

# Using a third tier lender: experiences of New Zealand borrowers

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## Executive summary

This report presents the findings of a research study on New Zealanders' use of third tier lenders. Third tier lenders are defined by the Ministry of Consumer Affairs as finance companies (other than those who offer finance exclusively to businesses), pawn brokers and mobile lending trucks that provide consumer credit. It excludes building societies, credit unions and the Public Service Investment Society (defined as second tier lenders) and registered banks (first tier lenders).

The research was designed to find out more about what lies behind borrowers' decisions to use third tier lenders, borrowers' experiences of third tier lenders and the practices of these lenders. Quantitative data was collected through Colmar Brunton's national Omnibus survey between 21 June and 11 July 2011. Respondents who had received a personal loan of under \$5000 from anyone other than a bank in the last 24 months were asked questions about their use of lenders, reasons for borrowing, and paying off the loan. Qualitative data was collected from 24 face to face interviews with Maori, Pacific and Pakeha respondents in Auckland (16) and Wellington (8). Respondents were asked about their experiences of selecting and using a third tier lender and paying off a loan. On line information about the 22 third tier lenders used by respondents in the qualitative study was also reviewed.

### Findings from Omnibus survey

Three percent of respondents said they had borrowed money from a person or organisation that fell within the definition of a third tier lender (this is a total *unweighted* sample of 28 borrowers). All those who had borrowed from a third tier lender had borrowed from a finance company, with the most common being GE Finance and Instant Finance. No one surveyed had used a payday lender, pawnbroker, or money lender in the past 24 months.

If we project this to the total population aged 15 years and over (using 2006 Census figures), based on the results of this survey, an estimated 94,815<sup>1</sup> New Zealanders have borrowed money from a third tier lender in the last 24 months. It is important to note that the actual number of borrowers will be higher than this because the survey estimate is biased downwards for a number of reasons (for example, telephone surveys are biased towards people who have access to a landline telephone and can speak English well).

Eighty percent of borrowers had borrowed from a third tier lender once, 13% had borrowed twice, 5% had borrowed three times, and 3% had borrowed five or more times. The most common reason for borrowing was to 'buy something essential for yourself or your household' (41%), followed by 'to buy something you wanted, that wasn't essential' (25%), 'an unexpected bill or emergency' (23%), and 'to help pay for some of your day to day expenses' (8%). Four percent of borrowers provided other reasons. We asked all borrowers to think about the most recent loan they had received, and to tell us whether they had paid the loan off in the time they initially agreed to. Most borrowers (82%) were able to pay off their loan in the time given, 2% needed longer, and 16% had not yet reached the end of their initial loan period. Finally, we asked all borrowers whether they were offered a further loan, a credit top up, or more credit than they initially asked for. Two thirds of borrowers (67%) were offered this.

### Findings from face to face interviews

Almost equal numbers of males and females were interviewed. The majority of Auckland respondents lived in South Auckland, which is reflected in the higher number of Pacific respondents (11) compared to other ethnic groups – European (7), Maori (6), Maori/Samoan (1). Twelve respondents were wage/salary earners (fulltime or part time) or self employed, while nine were beneficiaries, and three were students (full time or part time). The majority of respondents (19) were renting. Five respondents were home owners.

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<sup>1</sup> This figure was revised in September 2014, as it had been based on an incorrect total population estimate.

## Use of lenders

Respondents had borrowed from 22 third tier lenders and two second tier lenders during the previous 24 months. Twenty one respondents had borrowed from a lender more than once during the previous 24 months. Of these, ten had borrowed five or more times. Ten respondents had borrowed from one lender, while 14 respondents had borrowed from more than one lender.

## Finding out about a third tier lender

There were two principal ways in which borrowers found out about a third tier lender – recommendations from family and friends, and lenders' advertising on the radio, television, newspapers, mail outs, and bill boards. Borrowers were attracted by messages such as "we lend to beneficiaries", "no security required", and "no credit check". Some borrowers said they were attracted to a lender because it looked like a reputable company.

## Perceptions of lenders

### Banks

Respondents reported banks had changed their approach to lending in recent years. Prior to the economic down turn, banks were described as encouraging customers to borrow from them. Since the recession, banks have tightened their lending criteria for personal loans, overdrafts and mortgage top-ups. Eight respondents (three of whom were home owners) had been refused credit by their bank in the past 24 months. Banks were described as being inflexible (i.e. customers who want to borrow are required to visit the bank), and their processes and decision making take a long time. This was problematic for people who required money quickly, for example in emergency family situations.

Beneficiaries said they did not apply for a bank loan because they perceived banks do not lend to beneficiaries and other people who are not employed. Similarly, respondents with existing debt and/or a poor credit rating did not consider applying for a bank loan because they thought they would be unsuccessful.

### Third tier lenders

In contrast to banks, third tier lenders were regarded as being much more receptive to loan applications. Applying for a loan was described as being more straightforward (i.e. less paperwork) and faster (i.e. people got a decision within two hours of submitting an application, and received money in their account that night). This ease and speed was helpful for emergency situations (such as sickness or a death in the family), to pay an urgent bill or for cash flow problems.

## Choosing a third tier lender

The reasons for borrowers choosing a particular lender included the lender's friendly staff, ease of access, and the borrower having an existing 'good' record with the lender. Generally, the reasons for choosing a particular lender did **not** include the lender's terms and conditions, such as the interest rate. The only condition that some borrowers took into consideration was whether a lender required security.

## Reasons for accessing a loan

Borrowers identified a range of reasons for accessing a personal loan, including purchasing or fixing a car (11), cultural or family event (9), purchasing appliances (2), and for living expenses and paying existing debts (2).

## **Borrower understanding of loan details**

Nineteen borrowers appear to have received at least basic information about their loan details. This included information about the interest rate, repayments, what would happen if they got into arrears and default payments. Borrowers with pay day or pawn shop loans generally had a better understanding of the loan details. It is likely this is because the contracts are straightforward. Data from nine borrowers suggests that even when lenders provide information, borrowers may still come away with a limited understanding of the loan terms and conditions. This was particularly the case for borrowers who were given the document to read, or who were taken through the document very quickly. Six borrowers commented they were so focused on getting the money, they did not take in the contract details.

## **Borrower financial literacy**

With the exception of four or five borrowers (some of whom had worked in the financial sector), the remaining borrowers appeared to be lacking aspects of financial literacy. Such aspects included understanding their rights as a borrower, the terms and conditions of loan contracts, and the impact of high interest rates on the total payable amount. These shortcomings in understanding were compounded by some borrowers focus on getting the cash they were seeking. This had the effect of 'blinding' them to the long term financial consequences of their decision to enter a loan agreement with a high interest rate, given their income level and (in some cases) existing debt.

## **Paying off the loan and use of loan top-ups**

Most borrowers (15) said they paid off loans early or within the period specified. Of the 17 borrowers who had had a personal loan, 12 had accessed top ups. Some borrowers said they had contacted the lender to ask for a top up. However, there was also evidence that people topped up loans after receiving unsolicited letters or phone calls from lenders when their loans were close to being paid off. Those who had paid off loans continued to receive phone calls or letters from lenders offering further credit.

## **Summary**

Third tier lenders have an 'ease and speed' approach, by offering same-day loan approval and pay-out, and on line and phone applications for loans. Even respondents who could access a loan through their bank chose instead to approach a third tier lender because they knew that the process would be easy and quick. Many borrowers found third tier lenders offered a friendly, personal service. This resulted in putting borrowers at ease and making them feel more comfortable about asking for credit.

For many of the borrowers in this study, a third tier lender provided their only option for borrowing money to purchase a car, pay for family events and for living expenses. Therefore borrowers had little choice about taking on a loan with interest rates of between 20 and 39 percent per annum (or up to 550% per annum in the case of payday lenders and pawn brokers) and accepting a range of administration and other fees. Some borrowers were charged penalty fees for paying off a debt early. Amongst the 22 lenders there was also evidence of the following practices:

- providing borrowers with a larger amount of credit than they had applied for
- using a 'valued customer' approach with borrowers to encourage them to be return customers
- offering unsolicited credit (with high interest rates) to low income households
- 'persistent' contact with borrowers who turn down offers of additional credit.

## Introduction

This report presents the findings of a research study on New Zealanders' use of third tier lenders. Third tier lenders are defined by the Ministry of Consumer Affairs as finance companies, pawn brokers and mobile lending trucks that provide consumer credit.<sup>2</sup> This definition excludes building societies, credit unions and the Public Service Investment Society (defined as second tier lenders) and registered banks (first tier lenders).

The research was designed to find out more about what lies behind borrowers' decisions to use third tier lenders, borrowers' experiences of third tier lenders and the practices of these lenders. The report begins with the results of six questions included in Colmar Brunton's national Omnibus survey between 21 June and 11 July 2011. Respondents were asked whether they had received a personal loan of under \$5000 from anyone other than a bank in the last 24 months; the number of times they had borrowed from a third tier lender, reasons for borrowing, paying off the loan and whether they were offered further credit.

The findings from 24 qualitative interviews with Maori, Pacific and European borrowers are then presented. The research objectives for the qualitative component of the study were to explore:

- the decision making processes involved in selecting a third tier lender, and
- third tier lenders' practices through the experiences of borrowers.

The 24 respondents had borrowed from 22 third tier lenders and two second tier lenders<sup>3</sup> during the previous 24 months. As well as interviewing borrowers about their views about selecting and using a third tier lender, the researchers documented details of contracts where respondents had copies and were willing to share. An review of online information about each lender was also conducted.

The qualitative findings are grouped under the following headings:

- Respondents' use of lenders in the previous 24 months
- Finding out about a third tier lender
- Awareness of other lenders
- Why the borrower used a particular lender
- How the lender was approached
- Types of loans used
- Reason for the loan
- The loan process

Individuals have been quoted in the report using a unique reference number, e.g. 'Respondent 1 to 24'. Appendix B includes a summary of individual interviews to provide a sense of each person's experience with third tier lenders.

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<sup>2</sup> It excludes finance companies who offer finance exclusively to businesses.

<sup>3</sup> The two second tier lenders were Aotearoa Credit Union and Baywide Credit Union.

## Section 1: Omnibus survey findings

This section of the report describes the results of six questions included in Colmar Brunton's national Omnibus survey between 21 June and 11 July 2011. One thousand and fifty one New Zealanders aged 15 years and over completed the survey. The demographic profiles of respondents can be found in Appendix C: methodology.

### Estimated size of the third tier lender market

We asked two questions to determine whether a person had borrowed from a third tier lender. Firstly, we asked each respondent whether they had received a personal loan of under \$5,000 from anyone other than a bank in the last 24 months. We then asked each respondent to say who had given them the loan. Included within our definition of a third tier lender are finance companies, payday lenders, pawnbrokers, and money lenders.<sup>4</sup>

Overall just 3% of borrowers said they had borrowed money from a person or organisation that fell within the definition of a third tier lender (this is a total *unweighted* sample of 28 borrowers). All those who had borrowed from a third tier lender had borrowed from a finance company, with the most common being GE Finance and Instant Finance. No one surveyed had used a payday lender, pawnbroker, or money lender in the past 24 months.

If we project this to the total population aged 15 years and over (using 2006 Census figures), based on the results of this survey, an estimated 94,815<sup>5</sup> New Zealanders have borrowed money from a third tier lender in the last 24 months.

It is important to note that the actual number of borrowers will be higher than this due to the bias inherent in a telephone survey. Firstly, the estimate is based on Census counts from 2006 for New Zealanders aged 15 years and over, and the size of the population has increased since then. Secondly, by their very nature, telephone surveys exclude those who do not have access to a landline telephone. Census figures show that Maori and Pacific Island people are less likely to have access to a telephone.<sup>6</sup> Thirdly, telephone surveys are biased in favour of those who speak English relatively well, and anecdotal evidence suggests that third tier lenders may specifically target non-English speaking migrants.<sup>7</sup> Finally, borrowing is a sensitive topic for some people. It is possible that a) some respondents did not wish to reveal financial matters to a telephone interviewer, or b) some respondents answered the questions in a more socially desirable way. Overall, three respondents refused to reveal whether they had taken out a cash loan in the last 24 months.

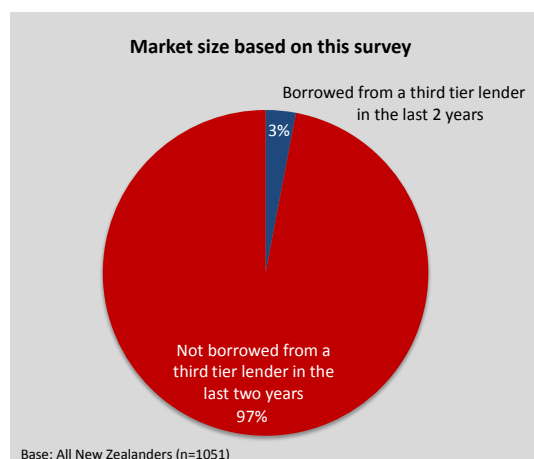


Figure: Proportion of survey respondents who have borrowed from a fringe lender in the last two years

<sup>4</sup> This definition was agreed with the Ministry prior to fieldwork.

<sup>5</sup> This figure was revised in September 2014, as it had been based on an incorrect total population estimate

<sup>6</sup> The 2006 Census illustrated that 75% of Maori and 78% of Pacific People had access to a telephone, compared to 94% of New Zealand European and Asia people (Statistics New Zealand).

<sup>7</sup> Third tier lenders have been known to advertise in Samoan and Tongan community newspapers.



## Number of times people have borrowed

We asked all those who had used a third tier lender to tell us the number of times they had received a loan from a third tier lender in the last 24 months. Eighty percent of borrowers have borrowed from a third tier lender just once, 13% have borrowed twice, 5% have borrowed three times, and 3% have borrowed five or more times.

## Reasons for borrowing

The most common reason for borrowing was to 'buy something essential for yourself or your household' (41%), followed by 'to buy something you wanted, that wasn't essential' (25%), 'an unexpected bill or emergency' (23%), and 'to help pay for some of your day to day expenses (8%)'. Four percent of borrowers provided other reasons.

## Paying off the loan

We asked all borrowers to think about the most recent loan they had received, and to tell us whether they had paid the loan off in the time they initially agreed to. Most borrowers (82%) were able to pay off their loan in the time given, 2% needed longer, and 16% had not yet reached the end of their initial loan period.

## Offered further credit

Finally, we asked all borrowers whether they were offered a further loan, a credit top-up, or more credit than they initially asked for. Two thirds of borrowers (67%) were offered this.

## Proportion of borrowers by ethnicity

Given the small number of borrowers in the overall sample, it is not possible to illustrate the prevalence of borrowers among ethnic groups with any statistical certainty. The following table should therefore be interpreted with caution.

Table 1: Prevalence of borrowing by ethnic group

Ethnic group	Proportion of borrowers in group	Base (n=1051)
New Zealand European	3%	822
Maori	1%	95
Pacific Island	6%	67
Asian	4%	72
New Zealander/Kiwi	-	11
Other	4%	70

Note: Respondents can identify with more than one ethnic group.

## Section 2: qualitative interview findings

### Respondent profile

We conducted 24 face to face interviews with people who have used a third tier lender in the previous 24 months. Sixteen respondents lived in Auckland and eight in Wellington. As Table 2 shows, the numbers of females and males interviewed were almost the same. The majority of Auckland respondents lived in South Auckland, which is reflected in the higher number of Pacific respondents (10) compared to other ethnic groups. Twelve respondents were wage/salary earners (fulltime or part time) or self employed, while nine were beneficiaries, and three were students (full time or part time). The majority of respondents (19) were renting - seven in Housing New Zealand properties and 12 in private rentals. Five respondents were home owners.

Table 2: Respondent profile

		Auckland	Wellington	Total
<b>Gender</b>	Male	9	2	11
	Female	7	6	13
<b>Ethnicity</b>	Maori	4	2	6
	Pacific Island*	8	2	10
	Maori/Samoan	1	0	1
	European	3	4	7
<b>Age</b>	18 - 25	3	0	3
	26+	13	8	21
<b>Income status</b>	Wage or salary earner (full time)	3	4	7
	Wage or salary earner (part time)	1	1	2
	Self employed	2	1	3
	Beneficiary	7	2	9
	Student (full and part time)	3	0	3
<b>Housing status</b>	Home owner	1	4	5
	Renting	15	4	19

\*There were six Tongan and four Samoan respondents. Since there were no discernible differences in these respondents, the two groups have been combined for reporting purposes.

### Lender profile

Respondents had borrowed from 22 third tier lenders and two second tier lenders<sup>8</sup> during the previous 24 months. Appendix A lists the lenders, the types of loans received by the respondents, information about the loan interest rates and fees<sup>9</sup>, and other information about lenders obtained from a review of their websites.

Fifteen of the 22 third tier lenders have a website. Nine lenders enable people to apply for a loan on-line (Avanti Finance, DTR, Financial Holdings, GE Finance, Instant Finance, Pacific Loans, Pioneer Finance, Southern Finance, UDC). Only two lenders provide details of their fees (DTR, GE Finance). Only one lender (UDC) includes details of interest rates on its website. Two lenders (Avanti Finance, Instant Finance) state that they are members of the Financial Services Federation and adhere to the Federation's processes for addressing borrower complaints. The owner of Botany Finance (a car loan lender) also owns Botany Cars which has three branches in Auckland.

Appendix A also shows the lenders' interest rates. The majority of lenders charge between 19 and 39.5% per annum for personal and car loans. One exception is Avanti Finance who appears to charge interest rates for

<sup>8</sup> The two second tier lenders were Aotearoa Credit Union and Baywide Credit Union.

<sup>9</sup> This information was recorded by the researchers from sighted contracts provided by respondents, or was provided by the respondents.

personal loans that are competitive with first tier lenders. The interest rates charged by lenders who offer payday and pawn loans work out at an annual interest rate of 498% per annum, or higher.

Five third tier lenders promote their ‘reputability’ by referring to the company’s age on their website – UDC (over 70 years old), Instant Finance (40 years old), Financial Holdings (38 years old), Avanti Finance (21 years old), and Pacific Loans (18 years old). A one page pamphlet from Instant Finance, for example, refers to their age in the following ways:

*40 years of helping Kiwis like you get ahead: Here at Instant Finance we are celebrating our 40th year in business. Our success has come from understanding our customer’s needs.*

*Trusted for 40 years 1971 - 2011*

One lender – Pacific Finance – uses Pacific languages on its website. A ‘creative’ approach has been used by Cash Converters to advertise its pawn brokering services:

*While the New Zealand economy benefits, so too does our planet, since used goods, unlike new ones, don't require any production resources. Plastics, metals, computer components, and the energy to manufacture new goods are conserved as Cash Converters plays its role in conserving our planet's resources.*

### Respondents’ use of lenders in the previous 24 months

Twenty one respondents had borrowed from a lender more than once during the previous 24 months (Table 3). The responses from five respondents who had borrowed seven or more times were examined to find out whether there were any discernible patterns about this frequency of borrowing. There were no obvious trends. One respondent and her partner were paying off two car loans, a personal loan and three hire purchases. They had obtained four payday loans over the previous 24 months to ease their debt repayment and cash flow problems.<sup>10</sup> Another borrower (a student) had used one of three pawn brokers on a routine basis, accessing small amounts of cash (under \$100) each time.

Table 3: Number of times the respondent had borrowed in previous 24 months

No. of loans	1	2	3	4	5	6	7+
No. of respondents	3	5	5	1	3	2	5

During the previous 24 months, 10 respondents said they had borrowed from one lender and 14 respondents said they had borrowed from more than one lender (Table 4). Some respondents had a specific type of loan that is only offered by some lenders. For example, a respondent may have a personal loan with one lender and a pawn loan with another.

Table 4: Number of lenders the respondent had borrowed from in previous 24 months

No. of lenders used	1	2	3	4	5
No. of respondents	10	6	4	3	1

Providing a borrower’s experience of a lender was not a negative one, the borrower was more likely to return to that lender for a subsequent loan, for one or more of the following reasons, as reported by respondents.

<sup>10</sup> The male partner worked full time and the female partner worked part time. They had four young children and lived in private rental accommodation.

- The borrower felt that they had a ‘proven record’ with the lender so were more likely to be approved for a subsequent loan.
- The borrower developed a relationship with the lenders’ staff so felt comfortable about asking for another loan.
- Some lenders (e.g. Instant Finance, Pacific Finance and GE Finance) offered additional credit once the balance of their original loan was low and/or receiving unsolicited offers of credit after the loan was paid off.

A respondent was less likely to return to a lender for a subsequent loan (or top-up) if s/he had

- not repaid the greater part of an existing loan. In such cases, the borrower tried other lenders to obtain the cash they required
- been turned down for credit at some stage by that lender.

### Finding out about a third tier lender

There were two principal ways borrowers found out about a third tier lender – lenders’ advertising and recommendations from family and friends.

#### Lender advertising

Respondents described finding out about a lender through lenders’ advertising on the radio, television, newspapers, mail outs, and bill boards. Respondents were attracted by messages such as “we lend to beneficiaries”, “no security required”, and “no credit check”. Some respondents said they were attracted to a lender because it looked like a reputable company:

*He’d also seen (name of third tier lender) TV adverts. He’s also aware of the guy who promotes (the lender) and thought – if he’s prepared to back them, the company must be ok. Respondent 24.*

*She heard about them because they are local and you see their adverts on TV. They say people with bad credit can get credit. Respondent 5*

#### Personal recommendations

Word of mouth recommendations from family and friends who had used a particular lender were also a source of information for respondents. For example, the friend of one respondent had said the lender would be:

*...easy to get in, not much information is required to get money, they’re not fussy about security. Respondent 19*

A recently arrived respondent from Tonga was contacted by an acquaintance who offered to help them get money to buy a car. She came to their home and asked them if they were interested in borrowing money from a particular third tier lender. The respondent explained that this is the Tongan way – talking face to face in your home. The couple then visited the lender’s office and signed up for their first loan. It was not clear from the interview whether this person was working for the third tier lender or receiving some kind of commission.

#### Broker

Two borrowers had found out about their lender via a broker. One respondent rang a 0800 number thinking that the person he spoke to was a lender. This respondent only realised that the person he had been dealing with was not a lender when he was charged a \$100 brokerage fee.

Another respondent and her partner (home owners) chose to use a broker to find the best deal for a \$10,000 car loan. The broker identified a couple of options for them to consider: a personal loan from a bank with an

interest rate of 17.95% over a five year term; a loan from a third tier lender with an interest rate of 14.95% over a 3.5 year term<sup>11</sup>; or a loan from another third tier lender with 21% interest. X and her partner chose the first third tier lender because the interest rate was lower and the term was shorter. The couple were not charged a brokerage fee. The respondent assumed that the broker received a commission from the finance company. For this respondent and her partner, their borrowing decision “*wasn't about the institution, it was about who would give us the best deal.*” However it should be noted that this respondent was an exception when compared to the majority of borrowers – her partner had worked in a bank and it was clear that the couple were financially competent.

## Borrowers' awareness of lenders

### Perceptions of banks

Prior to the economic downturn, borrowers described banks as encouraging customers to borrow from them. However since the recession, respondents reported banks have tightened their lending criteria for personal loans, overdrafts and mortgage top-ups. Eight borrowers (including three home owners) had been refused credit by their bank. One respondent observed that it was easier for her to get an overdraft from her bank when she was a student, than it is now that she is a home owner. Borrowers described having to use a finance company loan because they had been turned down by their bank:

*The reason they went to (name of third tier lender) in the first place was that their bank, who they have their mortgage with, got strict with their lending criteria once the economic situation hit. Prior to that, the bank was welcoming you with open arms if you wanted a loan – they would loan up to 95% of the value of your house, now they will only loan on up to 80% of the house value. Before the recession, the banks were competing with each other to lend you money – you could basically get what you wanted. Respondent 1*

*She went to (name of third tier lender) because her bank wouldn't give her a loan. She has accounts with two banks. She went to one bank who suggested she go to the other for a top-up on her mortgage. However, when she went to this bank they said this was not possible. She thinks it was because she had a fixed interest loan. They wouldn't give her a personal loan. “I feel regret, not being looked after, being left out. It would have been nice for them to say ‘you can take a personal loan’.* Respondent 23

*Originally she banked with (name of bank). She approached them for \$2000. They said they would require security – a vehicle or a guarantor. They also said that on her salary, they were not sure she could maintain the repayments. Also she didn't have a vehicle (she doesn't drive) and didn't have a guarantor. So she had to go elsewhere. Respondent 21*

There was one exception to the experiences described above. Respondent 5, a beneficiary, spoke about her dealings with one bank:

*“They are unbelievably pushy. They asked me, when she went to do my normal banking, if I wanted an overdraft.” She got a \$200 overdraft. Another time they asked: “do you want a credit card?”, then they asked if I wanted to increase the amount on my overdraft. She now has a \$400 overdraft - “that is more than what I get a week”. The rate on the overdraft is 19.15% per annum.*

Other comments about banks were very consistent - banks were described as being inflexible (i.e. customers who want to borrow are required to visit the bank), and their processes and decision making take a long time. This was problematic for people who required money quickly, such as in emergency family situations:

*Respondent 3's mother-in-law died suddenly. Her partner had to rush off for the funeral – he was only gone for seven days. She rang their bank to try to get an overdraft to pay for the (overseas) airfares. They*

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<sup>11</sup> The respondent thought this interest rate was a special deal offered by Avanti Finance at that time.

said that she had to go down to the bank because they needed her to fill out some papers for them to be able to do a credit check on X and her partner - this was despite them having their accounts and the mortgage with (name of bank). The bank wouldn't even email the papers to her. At that time she had two young babies and it was really difficult getting out. This didn't make any difference – they said she had to come into the bank. She then rang (name of third tier lender) – they emailed her the papers which she filled out. She got a JP to sign them and then she faxed them back to the lender. The whole thing was done within about 20 minutes – they make the process so easy... Banks used to be the easiest places to borrow money from, but it's not the case anymore... “We have a good credit rating so why does the bank make it so hard?”

Another respondent, a small business owner, described banks as behaving inconsistently:

*There is a sick contradiction around banks' practices – they won't allow an additional \$1,000 to be put on your overdraft because it involves too much work for them. But they will send you unsolicited offers to increase your credit card limit which involves little extra work for them. The contradiction is that the overdraft increase is temporary and the interest rate is 16-17%, yet the credit limit is permanent and the interest rate is higher at 19.75%. Respondent 12*

Borrowers who were beneficiaries said they didn't apply for a bank loan because they perceived that banks do not lend to beneficiaries and other people who are not employed. Similarly borrowers with existing debt and/or a poor credit rating did not consider applying for a bank loan because they thought they would be unsuccessful.

### Perceptions of third tier lenders

In contrast to banks, third tier lenders are regarded as being much more receptive to loan applications. Applying for a loan was described as being more straightforward (i.e. less paperwork) and faster (i.e. people got a decision within two hours of submitting an application, and received money in their account that night). This ease and speed was helpful for emergency situations such as sickness or a death in the family, to pay an urgent bill or for cash flow problems. Even those with existing debt had no difficulty accessing loans. Respondent 6 had used four third tier lenders six times in the last 24 months – for three personal loans, a payday loan and goods from a mobile truck:

*Respondent 6 got a pamphlet in the mail about (name of third tier lender). It caught his eye because it said they lend to beneficiaries and low income people. He rang them up and they approved him \$1,000 over the phone – it didn't even take five minutes. They asked him if he had a good credit rating – he said he did. If you say you have a good credit rating and they find out you haven't, you have to pay them \$100. They said that someone would come to his house with the paperwork that needed to be signed. This guy turned up - hardly said a thing to him. He began to worry that the company might be dodgy - he had given them his bank account details. Anyway the money turned up in his account. He needed this money for living expenses – bills and stuff.*

Likewise, Respondent 19 had no difficulty accessing a loan despite numerous debts to other lenders.

*Respondent 19 has two loans with (name of third tier lender). One loan is for \$3000 and the other for \$1500. The money has been used for “unexpected” expenses: “birthdays, donations to family when there's a death back home, and the car breaking down”. This respondent also has a \$300 personal loan from a second third tier lender and a loan with a third tier car finance company. They have used a mobile truck for the past eight years to purchase clothes, food and appliances. Respondent 19*

## Why the borrower used a particular lender

For the majority of borrowers, the reason for selecting a particular lender did **not** include the loan terms and conditions, such as the interest rate. As noted earlier, only one of the 23 borrowers made efforts (via a broker) to find the lender who offered the best interest rate.

Borrowers who were beneficiaries and/or non home owners lacked options and choice when choosing a lender. Their choices were determined by their credit rating, existing debt and the security they could offer. Respondent 6, for example, said he would take credit from whatever lender will give him money (and by implication, regardless of the terms and conditions).

Borrowers selected a particular lender for one or more of the following reasons:

- The lender's staff were friendly and welcoming. Some borrowers had built up relationships with staff and were on first name terms. This made them feel more comfortable about asking for a loan:

*The first time she went looking for a loan she was living in (name of suburb). She checked out two companies. When she walked into the office of the first third tier lender the staff made her feel welcome. At the second third tier lender, the staff were busy and she felt ignored. Having friendly staff made a big difference because she felt self conscious asking for a loan. Her experience with the first third tier lender is that they are not discriminatory. She has a "checkered credit history" but "they gave me a chance. They don't make you feel bad walking in". Respondent 21*

*Respondent 17 said she mostly uses (name of pawn shop) because she "gets on with a certain person, they know me". Her experience is that this person has been lenient about enforcing the repayment conditions.*

- The lender appeared reputable and/or trustworthy:

*The reason why they decided to go to (name of payday lender) is that they are a large company with lots of branches – there is less risk with this size company compared to the smaller companies that offer the same sort of loans. Respondent 13*

*The person they met with (she thinks he is the owner) was upfront and looked honest, they felt they could trust him – he didn't come across as a crook. If they hadn't felt they could trust him, they wouldn't have applied for the loan. Respondent 1*

- Some borrowers said they went back to a lender they had used before because they were 'already on their books' and/or had a 'good' record with the lender and/or the respondent reported they had had a positive previous experience of the lender:

*At first they had a limit of \$200. Once they had paid that off they got a new limit of \$280 because they have shown they are honest, have paid up, now have good credit. They now say we are good customers. Respondent 10*

- The ease of access to the lender was important for some borrowers. Some borrowers said that their lender was local so s/he did not have far to travel. Alternatively the borrower was able to apply over the phone or the lender visited the borrowers' home, as is the case with mobile trucks.
- Some borrowers chose a particular lender based on the content of their advertisements (such as no requirements for credit checks or security) or on the lenders' reputation as being an 'easy' lender in terms of information and other requirements:

*A friend told them about this company, said it would be "easy to get in, not much information required to get money, not fussy about security". Respondent 19*

- Some borrowers' choice of providers was based on the type of loan they offered. For example, payday loans and pawn loans are only offered by some third tier lenders.

## How the lender was approached

Some borrowers made initial contact with the lender via telephone call to find out whether the lender would consider them for a loan. This was followed by a visit to the lenders' local office. In the case of lenders that do not have local offices (e.g. GE Finance, Financial Holdings) all of the communication was by telephone. Other borrowers chose to visit the lender's office without an initial phone call. Pacific and Maori borrowers did not appear to have a preferred way of making contact with a lender – some chose to visit the lender, while others chose to make their initial contact by telephone. Only one respondent (Pakeha) applied on line for a loan.

For respondents buying a car or store merchandise, the sales assistant made contact with the lender on the customers' behalf. In several cases the borrower had no choice about the lender; car yards had relationships with particular lenders. As noted above, two borrowers made contact with a lender via a broker. In the case of mobile trucks, their staff knocked on people's doors and invited them to come out to the truck to inspect their merchandise.

One respondent went to Kiwibank for a loan. She was told by a Kiwibank staff member that the loan would not be a problem; she was referred through to another staff member by telephone phone. It was only later that she realised the loan was not with Kiwibank but GE Finance, who appear to have a relationship with the bank.

## Types of loans

All respondents had used third tier lenders over the past 24 months. The types of loans they accessed are listed in Table 5, with personal loans<sup>12</sup> being the most common type, followed by pawn shop loans. Where borrowers had one type of loan (e.g. personal) with more than one lender, each loan has been counted. Top-ups of existing loans are not counted.

Car loans and some personal loans tended to be higher amounts than other types of loans.

In addition to third tier loans, one respondent had used a social lender, Ma'a Whetu, which she described as a Porirua-based organisation set up by a group of Samoan families to provide low interest loans to support other Pacific families. Two other respondents had borrowed from banks or credit unions.

Table 5: Types of loans used by borrowers

Loan type	Auckland	Wellington	Total
Personal loan – third tier lender	15	5	20
Pawn shop	9	1	10
Payday loan	6	2	8
Mobile truck	7	0	7
Car loan	5	1	6
HPs / in-store finance	3	0	3
Personal loan – bank or credit union	2	0	2
Social lender	0	1	1

The personal loans ranged from \$500 to \$10,500<sup>13</sup>. Ten of the borrowers with personal loans had received one to three top-ups in the last 24 months.

<sup>12</sup> The Omnibus survey included payday and pawn loans as personal loans. These types of loans are separated out in Table 5.

<sup>13</sup> Some respondents were unable to remember the details of their loan.



The three borrowers aged 18 - 25 had payday, pawn shop and mobile truck loans only, perhaps indicating that younger people (under age 25) are less likely to access personal loans.

## Reason for the loan

### Personal and car loans

Borrowers identified a range of reasons for accessing a personal loan, including cultural or family events such as funerals and weddings, purchasing or fixing a car, and to cover living expenses and existing debts (Table 6).

Table 6: reason for accessing a personal loan

Reason for loan	No. of borrowers
Cultural, family events	9
Car purchase	8
Fix / warrant a car	3
Living expenses, pay debts	2
Holiday	1
Purchase appliances	2
Purchase presents	2

The following vignettes are examples of borrowers' use of personal loans:

*Respondent 22 needed money to host a family gathering. Neither she nor her brother had room in their respective houses so they booked accommodation for the visitors at a local camp. She approached the bank first but was declined: "I felt angry and sad because this is my bank. This is the time when I needed help from them". Instead she got a \$500 loan from a third tier lender. Respondent 22*

*Respondent 7 and her husband needed money urgently to pay for the funeral of a family member – they borrowed \$2000 from a third tier lender. It was the first time they had used a third tier lender. At the time she was grieving and it did not occur to her to ask the bank for a loan. All she knew was that she needed the money quickly. She phoned several lenders but they were not keen because she owned a home: "they didn't seem happy about going through the rigmarole of organising the house to be security". A friend recommended the third tier lender, saying she had got a loan over the phone within two hours. They did not require any security. Respondent 7*

Eight borrowers had purchased cars from third tier lenders - three using personal loans and five using a car loan. The interest rates for the car loans ranged from 25% to 29.95%. The following are two examples where contracts were sighted by the researchers:

1997 Volkswagen

Details from contract	Amount
Cash price	\$3,463.00
Loan establishment fee	\$390.00
Veda	\$5.30
PPSR	\$4.00
Motorweb	\$9.56
Driver check	\$1.52

Referral fees	\$350.00
Comprehensive vehicle insurance	\$975.00
Annual interest rate	29.95%
Total to be repaid over 2.5 yrs	\$7632.00

2001 Toyota Altezza Gita – 131,000km

Details from contract	Amount
Cash price	\$14,000.00
Insurance	\$1,200.00
Extended warranty	\$1,000.00
Establishment fee	\$200.00
GAP insurance	\$500.00
Indemnity fees	\$2,112.00
Interest rate (fixed)	25%
Total interest	\$10,574.00
Total owing	\$29,725.00
Term 100 fortnights (3.8 yrs)	

### Payday loans

Payday loans are short term (with repayments made over four weeks). Seven borrowers had used payday loans to help pay for basic living expenses. The following vignettes are examples of borrowers who are using this type of loan.

Respondent 13 is female, works part time and her partner is in full time employment. They have four young children and are renting in Auckland. They have two car loans, a personal loan of \$2500 and three hire purchases. Their monthly debt repayments total \$1200. They have used “three to four” payday loans over the past 24 months to help them pay their bills. Their last payday loan was for \$800, with the first repayment due a fortnight after receiving the loan. The details were as follows:

\$800 payday loan	Amount
Total repayments	\$1124.47
Weekly repayments (4)	\$281.12
Total interest	\$306.47
Daily interest rate	1.315%
Annual interest rate	498%
Default notice fee	\$9.00
Default fee	\$13.95

Respondent 12 is a business owner working from a home office. He uses payday loans to tide his family over until clients have paid their bills. He uses this type of loan only in extreme circumstances and always pays back the loan within four weeks “because the default rate (50%) is so high”. He usually borrows \$1000 at an interest rate of around 38%.

### Pawn shop loans

Pawn shop loans were also used to meet daily living expenses such as food and travel. Loans tended to be small, ranging from \$40 to \$150. The amount borrowers could loan depended on the item they exchanged. The following details were provided for two pawn shop transactions, each in exchange for \$50.00 cash. The goods held as security were a Sony game and console (Ezycash) and a cell phone (Dollar Dealers).

	Ezycash pawn shop	Dollar Dealers
	Amount owed if repaid in:	
1 month	\$60.00 (240%)	\$62.50 (300%)
2 months	\$80.00 (360%)	\$81.75 (381%)
3 months	\$95.00 (360%)	\$118.75 (550%)

### Mobile trucks

Six Auckland respondents had bought goods from two mobile truck companies, Home Direct and Lync. One respondent had used both companies. Over the past year she has purchased \$400 of food and a laptop that cost \$2499. She commented that the laptop price was “more than twice what it was worth” but she was “desperate for it”. She purchased clothes and blankets from the other company. Her view is that one company is much cheaper than the other, so most of her transactions are with one company. She has two accounts with them; one for HPs and another for goods on lay-by.

Respondent 19 has had an account with a mobile truck for about eight years. They buy clothes, food and appliances. They have just purchased a “cheap New Zealand brand” lawn mower for \$1200. It broke down soon after they purchased it and was sent back to be repaired. Their view is that the mower still does not work properly but the company they purchased it from maintains there is nothing wrong with it. The last time they used a mobile truck was for a hamper of food.

When asked why they used a mobile truck when goods were more expensive than elsewhere, two respondents said:

*If I go to the shops I have to have \$50 cash which I don't have. If I go to the truck I can spend \$250 or \$300 but don't have to pay it back straight away. Respondent 8*

*You can go to the market and see a nice T shirt but you can't afford it. You can go to the clothing truck and see the same shirt and they give you the option to pay it off for \$10 a week. So it satisfies the needs of what you want. We don't buy to show off. We buy for our children and grandchildren. Respondent 10*

The following is an example of a cell phone purchased from a mobile truck by Respondent 6.

Cell phone purchase	Amount
Cash price	\$249.00
Interest rate	19.5%
Fortnightly payment	\$15.00
Account maintenance fee (monthly)	\$5.00
Default interest	24%
Missed payment fee	\$15.00
Field visit fee	\$65.00

Respondent 9 spent \$250 at a mobile truck on a jacket, a pair of pants, a packet of socks and perfume. She stopped her repayments when she became a student. She said they are charging interest on the money she owes: “I didn’t know they could do this. When I bought the clothes they told me there would be no interest” She thinks she now owes around \$300 - \$350. *Respondent 9*

## The loan process

As described in the section ‘Perceptions of third tier lenders’, borrowers’ experiences of third tier lenders were that they provided easy and fast access to credit. Most borrowers were asked for some form of identification although not everyone could remember the specific ID they were asked to provide.

The most common types of other information required were evidence of income or benefit and bank statements. Some borrowers were asked for a tenancy agreement and references, e.g. from a landlord. Two borrowers said they did not have to provide identification. One said he had used the lender for the last “10 to 12 years”. Because he and his partner have used the lender for so long they are treated as “valued clients. All I have to do is ring the owner to get a loan” (Respondent 12). The other respondent bought goods from a store and the loan was arranged by the shop assistant on the telephone. The respondent said the loan was approved in five minutes: “I assume they did a credit check” (Respondent 15).

## Awareness and understanding of contract details

The data suggests 19 borrowers received at least basic information about the loan details. This included information about the interest rate, repayments, what would happen if they got into arrears and the default payments.

A number of factors helped or hindered borrowers’ understanding of the loan contract (Table 7). Some lenders took the time to ‘walk’ borrowers through the contract. For example Respondent 1 was given an information sheet about the company and the loan types, what repayments would look like and the interest rates. After asking if they wanted to proceed, the lender then took them through the application form. Likewise, Respondent 24 said the lender walked him through the contract “line by line”.

*Table 7: Factors that impact on a borrower’s understanding of loan details*

Borrower understands loan details	Borrower has limited understanding of loan details
<p><b>Lender:</b></p> <ul style="list-style-type: none"> <li>• takes an active approach: walks borrower through contract at borrower’s pace (Respondents 1, 5, 7,12, 13, 24)</li> <li>• provides one page contract - pay day or pawn shop loans (Respondents 4, 5, 13)</li> </ul> <p><b>Borrower:</b></p> <ul style="list-style-type: none"> <li>• is financially literate (e.g. has worked in finance / banks (Respondents 3, 12, 15)</li> </ul>	<p><b>Lender:</b></p> <ul style="list-style-type: none"> <li>• takes passive approach: gives contract to borrower to read (Respondents 2, 8, 21, 22)</li> <li>• rushes borrower through the contract (Respondents 6, 9, 11, 18, 20)</li> <li>• provides long and/or technical contract (Respondent 11)</li> </ul> <p><b>Borrower:</b></p> <ul style="list-style-type: none"> <li>• is focused on getting money, not focused on contract details (Respondents 10, 14, 16, 17, 19, 23)</li> <li>• has limited ability to read or understand English (Respondents 11, 14)</li> </ul>

## Financial literacy

Three borrowers said they had a good knowledge of how loans worked because they had been employed in banks or elsewhere in the finance sector. However, a number of issues identified by respondents, such as gaps in understanding of loan details, feeling overwhelmed by loan contracts, and lack of understanding of the impact of high interest rates were indicators of shortcomings in borrowers' financial literacy.

Borrowers who had payday or pawn shop loans generally had a better understanding of the loan details. It is likely this is because the contracts are straightforward. Respondent 4 described his payday loan as follows:

*The paperwork is...easy to understand. The contract is just one page that has all the details about the loan; how much (the loan is), the repayment amounts, when the payments will come out of my account and what happens if there isn't enough money in my account to make the payment.*

Pawn shop loans discussed by borrowers were similarly straightforward. There was no establishment fee and people were not penalised if they paid the loan off early. Goods were held for three months and could be sold if the loan was not repaid. The amount to be paid back increased each month. Respondent 4, for example, said he tries to buy back his goods as soon as possible so he does not have to pay too much. Likewise, Respondent 5 said she usually buys back her item in the first month.

However, data from nine borrowers suggests that even when lenders provide information borrowers may still come away with a limited understanding of the loan terms and conditions. This was particularly the case for borrowers who were handed the document to read by themselves or felt they were rushed through the document. Respondent 11, for example, described being given:

*Heaps of paper to sign. There was so much paper work that there was no way you could sit and read through it all in their office because it would take all day to read. You only have time to read the first one or two pages in their office.*

He and his wife said they left the office feeling "blind". After they had been making repayments for some time they were concerned the amount owing had not decreased as much as they expected. The respondent became aware that it was the interest "that causes this". The next time he took out a loan he asked questions and took time to read the document. The respondent, a new migrant, reflected on his situation:

*Families come to New Zealand wanting a better life for them and their children. At first they think it is great to be able to get money so easily. But after a couple of years of paying off their loan, they realise how much they are paying back in interest and they become frustrated – lenders require big payments in return for lending you money. Language is a barrier for some new arrivals – they don't understand what they are signing. They need budgeting advice when they arrive in New Zealand.*

The following are examples of borrowers who felt they were rushed through the document:

*They bring over the paperwork, they rush you through it, they talk quickly. They know you want the money so they don't muck around. Respondent 6*

*They went through the paperwork...explaining it all but it was pretty fast – they have to be fast because there is always a queue of people waiting to be served. Respondent 4*

The borrower's state of mind also impacted on their understanding of the loan. Six borrowers commented they were so focused on getting the money they did not take in the details:

*Mainly I'm in a rush when I go in there; I just need the cash. Respondent 17*

*I didn't focus on what they were saying, only on getting the money. I know they were explaining things to me but it's hard, eh. Respondent 10*

*There were some things I understood, some things I didn't. But I didn't mind because I really wanted the computer. Respondent 16*

Six borrowers said they received limited or no information about the loan contract. For example, when Respondent 18 went in to purchase a car he said:

*It was "sign here and here". The salesman didn't explain anything like the interest rate or anything else.*

It wasn't until a while later at home that they went through the contract and realised the interest rate they would be paying (25%).

All borrowers with third tier personal or car loans were asked by the interviewer if they had been told about the 'cooling off' period<sup>14</sup> when they could change their mind and cancel the contract. Only one respondent knew about this clause. He had been taken through the loan contract "line by line". His view was that the lender was someone who "cared enough not to set people up for getting into shit" (Respondent 24). Comments from many borrowers suggest the 'cooling off' clause was of little use to relevance to them. One person's comment summed up these views:

*It would be very unlikely that you would change your mind when the money is in your bank account the day after you sign the application form; the money has probably been spent by then! Respondent 3*

Only one borrower said that, had she known about the 'cooling off' clause, she might have reconsidered. After signing the contract, the "reality of the loan set in" and she regretted it. But even then she said it probably would have made no difference. She "really needed the money" for living expenses as her benefit had been cut.

## Accessing top-ups

As Table 3 shows, most borrowers had used a third tier lender more than once over the past 24 months. Of the 17 borrowers who had a personal loan, 12 had accessed top-ups. Some borrowers said they had contacted the lender to ask for a top-up. However, there was also evidence people topped up loans after receiving unsolicited letters or phone calls from lenders when their loans were close to being paid off. Respondent 10, for example, said he received a phone call saying he was "entitled to a top-up". His response: "You're dumb if you say 'no'". (Respondent 10) Likewise Respondent 15 said that when his payments got down to \$200 or \$300 he was phoned weekly to ask he needed a top-up. He had said 'no' a few times:

*but then they catch me at a good time, when I need money to pay the phone bill or power.*

Those who had paid off loans continued to receive phone calls or letters. Respondent 21, a single parent on a benefit, said she received calls about once every four months after paying off her loan, asking if she wanted more money. She said there was no pressure and she could say 'no'.

*Then one day they rang. She was pregnant at the time. "I hadn't thought about getting a loan but then when they phoned I thought 'why not, it will come in handy with a baby'. She thought they might not loan to her because she was pregnant and single, but was "pleasantly surprised" when they did. "They just looked at my income and said 'yes, you can make the repayments'".*

<sup>14</sup> The Credit Contracts and Consumer Finance Act 2003 gives people a right (for a short time after they have received the documents) to cancel the contract.

A few borrowers had resisted the temptation to top-up a loan. When Respondent 22's loan was nearly paid off she received a letter stating she was eligible for a \$250 loan. "The letter said: 'if you want it, it is preapproved'. All I needed to do was give them a call. I had to think twice; it was tempting. However, I didn't think it was worth it for \$250. She said she had continued to receive letters, even once the loan was repaid. Likewise, Respondent 15 received a letter stating he was entitled to a "credit limit of \$5,000". The respondent had not used it and did not plan to.

For some, the third tier lender's offer to top-up was viewed as a positive sign they were now credit worthy. Respondent 19, for example, described getting his first loan as "starting the process. It got me in through the door." Likewise, Respondent 22 said she started receiving letters for top-ups "once they could see I was a very good customer, paying back my loan".

## Access to larger loans

Companies providing payday loans appear to use a different approach to building customers' sense of credit worthiness. A number of borrowers reported they had asked for higher amounts but were told they needed to first prove they could pay off a smaller loan. Once this was paid off they were offered a larger loan.

*Respondent 14, for example, went to a third tier lender to borrow \$150 but was only able to access a \$100 payday loan. He was told "everyone starts off on a lesser amount. Now I'm up to \$300 because I'm good at making repayments".*

*Respondent 20 was only able to access \$60 the first time she went in. After paying that back over four weeks she was able to get a second loan of \$100.*

Thus, over time people are able to access larger amounts of money. Cash Converter clients also receive a 'gold card'. As well as making borrowing quicker and easier the card also reinforces people's sense that they are now 'valued' clients.

Three borrowers had been offered more money than they requested. Two were in fulltime employment and the other a beneficiary.

*Respondent 23 said she went in to ask for "\$1000 to \$2000" so she could travel to visit her daughter in hospital. She was told she could borrow \$3000 if she wanted. She said she took the larger amount "in case I needed more money later". In the end she said she did not need it; the extra money went into her savings account.*

*Respondent 15, needed \$1,800 to purchase car wheel rims. The shop assistant phoned a third tier lender; the loan was approved on the phone. The third tier lender told him he could have \$2,500. The shop assistant tried to sell him other things in the shop up to this value but the respondent said he was not interested.*

*Respondent 24 had borrowed \$1000 and been making regular repayments. When he went back to ask for a top-up of "\$200 to \$300" the lender said he could have up to \$500. His response: "I took the lot".*

## Paying off the loan

### Paying off early or on time

Most borrowers (15) said they paid off loans early or within the period specified. Respondent 18, for example, treat their payday loan as a priority. They make sure that they always have the money to pay the weekly repayments. Likewise Respondent 2 said she has never missed a payment:

*It isn't worth missing a payment because it stuffs up your credit rating which is a long term thing.*

She said as long as she works a 40 hour week she has got the payments covered and there is no strain on her budget to pay the loan off.

For those using pawn shops there was a tangible incentive to pay back the loan within three months. If you missed the three month deadline, you risked losing the item you had handed over as security. Respondent 17 said she had exchanged a camera and DVD for \$40 and left them there for a month. When she returned the DVD player had been sold. "I was gutted".

There was also an incentive to pay back the loan as soon as possible as each month the amount owed increases. Respondent 9 uses a pawn shop for small loans (under \$100). She said she always makes sure she pays back within a month, otherwise the loan "gets too expensive". Respondent 13 has monthly debt repayments of \$1200 a month. When they get a payday loan they always pay off the whole amount before the first payment is due (a fortnight after the contract is signed). She and her partner work out how much overtime each of them has to do to make the repayment.

### Penalty for early repayment

Some lenders actively discourage loans being repaid early. Respondent 22 said she would have preferred to pay off her car loan early but there was a penalty if she did so. Likewise, Respondent 5 described purchasing a computer for \$1200. Over three years she paid back \$6000 which she described as "ridiculous". She paid the computer off four months early and said she had to pay a "penalty" fee.

### Getting into arrears

Five borrowers commented on the lender's "flexible" approach when they were unable to make payments. Respondent 12 said:

*If you get into trouble and can't make the payments you can ring them up and they offer you different options.*

Another respondent said that if he misses a payment he will talk with the lender, who he described as "flexible". For his current loan he is expected to make repayments of \$80 a week. If he misses a payment he pays \$120 for the next two weeks and then he is back to \$80 a week.

Respondent 21 had a loan with a third tier lender. Her partner was making the repayments, even after they separated:

*But then he went to Australia with his new partner. It was several weeks before I knew the repayments were not being made.*

She said the lender gave her some leeway and said they understood her situation. They deferred payments for two months she could get "on her feet". She thinks they were so good because "I've never let them down before".

Respondent 5 described her experience with a pawn shop:

*If you can't repay within the three month period they don't sell it straight away. You can work out a deal (though she doesn't know what it is because she's never had to do that). If you go back and talk to them they work out an agreement to pay it off. Then if you don't pay it usually gets sold.*

She said her usual approach was to repay the debt within the first or second month.

Respondent 1 said she never got in arrears "but if I did I would feel comfortable about ringing them up and talking to them about it; that's how they make you feel".



Interviews with eight respondents suggest there is a point at which lenders become less friendly about unpaid debts. A number of these borrowers had accessed multiple personal loans, payday loans and had used mobile trucks. The following vignette describes the financial situation Respondent 6 is in and highlights the lack of awareness he has about getting into arrears.

*Over the past two years he has been repaying three personal loans from two companies. He has also had a payday loan and has twice purchased goods from a mobile truck. A while ago one lender started sending him text messages "hassling him" about money he owes (on a personal loan). Last week he got a letter stating he is \$67-97 in arrears (letter sighted). "Every time they send you a letter it costs \$10." He can't understand why he is in arrears when he is paying them back. "They make such a big deal of it – they are hounding me."*

Respondent 16 described two separate occasions when he had got into trouble with loan payments. The first time he had purchased a car for his brother and expected him to make the repayments. The respondent then went overseas for three years. His wife returned to New Zealand ahead of him, only to be informed the car loan had not been repaid. She was told the \$3000 still owing had to be repaid immediately or her husband would be apprehended by the police when he arrived at Auckland airport. She immediately organised for the debt to be repaid. The respondent also described getting a letter from Baycorp about money still owing on a loan he had taken out to travel to Tonga for a family event. His view was this loan had already been paid off; however he was not able to provide proof. As a result of these two experiences he said payments on his current loans were "never behind".

## Discussion of findings

This section discusses the findings in respect of third tier lenders and the borrowers who use them.

### Third tier lenders

The qualitative findings indicate that there is a demand for loans offered by third tier lenders. People with low incomes, cash flow problems, existing debt and/or poor credit rating, and home owners lacking equity in their home are borrowing from third tier lenders. Some borrowers interviewed in this study turned to third tier lenders following the tightening of bank lending criteria in the current economic downturn.

Third tier lenders have an 'ease and speed' approach, by offering same-day loan approval and pay-out, and on line and phone applications for loans. Even respondents who could access a loan through their bank chose instead to approach a third tier lender because they knew that the process would be easy and quick. Many borrowers found third tier lenders offered a friendly, personal service. This resulted in putting borrowers at ease and making them feel more comfortable about asking for credit.

For many of the borrowers in this study, a third tier lender provided their only option for borrowing money to purchase a car, pay for family events and for living expenses. Therefore borrowers had little choice about taking on a loan with interest rates of between 20 and 39 percent per annum (or up to 550% per annum in the case of payday lenders and pawn brokers) and accepting a range of administration and other fees. Some borrowers were charged penalty fees for paying off a debt early. Amongst the 22 lenders there was also evidence of the following practices:

- providing borrowers with a larger amount of credit than they had applied for
- using a 'valued customer' approach with borrowers to encourage them to be return customers
- offering unsolicited credit (with high interest rates) to low income households
- 'persistent' contact with borrowers who turn down offers of additional credit.

### Borrowers of third tier loans

The qualitative findings suggest that while borrowers appreciated the access to credit offered by third tier lenders, many would prefer not to have to use them. On the one hand, such loans had enabled borrowers to fund family events, purchase cars, meet car-related costs and buy consumer items. On the other hand, using third tier loans had begun a cycle of financial commitments from which it was hard for some borrowers to escape. Although the research focussed on loans over the previous 24 months, many borrowers had a longer history of third tier lending use. (However this did not appear to be the case for the eight borrowers who used third tier loans after their bank had refused their request for credit.)

Some borrowers appeared to be caught up in a spiral of debt, as a result of paying back loans with interest rates of 25 percent or more. The effect of such high interest rates means that these households may not get ahead financially despite their best efforts to pay off debt. The cash flow was so tight for some low income households or other households with high debt levels, that payday or pawn loans were seen as the only option to pay for living expenses until their next pay or benefit payment.

With a few exceptions, borrowers appeared to be lacking aspects of financial literacy. Such aspects included understanding their rights as a borrower, the terms and conditions of loan contracts, and the impact of high interest rates on the total payable amount. This lack of understanding was compounded by some borrowers' focus on getting immediate access to cash or goods. This had the effect of 'blinding' them to the long term financial consequences of their decision to enter a loan agreement, given their income level and (in some cases) existing debt.

## Appendix A: information about lenders used by research participants

Lender name	Loan type	No. of participants who have borrowed from the lender	How to apply for a loan	Interest rates - contract sighted by researcher* or as cited by respondents	Admin / establishment fees - contract sighted by researcher*	Information on website and/or advertisement	Other information from sighted contract or participants
1. Aotea Finance	Personal loan	4	Over phone and in person	39.5% p.a.*	\$120 - \$125 < \$1000 loan* \$200 = \$1000 loan*	No website found.	Information from contract: \$200 processing fee \$220 payment protection plan
2. Aotearoa Credit Union	Personal loan	1	In person	Information not supplied by respondent		Emergency, personal (secured and unsecured) and car loans available to members (depending on the amount the member has saved in the Loan Provider account). Offices in Auckland, Wanganui, Hamilton and Porirua. Established 1990. Offer personal, car and debt consolidation loans.	
3. Avanti Finance	Personal loan	3	On line or phone (does not have any retail offices)	12.5% p.a. (a special deal), 16-17% p.a. (note: both borrowers are home owners)		Personal loans \$1,000- \$50,000. Maximum loan term is 5 years. Loan security required. Use approved brokers (who appear to receive a commission). Lend to beneficiaries who meet criteria. "Responsible Lending Guidelines" published by the Financial Services Federation is provided on the website.	Return customers are charged a slightly reduced interest rate. There does not appear to be an establishment fee on new loans for return customers
4. Baywide Credit Union	Car loan	1	On line	Information not supplied by respondent		Established in 1971. 100% New Zealand owned. Offer savings, insurance, short term loans, personal loans.	
5. Botany Finance	Car loan	2	In person	25% p.a.*	\$200*	No website found. A search of the Companies' Office shows that Botany Cars (who the two respondents bought their cars from) and Botany Finance are owned by the same person.	
6. Cash Converters	"Next Pay" (pay day loan)	6	In person	Daily rate 1.315%* annual rate 498%*		Originally an Australian company, now International. 14 stores in 8 centres in the North Island and in Christchurch. Stores are franchises. Offer cash loans, from \$100 to \$1,000 and pawn brokerage.	The company sends new customers who have paid off their first loan(s) a 'gold card' (which is unsolicited but which costs customers \$15) enabling the customer to obtain new loans quicker.
	Pawn brokering	3	In store			The website includes the following statement about the benefits of using their company (!): "While the New Zealand economy benefits, so too does our planet, since used goods, unlike new ones, don't require any production resources. Plastics, metals, computer components, and the energy to manufacture new goods are conserved as Cash Converters plays its role in conserving our planet's resources."	
7. Credit Management Ltd	Pay day loan	1	On phone	38% p.a			
	Personal loan	1	On phone	19-30% p.a		No website found.	
8. Direct Credit Order (DCO)	Personal loan	1	In store	Around 25%	\$200	No website found.	Around \$45 for insurance
9. Dollar Dealers	Pawn brokering	2	On line or in store	The respondent got \$50 cash for her cellphone. If she buys it back before one month, it will cost \$62.50, two months \$81.75, and three months \$118.75.*	Dollar Dealers don't charge any documentation, valuation or insurance fees.*	Seven stores in Auckland, including one opposite the Auckland Casino. Loan amounts from \$20-\$100,000. Loans against label or brand items require proof of authenticity (receipt). Buy, sell and loan on "just about anything from a mink coat to a tractor, cars, boats, art, couture, brand named bags and wallets, diamonds and jewellery".	
10. DTR	Personal loan	3	On line or in store	Information not supplied by respondent		21 stores throughout New Zealand. Personal loans of between \$500 and \$5000 with household items as security (e.g. car, audio visual, whiteware and furniture). An initial fee of \$150 applies for new cash loans up to \$1,000. An initial fee of \$250 applies for cash loans over \$1,000. For future loan top-ups a \$150 valuation fee applies. Terms between 12 and 48 months. Advertise overnight loan approval.	
	Hire purchase	2	In store	Information not supplied by respondent			
11. Ezy Cash	Pawn brokering	2	In person	The respondent got \$50 cash for a Sony game and console. If she buys it back within one month, she will pay \$60, within two months \$80, and within three months \$95.*		New Zealand owned and operated. Licensed and accredited as pawn brokers.	
12. Financial Holdings	Personal loan	1	On line or phone	27% p.a.*	\$225*	Financial Holdings Ltd ("FHL") is a New Zealand owned and operated finance company that is 38 years old. Provides finance for plant and equipment, vehicle, marine, consumer credit, and debt consolidation. Both secured and unsecured loans are available. Minimum loan \$1,000.	Information from contract: Admin fee = \$225 Document and booking fee = \$250 Insurance = \$48 PPSR = \$3.07 (there was no explanation of what this acronym refers to). The respondent who is a beneficiary with other loan debt applied and was approved for the loan on the phone. Somebody from the company visited him at home the same day to sign the contract. There was no explanation of the contract.
13. GE Money/GE Finance	Personal loan	2	On line or phone only	22% p.a.*	\$250*	A large organisation offering a range of loans. Terms from 6 months - 7 years. Minimum loan is \$3000. Fees: Establishment fee: \$275 Early termination fee: \$40 Payment handling fee (other than direct debit and by mail): \$1.50 Late payment fee: \$35 Fixed interest rate over the term of the loan	GE Finance has no retail outlets. All its business is done on line or over the phone. GE Finance is reported as sending some customers a unsolicited letter every year offering an increased credit limit.
	Store Finance	1	In store to purchase store goods	29.5% p.a			

Lender name	Loan type	No. of participants who have borrowed from the lender	How to apply for a loan	Interest rates - contract sighted by researcher *or as cited by respondents	Admin / establishment fees - contract sighted by researcher*	Information on website and/or advertisement	Other information from sighted contract or participants
14. Home Direct	Credit to buy Home Direct goods	5	On line, phone, door knocking by sales people from mobile shop	19.5% p.a*		Website displays goods for sale. Lacks information about how Home Direct works.	Information from contract: \$15 account maintenance fee payable quarterly (or \$5 paid monthly) – the customer can choose which option they prefer. Default interest = 24% p.a. \$15 missed payment fee. \$65 field visit fee (the contract did not specify what this was).
15. Instant Finance	Personal loan	6	On line, phone or in person	19-20 p.a.%		Company has operated in the personal finance sector for 40 years. Is registered as an employer or principal of a financial adviser and/or Qualifying Financial Entity. Has 18 retail stores in the North Island (of which half are in Auckland) and one store in Christchurch. Easy Driver Ltd (a registered Motor Vehicle Dealer) is a subsidiary company. The company's code of ethics is provided on the website. Adheres to the Financial Services Federation (FSF) Code of Conduct which provides a mechanism for complaints. Internal and external complaints procedures are also specified on the website.	A significant amount of advertising appears to be done in local newspapers in the main centres and on billboards. Advertisements feature a well known ex-rugby league player.
16. Lync	Credit to buy Lync goods	2	Not known	Information not supplied by respondent		No website found.	
17. Ma'a Whetu	Personal loan	1	Face to face	Information not supplied by respondent		No website found.	This is operated on a "trust-basis" by seven Samoan families in Porirua as a way of helping other Samoan families
18. Motor Trade Finances (MTF) Limited	Car loan	1	Via car dealers who are members of MTF	Information not supplied by respondent		MotorTrade Finances Limited (MTF) was formed in 1971 for motor vehicle dealers to finance sales of motor vehicles to the public. MTF is an investor-owned company, incorporated under the Companies Act 1993, with its shares held by its participating shareholders. MTF finance is available through <a href="#">local MTF offices</a> that specialise in vehicle finance. To become a member of MTF, business owners are required to meet criteria in terms of financial strength and customer focused business practice.	
19. Pacific Loans	Personal loan	2	In person, on line or phone	38% p.a*	\$330*	Established 1993. Pacific languages used on website. Loans from \$250 - \$20,000. Loans for homeowners: secured on property by way of an unregistered second mortgage and a caveat lodged against the property (no solicitors are involved). Maximum term of the loan is 60 months (5 years). Loans for tenants: personal loans secured against motor vehicles/ life insurance policies/ shares and/or chattels (household furniture). Loans range from \$250 to \$20,000 repayable over 24 months.	Information from contract: Establishment fee \$330 Insurance \$155 Credit check \$8.50 PPSR search/registration fee \$4.10 Motor web fee \$12.60 Default fee \$17.20 weekly Repossession letter \$32.25 per letter Pre possession letter \$10.75 fee per letter Reminder letter \$6.45 External field visit \$193.50 per letter Repossession fee \$200 plus GST Storage: \$10 plus GST per day \$120 plus GST mileage \$70 plus GST for driver
20. Pioneer Finance	Personal loan	1	On line, phone, face to face appointment	21-22% p.a		Established 1995. Kiwi owned and operated. Offices in Wellington and Manukau. Website provides photos and short biographies of owner and senior staff. Member of the Financial Services Complaints scheme. Minimum loan is \$500. Establishment fee (but not specified). Most loans carry payment protection insurance. Require security for all loans. Security conditions listed. Willing to lend to beneficiaries. Decisions take one hour after required documents have been received from applicant.	Applicants are given an information sheet during the application interview.
21. Southern Finance	Car loan	1	On line	Information not supplied by respondent		Christchurch-based company operating throughout New Zealand. Offers car, property, personal and debt consolidation loans.	
22. Super Loans	Super Pay Advance (pay day loan)	1	In store only	Information not supplied by respondent		Stores in Wellington, Porirua and Lower Hutt (opening a store in Napier in September). Loans for salary and wages earners (not self employed or beneficiaries) earning at least \$500 per week after tax. Will loan 10% of the applicant's monthly income after tax. Interest is calculated on a pro rata basis i.e. the number of days the applicant has had the loan. The minimum loan period is seven days. Will loan one pay day loan to an applicant at a time. No security is required.	
	Super Express Loan (pawn brokering)	1	In store only	16% per fortnight (interest incurred fortnightly). The per annum rate is 416% (information from website).		Security is required – amount of loan is based on appraised value of the good(s). Goods that are appropriate as security are listed on the website. Loan period is up to three months. If the good(s) has not been bought back, it is auctioned. Repayments may be made in instalments or in a lump sum. No fees (as per a personal loan).	
23. UDC	Car loan	2	Via car dealers	Information not supplied by respondent		UDC is owned by the ANZ Group of companies and is over 70 years old. It has a long term credit rating of AA (Standard and Poors). It offers car loans through a network of accredited car dealers, and business loans.	

# Appendix B: summary of interviews

Respondent ID	Ethnicity Gender	Income source	Age	Housing & location	Info about loan	Views about mainstream banks	Finding and selecting a lender	Lender's approach	Info required from borrower	Loan details provided and borrower's understanding	Security	Paying off the loan	Mobile trucks
1	Māori female	ftime work	26+	HO, Wtgn	Personal loan / top ups. 1st loan for holiday to visit son in Australia. 2nd loan for daughter's car. Both \$4k approx. When they had about \$1k left on the 2nd loan, they topped up (3rd loan).	Bank has tightened up on lending since economic downturn. Applied, but turned down even though have own home.	Recommended by friend who said you could get \$ fast and process would be easy.	Provided info sheet about personal loans before asking them if they wanted to apply. Lender upfront and looked honest. They felt they could trust him.	Recent payslip, passport or driver's licence and a bill as proof of address.	Informed / Understood. Given info about lender and loan. Lender went through application form with them. Were told to phone if couldn't make a repayment, so they would not get into arrears.	Two cars.	Loan paid off early.	
2	Pakeha female	ftime work	26+	HO Wtgn	2 separate personal loans. 1st (more than 2 yrs ago) was for wood burner. Reasons for second loan of \$5k not disclosed.	Has mortgage with bank but didn't think about getting loan there. Has visa card with a 2nd bank - changes 4.99% interest for however long it takes you to pay it off. (Originally had a Q card but transferred what was owing to credit card). Bank too bureaucratic: "you could be in the bank for an hour just waiting to see someone". When husband had to go overseas for funeral, bank was inflexible. Don't always get the best deal from a bank.	Familiarity: Went straight to lender because they knew her (they knew she paid off her loans) and she has used them in past. Did not shop around for lowest rate.	Lowkey, not pushy. Everything done by phone and fax. They don't send you statements telling you how much you have paid off and how much you owe. If you want this information you have to ring them up.	Copies of payslips and drivers licences.	Informed / Limited understanding. She didn't read the terms and conditions other than to notice the amount she was borrowing, the term, the repayment rate and the interest. Just signed where she had to sign.	Car worth \$13k	She nominated how regularly the direct debits would be made - she chose weekly because she is paid weekly. Lender stops direct debits automatically once you have paid off the whole loan. Is still paying off loan.	
3	Māori/Pakeha female	F/ftime work with partner in full time work	26+	HO Wtgn	Personal loan / top ups: 1st loan \$10.5k for 3.5 yrs (for car). 2nd loan for funeral overseas (\$6k - included \$1500 from first loan).	Bank too bureaucratic: "you could be in the bank for an hour just waiting to see someone". When husband had to go overseas for funeral, bank was inflexible. Don't always get the best deal from a bank.	Competitive interest rate: Went to broker to find best deal. Lender's rate better than bank's. Easy process: 2nd loan done within 20 mins.	Lender "excellent". Process made very easy (emailed papers to fill out). They don't hassle people to borrow more money. However, encourage loyalty: reduced rate for 2nd loan; no establishment fee.	Info about employment details, statement of their financial position.	Informed / Understood. Info included interest rate, repayments, total amount, establishment fee, optional insurance. Contract was 8-10 pp of "legal jargon". Husband read it: "he is anal about such things" and has worked in a bank.	Equity in house	When partner was between jobs they rang and got a 3 mth suspension; only needed suspension for 1 mth. Loan paid off loan early.	
4	Pakeha	Self employed	26+	Rental Wtgn	Pay day, pawn. Needed money to tide over till pay day (gets paid monthly) borrows small amounts - approx \$200 each. Has used pawn shop 3-4 times (pawning spare tools, old phones, 2 laptops).	Has a bad credit rating so borrowing from a fringe lender is his only option.	Heard advert on radio; has friends who have used them who say they are good to deal with. Saw pay day lender advert on TV; has friends who have used them.	The pay day lender is friendly, not pushy. Was given a 'gold card' - reduces paperwork and makes borrowing "quicker and easier".	Pay day - had to provide 3 months of bank statements and two forms of ID. Pawn shop - had to do "a lot of paperwork".	Was given basic details about repayments and what happens if you don't pay back in time. Went through paperwork fast as there was a queue waiting. Has a good understanding of contracts.	No security required	Pay day lender organise direct debit over the next 3 or 4 pay days. Interest rates for pawn shop loans operate on a sliding scale over 3 months. The percentages go up over time on whatever is owing on the loan - by three months, you are paying 30% on whatever is owing.	
5	Pakeha female	Benefit	26+	Rental Auckland	Pawn, personal loan / top ups. Pawn shop for small amounts (\$40) to tie over until benefit day. Personal loans of \$500 (1 co.) and \$3,500 for car (2nd co.) HPs.	Finds bank "pushy" - gave her a \$200 overdraft, then offered to increase to \$400 (she accepted). It is "over the max, just". She also has a credit card.	Pawn shop is local; 1st personal loan co. saw advertising; 2nd co. saw on "TradeMe" / particular car dealer use them.	Pawn shop friendly, 1st personal loan co. would not give her a loan for a car cause she still owed \$100. Car loan approval from 2nd personal loan co. was straightforward	Pawn: photo ID, name & address. 1st personal loan co. did not ask for anything as she was already on their system (had previous HP - computer). 2nd personal loan co. required proof she had booked restrictive licence, HN2C tenancy agreement, bank statement, W&I letter.	Informed / Understood. With pawn loan, was told - if you can't repay within 3 mth period they work out a deal. No establishment fee; not penalised if pay back early. Personal loan - was walked through the contract - not at all pushy.	Pawn: TV, sony game (small items). 1st personal loan co. dining suite, 6 chairs. PSP (games) - Volkswagon. Total that's all for \$500; 2nd personal loan co. - car.	Has had a bad credit rating in past. 1st personal loan: Done by direct debit over 12 mths (paid \$747 for \$500). Interest 29.71%. Car loan is for 1997 Volkswagon. Total repayment is more than double cash price of loan. Interest rate: 29.95%.	
6	Māori male	Benefit	26+	Rental Auckland	Personal loan / top ups. Pay day First personal loan was for car but he gets top ups, e.g. to pay ex partner's power bill. Also gets payday loans.		Advertising on TV	1st lender is friendly (send Xmas card); "understanding". 2nd lender has tried to sell him stuff (mobile ph, cars)	Bank statements, ID.	Not informed / Limited understanding. Person came to his house with the contract and hardly said a thing. "They rush you thru the paperwork, talk quickly. They know you want the money so they don't muck around."	Depends on amount: If you want \$1500 they look at car but may offer you only \$800.	One lender contacts him by txt if he owes money. If send out a letter saying in arrears it costs \$10.	Really needed new shoes. Bought for \$70. Paid them off and now has cell phone \$249. Interest rate 19.5%.
7	Samoan female	Self employed	26+	HO Auckland	Has only had one personal loan \$2k. Needed money quickly for a funeral.	Did not think at the time about going to their bank, was grieving. Has since topped up mortgage.	Friend recommended lender. She had phoned other co's but they were not keen to use her home as security as the paperwork was viewed as "a rigmarole".	Quick, easy. Loan approved in 2 hrs.	Bank statements	Informed / Understood. Walked through the contract. Respondent has financial background.	No security required.	Term was 18 mths but she paid it back faster (no penalty)	
8	Tongan female	Benefit	26+	Rental Auckland	Personal loan / top ups \$500 to register and warrant car (1st time); has since had two top ups of \$500. Used for everyday expenses: church, visiting family	Thinks you need to own land to get a loan from the bank. Also thinks it is too difficult to get a loan on a benefit.	Advert in local paper. Can't go to another lender now as lender has everything she owns as security.	Very friendly. Quick. Won't lend more than \$500 (she wanted \$1000).	ID, HN2C tenancy agreement, WINZ info	Informed / Limited understanding. Given the document to read. No verbal explanation provided.	They sent someone to look at their household possessions, then approved loan. Entire household (including whitewear) used as security.	Repayments \$43 a week. Annual interest is 39.5% (39 weeks)	Came knocking on door. Attractive as you can spend \$200 or \$300 and don't need to pay straight away. When repayments are done they come back and say: "you have credit" (encourage you to come buy more things)

Respondent ID	Ethnicity Gender	Income source	Age	Housing & location	Info about loan	Views about mainstream banks	Finding and selecting a lender	Lender's approach	Info required from borrower	Loan details provided and borrower's understanding	Security	Paying off the loan	Mobile trucks
8	Tongan female	Benefit	26+	Rental Auck	Personal loan / top ups: \$500 to register and want a car (1st time); has since had two top ups of \$500. Used for everyday expenses, church, visiting family	Thinks you need to own land to get a loan from the bank. Also thinks it is too difficult to get a loan on a benefit.	Advert in local paper. Can't go to another lender now as lender has everything she owns as security.	Very friendly. Quick. Won't lend more than \$500 (she wanted \$1000).	ID, HNHC tenancy agreement, WINZ info	Informed / Limited understanding. Given the document to read. No verbal explanation provided.	They sent someone to look at their household possessions then approved loan. Entire household including whitewear used as security. Small items (laptop, camera, phone). Anything that has a serial no. and is newer than 2005.	Repayments \$43 a week. Annual interest is 39.5% (39 weeks)	Came knocking on door. Attract five as you can spend \$200 or \$300 and don't need to pay straight away. When repayments are down they come back and say: 'you have credit' (encourage you to come buy more things)
9	Maori female	Student	<25	Rental Auck	Pawn. Uses 2 co's. Needs extra cash as can't afford to live on student allowance (\$169 a week).	Has a buy or pay debt of \$94 so can't get a loan from bank.	Uses pawn shops because they make it easy to get cash. Gets \$50 or \$60 at a time. Has used one pawn shop 3x in last 2 yrs.	"Easy going - they know what you are in there for. They don't play games." 2nd co. is ID less helpful (play games with you) so tries not to use them.		Not informed / Limited understanding. "No one explains. They just say 'Here's the \$, here is the contract, sign here'."		Always pays back within a month because interest is too high.	Has bought \$250 worth of clothes. She stopping payments when she became a student. They are charging her interest; she doesn't know what the interest rates is.
10	Samoa male	Benefit	<25	Rental Auck	Personal loan / top ups. Has used 2 co's for funeral, taking father to islands, attend family wedding overseas. 1st loan is \$600. 2nd for \$1000. Tops up on both loans when needs money.	Has a buy or pay debt. Has been told he can't get a loan from his bank.	Recommended by friend; thinks the interest rates are lower than another co. he used 5-6 yrs ago.	Straightforward. Son signed contract; he makes repayments. Finance co. called to offer them top ups. "If you're dumb you'd say no".	ID, HNHC tenancy agreement, income (son's).	Informed / Limited understanding. They provided info but he took no notice. "I didn't focus on what they were saying, only on getting the money".	All household chattels.	No problem making repayments. Has proven we are "honest, have paid up, now have good credit. They say we are good customers".	Buys clothes for children and grandchildren. Recently bought \$189 airbed for grandchild. Started with a limit of \$200; once paid off they got a limit of \$280.
11	Tongan male	Student	26+	Accommodation known Auck	Personal loan / top ups. Buy vehicles (new migrants). Topped up loan to buy 2nd vehicle.		Tongan woman visited them in their home and asked if they were interested in borrowing a car. "This is the Tongan way - talking face to face in their home".		Identification	Given info / Limited understanding. Fell rushed through, no time for questions. Too much paper work to read in their office. All we were thinking about was the money. Took more notice with 2nd loan.	Car.	Rang co. once when could not afford a weekly payment. He missed 2 payments. Said co. was flexible. They were charged for missing payments.	
12	Pakeha male	Self employed	26+	Rental Auck	Personal loan / top ups. Pay day. Personal and business loans to tide over until clients pay bills. Current loan \$7000. Also loan for business car.	Banks insist on security and stability of cash flow. Don't like small businesses unless you are a HO. He has been a customer of current bank for 20 yrs and never missed a payment.	Has used lender for 10-12 yrs. Says lender is "selective about his clients".	Low key, above board. Offer pay day loans as well - interest about 38%. Found car lender flexible as they "go a little bit further to help you".	Lender does not require information as the company and the borrower have a long relationship spanning over a number of years.	Informed / Understood. Car lender provided info about different options; info about what to do if can't make the repayments. Has previously worked in banking.	Company and personal assets; car.	Personal loan: if you can't make a payment you can ring them and they offer you different options.	
13	Pakeha female	P/time with partner full time	26+	Rental Auck	Personal Loan. Pay day. HPs. Car loan. Needed \$2500 to move city. Car loans x 2. Use pay day loans (2-3 in last year) to help pay debts (has repayments of \$1200 monthly). Has TV, computer, washing machine on HP.	Has \$13k loan with bank. Was "surprised" it was approved. Bank did not require security.	Pay day lender is large - prefer to use as "less risky" than smaller co's.	Pay day lender sent gold card which they did not want (put it up). See it as a type of credit card. You have to pay off first loan and then you are able to borrow a higher amount next time.	Not specified	Informed / Understood. Pay day co. went through the contract the first time. Did not go through subsequent contracts.	Household chattels.	Pay day - no penalty for early payment. Try to repay pay day loans before first payment is due (fortnight after contract signed). Does extra overtime to pay back loans. Has been to food bank this year.	
14	Tongan male	Benefit	26+	Rental Auck	Pay day. Pawn finance. Use for daily expenses. Current loan: \$100.	He thinks he has an overdraft but not sure. Wife managed finances but they are currently separated. He doesn't understand his bank statements. He doesn't think the bank would give him a loan.	Through wife's relatives - they use lender regularly. His wife did all the talking; he just signed the document.	He wanted to borrow \$150 but they said every borrower starts at \$100. He's now able to loan \$300 because he's good at making repayments. Gave him a gold card (was charged \$15 even though he didn't ask for it).	ID, income from WINZ.	Was given info / Limited understanding - speaks very little English. Was told loan had to be repaid in 4 weeks; penalties if miss a payment. Thinks that is an unreasonable time to pay off loan.	No security for pay day loan. Computer game used for pawn shop loan.	Struggles to repay loan in 4 weeks. He never wants to get a pay day loan again. At times all he's had to eat is bread.	
15	Maori male	Part time work	26+	Rental Auck	In store finance. Used to purchase car in wheels worth \$1800 for girlfriend.	Has a good history with bank; is paying back a \$2500 bank loan.	Shop assistant rang finance co. - loan approved over phone.	Lender offered \$2500 (more than he needed). He turned them down. He works with no's so is financially literate.	Credit check only (he has a good one)	Enough understanding to know he did not want to take up lender's offer of more money. Shop assistant organised loan over phone so no info about contract provided.	No security required.	Has no problem with repayments. Lives within his means; knows how much he needs for daily expenses.	
16	Tongan male	Part time work	26+	Rental Auck	Personal loan / top ups. HPs. Car loan. Bought car for brother who had arrived from Tonga. 2nd loan of \$1k was for WOF and fixing his own car. Loan to visit family in Tonga. HPs: computer and laptop.	Approached bank 2 mths after paying off buy or pay debt (no money because brother did not make repayments on car). Was told he has to wait 5 yrs for good credit rating. Upset as family want to buy a house.	Two lenders are local. 3rd co. he has used in past so went back to them.	2nd co. process easy; they know my history, easy to go there.	ID, pay slip, bank statement.	Not informed / Limited understanding. Just signed contract - was in a hurry to get \$. Parts of contract he did not know about until the interview.	2nd co. used old TV as security. Lender made up a bogus serial no in shop. 3rd co. no security.	Brother was to have paid off 1st loan for car but didn't. Another loan not repaid though they disputed it - but had no proof. Their payments are now never behind.	



Respondent ID	Ethnicity Gender	Income source	Age	Housing & location	Info about loan	Views about mainstream banks	Finding and selecting a lender	Lender's approach	Info required from borrower	Loan details provided and borrower's understanding	Security	Paying off the loan	Mobile trucks
17	Māori female	Student	<25	Rental Auck	Pay in 3 lenders used for travel, food and other everyday expenses.	Bank overdraft overdrown. Bad credit rating. Bank declined to give her a credit card.	Quick, easy cash. Amount depends on value of security. "You use a money lender when you're desperate."	Straightforward.	They take a photo of you (ID).	Informed / Understood. She usually rushes in, just needs \$. Lender provides info about repayments and what happens if you don't come back within 3 mths.	For \$40 or \$50 she uses items such as camera, PSP console, iPod, DVD.	Has no income at moment as DF8 cut off. Has debts to mobile truck.	Uses two companies. Has got \$400 foot, laptop \$2499. Knows it was expensive but she was "desperate". Can't make repayments at moment. Has had on layby, has had HP.
18	Tongan female	Part-time work	26+	Rental Auck	Car loan. Pay day. Car finance co: \$14k. Pay day, different amounts. Credit union personal loan. Needed \$ for rent arrears; living expenses. Personal loan / top ups. Car loan. Using 2 personal lenders. Needed \$ to fix car; birthdays, donations to family. Got a top up when loan half paid off. Car loan through car dealer.	Sick of bank charges so moved to a credit union (but distrusted, so now with another bank).	Car dealer uses his own finance company.	"Trust me, we'll take care of you". Perception that Pacific families are targeted.	Pay info	Not informed / Limited understanding. Car salesman provided no info, just "sign here and here". Wasn't until they got home that they noticed the interest rate. Went to CAB later but told contract was legal.	Car for car loan. Unlike other lenders, no security required for payday loan.	It is difficult to make repayments and pay for every day expenses.	
19	Samoan male	Benefit	26+	Rental Auck	Personal loan / top ups. Car loan. Using 2 personal lenders. Needed \$ to fix car; birthdays, donations to family. Got a top up when loan half paid off. Car loan through car dealer.	It is hard to get credit with a bank as they have a bad credit rating with Baycorp.	Friend recommended. Said it would be "easy to get in, not much info needed, not fussy about security".	Easy to get money from 1st co. 2nd finance co. is strict about lending which they appreciate.	Income & expenses, ID. Had to pay a broker fee (\$100 for a \$300 loan).	Informed / Limited understanding. Lender went through contract with them then asked if they wanted legal advice. His response: "how much is a lawyer?"	Household chattels. Something in contract that says they can take anything they acquire since contract was signed.	Have been in arrears; now have to pay back an extra \$20 a week to save their chattels.	Has used for 7-8 yrs. Buy clothes, food & appliances. Bought lawnmower but not working. Had to be fixed but still doesn't work well. If loan is down they encourage to buy more.
20	Samoan - Māori female	Benefit	<25	Rental Auck	Pay day. \$60 for living expenses.	Has overdraft with bank. They hassled her with lawyers' letters. Now repaid. Has credit card bank - up to limit.	Lender is in a convenient location.	Once a pay off loan you can get a higher amount next time.	ID, WINZ details, bank statement for previous month. No credit check.	Given info / Limited understanding. Very little info given, just "sign here and here". Was told about repayments, default fee, missed payment fees. Did not understand interest rate, even though has contract in front of her at interview.	No security required.	Benefit has been cut because she did not inform WINZ of her move to Auckland. Paid back loan in 4 weeks. Finds it difficult to make repayments on loans, credit card.	
21	Pakeha female	Benefit	26+	Rental Wtgn	Personal loan / top ups. 1st loan was \$1k. Gets top ups when she needs them, to cover everyday expenses.	Never approached the bank for a loan. Just doesn't think they would give her one.	Walked into finance co. office and felt welcome. Shopped around but other lender was busy, she felt ignored. Thought about another co. but has heard their interest rates are higher and they are "always on your back".	They don't make you feel bad walking in. They are supportive. Early on she got calls from them offering a top up. Sometimes she has taken up the offer eg. When pregnant. She thought: "Why not? It will come in handy".	Tenancy agreement, references, bank statements, power & phone bill. Did a credit check.	Informed / Limited understanding. Was walked through the contract. They explained what would happen if she fell into arrears. But she has idea of interest rate.	Household chattels. Explained that possession is the very last action they will take.	Has deferred payments when things come up. Sometimes a struggle to make repayments. She has been to a budget advisor and says she is careful, about spending.	
22	Samoan female	Part-time work	26+	Rental Wtgn	Personal loan. Car loan. \$2600 for a funeral, \$3400 for a car; small amounts for hosting relatives.	Bank refused loan because she didn't have security or a job. She was both angry and sad "because this is my bank. This is the time when I needed help from them".	Has previously used Ma'a Whetu (social lender) but they didn't have any money available at the time so was forced to use lender. Had previously used them previously (they have my records on file) so went back to them.	Easy to get a loan. They have sent her letters to encourage her to take out another loan but she has resisted.	Bank statement, ID, tenancy agreement etc	Good understanding although she did not read the contract: "you know... you should read it but you don't do it". Asked them to turn the computer so she could see it; wanted to work out the best repayment rate for her circumstances. She asked lots of questions. Is a treasurer for a church group.	Furniture, old car for finance co. No security required for Ma'a Whetu.	She paid off loan as fast as she could to avoid paying too much interest.	
23	Tongan female	Part-time work	26+	HO Wtgn	Personal loan. Needed to travel to visit family in hospital; unwell for mother (2 separate loans, each \$3k). Needed less but refused her to CE took up lender's offer of more.	Went to one bank and they suggested she go to her own bank as she had a mortgage with them. Own bank turned her down as her mortgage is fixed. Went back this year and they referred her to CE Finance. Feels she has not looked after by her bank.	This was the first place she went to. She was going to look at two other lenders but didn't need to as first co. approved her loan.	When loan nearly paid off was sent a letter saying she was eligible for a \$250 loan. It was preapproved. As it was "such a small amount" she did not think it worthwhile to take up.	Bank statement, ID, pay slip	Given some info / Limited understanding. She didn't have time to read the small print - was focused on getting \$. Lender provided basic info about repayments, interest. Found it difficult to understand the lender's account. Took \$3000 but didn't need it all (put in bank account).	Used car for 1st loan. Refused to give security for 2nd loan and lender agreed if she increased payments.	Pays off loan at higher rate than necessary - no repayments.	
24	Pakeha male	Benefit	26+	Rental Wtgn	Personal loan / top ups \$1k and two top ups of \$500 for presents, computer accessories, 2nd hand fridge.	Good relationship with bank. Has an overdraft of \$1500 - they are flexible. He gets payments from ACC so has an arrangement with them - gives them a letter showing payment is coming. Has not had a credit rating in past (good or bad).	Convenient location - in the neighbourhood.	Caring approach. Believes lender would not set up people to get into "shit". Lender asked: "are you sure you will be able to repay on your benefit?" Process easy, not stressful. They put you at ease.	ID, income details	Informed / Understood. Lender walked him through the contract.	Household chattels.	He has never missed a payment "they (the lender) love me".	

## Appendix C: methodology

### National telephone survey

Six questions were included in the Colmar Brunton Omnibus survey to provide some quantitative information about New Zealand's third tier lender market.

The Omnibus is a fortnightly telephone survey of 500 New Zealanders aged 15 years and over. The proportion of New Zealanders who have used a third tier lender in the last 24 months was thought to be very small, so the six questions were included in two consecutive waves of the Omnibus, from 21 June to 11 July 2011. This provided a total sample of 1,000 New Zealanders surveyed via the Omnibus.

The Omnibus uses random digit dialling, so every New Zealand household with a landline telephone has a chance to be included in the survey. The Omnibus is designed to provide a representative sample of New Zealanders by age, gender and location. It is important to recognise however, that all telephone surveys tend to under-represent ethnic minority groups and those who speak English as a second language (particularly Pacific Island people). Given that these groups are thought of as being more likely use third tier lenders, this survey methodology may bias (downward) the estimate of New Zealanders who have used a third tier lender. As an extra step to mitigate this, we carried out 50 'booster interviews' with Pacific Island respondents in addition to the interviews carried out as part of the Omnibus. When combined with the main sample from the Omnibus survey, this provided 67 interviews with Pacific Island respondents (6% of the overall sample).<sup>15</sup>

Although the final sample is still biased in favour of those who speak English relatively well, we believe the results are helpful for providing a general indication of the prevalence of borrowing from third tier lenders in New Zealand.

The final survey was weighted to ensure the sample matches national population characteristics such as age, gender, and location.

### Profile of telephone survey respondents

The table below shows the unweighted and weighted profile of telephone survey respondents, and the weighted profile of those who have borrowed from a third tier lender in the last 24 months.

*Table: Respondent profiles*

Demographic profile	Unweighted percentage of total sample	Weighted percentage of total sample	Weighted percentage of borrowers
<i>Base (n=)</i>	1,051	1,051	28
<b>Gender</b>			
Male	48%	48%	42%
Female	52%	52%	58%
<b>Age</b>			
15 to 17 years	9%	6%	-
18 to 19 years	5%	4%	-
20 to 24 years	8%	9%	12%
25 to 29 years	5%	8%	24%
30 to 34 years	6%	9%	-
35 to 39 years	9%	10%	10%

<sup>15</sup> As a basis of comparison, as at the 2006 Census 5% of the New Zealand population aged 20 years and over identified with a Pacific Island ethnic group (Statistics New Zealand).



40 to 49 years	20%	19%	41%
50 to 59 years	13%	15%	11%
60 to 69 years	15%	10%	2%
70 years or over	11%	11%	-
<b>Ethnicity</b>			
New Zealand European	78%	78%	77%
Maori	9%	9%	5%
Pacific Island	6%	6%	12%
Asian	7%	7%	9%
New Zealander	1%	1%	-
Another ethnic group	7%	7%	9%
<b>Personal income</b>			
Under \$10,000	16%	14%	4%
\$10,001 to \$20,000	13%	12%	19%
\$20,001 to \$30,000	11%	11%	10%
\$30,001 to \$40,000	8%	9%	16%
\$40,001 to \$50,000	8%	10%	-
\$50,001 to \$70,000	14%	15%	18%
\$70,001 to \$100,000	9%	9%	13%
Over \$100,000	9%	8%	14%
<b>Location</b>			
Auckland city	32%	29%	43%
Hamilton city	4%	4%	-
Wellington city	9%	9%	9%
Christchurch city	9%	9%	21%
Dunedin city	3%	3%	-
Provincial cities	18%	19%	16%
Small towns and rural areas	25%	26%	11%

## Qualitative interviews

Qualitative face to face interviews were held with 24 respondents in Auckland and Wellington in June – July 2011. Respondents were recruited via two approaches: street intercept and the Colmar Brunton panel. People were asked whether they had obtained cash or credit from a lender other than a bank during the previous 24 months, and if so, whether they were willing to participate in a face to face interview.

All respondents were told the interviewers were Palagi. Non European respondents were asked if they required an interpreter. Only one person (Tongan) took up this request; however language was clearly a barrier in one other interview.

Respondents received an information sheet and the interviewer also verbally explained the purpose of the research. Each respondent signed a consent form stating that participation in the interview was voluntary and that they could withdraw at any time if they wished. They were told they would not be identified by name in the report. As a thank you for their time each respondent received a \$70 koha from Colmar Brunton. All respondents requested a copy of the report summary.

Twenty three respondents were interviewed in their home, at a time convenient to them. One respondent was interviewed at her workplace, during a break. All respondents were asked if they had copies of contracts and

whether they were willing to show these to the researchers. Where documents were sighted, the researcher recorded the main terms and conditions of the contract.

Interviews were coded into Nvivo, a qualitative data coding and analysis package. An analysis workshop was held with key stakeholders from the Ministry of Consumer Affairs.