

## **Credit Contracts and Consumer Finance Amendment (CCCFA) Regulations 2020 Ministry of Business Innovation and Employment (MBIE)**

### **Executive Summary**

1. Overall, The Salvation Army is very supportive of these regulations. We believe they strike a good balance between protecting consumers (especially those facing serious financial hardship) and supporting a robust lending sector. Because we are strongly supportive of these provisions, our comments in the body of our short submission are on sections we seek further clarification on, areas we are unclear on, or other general comments. However, we submit that these draft regulations are very positive and help reinforce the true spirit and intent of the principal CCCFA.
2. We want to note here the challenge we have in responding in the last few months to a relatively large amount of consultations, draft legislation and requests for information from MBIE and also the Commerce Commission in relation to the CCCFA 2003 and other consumer and credit issues. The extremely tight timeframes we are often given to respond to these requests is very difficult for us, particularly in this post-Covid 19 lockdown environment. We recommend a more ordered and reasonable process in the future so that the NGO and community sector can respond effectively to these important matters. The timeframe for this Draft (7 business days to prepare a submission) is not really helpful to develop reasonable and informative responses. Still, The Salvation Army is very grateful to be involved in these ongoing discussions.

### **Background**

3. The mission of The Salvation Army is to **care for people, transform lives and reform society by God's power**. The Salvation Army is a Christian church and social services organisation that has worked in New Zealand for over one hundred and thirty years. It provides a wide range of practical social, community and faith-based services, particularly for those who are suffering, facing injustice or those who have been forgotten and marginalised by mainstream society.
4. The combined services of The Salvation Army provided support to around 120,000 people in 2019. In our Community Ministries service, over 57,000 food parcels were distributed to more than 28,000 families and individuals. Our workers also conducted nearly 13,000 financial mentoring and budgeting sessions with about 3,800 clients in 2019. In addition, The Salvation Army is a registered Community Housing Provider, providing social housing for hundreds of tenants, and we are one of the largest transitional housing providers in the country. Also, we continue to provide various housing support services around the country through our Salvation Army Social Housing (SASH) and Transitional Housing units. Furthermore, our Addictions Supportive Accommodation and Reintegration Services (ASARS) continued to provide support for those facing addictions to alcohol, other drugs, and problem gambling, and also assisting those leaving prison.

5. During the recent level 3 and 4 Covid 19 lockdown, we published four Social Impact Dashboards (SIDs) to monitor the social impact of this pandemic across food security, financial hardship, housing, addictions and employment/unemployment.<sup>1</sup> Often, many of those using our services are facing multiple interconnected social problems. In terms of financial hardship, these SIDs indicated that during the lockdown, more people faced increased financial hardship, sought financial advice, made variations to their loans and used our foodbank services for the first time because of the employment and economic challenges they faced.
6. This submission has been prepared by the Social Policy and Parliamentary Unit (SPPU) of The Salvation Army, with support from some of our frontline budgeting and financial mentoring staff. The SPPU works towards the eradication of poverty by advocating for policies and practices that strengthen the social framework of New Zealand. This submission has been approved by Commissioner Mark Campbell, Territorial Commander of The Salvation Army's Aotearoa New Zealand Fiji Tonga and Samoa Territory.

### Specific comments on the Regulations

#### 7. Lender responsibility to make reasonable enquiries

- **The impact of unemployment and redundancies post-lockdown**
  - In making these reasonable enquiries to properly assess the suitability of a loan to meet a borrower's requirements, we submit that a crucial factor to consider is the significant impact of job losses and people living primarily off a welfare income support payment, or a redundancy pay out from their former employer.
  - This assessment is directly relevant to sections 4AA, 4AD and 4AE of the Draft Regulations.
  - The assessments made under this section of the Draft must closely monitor this new reality for the income of many borrowers and consumers, particularly with those living primarily of redundancy payments. Work and Income NZ have stopped stand downs for benefit payment start dates if the client has a redundancy payment which is very positive.<sup>2</sup> A robust assessment from lenders is even more crucial given the post-Covid economic and employment environment facing our country.
  - Infometrics published the figure below of estimated job losses from March 2020 to March 2021. Their estimate is that over 250,000 jobs will be lost in this time period. These numbers are extremely confronting.

---

<sup>1</sup> <https://www.salvationarmy.org.nz/research-policy/social-policy-parliamentary-unit/reports>

<sup>2</sup> <https://www.workandincome.govt.nz/about-work-and-income/news/2020/redundancy-payments-and-benefits.html#null>

### Chart 1: COVID-19 to cause huge job losses

Industries with largest job losses between March 2020 and March 2021, preliminary estimates

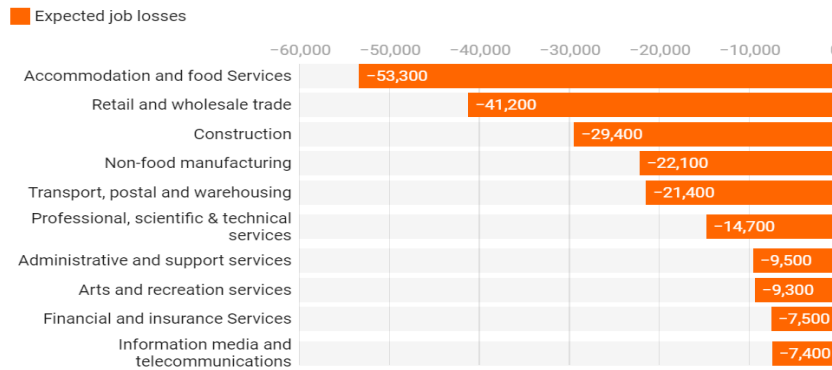
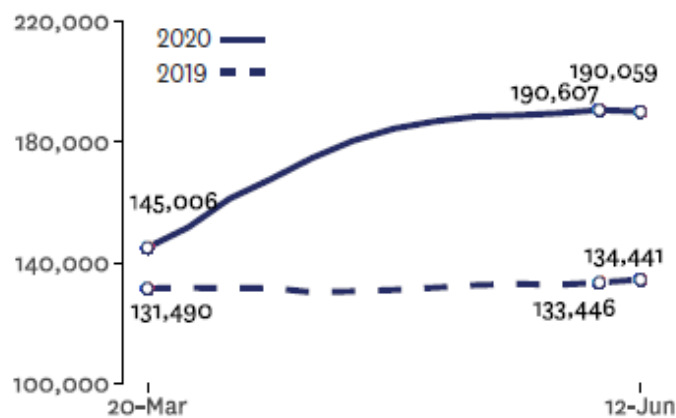


Chart: Andrew Whiteford/Infometrics • Source: Infometrics • Created with Datawrapper

- The Ministry of Social Development’s (MSD) update at week ending 12 June 2020 shows the significant increase in the those receiving the Jobseeker support payment since 20 March, although there has been a slight levelling off in the last few weeks. MSD also adds that, at 12 June, there were over 2,800 people being supported by the Covid-19 Income Relief Payment, available to those who’ve lost jobs between March and October 2020.

### 2. Number of Jobseeker Support recipients



- In this challenging context, the affordability and income assessments of prospective borrowers is even more important for lenders to ensure that borrowers do not fall into deeper and more entrenched financial hardship. The impact of redundancy, the new income support payments and unemployment are critical emerging factors in this post-Covidian world that shape the reasonable enquiries lenders make under this Draft.
- Section 4AE(d) – Would money spent on cultural or family obligations be considered in this clause? For many of our clients, these expenses are crucial to their wellbeing and family/community relationships. Subclause (d) states the expenses are *regular or frequently occurring*. Capturing the money borrowers spend on cultural responsibilities would be useful in having an accurate assessment of listed outgoings.

- Sections 4AF and 4AO – These clauses are interconnected. We strongly support these provisions around the full income and expense assessment, and presumption, outlined in these sections.
- Section 4AJ – In 4AJ(2)(a)(i)(B), it states that there are situations when verification is not reasonably practicable when verifying income. What situations are there in reality when income cannot be properly verified? The income assessment outlined for a Full Income Assessment for borrowers is vital, especially when considering high cost loans. The only situations we can imagine where income would be hard to verify would be monetary payments for work done under the table, possibly payments in kind, or donations or gifts to that person. It seems to us that income from these unverifiable sources would indicate already some red flags around affordability exist for borrowers.
- Section 4AN – Under 4AN(2)(a), we submit that it would probably be useful to properly prescribe sources of statistical information that lenders can use to develop and define a benchmarkable expense. Would this not create consistency and clarity in where and how lenders are making expense calculations?

**8. Advertising standards** – Although these provisions were not included in the document sent to potential submitters, this area is vital for our clients. In other correspondence we received, there was discussion around the display of other fees and also the advertising of interest rates when more than one rate applies to that loan. We are unsure about where the discussion or feedback is at with these advertising regulations and would appreciate an update as to where this programme is at please. We refer back to our submission to the CCCFA Amendment Regulations 2020 Exposure Draft that we filed with MBIE in 2019 that has our clear recommendations about the key advertising safeguards we advocated for.

**9. Disclosure** – We are very supportive of sections 4F to 4H outlining the new disclosure requirements. However, the Draft for Consultation does not cover some of the areas around disclosure (e.g. informing about disputes resolutions services, disclosure around debt collection) that we were hoping to comment on. Can we have an update about where these other provisions around disclosure are at please?