advocated for this type of cap for several years. We submit that an interest cap of 25-30% is ideal and not the 30-50% stated by MBIE. This lower rate would capture some the lenders our clients use that is not necessarily charging the massive amounts of interest and fees depicted by the media, but are nevertheless creating more hardship for these consumers.

One mentor added that there could still be an overall life of the loan cap that would be useful as they often see clients who have simply abandoned their loans and so the yearly cap would simply continue to accumulate. They have usually abandoned these high cost loans for another one because the original loan was defaulted on and became too difficult to service.

One consequence of Option C, according to one financial mentor, would hopefully be that the client turns to more positive options like seeking budgeting advice or bringing these matters to the attention of WINZ.

Of course, having the Option C cap does not necessarily change the behaviours of some vulnerable consumers and will not eliminate the need for these types of loans because of short term cash problems or financial shocks all people can face. Therefore Option C cannot be implemented in isolation. Developing alternative models and options of ethical lending and micro-finance for example would give vulnerable consumers a legitimate substitute for the current high-cost loan industry. Such products do currently exist but require greater support from the government and corporate/banking sectors.

Again, Cap Option A has good merit in our opinion. However, we strongly contend that Option A is the most effective option presented by MBIE in their Paper.

Regarding continued irresponsible lending and other non-compliance

6

If directors have duties to take reasonable steps to ensure that the creditor complies with its' CCCFA obligations, should any duties apply to senior managers?

Yes the same duties should apply for senior managers as they do for directors. In our experience, not all directors are always fully aware of the realities of the day-to-day functioning of the business. But the senior managers are because they are usually more practically involved in the business.

Paragraph 60 of the Discussion Paper talks about these duties extending *to persons making important strategic and day-to-day decisions*. We support this approach. The reality is that these might not always fit neatly into the 'senior managers' category. For example, one mobile trader that The Salvation Army has brought to the attention of the ComCom recently has their accountant and one administration/secretary roles as the key people in charge of the day-to-day operations of the business. Would this accountant and admin person then fall within the parameters of these duties and responsibilities? If not, how then would these people, who in effect are realistically driving the operations of the business be held to account in a similar way directors and potentially senior managers would be under the law? We believe greater clarification might be needed here, especially as the accountant and admin person in our example might not technically fall within the 'directors' and 'senior managers' positions.

7

If there are to be more prescriptive requirements for conducting affordability assessments, what types of lenders or loans should these apply to?

Our frontline workers have responded with the following recommendations about key requirements for the affordability assessment processes:

- Development of a thorough checklist for lenders to go through when considering applications for short-term, high cost loans;
- Spot audits of creditors – this should also include spot checks of the affordability checklists and assessments of the lender;
- Thorough credit-checks;
- The lender clearly provides a total cost of loan amount to the borrower and the borrower willingly and sufficiently comprehends this amount;
- Thorough analysis of the existing income and outgoings of the client before this new loan is added to their situation;
- Clarity about the other debts and loans the client has, whether they are paying it off or defaulting;
- Certain incomes should not be included in the assessment including Family tax Credits, Child Support, Disability Allowances and the Winter Energy Payment;
- A clear assessment of the sufficient mental capacity of the borrower to understand the terms of the contract. This point is borne out of our recent complaint to ComCom that there was a mobile trader business signing up residents of a mental health community facility in Auckland to ridiculous contracts for goods. This kind of injustice

cannot continue to happen.

One of our financial mentors provided the following example of a loan that was granted and should not have been (in our opinion) if adequate checks had been made:

- *Clients - elderly couple in their mid-seventies;*
- *Took out a \$1,000 loan from a short term loan provider;*
- *The couple only receives the pension and both have very bad credit ratings;*
- *The amount of debt the couple has together is over \$40,000 and numerous defaults on their credit files (before this new loan was granted);*
- *The couple informed me that when they applied for the loan the only check done to see if they could afford the repayments was to look over the bank statement.*

This financial mentor argues that if a thorough affordability assessment was done for this couple including a clear credit check for both of them, there would surely be no way the loan would have been approved. The end result is that this couple is facing extreme hardship trying to service and pay back this loan.

Another mentor added that the reality is that people who are desperate for money will say usually say whatever it takes to the lender to get the money. This is a common feedback from our financial mentors and it is very difficult to combat. As thorough as an affordability assessment is, if a client is not completely truthful with their financial situation, then it becomes very difficult for both the lender and any financial mentor the client might be engaging with, to deal effectively with the loan(s) in question.

In effect, the non-binding nature of the Responsible Lending Code is very problematic for us. As the Discussion Paper rightly shows, this principles-based code often leads to lack of clarity and non-compliance to it from the Lenders. Our frontline workers also struggle to get clear compliance to the Code and are often told by Lenders that they (the lender) have already complied to the Code when dealing with specific clients. There is little or no evidence of this and so it becomes a very subjective debate with the Lender. Therefore we advocate that MBIE explore more prescriptive and binding rules here, including endorsing clear and thorough affordability assessments for clients.

8

Should there be any change to the requirement that lenders can rely on information provided by the borrower unless the lender has reasonable grounds to believe the information is not reliable? What would be the impact of such a change on borrowers, lenders and the credit markets?

We agree with Paragraph 75 of the Discussion Paper that the reasonable grounds standard is too high. That is why a positive change or addition would be that affordability assessments are potentially done throughout the life of the loan to check the information of the client and their ability to repay the loan. This change is even more beneficial in reducing financial hardship when the lender is offering a new loan to the same client. If there is a cooling-off period between loans and consistent affordability assessments, there will be a more accurate and fair assessment of the client's financial position.

Also, as per Paragraph 76 regarding verifying information, this could be another important step in ensuring the client's ability to service the loan. In our experience, there is a good

network of JPs and Citizens Advice Bureaus in local community that provide good verification services and so verification of documents should not be a major hindrance to fulfilling the affordability requirements and obligations of the Responsible Lending Code.

9

Do you consider there should be any changes to the current advertising requirements in the Responsible Lending Code? If so, what would be the impact of those changes on borrowers, lenders and the credit markets?

Suggested changes around advertising include:

- Limits on how much pressure they can put on clients to get another loan;
- Limits on solicitation and relentless communication channels (text, email, phone) as well as targeting of vulnerable groups;
- Focussing more on the digital developments of lenders, including apps and websites. We question if the Code's advertising requirements can be effectively applied to new technologies, particularly apps that lender's develop which can regularly bring advertisements of their business, loan products etc.;
- Limiting advertisements on digital platforms that have high usage from families and young people. This is extremely difficult in practice. But some lenders have advertised via Facebook and online newspapers. There can be lessons to learn here from the past with the limiting of advertising for alcohol and tobacco on certain platforms;
- Develop a quota system, particularly for radio stations, where for every advertisement of a finance company, second-hand car dealer or similar business, there is specific advertisement (ideally free) of financial capability or budgeting advice in their local area, or key messages about affordability, lending, defaults and so on. A clear example is the large amount of advertising on Pacific Island radio stations of second-hand car dealers (which often create real stress for our financial mentors and budgeters) and third-tier finance companies. Pacific people are often vulnerable consumers given general social progress indicators such as lower income levels, unemployment levels, and lower levels of home ownership and so on. If a quota system was developed for these radio stations that largely use language specific shows and advertising, then this would in our opinion reduce the exposure and easy access these Pacific consumers have to predatory lenders and businesses.

We submit that the effect of such changes would be to make the lending sector more efficient and fair because ideally more informed and financially literate consumers will be taking out loans they can afford to repay which is beneficial for themselves, the lender and the wider market.

10

Do you agree with our assessment of the costs and benefits of the options to reduce irresponsible lending and other non-compliance? Are any costs or benefits missing? Do you have any information or data that would help us to assess the degree or estimate the size of these costs and benefits?

Yes we believe your assessment of the costs and benefits of these options is accurate. There are a very large number of options in this section and we do not have any further to add.

11

Do you have any suggestions for the design of options for reducing irresponsible lending and other non-compliance? If so, what would be the impact of your proposed options on borrowers, lenders and the credit markets?

We have touched on some of these measures in previous sections e.g. affordability assessments, implementing a binding Code, affordability checklists, advertising recommendations, spot audits of lenders, and so on. We believe strongly that the measures or options here are positive and will help reduce irresponsible lending and other non-compliance. So we are supportive of these measures.

We will add though that the monitoring and enforcement of the law and policy in this area is only part of the picture. There needs to be greater financial literacy and capability amongst our local families and communities. This is difficult but definitely achievable. There is a multitude of formal and informal financial capability programmes and initiatives happening in local communities. There is also a strong network of both government and non-government funded services providing financial mentoring and budgeting advice. All this hopefully will lead to greater changes in behaviour from consumers, particularly vulnerable ones. While we are advocating for stronger laws here, we are aware that behaviours of both lenders and clients need to change.

Furthermore, we are aware that the NBFCT is advocating for a loan write off as an automatic consequence of the lender failing to comply with section 9(c) of the CCCFA in their submission. We support this innovative idea as a means to reducing irresponsible lending and non-compliance.

12

Which options for reducing irresponsible lending and other non-compliance would you support? Which would you not support? Please explain how you made your assessment.

The Salvation Army contends that all the measures listed in these three options are important and we support all of them. We believe they will all be effective in reducing irresponsible lending and financial stress some clients face. Specifically, there are some elements or ideas The Salvation Army want to highlight:

- In terms of levies, we advocate that some possible options here include (1) using collected levies to provide an incentive for challenging the predatory practices so they could be set aside to be awarded as penalties for debtors who are found to have been improperly treated, or (2) the levy collected could also be used to develop a fund to support and resource financial mentoring and budgeting services across the country, similar to the model around Community Law Centres. These mentors are the frontline budgeters, advocates, navigators, support workers and so on for these vulnerable clients. We would support some levies going to ComCom for their important tasks in enforcing these laws. But the advocacy and monitoring aspects, from our perspective, is essentially done by (usually) underfunded and under-resourced community groups and NGOs. In the financial mentoring sector, not all services are funded by the central government and some rely purely on local government or private/philanthropic funding. We strongly urge MBIE to consider directing part or all of this levy to the frontline, grassroots workers;
- Having the good faith requirement between lenders and budgeters is vital given that clients in extremely stressful situations often use our frontline workers to be their advocates and help navigate them through these processes;

- In terms of affordability assessments, ensuring that there is information sought from lenders of the other financial commitments and loans the client might have;
- One financial mentor commented - *A creditor licensing system would be helpful but only if the legislation provides sincere penalties against lenders operating without the license. I would like to see lenders forced to lodge a "bond" with MBIE in order to get a license and this money held to pay out to creditors if improper lending practices are found to have taken place;*

As aforementioned, we are supportive of essentially all the measures detailed here. The list above is some ideas or elements we want to highlight that we think would strengthen this irresponsible lending and non-compliance section.

Regarding continued predatory behaviour by mobile traders

13	<p>Do you agree with our assessment of the costs and benefits of the options for covering additional credit contracts under the CCCFA? Are any costs or benefits missing? Do you have any information or data that would help us to assess the degree or estimate the size of these costs and benefits?</p>
	<p>Yes we agree with this assessment of bringing these other credit contracts under the CCCFA legislation. We do not specifically have data to assess the degree of these issues. But our frontline workers across the country do keep copies of specific questionable contracts that might shed some light in this area if required.</p>
14	<p>Do you have any suggestions for the design of options for covering additional credit contracts under the CCCFA? If so, what would be the impact of your proposed options on borrowers, lenders and the credit markets?</p>
	<p>Bringing these types of contracts clearly into the parameters of the CCCFA's protections would require a process where the requirements of the Act, especially the Code, are clearly told to mobile trader businesses. The more aware they are of their responsibilities under the Act, then hopefully there is more chance their practices will not breach the Act. This of course requires good support from the community and other stakeholders, and strong monitoring and enforcement by ComCom.</p>
15	<p>Which options for changes to cover additional credit contracts would you support? Which would you not support? Please explain how you made your assessment.</p>
	<p>We support Option B here (prohibit the price of goods or services sold on credit from exceeding the cash price). This would have to be done in conjunction with the measures or options we have discussed in the previous 2 sections to ensure greater protection for vulnerable consumers.</p> <p>Option A also has some merit and maybe a combination of these options is best. Option A has the advantage of bringing other types of contracts different and newer lenders are using, especially around the layby model. Additionally, with constant changes and developments in technology, this Option A might help safeguard any new, unforeseen types and models of contracts and bring them under the CCCFA protections.</p> <p>Consequently, we contend that a combination of both Options A and B provide the most effective group of protections for vulnerable consumers.</p> <p>Some important elements to consider here include:</p> <ul style="list-style-type: none"> - Our workers have noticed recently that food items are now being sold by mobile traders. This is still small in scale compared to the normal goods sold by these businesses. The Salvation Army is fundamentally opposed to poorer people being encouraged to buy food on these mobile traders at hugely inflated prices, particularly as we operate a national network of food banks and welfare programmes through our community ministry centres across the country. Is that the New Zealand we want where food is being bought by vulnerable people on and from these mobile businesses? Surely not;

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- One of our mentors suggests - *Perhaps having an overall cap on the amount that can be purchased from one of these vendors would also add protection. Or an overall cap in place until the buyer can produce a letter from a budget advisor supporting each additional purchase above the cap. This would have to be kept on file and produced by the vendor if requested;*
 - Another financial mentor states - *I think the way that mobile traders operate is shocking; I often hear from clients stories of being charged \$75 as a call out fee where they never asked for them to come around. Another client said that a truck driver knocked on her door; she said no she wasn't interested in purchasing anything today. The truck then followed her to her child's day care centre and waited for her to come out. The mobile traders have the details of the family's birthdays and will spam them with text messages and emails with micro-targeted advertising. This overwhelms the family and pressures them to buy items they would not usually buy.*

Regarding unreasonable fees

16	<p>If prescribed fee caps were introduced, who should they apply to, and what process and criteria should be used to set them?</p>
	<p>We submit that fee caps should apply to all types of lenders. While most first and second-tier lenders are largely compliant with their CCCFA responsibilities, it is still positive from a community and consumer perspective that there is consistency across the entire lending market.</p> <p>Setting what these caps are is extremely difficult. One of our frontline workers suggested that they could be set as a percentage of the purchase price of goods being purchased. Another mentor added that - <i>there needs to be a standardised list of fees that lenders can charge and clear parameters on what and how they charge. I am often reading statements from short term loans with pages and pages of fees and some are outrageously excessive, high and random.</i></p>
17	<p>Do you agree with our assessment of the costs and benefits of the options for capping interest and fees? Are any costs or benefits missing? Do you have any information or data that would help us to assess the degree or estimate the size of these costs and benefits?</p>
	<p>Yes we agree with this assessment.</p>
18	<p>Do you have any suggestions for the design of options for reducing unreasonable fees? If so, what would be the impact of your proposed options on borrowers, lenders and the credit markets?</p>
	<p>As mentioned in section 16 above, a pre-set and clear standardised set of fees across the sector would remove uncertainty here for both the lender and client.</p> <p>These fee caps and definitions should be set by MBIE and monitored closely to ensure unreasonable and hidden fees are not being added to loan amounts.</p> <p>ComCom’s Lender Websites Review is a good starting point into (1) the current types of fees being charged, and (2) the huge disparity between fees charged. Again, an objective range of fees standardised across the sector should be set by central government to eliminate unreasonable fees.</p>
19	<p>Which options for changes to fees regulation would you support? Which would you not support? Please explain how you made your assessment.</p>
	<p>We strongly support Option B (impose specific fee caps in regulation). This option provides the certainty and consistency that is sorely needed in this area. Uniformity in the sector in this fees area is critical to protect vulnerable consumers.</p>
20	<p>Have you seen issues with excessive broker fees, or other unavoidable fees charged by third parties, being added to the loan? If so, are there any specific changes that should be made to</p>

the regulation of third-party fees? What would be the impact of these changes on lenders, borrowers and third parties?

No, we have not issues arise around excessive broker fees and other types of fees being added to the loan. But we support the inclusion of such contracts within the CCCFA protections.

Regarding irresponsible debt collection practices

21	<p>Is this an accurate picture of the problems for consumers experiencing debt collection? Do you have information that confirms or refutes these issues, or sheds light on how widespread or severe they are?</p>
	<p>Yes we agree that this is an accurate assessment of these continual issues for consumers around debt collection. Our frontline workers have provided the NBFCCCT with feedback about this area.</p>
22	<p>What information should be provided to borrowers by debt collectors? When and how should this information be provided?</p>
	<p>The interaction between debt collectors and debtors are, in our experience, moments of high emotion and stress, especially if this has been a long, drawn process of the collectors trying to find and make contact with the debtor/borrower.</p> <p>Because of the stress and emotions involved, we recommend that a simple outline of the loan information (maybe 1-2 pages) be given by the collector to the debtor at the start of the collection process. This document should contain:</p> <ul style="list-style-type: none"> - Clarity about all the fees and charges added to the loan so all parties are clear on what is actually owed on the loan in question; - Key terms and conditions of the principal loan contract; - Support options, including ComCom information, and contact details for financial mentoring or budgeting assistance that the debtor could access for help. We are aware that the NBFCCCT is launching their national <i>Money Talks</i> phone line help service and the details of this service should be on this document.
23	<p>Do you agree with our assessment of the costs and benefits of the options for addressing irresponsible debt collection? Are any costs or benefits missing? Do you have any information or data that would help us to assess the degree or estimate the size of these costs and benefits?</p>
	<p>Yes we agree with these assessments.</p>
24	<p>Do you have any suggestions for the design of options for addressing irresponsible debt collection? In particular, what is an appropriate frequency of contact with debtors before (and then after) a payment arrangement is entered into? Please state the likely impact of your proposed options on borrowers, lenders and the credit market.</p>
	<p>Some suggestions include:</p> <ul style="list-style-type: none"> - Limiting the times and ways these companies can contact debtors. This should be monitored and must not be reasonable. Our frontline workers comment that these companies often contact family members and neighbours and this can add the stigma and shame some vulnerable consumers have if they have defaulted on their loan

repayments. These options are covered well in Option C here.

- On financial mentor added - The crystallisation of debt on “recoveries status”. This means that when a debt is 180 days old and not able to be rehabilitated, it should be “locked” in line with the repossession rules in the Credit Contracts and Consumer Finance Act. “If the lender sells the goods within 15 days after repossession, the borrower’s liability is limited to the original advance made under the credit contract. The lender cannot add any costs of borrowing (interest or fees). If the borrower has paid more than the original advance, the lender must refund the balance to the borrower.
- We support the NBFCT’s discussion and responses to Section 24.

25

Which options for changes to the regulation of debt collection would you support? Which would you not support? Please explain how you made your assessment.

The Salvation Army supports all of the 5 measures listed in the Discussion Paper. We believe they all have real merit in protecting consumers and so all options should be included in the CCCFA.

Regarding other issues

26

Are you seeing harm from loans to small businesses, retail investors or family trusts as a result of them not being regulated under the CCCFA?

No we are not.

27

Do you think small businesses, retail investors or family trusts should have the same or similar protections to consumers under the CCCFA? Please explain why/why not.

We believe they should because The Salvation Army is supportive of all Kiwis having the protections offered through the CCCFA.

28

Are there any other issues with the CCCFA or its impact on vulnerable people that are not addressed in this discussion paper? If so, what options should MBIE consider to address these issues?

The Salvation Army is largely supportive and enthusiastic about this Review process. The issues raised in this Discussion Paper are complex, but summarised well here. We have tried to provide broad and real responses to your questions. In terms of other thoughts, we would like to add the following:

- Greater discussion is needed between key stakeholders about developing strong, effective and real alternatives to some of the predatory lending and businesses currently operating. This is not directly related to the CCCF, but instead connected to the realities of vulnerable consumers. We have stated a few times that legislative protections are absolutely necessary. But these will not address the demand people have for (urgent) money because of financial shocks, changes to income levels, unforeseen cultural obligations and so on. We believe that MBIE, alongside the corporate and community sectors, have a key role in facilitating the development of innovative alternatives to what is in the market now. Ideally these would be financial products that are creative and able to provide more ethical and just lending and business options for vulnerable consumers. Some of those already operate in our nation e.g. micro-finance schemes. But more of these are needed to meet the demand from these consumers;
- MBIE can help clarify and standardise the hardship application process. There is no uniformity or consistency in what lenders do in this space. We believe that hardship applications are crucial for consumers in really tough situations and our frontline workers support numerous clients via this process. But the process can be drawn out and unnecessarily cumbersome and problematic. We submit that MBIE should develop clear standards and guidelines for these applications that are entrenched in the legislation;
- The Salvation Army is very supportive of the work ComCom is doing in this sector. But we submit that the community sector with our network of financial mentors, budgeters and innovative alternative lending products play an important yet somewhat undervalued role in the monitoring of the CCCFA in the community. This role is not always acknowledged. Therefore, as we submitted earlier, we support any additional levies or other budgets committed to ComCom. But we contend that some

of those funds should be reinvested into the community sector because (1) we are the frontline workers engaging with the vulnerable consumers, (2) we are providing key information and stories to government departments to shape their laws, policies, investigations etc. (3) we are effectively monitoring compliance to the Principal Act, (4) we are engaging with lenders, businesses and corporate entities on behalf of the client, and (5) we are building the basic financial capability and literacy of Kiwis.

Any other comments

We welcome any other comments that you may have.

[Insert response here]