Background Statistics for Considering Credit Issues

For the Financial Summit

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MINISTRY OF CONSUMER AFFAIRS
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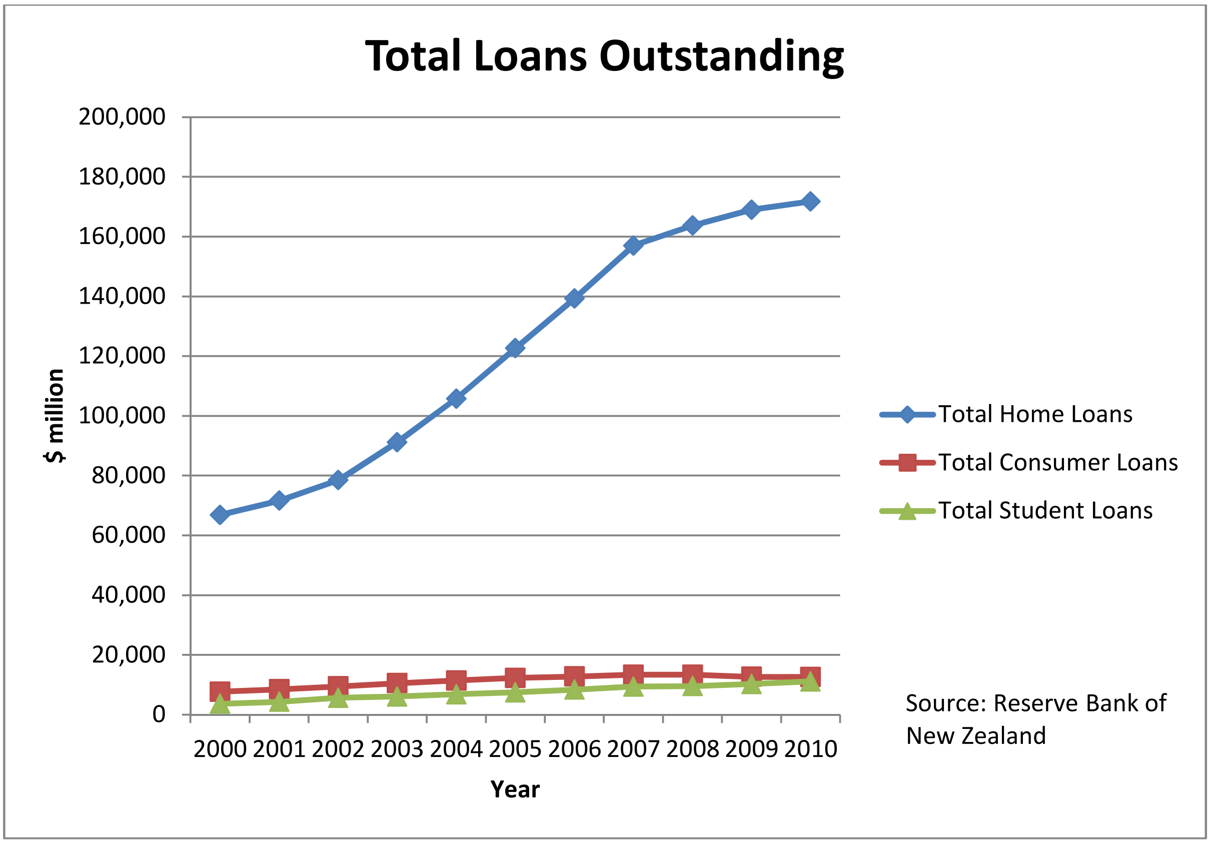
This paper provides statistics that reflect the trends of the New Zealand credit market over the past few years. It gives a perspective on effects of the Global Financial Crisis on New Zealanders and how credit providers have changed in response. Examples include what institutions New Zealanders use to access non-housing loans, the types of debt that New Zealanders are in, trends in the use of credit cards and debit cards, and attitudes to debt.

These statistics have been gathered from government agencies via their websites, the NZ Federation of Family Budgeting Services, and surveys conducted by ANZ/Retirement Commission, and Buzz The People, an on-line survey site.

The New Zealand Debt Landscape

To gauge the general financial situation of New Zealanders, the following graphs provide an overview of debt levels and financial commitments.

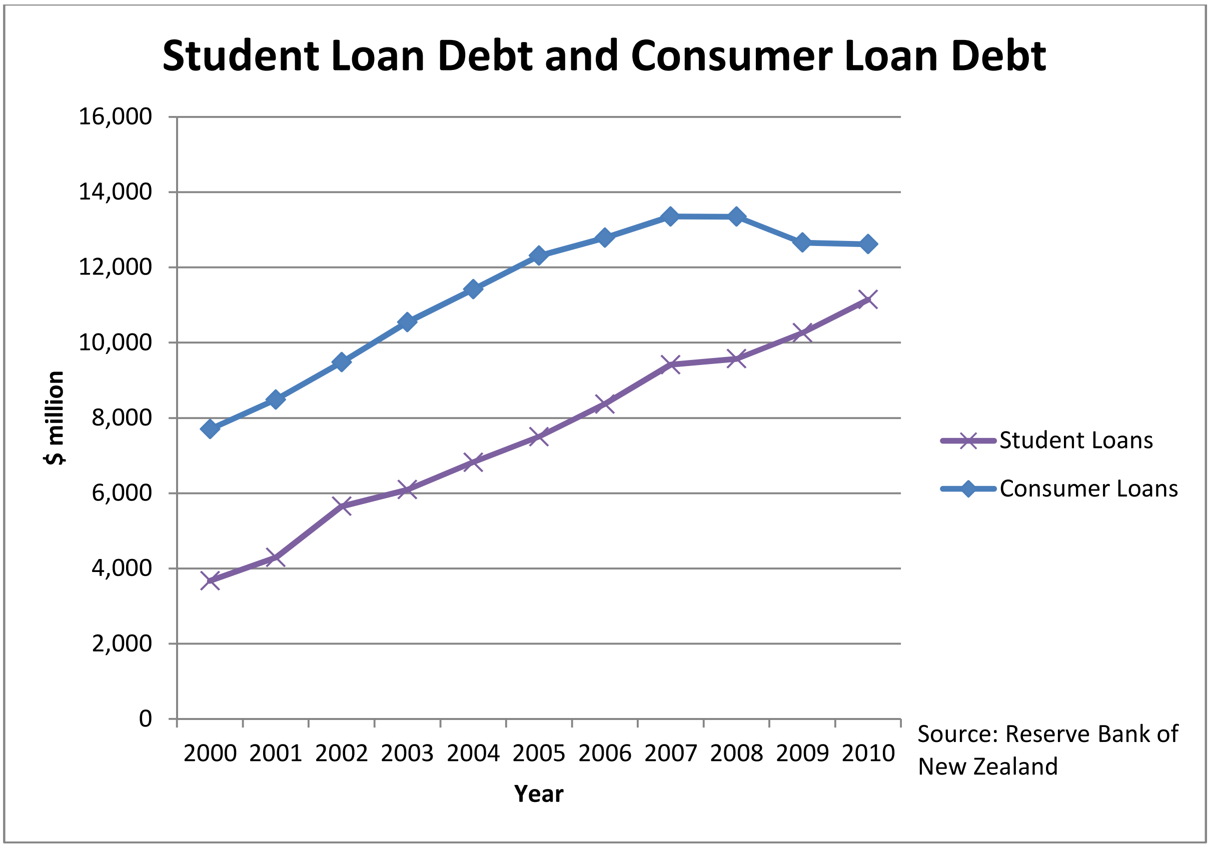
Figure 1



This graph shows a breakdown of household loans. Mortgages are the highest value loans a consumer has and housing makes up a significant proportion of debt repayments and household wealth. The increasing value of mortgage loans reflects the growing cost of housing.

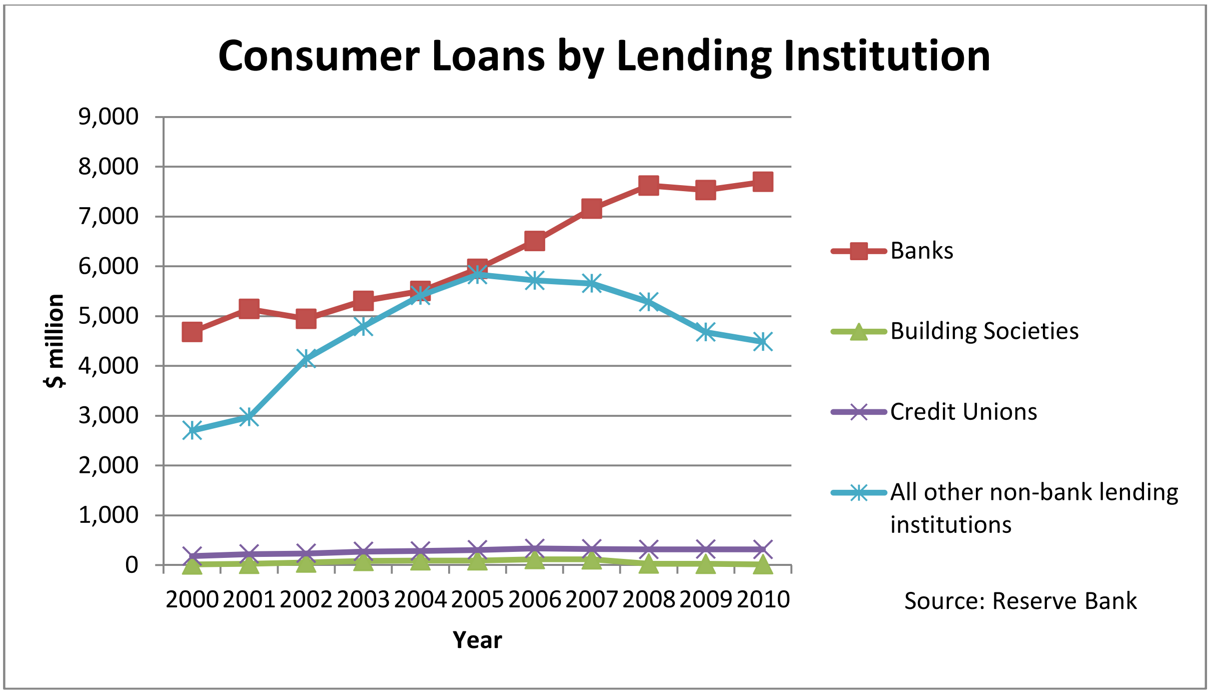
Consumer loans and student loans constitute a much smaller part of the loan market. Consumer loans include vehicle loans.

Figure 2



This graph gives a clearer indication of the trends for consumer loans and student loans. Student loans are steadily increasing , while consumer loans have dipped slightly in 2009 after a steady increase. This may reflect the effect of the recession.

Figure 3



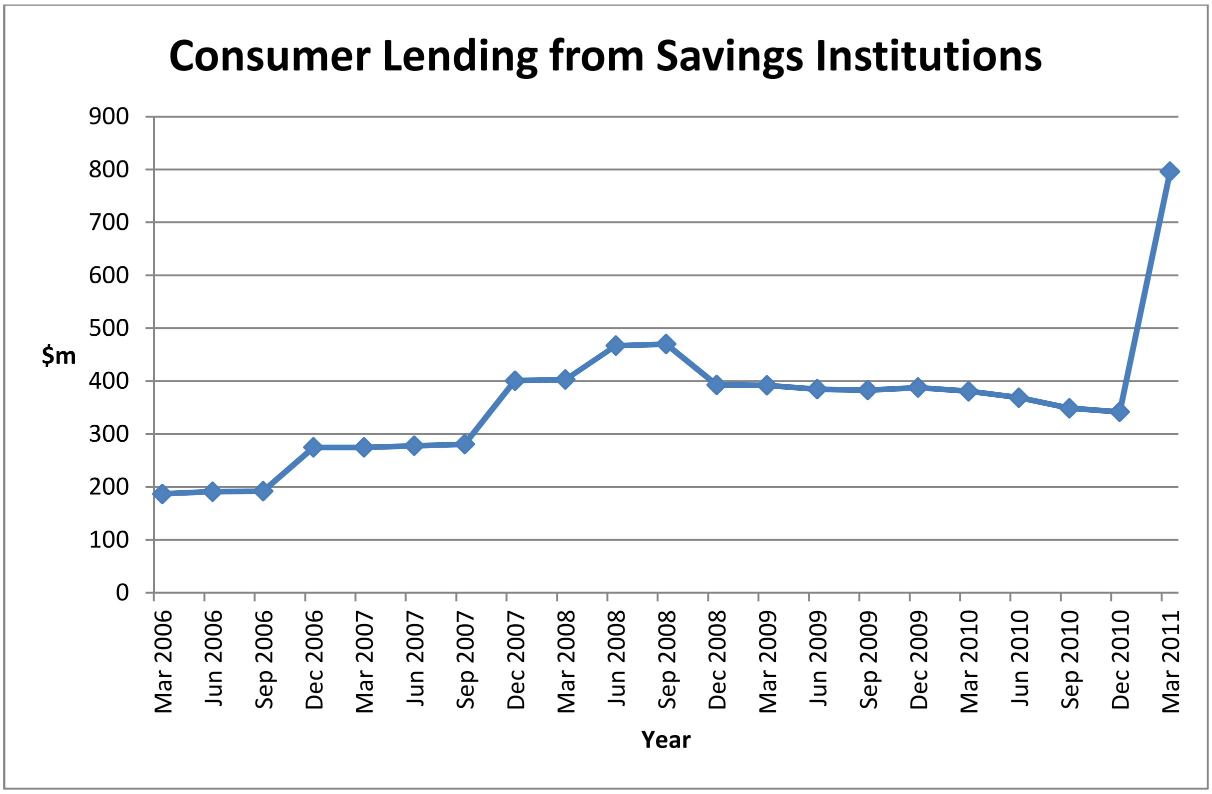
Note: consumer credit includes credit cards.

Of the consumer loans, those provided by banks are increasing while those from other non-bank lending institutions are declining. As the previous graph shows that consumer loans have been essentially steady from 2008-2010, this indicates that consumers are moving towards banks rather than non-bank lenders for consumer loans.

The low level of lending by Building Societies and Credit Unions reflects the smaller clientele of these institutions and has minimally changed over the past 10 years. It is noted that a survey by RaboBank (*Public Confidence in the Financial System, April 2011)* indicates that around 1 in 10 New Zealanders use Building Societies and Credit Unions but are most likely to be aged 35 plus. This survey also shows that about 25% of respondents did not know enough about these institutions to answer questions on them.

The Non-Bank Sector

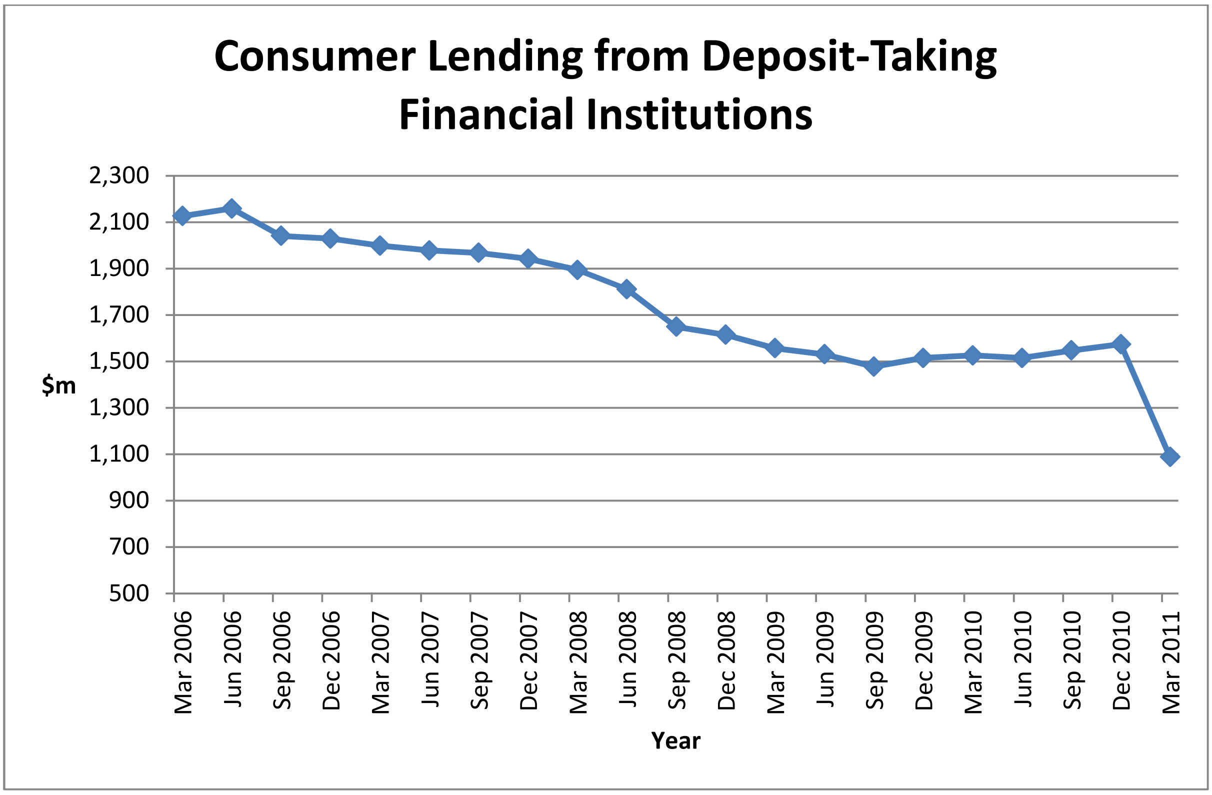
Figure 4



Source: Reserve Bank of New Zealand

This graph shows the non-bank consumer lending from savings institutions. The lending is moderate and relatively stable. The spike in the March 2011 quarter may be due to the 22 February Christchurch earthquake.

Figure 5

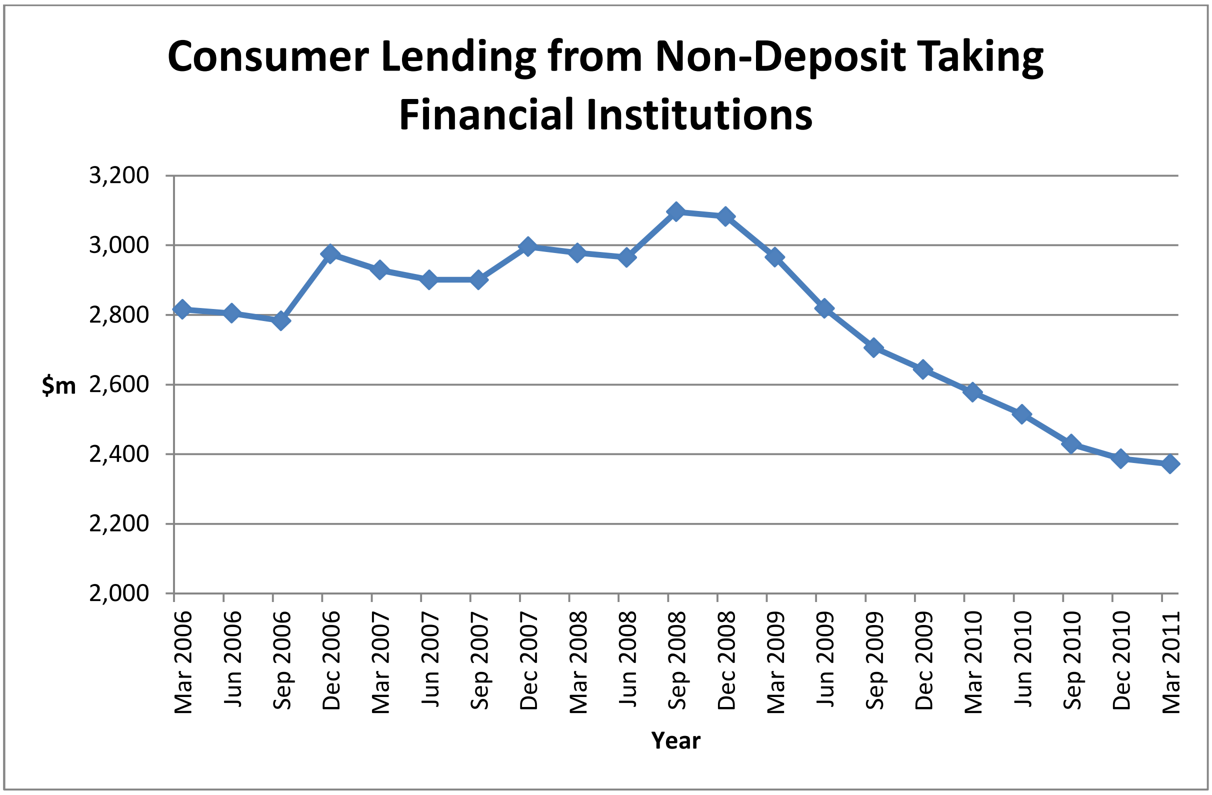


Source: Reserve Bank of New Zealand

The Reserve Bank of New Zealand Act 1989 defines a deposit taker as a “person who offers debt securities to the public in New Zealand; and carries on the business of borrowing and lending money, or providing financial services, or both”.

This graph shows that there has been a steady decline in consumer lending from deposit-taking financial institutions. There has been a decline since 2006 that indicates that it may not be entirely due to the Global Financial Crisis. The steep drop in the March 2011 quarter could be due to the 22 February Christchurch earthquake.

Figure 6

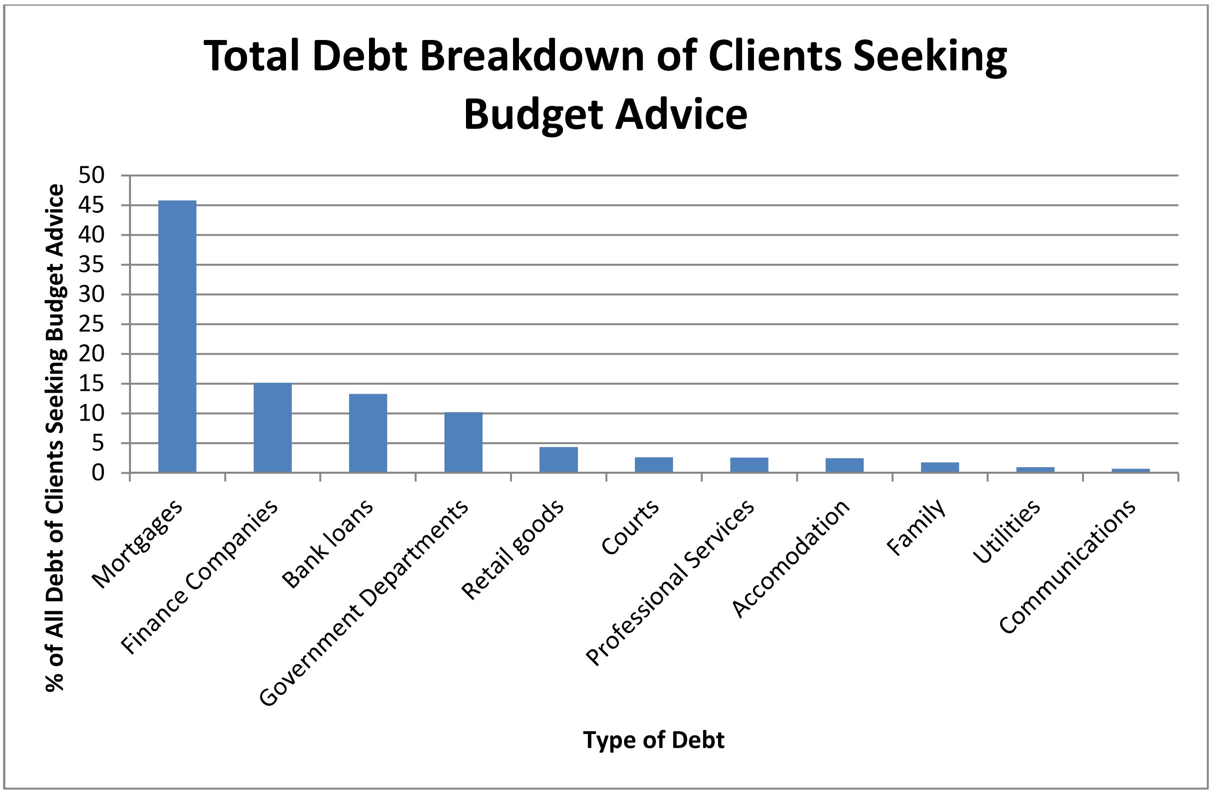


Source: Reserve Bank of New Zealand

This graph shows a clear and steady decline since the December 2009, which correlates to the reduction in non-deposit-taking financial institutions due to the Global Financial Crisis.

Debt

Figure 7



Source: New Zealand Federation of Family Budgeting Services, 2010

Note: Bank loans includes credit cards.

This graph indicates that for those seeking help from the Federation of Family Budgeting Services, debt in the form of mortgages is the largest, with debt to finance companies next at 15.16%. This is closely followed by debt owed to bank loans at 13.28%. Debt owed to government departments (for example, tax) is at 10.22%.

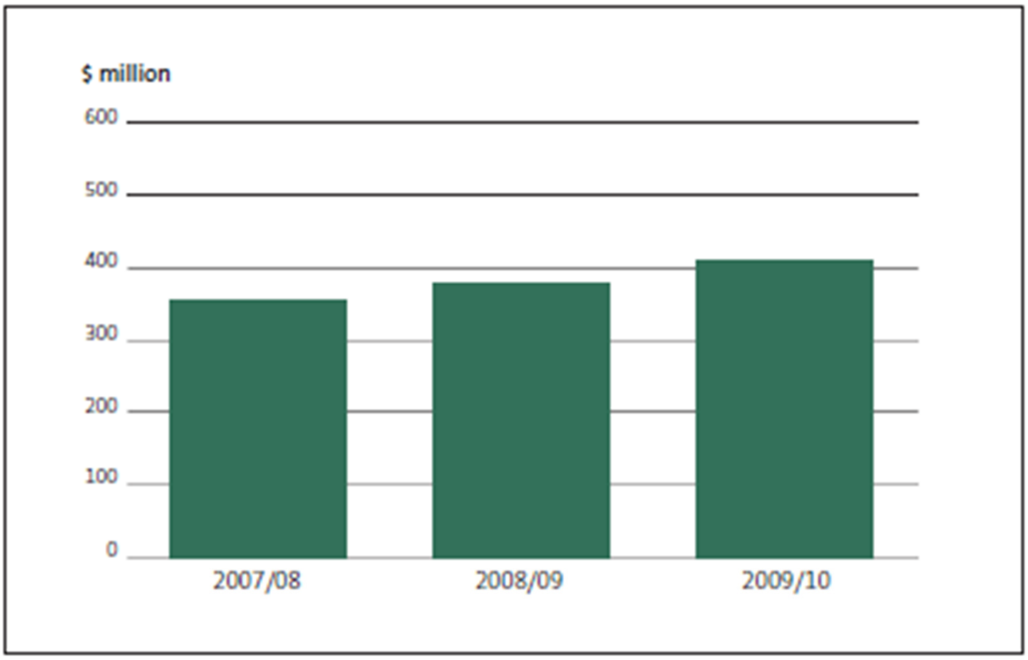
Hardship

The Banking Ombudsman notes “In the (financial) year to date (to April 2011) we have received over 670 complaints compared with 333 at the same time in 2007. The key theme is hardship”. The finiancial crisis, Christchurch earthquakes and life shocks have increased complaints regarding financial institutions and their approach to hardship. Some of the examples given by the Ombudsman are the lack of timely processing of a hardship application leading to more debt, and of stringent hardship provisions in contracts (i.e. superannuation) that essentially means a person cannot access that help.

The Ministry of Social Welfare provides assistance in the form of recoverable loans to clients. A weaker economy in recent years has meant more people receiving benefits, and more people in hardship have sought and received recoverable assistance loans.

Figure 8

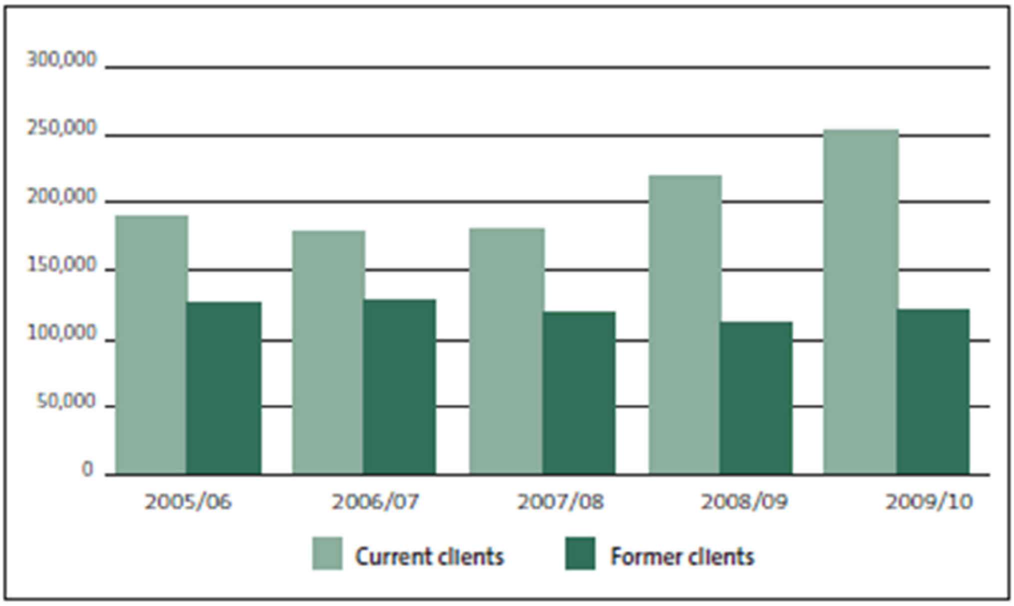
Total Money Owed from Recoverable Assistance Loans, by year, from 2007/08 to 2009/10



Source: Ministry of Social Development

Figure 9

Number of current and former clients owing money to the Ministry, by year, from 2005/06 to 2009/10



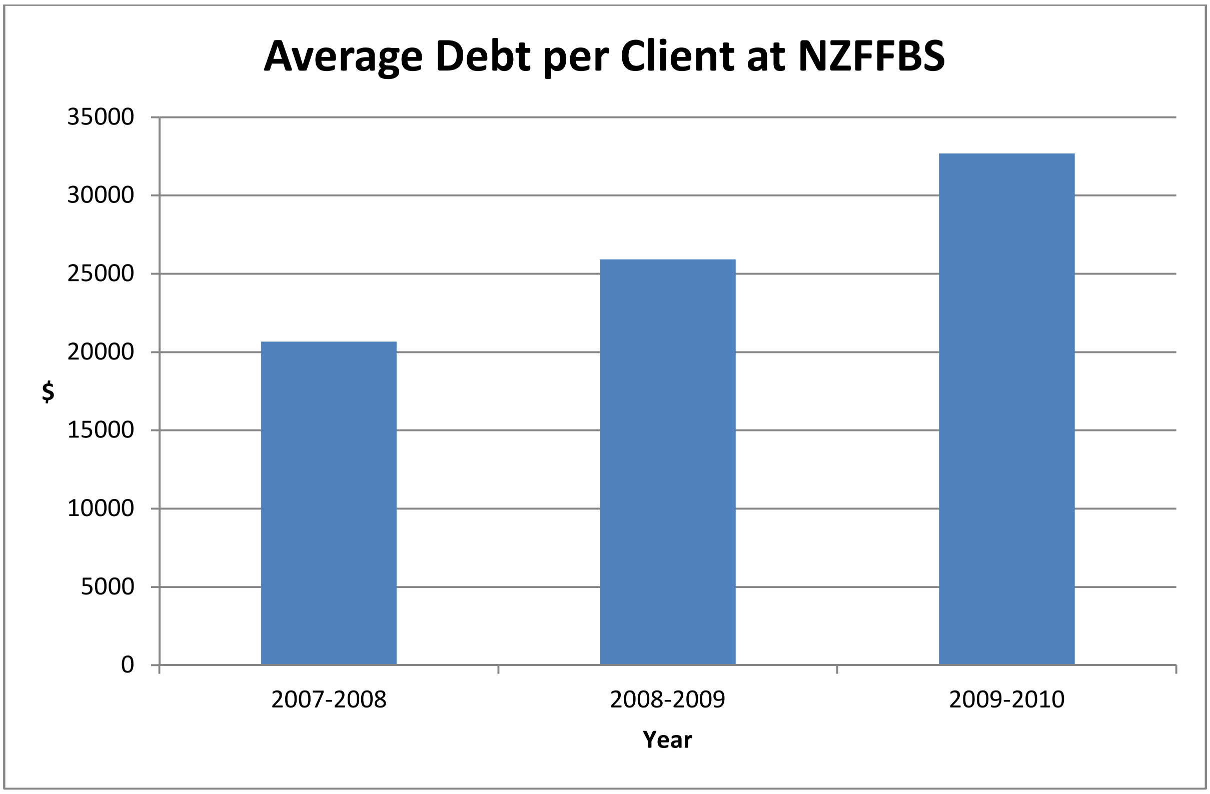
Source: Ministry of Social Development

There is a strong increase in the number of current clients with debt since 2008. About 48% of this is due to short term, small value recoverable loans. Approximately half of this outstanding debt is in the form of overpayments but the Ministry of Social Development recovers most of the overpayments quickly.

The New Zealand Federation of Family Budgeting Services statistics reveals that the average New Zealander seeking budget advice has over $30,000 of debt, up 26% from the previous year. It has also found that of this debt, about $5,000 is overdue per client. Overdue debt accumulates interest and fees.

Many hardship provisions from financial institutions do not apply when consumers are already in debt.

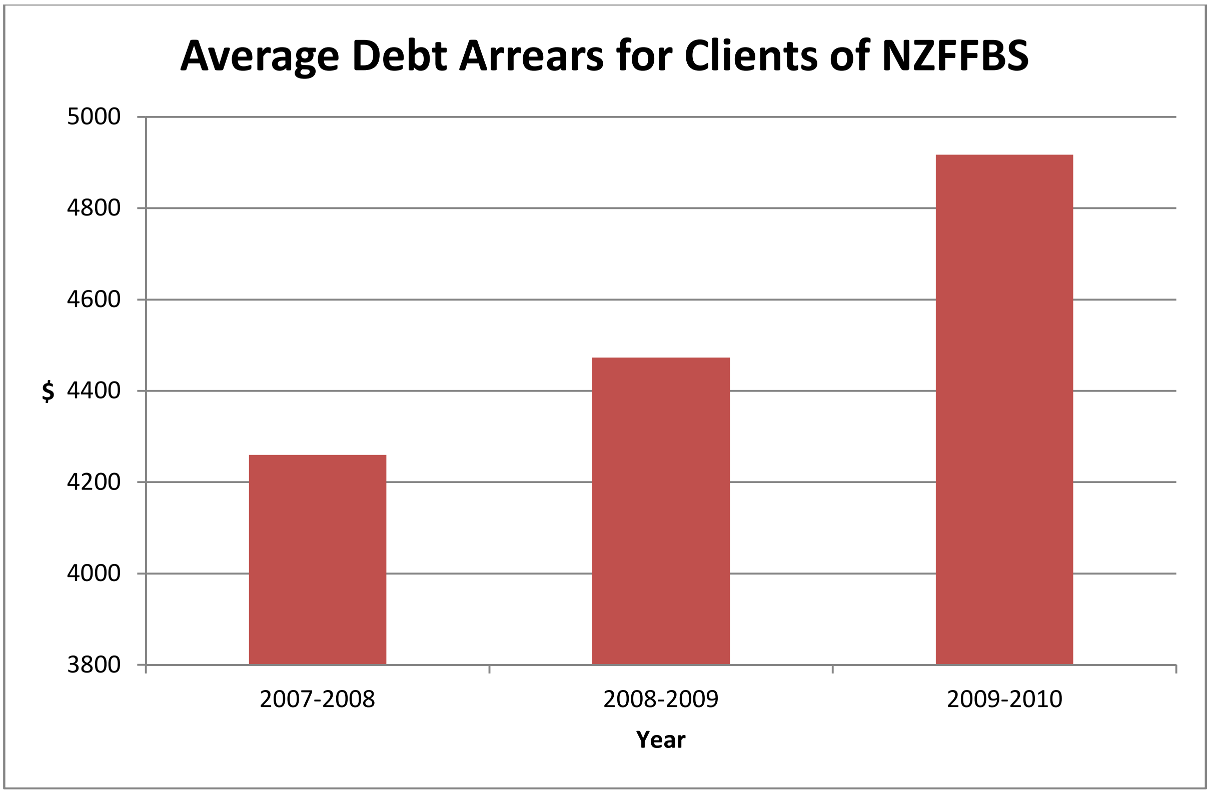
Figure 10



Source: New Zealand Federation of Family Budgeting Services

This graph shows that for those seeking help from the Federation of Budget Services the average debt per client has increased approximately 63% between 2007-8 and 2009-10.

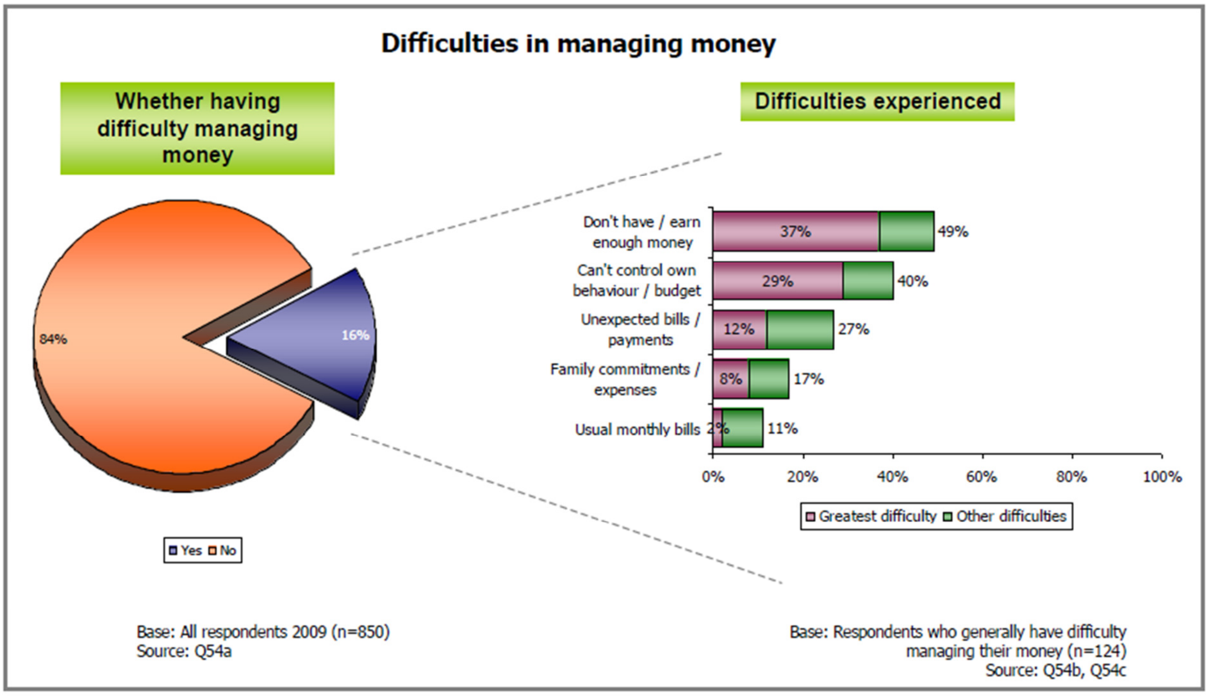
Figure 11



Source: New Zealand Federation of Family Budgeting Services

These statistics show that there is an increase in people requiring extra funds or the relaxing of loan contracts due to hardship, but these can difficult to access or arrange.

Figure 12



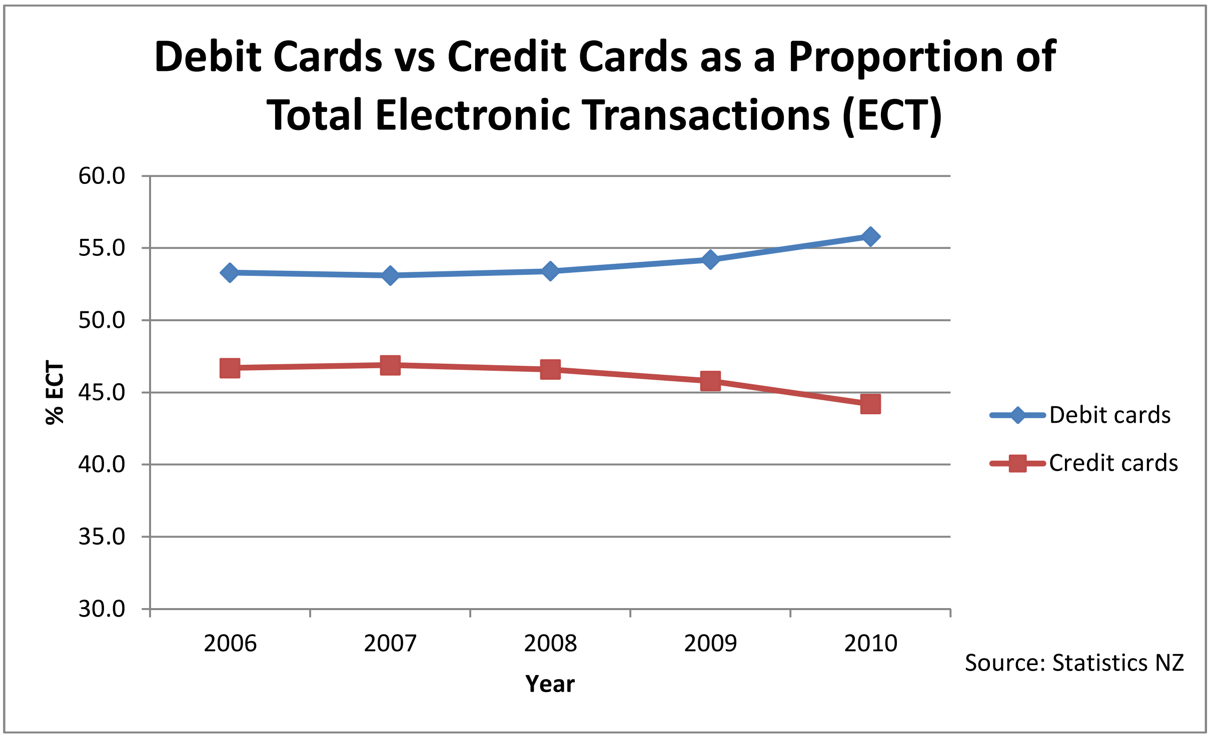
Source: ANZ/Retirement Commission 2009 Financial Knowledge Survey

Most consumers felt they did not have difficulty managing money. This graph indicates that of those experiencing difficulty, the main reason was not having enough money. This was followed by the perception that the consumer couldn’t control their spending habits.

Use of Credit Cards

Some surveys, and data from the New Zealand Federation of Family Budgeting Service, indicate that credit cards are a very common form of credit – and therefore debt. Outstanding debt or over-limit purchases attract fees and interest.

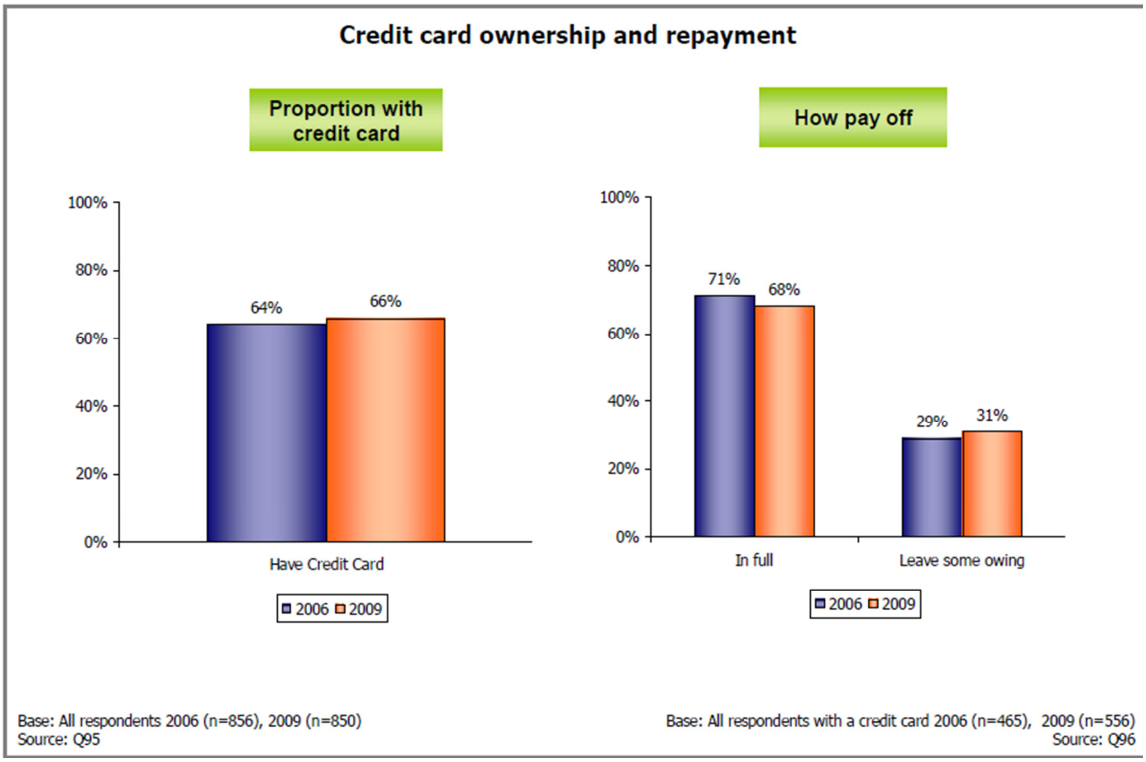
Figure 13



Note: Debit cards access the money in consumers' bank accounts and include EFT-POS cards as well as true debit cards.

This graph shows that there is a move from using credit cards to the use of debit cards. This may also reflect the promotion of debit cards by banks in the wake of the recession. This shift is unlikely to be due to an increase in on-line trading as the on-line payment facilities can be used by either credit or debit cards.

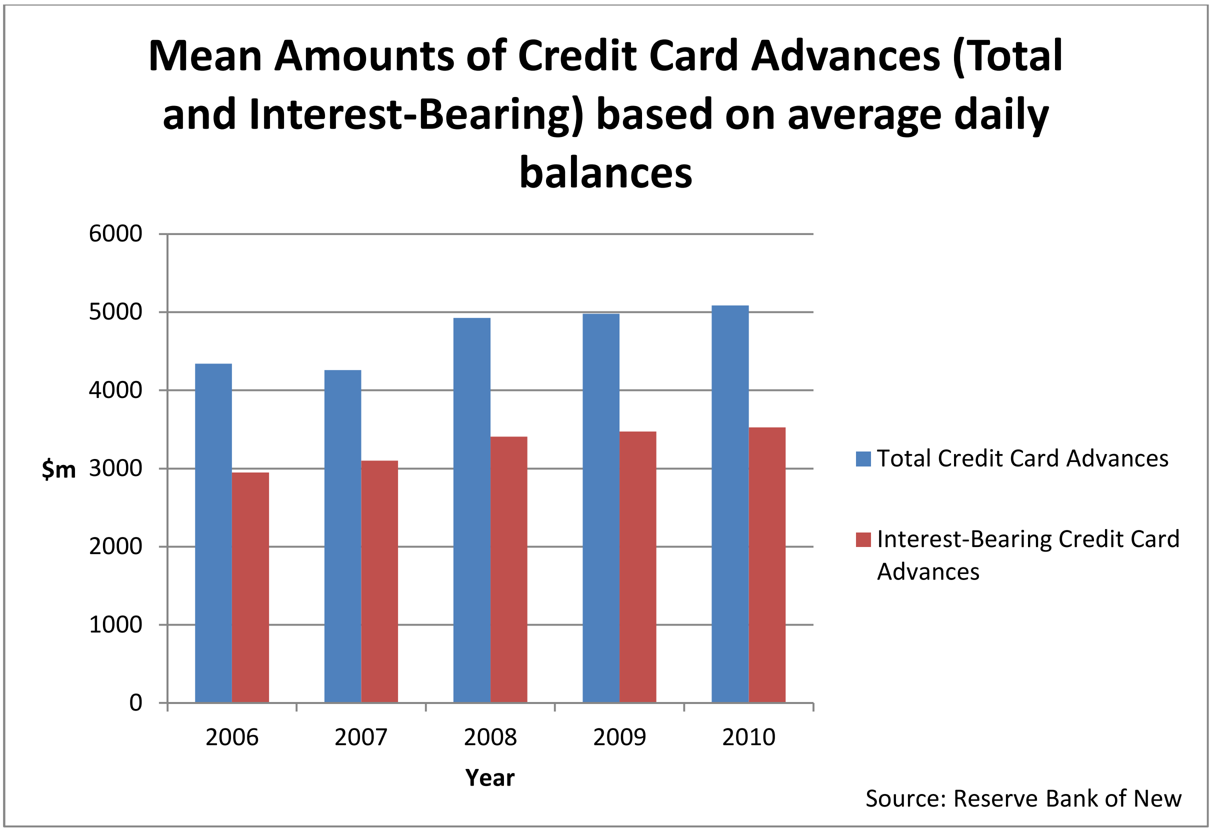
Figure 14



Source: ANZ/Retirement Commission 2009 Financial Knowledge Survey

Marginally more people owned a credit card than in 2006, and most indicated that they pay the outstanding balance off in full each month. However, almost a third said they left some owing. This amount would attract interest.

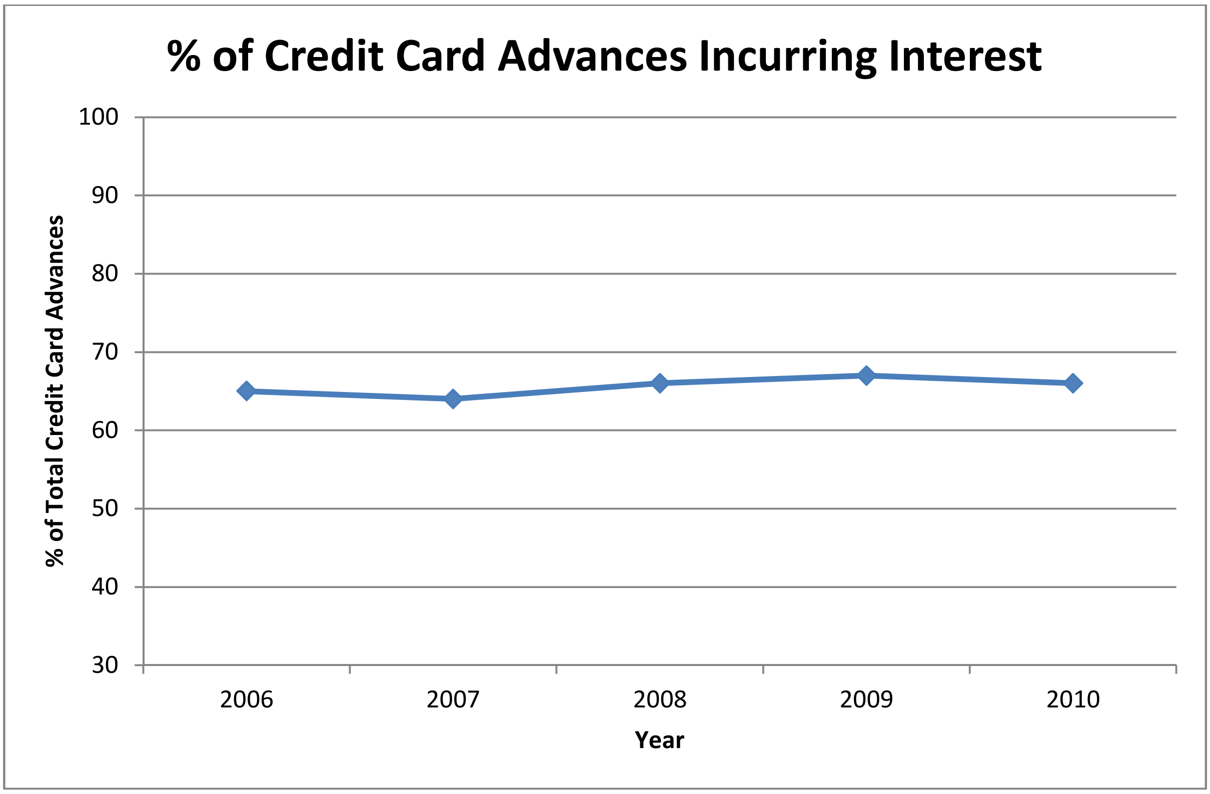
Figure 15



This graph shows a steadying of credit card amounts that are incurring interest, i.e. advances that were not paid off in the interest-free period which is usually 55 days for standard credit cards.

The proportion of interest-bearing advances to total advances has also been steady over the past 5 years, averaging 70% of the total advances.

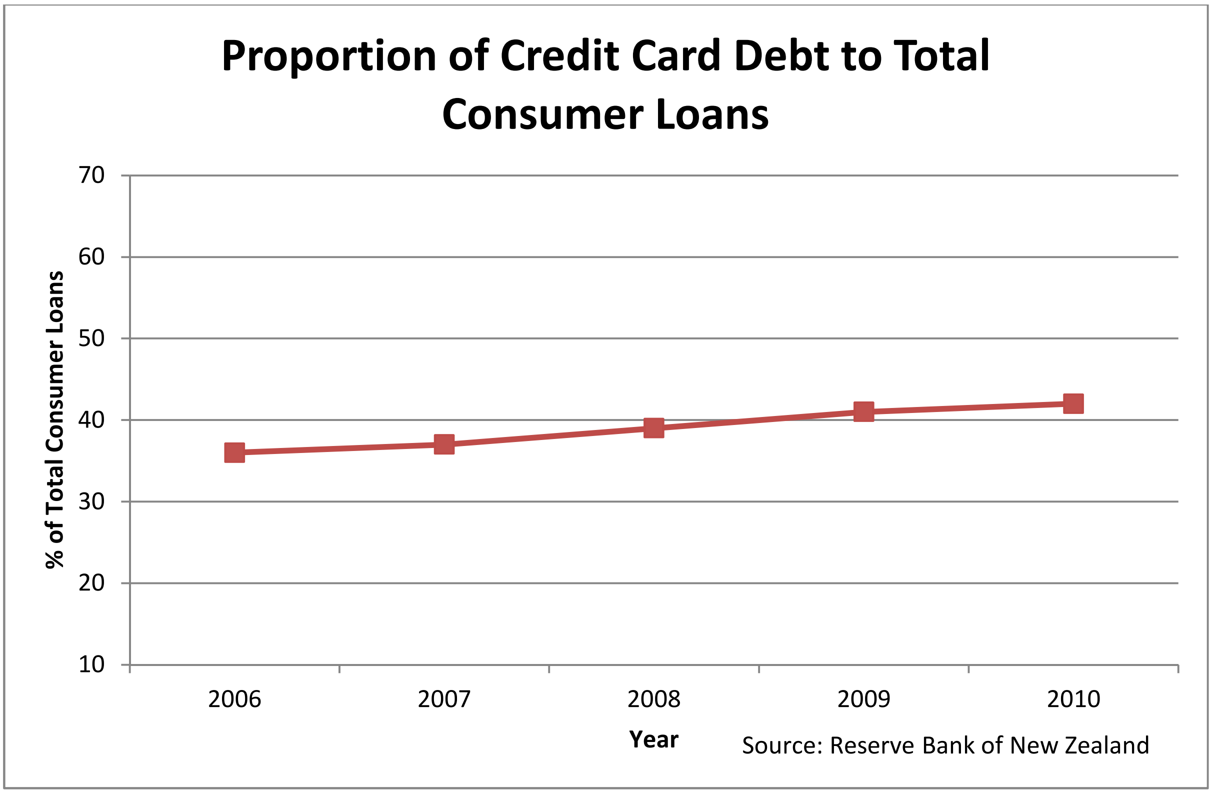
Figure 16



Source: Reserve Bank of New Zealand

The proportion of advances that are incurring interest has remained very steady over the past 5 years. Around 66% of credit card advances are incurring interest. With the increased use of credit cards, this means that there are more interest-bearing advances.

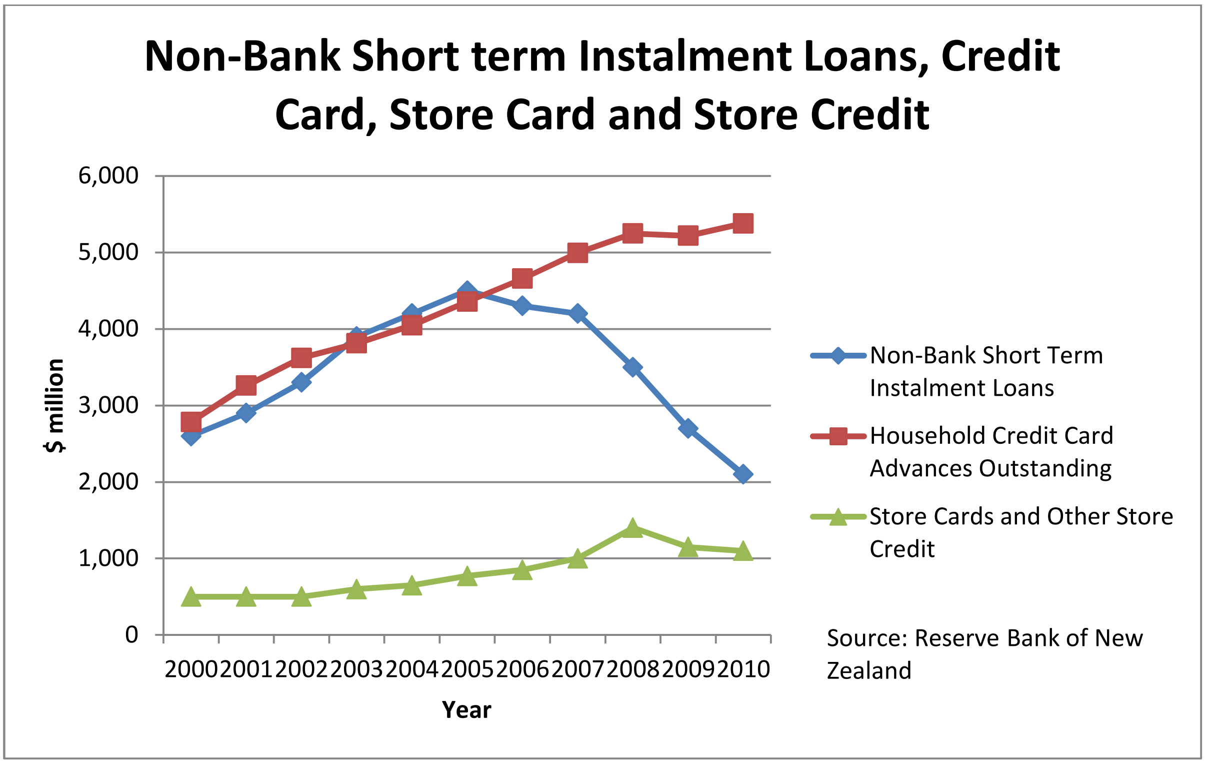
Figure 17



This graph shows that the use of credit cards to obtain consumer debt is increasing at a moderately steady pace.

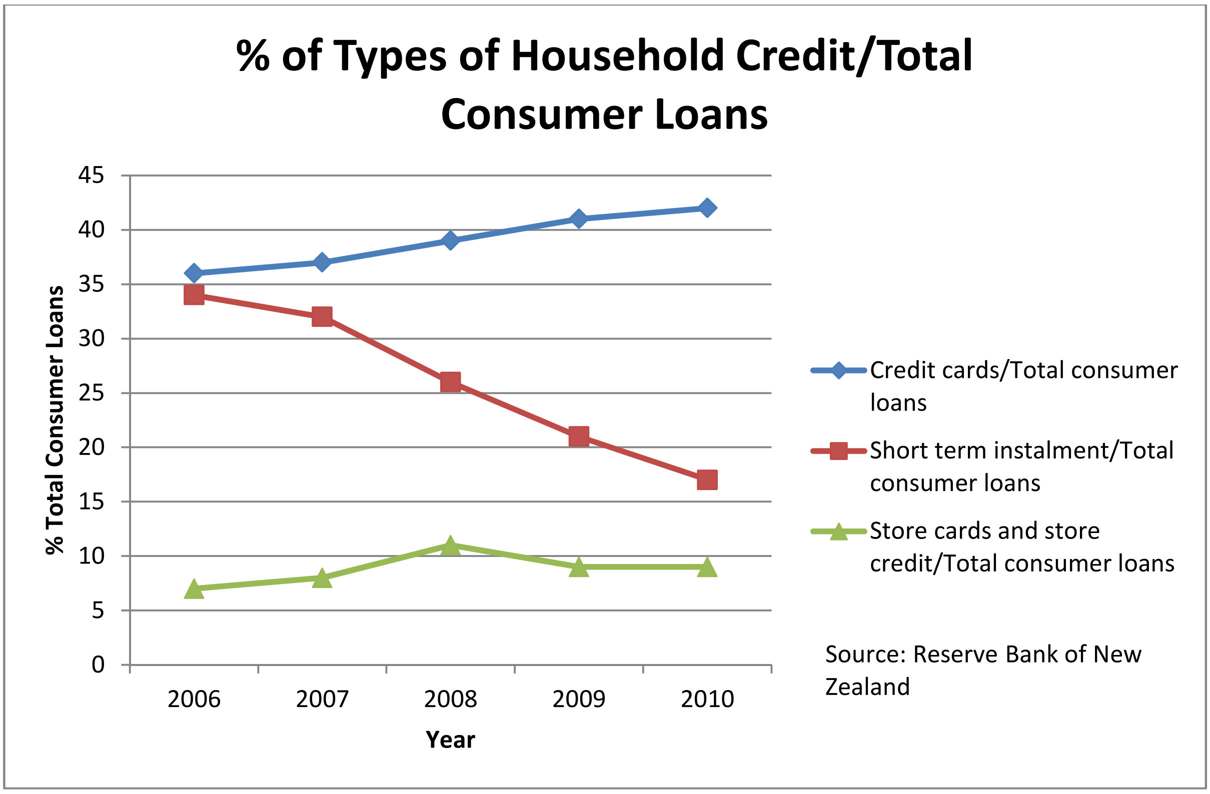
Other Credit

Figure 18



This graph shows there is a significant drop in the use of non-bank short term instalment loans. While this drop coincides with the legislative removal of the Hire Purchase Act in 2005, this does not account for the steady fall in these types of loans. Overall, these types of loans have been decreasing.

Figure 19



This graph shows that the proportion of credit card debt is steadily increasing, but non-bank short-term instalment loans are decreasing and possibly also in the value of those loans. The balance of the loans are personal loans from various sources (banks, non-bank financial institutions, family).

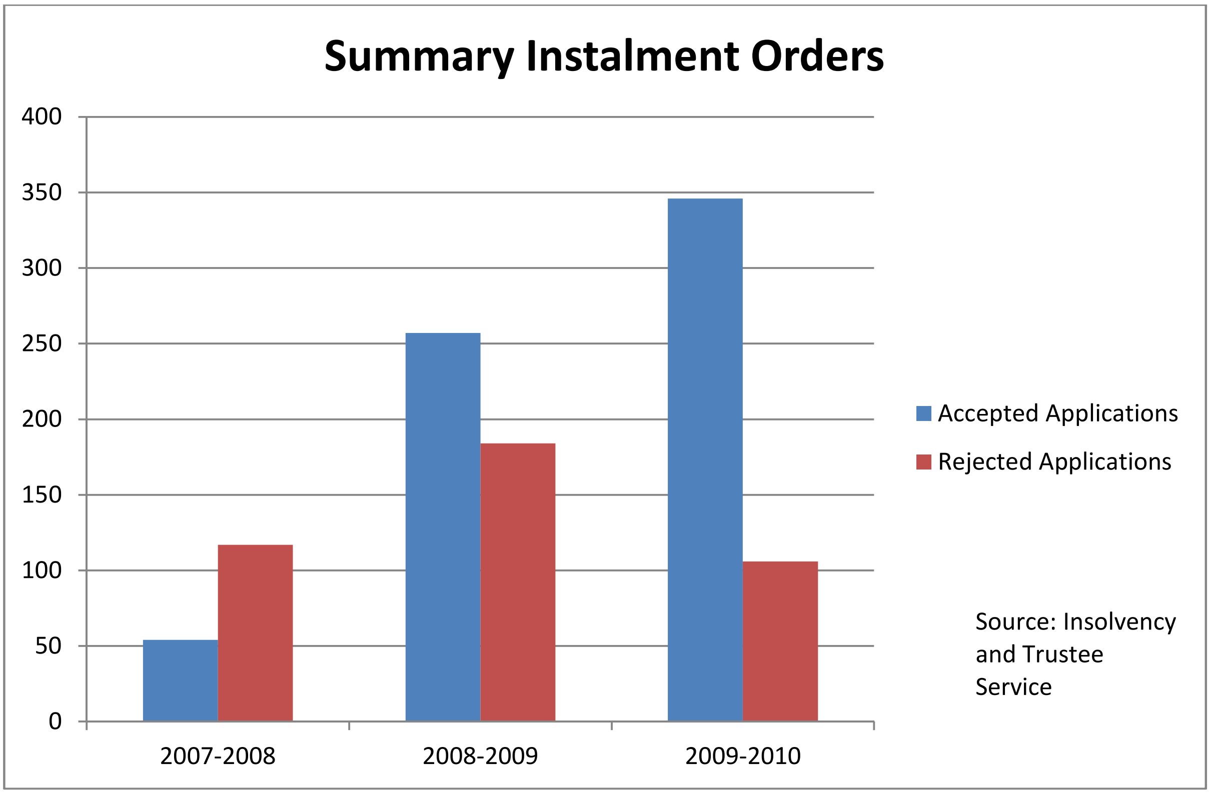
However, credit card use seems to have leveled when compared to consumers accessing credit from other sources, such as personal loans from banks and non-bank institutions.

When Debt gets unmanageable

The Insolvency Act 2006 provides for two new consumer debtor mechanisms to avoid bankruptcy. This may explain the significant drop in bankruptcies in the 2007-8 period.

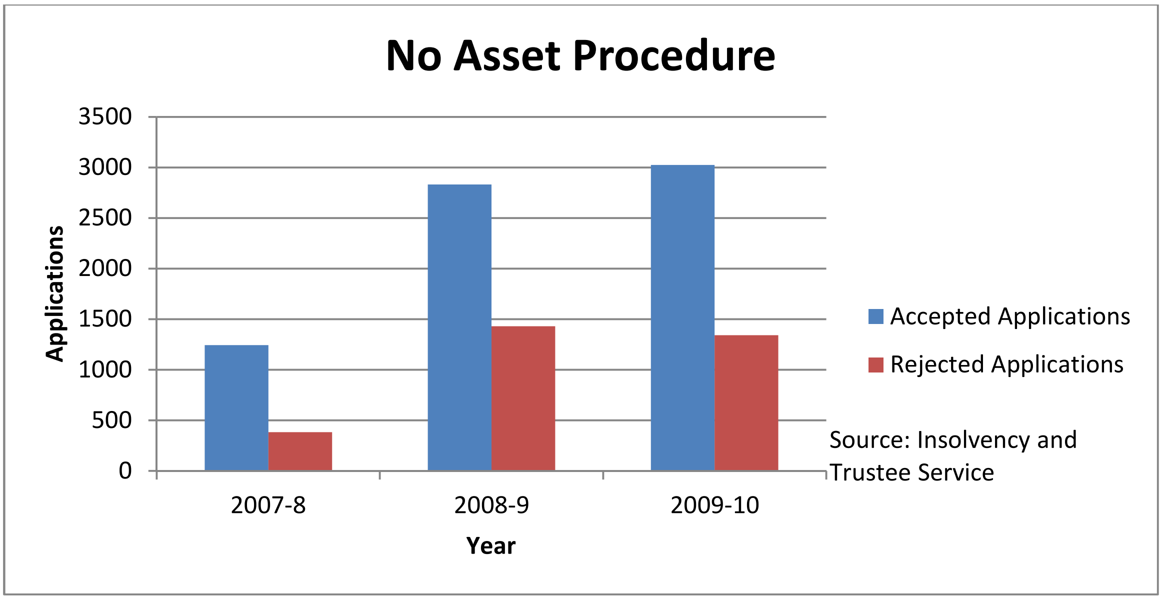
These mechanisms are Summary Instalment Orders and No Assets Procedures.

Figure 20



Summary Instalment Orders allow people in debt of $40,000 or less to pay back the money they owe in regular instalments over a period of three years (or under special circumstances, 5 years).

Figure 21

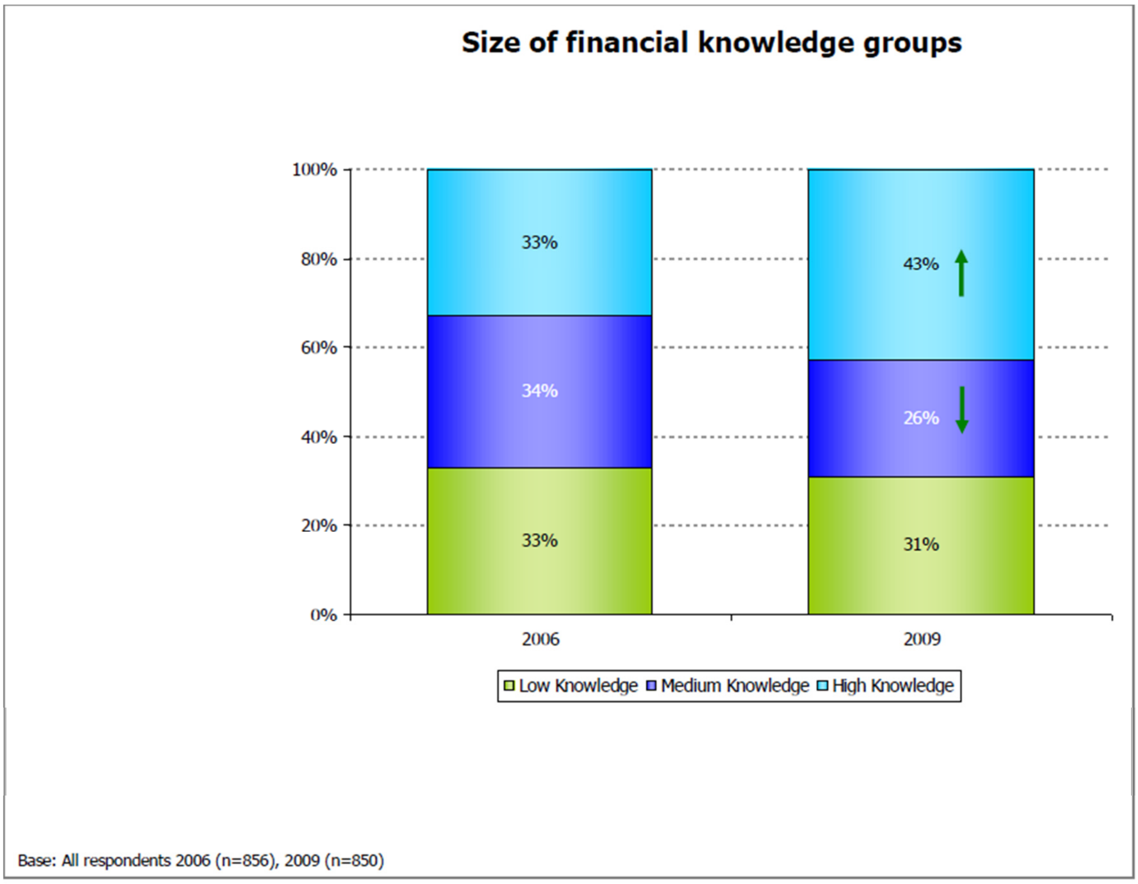


A No Asset Procedure (NAP) is an alternative to bankruptcy, aimed at consumer debtors who have run up debts of up to $40,000 mainly from domestic liabilities but have no means of repaying that debt. The NAP provides a one-off chance for a consumer debtor to make a fresh start. Creditors cannot pursue the debt owed once the NAP has been accepted. The NAP is for 1 year only.

This graph shows that in the 2009-10 period, 3000 NAP applications were accepted.

Financial Literacy

Figure 22



Source: ANZ/Retirement Commission 2009 Financial Knowledge Survey

The ANZ/Retirement Commission 2009 Financial Knowledge Survey shows there has been an overall improvement in New Zealanders financial knowledge, with more people having a high level of knowledge, but there has been little change in the number of those with a low level of financial knowledge. Therefore, in the group most in need of financial literacy, there has been little improvement.

The Marketing of Credit to New Zealanders: A Topline Report (2008)[1] reports that 24.4% of respondents are not particularly well organised nor plan their financial commitments to stay within their income. 29.2% appear to have used credit of various types) to pay their bills.

[1] 4,626 completed the survey. The theoretical margin of error is +/- 1.5%

57% appear to worry about their money situation. The survey indicates that this section of people can be broken down into two groups:

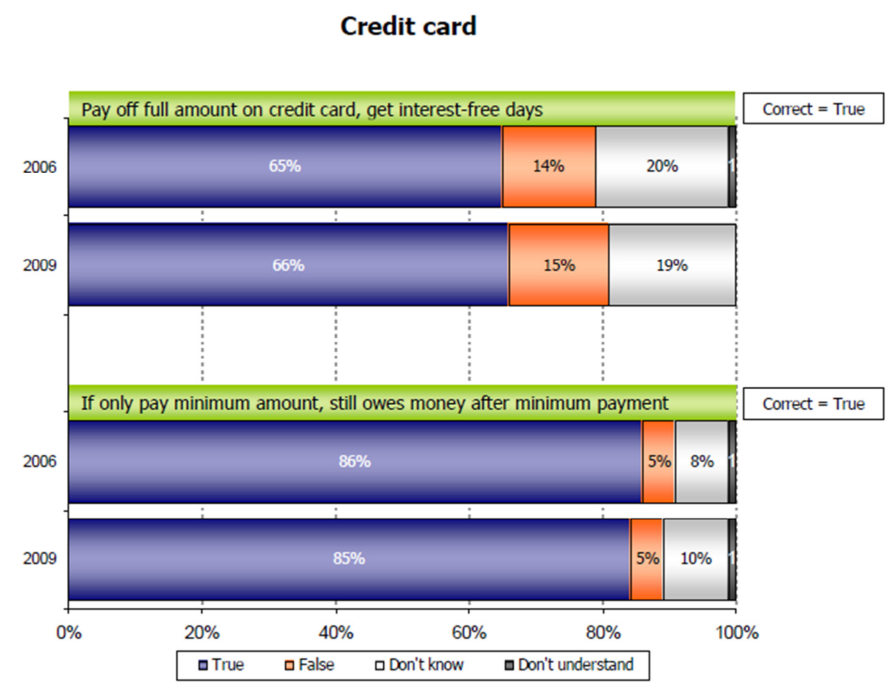
- Those who are struggling due to external circumstances outside their control (e.g. divorce/injury/illness/redundancy/retirement), and
- Those who are struggling as they spend more than they earn, e.g. because they or their partner "can't stop shopping" or they have put holidays on their credit card etc.

The following graph shows the responses gained from the following question in the ANZ/Retirement Commission 2009 Financial Knowledge Survey:

Please tell me which of the following statements are true and which are false?

a) If John pays off the full amount on his credit card each month, he gets interest free days on purchases;
b) If John only pays the minimum payment each month he still owes money after the minimum payment.

Figure 23



Base: All respondents 2006 (n=856), 2009 (n=850)
Source: Q4

Source: ANZ/Retirement Commission 2009 Financial Knowledge Survey

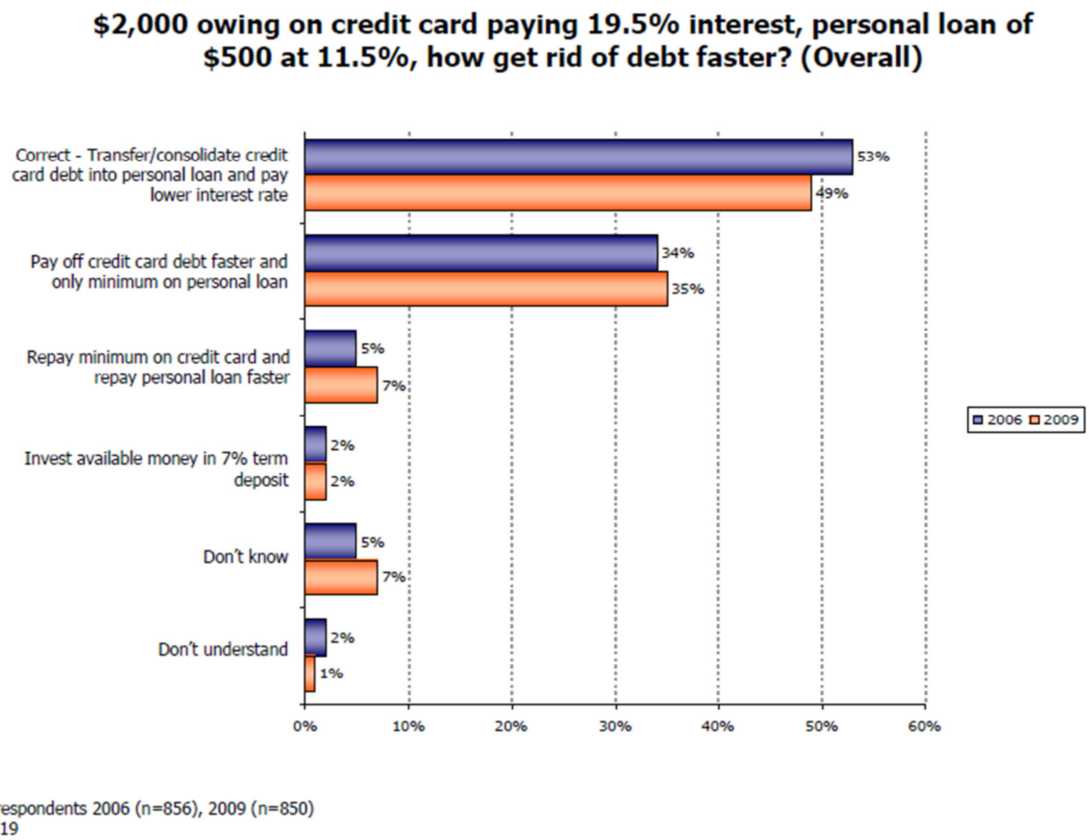
There appears to be a moderate amount of financial understanding of the effect of minimum payments.

The following graph shows the responses gained from the following question in the ANZ/Retirement Commission 2009 Financial Knowledge Survey:

If Pete has $2000 owing on his credit card paying 19.5% interest, and another personal loan of $500 at 11.5% interest, which would allow him to get rid of his debt faster?

a) Repay the minimum amount on the credit card and repay the personal loan faster?
b) Pay off the credit card debt faster and pay only the minimum amount on the personal loan until the credit card debt is cleared?
c) Invest any available money in a term deposit paying 7%?
d) Transfer and consolidate the credit card debt into the personal loan and pay the lower interest rate?

Figure 24



Source: ANZ/Retirement Commission 2009 Financial Knowledge Survey

Only half of respondants chose the right answer. This shows that debt management can be difficult for a large proportion of the population.

Unsolicited Credit

Over half of the respondents (55%) in *The Marketing of Credit to New Zealanders: A Topline Report* (2008) said that in the past year (2007), they had been offered an extension of credit that they hadn't actually asked for.

Although those working and on higher incomes were most likely to have been offered credit, young people, students, and unemployed had also been offered unsolicited credit.

Those aged 36 to 65 were most likely to report having been offered credit. Almost half of those 18 to 25 years had been offered a new credit card or extension, along with 17.5% of those aged 18 years and under.

Those working full-time or in unpaid work (62%) were most likely to be offered credit, however one-third of students (37%) and almost half of those unemployed (43.8%) had been offered this.

Overall, those on high incomes were likely to have been offered more credit, however 47.2% of those earning less than $20,000 had also been offered this facility.

In all, respondents indicated that 39 companies were competing for their debt. Of the 2564 respondents who said they had had unsolicited offers, 1035 had been approached by American Express, either via mail, phone call or in person in places such as shopping malls and airports. At least 65 respondents had been approached more than once.