



**MINISTRY OF BUSINESS,  
INNOVATION & EMPLOYMENT**  
HĪKINA WHAKATUTUKI

**EVIDENCE,  
MONITORING &  
GOVERNANCE**



# Lender Desk-based Survey 2015

**Examining the advertising practices of New Zealand lenders**

# Ministry of Business, Innovation and Employment (MBIE)

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# Introduction

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## Background

Consumer credit contracts encompass a broad range of financial products that allow individuals to borrow to meet their immediate needs. These include credit cards, personal loans, vehicle loans and hire purchase agreements.<sup>1</sup> Credit can improve consumer wellbeing and provide consumers with greater flexibility in managing their finances. However, over-indebtedness from irresponsible lending can harm consumers.

The Credit Contracts and Consumer Finance Act 2003 (CCCFA) regulates the provision of consumer credit. The Credit Contracts and Consumer Finance Amendment Act 2014 (the amended CCCFA) introduces a responsible lending framework, incorporates and updates repossession laws, and improves information disclosure requirements. The Amended CCCFA was passed into law on 6 June 2014, and the changes took effect on 6 June 2015.

The amended CCCFA provides for the creation of a Responsible Lending Code (the Code). The Ministry of Business, Innovation and Employment (the Ministry) is developing the Code, which will provide guidance for lenders on how to comply with new lender responsibility principles included in the amended CCCFA. The Code does not include rules that are binding on lenders, but evidence of compliance with the Code will be evidence that lenders have complied with the lender responsibility principles in the amended CCCFA. A draft of the Code was released at the end of 2014 and the final Code was issued in March 2015 to give lenders time to adapt their processes to comply with the principles.

The amended CCCFA provides that a creditor must make credit fees, default fees, annual interest rates and default interest charge rates publicly available. (For more information, see the terms of reference). These must be displayed prominently and clearly on their internet site (if they operate an internet site) and a notice that information on these costs are available free of charge must be displayed on their business premises (if accessible to the public).

The main purpose of amending the CCCFA is to protect consumers against oppressive conduct by creditors by requiring creditors to lend to consumers responsibly and manage consumer credit contracts responsibly. Greater transparency in dealings between creditors and debtors will provide improved protection for consumers, especially vulnerable consumers, and give them greater flexibility when making financial decisions.<sup>2</sup>

## Objectives

This research looks at the size and nature of the lending industry, with a focus on current advertising practices by credit providers. This research is intended to provide baseline data of lender practices before the amended CCCFA came into force and before the final Code was published. It is intended that the legislative changes will be evaluated in future years. This study allows for future lender practices to be compared with lending practices in 2015 before the amended CCCFA came into force.

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<sup>1</sup> R Tooth. (2012). *Behavioural Economics and the Regulation of Consumer Credit*. Wellington: Sapere Research Group. [www.srgexpert.com/publications/behavioural-economics-and-the-regulation-of-consumer-credit](http://www.srgexpert.com/publications/behavioural-economics-and-the-regulation-of-consumer-credit)

<sup>2</sup> See Explanatory Note to the Credit Contracts and Financial Services Law Reform Bill, [www.legislation.govt.nz/bill/government/2013/0104/17.0/DLM5146303.html](http://www.legislation.govt.nz/bill/government/2013/0104/17.0/DLM5146303.html).

Similar research was conducted in 2011: *Third-tier Lender Desk-based Survey* (the 2011 study).<sup>3</sup> The 2011 study focused on third-tier lenders. Third-tier lenders were defined by the 2011 study to include finance companies, payday lenders and money lenders. Registered banks, credit unions, building societies, brokers, mortgage providers, lenders offering services exclusively to businesses, and retailers offering credit sales were not included in the 2011 study.

Because the CCCFA applies to all creditors, this study has expanded the scope of lenders being assessed. Banks, building societies, credit unions, finance companies, payday lenders and pawnbrokers were all included in this study.<sup>4</sup> The only other requirement for inclusion was that the creditor was providing lending services to consumers (see Table 6 for more information on the scope of this study).

To allow for comparison within the New Zealand lending industry, this study looks at lenders under three categories:

- banks
- building societies and credit unions
- Other Lenders.

## Types of lenders

### Banks

All banks operating in New Zealand must be registered with the Reserve Bank of New Zealand, which is required to make the details of these banks available on a public register.<sup>5</sup> Only banks that provided lending services to New Zealand consumers were included in this study. Savings banks and banks offering services exclusively to businesses were not included.

### Credit unions and building societies

Credit unions and building societies are financial institutions owned by their members. A list of credit unions and building societies was provided by the Registrar, and only those that offered lending services to New Zealand consumers were included in this study.

### Other Lenders

The category of Other Lenders includes all other credit providers: non-bank deposit takers (other than credit unions and building societies), finance companies, pawnbrokers, payday lenders and one peer-to-peer lending provider. This category also includes retailers that offer credit contracts for their products, provided they advertised this service. If the retailer advertised the financial services of a third-party, then that third-party was included in the list of Other Lenders. If the retailer appeared to provide financial services itself, then the retailer was included.

Other Lenders may operate from an office, online and/or through mobile services. This study included only lenders who provide services to consumers and excluded lenders who offer their

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<sup>3</sup> Ministry of Consumer Affairs. (2011). *Third-tier Lender Desk-based Survey*. Wellington: Ministry of Consumer Affairs. [www.consumerprotection.govt.nz/legislation-policy/policy-reports-and-papers/research](http://www.consumerprotection.govt.nz/legislation-policy/policy-reports-and-papers/research)

<sup>4</sup> Brokers were not included as they generally operate only as an agent of the borrower. Mortgage providers were included when picked up by searches in the study, but no specific search was carried out for this. Lenders offering services exclusively to businesses continued to be excluded from the study, because this study focuses on consumer credit.

<sup>5</sup> Reserve Bank of New Zealand. (2016). *Register of Registered Banks in New Zealand*. [www.rbnz.govt.nz/regulation-and-supervision/banks/register](http://www.rbnz.govt.nz/regulation-and-supervision/banks/register) (page last updated 5 January 2016).

services exclusively to businesses. Other Lenders range in size from having a national presence to being single outlets run by an individual.

The definition of Other Lenders has changed slightly from that used in the 2011 study, which focused on third-tier lenders. Both third-tier lenders and Other Lenders include non-bank deposit takers that are not credit unions and building societies. The 2011 study excluded retailers offering credit sales. However, this study included retailers that offered lending options in advertisements that were reviewed as part of this study.

## Methodology

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This research drew on the methodology used in the 2011 study.<sup>6</sup> As a result of the changes to the CCCFA, this study paid more attention to advertising practices and expanded the scope of lenders being analysed. Even though the data in the 2011 study was not collected in the same way it has been collected for the current study, some information from the 2011 study can be used as an historic data point to see changes over time.

This research was a desk-only search of credit providers to obtain information on:

- the number of lenders in each lender category
- changes in the number of Other Lenders since 2011
- outlets and locations of lenders
- lending services offered
- whether customers could apply for a loan online
- whether lenders were registered under the Financial Services Provider Register (FSPR)
- advertising practices on websites and in print media, in particular:
  - advertising content and themes (as per the 2011 study)
  - advertising practices
  - the availability of information on fees and rates (annual interest rates, default interest rate charges, credit fees and default fees).

## Size and nature of the industry

The first component of the study was carried out to provide information on the number of lenders and turnover, where they are located and the services they provide. This section also allowed for some comparisons to be made with the 2011 study.

### Existing lenders

A review was undertaken of the list of third-tier lenders from the 2011 study to determine which of these lenders were still in operation. Steps were taken to confirm which lenders from the 2011 list still existed. Names of each lender on the 2011 list were searched in the following online search engines:

- Google ([www.google.co.nz](http://www.google.co.nz))
- New Zealand Companies Office Register ([www.business.govt.nz/companies/app/ui/pages/companies/search](http://www.business.govt.nz/companies/app/ui/pages/companies/search))
- Yellow Pages Online Directory ([www.yellowpages.co.nz](http://www.yellowpages.co.nz))
- New Zealand Online Business Directory ([www.finda.co.nz](http://www.finda.co.nz)).

Lenders were considered to still be in operation if they had an online presence in at least two of the four search engines above. These lenders were then added to the 2015 Other Lenders list. Lenders who appeared on fewer than two of the lists generated by search engines were not transferred to the 2015 list.

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<sup>6</sup> Ministry of Consumer Affairs. (2011). *Third-tier Lender Desk-based Survey*. Wellington: Ministry of Consumer Affairs. [www.consumerprotection.govt.nz/legislation-policy/policy-reports-and-papers/research](http://www.consumerprotection.govt.nz/legislation-policy/policy-reports-and-papers/research)

## **New lenders**

New lenders were found on Google using the first 40 hits (here, four pages) of the following search terms. The terms used in this research were the same as those used in the 2011 study:

- cash advance NZ
- finance – mortgages and loans NZ
- finance – motor vehicle NZ
- finance companies NZ
- financial services NZ
- money – cash and loans NZ
- money lenders NZ
- pawnbrokers NZ
- personal finance NZ
- pay day loan NZ
- payday loan NZ.

To avoid duplicating lenders, search results were cross-checked against the existing 2015 list of Other Lenders. New lenders picked up by search results were added to the 2015 list.

## **Google advertising**

When carrying out searches on the above terms, Google advertisements of lenders would show at the top and sides of the search page. Screenshots were saved of the search results to provide a snapshot of the use of Google advertisements by lenders. These results were ring-fenced and not included in the count of websites or print advertising used by lenders. These screenshots have been saved as they provide insight into the use of Google advertisements by lenders. These screenshots could be used as an historical comparison for future research, but analysis of these would need to be carried out first.

## **Business details**

Business details of the Other Lenders identified were then collected. This included information on regions, the number of outlets, the services provided and whether consumers could apply for a loan online. Website and Facebook URLs were also noted for later analysis.

The following services were specifically scanned for and were the same as the services searched in the 2011 study:

- cash or personal loans
- vehicle loans
- debt consolidation
- refinancing
- pawnbroking
- payday loans
- other, for example, insurance, marine loans, and business loans.

As this study also looked at banks, credit unions and building societies, a check was carried out to see which lenders provided credit cards. This check was not carried out in the 2011 study.

## Companies Office

The New Zealand Companies Register was searched to help determine whether a lender was still operating.<sup>7</sup> Credit unions and building societies have a separate register that can also be found on the Companies Office website.<sup>8</sup>

## Financial Services Provider Register

All lenders in the 2015 lists were checked against the FSPR.<sup>9</sup>

In accordance with statutory requirements, it was checked and noted whether the lender was:

- registered with a dispute resolution scheme
- selected providing financial services to retail clients (the register cannot say that the lender was “not providing any financial services to retail clients”)
- registered as “being a creditor under a credit contract”.

If a creditor fails to register when required, the law prohibits them from exercising any rights to repossess consumer goods and from delegating any such rights.<sup>10</sup> If they fail to correctly register, the lender is also prohibited from enforcing any right in relation to the costs of borrowing.<sup>11</sup>

## Advertising

The purpose of the second component of the study was to establish baseline data of lenders’ current advertising practices. This involved reviewing websites and newspapers. Newspapers and websites were assessed against content and themes (for example, flexibility and aspiration), advertising practices (for example, full amount repayable and legible print), and information on rates and fees. Websites were also reviewed to determine whether fees and rates were disclosed. For more information, see the table of criteria (Table 1) and terms of reference (Tables 2–5).

## Websites

Lenders with websites had been identified in the first component of the study. The website was then analysed, and screenshots were taken of the home page. Google advertisements, web banners and pop-up advertisements were not assessed.<sup>12</sup> The assessment of lender websites was broken into three parts: content and themes, advertising practices, and information on rates and fees. In the terms of reference section of this report, Tables 3–5 define the terms used in each part, and the table of criteria (Table 1) provides the exact parameters checked.

## Newspapers

Newspaper advertisements from October and November 2014 were analysed in this study. Many newspapers are available for only three months from the date of publication, meaning

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<sup>7</sup> Companies Office. No date. Search the New Zealand Companies Register. [www.business.govt.nz/companies](http://www.business.govt.nz/companies)

<sup>8</sup> Companies Office. No date. Search other registers. [www.business.govt.nz/companies/app/ui/pages/companies/otherSearch](http://www.business.govt.nz/companies/app/ui/pages/companies/otherSearch)

<sup>9</sup> Companies Office. No date. About the Financial Service Providers Register. [www.business.govt.nz/fsp](http://www.business.govt.nz/fsp)

<sup>10</sup> Credit Contracts and Consumer Finance Act 2003, s 99.

<sup>11</sup> Credit Contracts and Consumer Finance Act 2003, s 99.

<sup>12</sup> These are advertisements that exist on websites (including social media sites) that may come from the website owner or a third-party who has purchased advertising space on the website.

access was restricted for dates further in the past.<sup>13</sup> Dates were chosen to avoid possible increases in advertising during holiday periods. The exact date of reviewed newspapers varied according to the frequency of the publication. The time of year differed from that in the 2011 study, which looked at advertisements from April and May 2011. Therefore, any comparison with 2011 newspaper advertisements should be approached with caution.

This research reviewed the same community papers as the 2011 study did where possible. Only one issue of each newspaper was reviewed. The papers that were no longer in circulation were not replaced. Where the name of the newspaper had changed, the newspaper was reviewed under the new name.

In addition to community papers, this study included a review of eight national papers. The 2011 study did not include national papers (as defined at the time) because the Ministry of Consumer Affairs' understanding was that third-tier lenders mainly advertised in community newspapers. It was expected that banks, credit unions and building societies, which were not included in the 2011 study, would be more likely to advertise in these larger papers.

The assessment of newspapers was broken into two parts: content and themes and advertising practices. The content and themes table (Table 3) and the advertising practices table (Table 4) provide the definitions of terms used within each of these parts. The table of criteria (Table 1) provides the exact parameters checked for each part. The process and requirements were the same as when these areas were analysed on lender websites.

### **Ethnic newspapers**

A small number of ethnic newspapers were reviewed for any advertisements by lenders. Information collected from ethnic newspapers was kept separate from other information collected. Interpreters were used to carry out this part of the research where necessary.

### **Facebook**

With the increasing popularity of social media as a source of information, it was considered that some lenders would use social media platforms to connect with consumers. Many lender websites provided links to lenders' Facebook pages. These were noted down as part of the business details.

For lenders without websites and lenders who did not provide a link to their Facebook pages, a search was carried out. The business name and "Facebook NZ" were entered into Google in an attempt to determine whether the lender operated a Facebook page.

A screenshot was taken of each Facebook page. Depending on the use of different social media platforms, future research and evaluation could include a more in-depth analysis of the use of social media by lenders.

### **Inter-rater reliability**

Two researchers analysed the newspapers and websites. For consistency between researchers, the criteria for each parameter was defined before data was collected. The first five lenders in each category were reviewed by the two researchers together, and cross-checking was carried out at regular intervals.

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<sup>13</sup> This part of the review began in January 2015.

## Search Parameters

Table 1 shows the information collected and recorded in this study. Findings from the three different categories of lenders were recorded on three separate spreadsheets accordingly.

**Table 1: Criteria**

Business details	Services provided	Content and themes (websites and newspapers)	Advertising practices (websites and newspapers)	Information on fees and rates (websites)
Name	Online application	Target groups/people profiled	Legible fine print	Credit fees (dollar amount)
Number of outlets	Cash or personal loans	Speed and ease	Reference to interest rate – if so, look for annual interest rate and fees	
Region	Vehicle loans	Flexibility	Discount offered – if so, look for period of discount	Default fees (dollar amount)
Website URL	Debt consolidation		Repayments referred to – if so, look for total payable under the loan	
Facebook URL	Refinancing	Normality	Relevance of circumstances	Interest rate (per annum)
Yellow pages	Pawnbroking			
Finda	Payday loan	Aspiration	Risk warning	
Company registration	Retailer providing lending services			
Financial Services Provider Register	Credit card	Incentives	Celebrity endorsements	

## Reference Terms

Tables 2–5 define the terms used in the research and provide examples. Table 2 defines general terms. Table 3 defines features of credit products that are commonly emphasised in advertisements both online and in newspapers. These were also identified in the 2011 study. Table 4 identifies specific advertising practices used by lenders. The definitions used for the purposes of this research do not strictly align to the guidance in the Responsible Lending Code. Table 5 defines different rates and fees that were searched for in the advertising. Also included are the definitions provided in the amended CCCFA.

**Table 2: General terms**

Term	Research definition	Examples
Facebook page	Lenders had to have a New Zealand-run Facebook page to be considered to have a Facebook page	Facebook pages operated by the same business overseas were excluded
Online application	When a website asked users to put in personal details to start a credit application. Did not include online inquiry forms or forms to print out and take to the branch	Users asked to “click online to start application” or statements made such as “easy online application”
Credit card	Physical payment card a consumer could use to access a line of credit. Payment card did not have to be accepted by all retailers	Major cards and cards that were accepted in only particular areas or at particular stores
Payday loans	Payday loans were defined as short-term loans with a high amount of interest. Generally arranged to be repaid when the borrower had their next pay day	The lender would usually identify these on its website as “payday loans”
Essential items	Websites promoting day-to-day items that credit could be used for	Advertising credit for bills, car repairs and other essential items

**Table 3: Content and themes**

Term	Research definition	Examples
Aspiration	Where the advertising targets the wants or desires of consumers to promote credit products	Images of luxury items such as boats, flash cars, holiday destinations. Wording such as “make your dreams come true today”, “get that boat you have always wanted”
Flexibility	Where it is stressed that the range of amounts that can be borrowed or where a wide variety of reasons for taking out a loan are listed	“Loans for any reason”, “loans from \$50 to \$5000”. Examples of things loans can be used for
Incentives	Where rewards or discounts are offered for taking out credit or referring others to a lender	“Refer a friend and go into the draw to win big”, “0% p.a. interest on credit card for 12 months” or “‘like’ our Facebook page and go into the draw to win cash prizes”
Normality	Where the idea is portrayed that lots of people use these services and it is common to do so. Also includes where a ‘personal touch’ is used in advertisements	“Friendly team”, “be part of the family”, testimonials from customers and the use of staff pictures and details
Speed and ease	Where it is communicated that it is easy to borrow from the lender and that credit can be obtained quickly	“Quick and easy”, “Five minute loans”
Target groups	Where specific techniques are used to attract a particular group of people	Images of Pacific peoples or young families (seen as targeting that demographic group) Advertisements that show luxury items (seen as targeting middle income or working groups)

**Table 4: Advertising practices**

Term	Research definition	Example	What the Responsible Lending Code states
Illegibility	This was determined by looking at the size and colour of the text and background on the website or advertisement	Light grey fine print on a white background, fine print that cannot easily be read by the naked eye	3.2(b) A lender should make sure key information is legible, or audible, or both, and take care to disclose information in a level of detail that is commensurate with its importance
Reference to an interest rate	Refers to a particular numerical percentage value, start point or range. Not simply reference to the words “interest rate”	“Interest rates 16.95–29%”, “Interest starts from 16.95%”	
Interest rate annual percentage	Gives the interest rate for a whole year (annual), rather than just a monthly fee/rate. Must clearly state that this is annual	“Interest charged at 700% p.a.”, “annual interest rate of 16.95%”	3.3(b) When referring to an interest rate or an amount of interest, a lender should: display an annual percentage interest rate at least equally prominently as any other interest rate or amount of interest and note prominently if that rate is fixed, variable or capped
Repayments	Reference to a numerical amount to pay back money borrowed from a lender, this could be in weekly, fortnightly or monthly instalments. Must be given in a numerical form not just ‘low repayments’	“Repayments as low as \$50”, “Get \$1,000 today and pay back just \$100 a month”	

Term	Research definition	Example	What the Responsible Lending Code states
Total repayable under the loan	When the referred loan repayments also included the fees and interest rates, providing the total amount payable over the life of the loan	Loan calculator will give the total amount to be paid, including fees, and annual interest rate, not just instalment amounts	3.3(c) When referring to the amount of regular repayments for a particular term loan, a lender should: include the total payable under the agreement if ascertainable (subject to certain circumstances); or where the total payable under the agreement is not ascertainable (or the lender chooses not to do so in accordance with the proviso above): Include an annual percentage interest rate; and state whether fees apply, and, if fees apply, provide details of the amount of any establishment fees and any other mandatory fees payable at the beginning of the agreement
Circumstances relevant	When a borrower's financial situation is relevant to obtaining a credit contract from a lender, or a borrower's current financial circumstances will influence their credit contract application or the fees they will be charged	Lenders that promise to inquire into a borrower's personal financial situation. They may do this by checking their credit history or have criteria that borrowers must meet before they enter a credit contract, such as being employed or having to provide bank statements	3.4(b) A lender should not make claims that suggest the lender will not enquire into the borrower's circumstances in making a lending decision in advertisements.  3.5 A lender should not imply that the lender will not take into account a borrower's circumstances in making lending decisions, such as claims along the lines of "bankrupt – OK", "bad credit history – OK"

Term	Research definition	Example	What the Responsible Lending Code states
Discount period	If a discount on a credit contract was given, the timeframe for which the discount applied was also given	“50 days’ interest free” or “6 months’ interest free if you spend over \$250” were seen as providing the discount period. “Interest-free period” was not seen as providing the discount period	3.3(e) When including details of interest rates or fees that apply for an initial promotional period, state the period for which the discount applies, and where ascertainable, what the interest rate or fees will change to after that initial promotional period; or where subsequent interest rate is not ascertainable, the fact a higher interest rate may apply or how the subsequent interest rate will be calculated

**Table 5: Information on rates and fees**

Terms	Research definition	Examples	Definition in the amended <i>Credit Contracts and Consumer Finance Act 2003</i> , section 5
Credit fees	Fees payable by the borrower under the credit contract	Establishment fees and prepayment fees	<p>Fees or charges payable by the debtor under a credit contract, or payable by the debtor to, or for the benefit of, the creditor in connection with a credit contract. Includes establishment fees; prepayment fees; insurance premiums payable for credit-related insurance if required to obtain insurance cover from a particular insurer or particular insurers and fees and charges payable as referred to in section 45 if the other person, body, or agency referred to in that section is an associated person of the creditor</p> <p>Does not include interest charges; charges for an optional service; default fees; government charges, duties, taxes, or levies; and fees and charges payable as referred to in section 45 if the other person, body, or agency referred to in that section is not an associated person of the creditor</p>
Default fees	Fees or charges payable on a breach of the credit contract by a borrower, or on the enforcement of a credit contract by a lender	Non-payment fee	Fees or charges payable on a breach of a credit contract by a debtor or on the enforcement of a credit contract by a creditor; but does not include default interest charges
Default interest	Interest charged when the borrower breaches the credit contract. Identified by this study, but not formally assessed	“Interest of 350% p.a. will be charged if the borrower defaults on a payment”	Additional interest charges payable on a breach of a credit contract by a debtor

Terms	Research definition	Examples	Definition in the amended <i>Credit Contracts and Consumer Finance Act 2003</i> , section 5
Annual interest rate	A charge occurring over time determined by applying rate to an amount owing. Must be expressed annually	16.95% p.a.	A rate specified in the credit contract as an annual interest rate

## Limitations

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Analysis of advertising was limited to websites, newspaper advertisements and Facebook pages. Screenshots were also taken of Google advertisements. This study did not include advertising on radio, television, YouTube, billboards and shop fronts. These could not be formally assessed in this study because of a lack of accessibility and resource constraints. It is, however, worth noting that these forms of advertising are all used by lenders.

Analysis of social media was confined to a count of lenders that had New Zealand-run Facebook pages. With the increased use of social media platforms, future research could look at other social media platforms and at the use of Facebook in more detail. Screenshots of Facebook pages were taken, which could be used for comparisons in the future.

Where services information could not be accessed through a website, the Yellow Pages or Finda were used to determine what services the lender offered. These directories may not be as reliable as other sources of lender services such as websites, because they are not likely to be updated as frequently. Future research could involve contacting lenders to see what services they provide. For ethical reasons it was decided that lenders would not be contacted directly for this study.

The services looked for were the same as in the 2011 study with the exception of credit cards. The services that were looked for are typically services offered by Other Lenders. Services more commonly offered by banks (for example, home loans) were not specifically looked for.

It cannot be known for certain from looking at a website whether the lender has disclosed all fees. When determining whether information on fees and rates was disclosed, one fee was sufficient disclosure for the purposes of this research. For example, if one credit fee was disclosed, this was noted as disclosure of credit fees. Findings of fees and rates are limited in that they do not prove that the lender was providing all fees and rates associated with borrowing.<sup>14</sup>

Google search terms will not have found all finance companies – particularly those that do not have an online presence or are particularly small. A small number of new lenders were identified outside the methodology when searching for particular lenders. It is possible that some lenders may have been excluded but are still running. Steps could be taken in future research to make further enquiries to establish whether a lender is still in operation. For example, by using another search engine or adding additional search terms.

Some retailers offered finance options when advertising their products. Steps were taken to identify whether it was the retailer or a third-party offering the credit sale, and the party offering the credit sale was included in this list of Other Lenders. It was not always clear who was offering the credit sale, even when credit was being offered through a website.

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<sup>14</sup> The amended CCCFA requires lenders to disclose all costs of borrowing in relation to every class of credit contract they offer.

**Table 6: Scope of this study**

<b>In scope</b>	<b>Out of scope</b>
Advertising through websites, newspaper advertisements and Facebook pages	Social media platforms, other than Facebook. Advertising in other mediums such as billboards, radio, television and Google AdWords.
National and community newspapers (as print media)	Newsletters and magazines
Other Lenders provided they were providing lending services to consumers, banks, credit unions and building societies	Mortgage brokers, investment banks, savings-only banks Building societies or credit unions, if lending services were not provided
Lenders offering services to New Zealand consumers	Lenders overseas who may have consumers located in New Zealand
As this study included registered banks, credit unions and building societies, a less formal check to see which lenders provided credit cards (which differed from the 2011 study)	A more formal analysis of registered banks that offered credit cards

# Results

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## Size and nature of the lending industry

This study identified 12 banks, 24 credit unions and building societies, and 260 Other Lenders.

The number of outlets varied significantly across categories. Five banks operated out of over 100 outlets (42 per cent), while four had fewer than 10 outlets in New Zealand. Seven (29 per cent) credit unions and building societies operated out of fewer than 10 outlets, with the largest having 16 outlets. Of the Other Lenders, 208 (81 per cent) operated out of one outlet and 18 (7 per cent) had more than 10 outlets. Of the 10 Other Lenders with the most outlets, 5 were car finance companies operating within car dealerships.

## Turnover of Other Lenders

Identified in the Other Lenders category were 119 new lenders (see Table 7). Of the third-tier lenders identified in the 2011 study, 141 (54 per cent) remained in operation in 2015, and 77 had either exited the market or could no longer be found. There is a possibility that some lenders who could not be found were still operating under a different trading name, although many of these should have been picked up when searched on the Companies Office website.

**Table 7 : Number of Other Lenders, 2015**

Other lenders	Number	Percentage (%)
Lenders still operating from 2011	141	54
'New' Other Lenders	119	46
Total Other Lenders 2015	260	100

These numbers represent an increase of 42 lenders since 2011, when 218 third-tier lenders were identified. This is slightly larger than the increase observed between 2006 and 2011 (33 lenders).<sup>15</sup> While comparison with 2011 third-tier lenders gives some insight into the level of turnover, the slight change in definition must also be acknowledged. Both third-tier lenders and Other Lenders include non-bank deposit takers that are not credit unions and building societies. The 2011 study excluded retailers offering credit sales, while this study included retailers that offered lending options in advertisements.<sup>16</sup> Steps were taken to identify whether it was the retailer or a third-party offering the credit sale, and the party offering the credit sale was included in the list of Other Lenders. If the retailer appeared to provide financial services itself, then the retailer was included. Advertisements were included only if that advertisement offered lending options, even if the retailer had already been identified as offering credit sales.

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<sup>15</sup> Similar research was also carried out in 2006: Research New Zealand. (2006). *Fringe Lenders in New Zealand: Desk Research Project*. On behalf of the Ministry of Consumer Affairs. [www.consumerprotection.govt.nz/legislation-policy/policy-reports-and-papers/research/fringe-lenders-in-new-zealand-desk-research-project](http://www.consumerprotection.govt.nz/legislation-policy/policy-reports-and-papers/research/fringe-lenders-in-new-zealand-desk-research-project)

<sup>16</sup> Although the 2011 study excluded retailers, some retailers were identified in the 2011 lender list.

## Lending services offered

Table 8 lists lending services offered by lenders. Cash or personal loans were identified as the most offered service in all categories, followed by vehicle loans.

**Table 8: Lending services offered by all lenders, 2015**

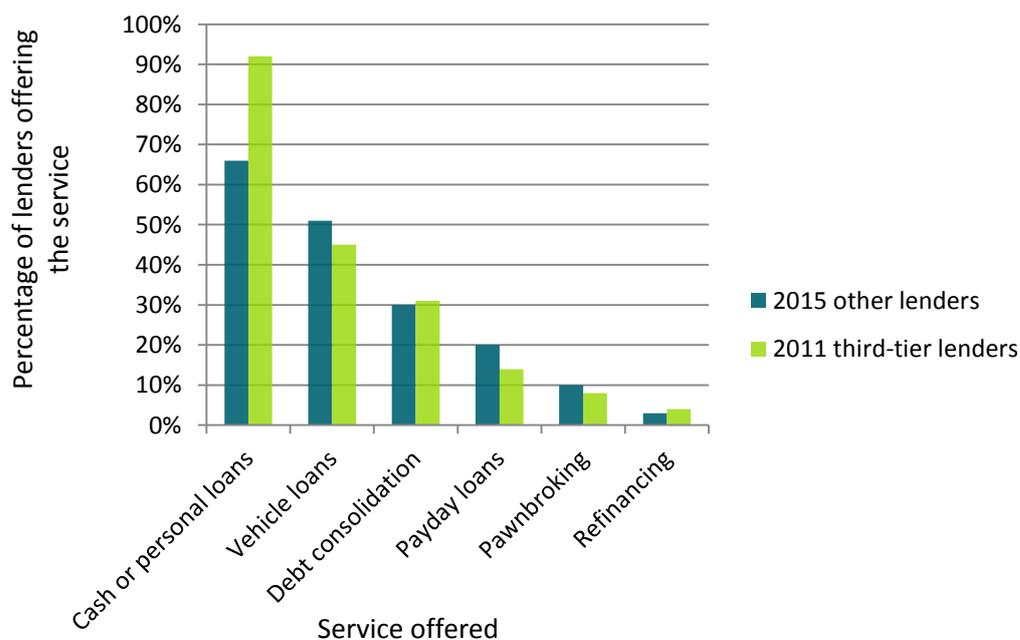
Lending services	Banks	Credit unions and building societies	Other Lenders
Cash or personal loans	10 (83%)	17 (71%)	172 (66%)
Vehicle loans	7 (58%)	9 (37%)	133 (51%)
Debt consolidation	6 (50%)	7 (29%)	79 (30%)
Payday loan	0	1 (4%)	51 (20%)
Pawnbroking	0	0	27 (10%)
Refinancing	7 (58%)	0	8 (3%)
Credit cards	5 (42%)	0	3 (1%)

*Note: Percentages provided in brackets are the percentage of the total number of that particular lender. For example 66 per cent of Other Lenders offered cash or personal loans.*

The percentage of Other Lenders offering debt consolidation, pawnbroking and refinancing has remained much the same since 2011.<sup>17</sup> Other Lenders offering cash and personal loans has decreased significantly, while lenders offering vehicle loans and payday loans have each increased by more than 5 per cent since 2011.

Graph 1 compares services offered by Other Lenders in 2015 with services offered by third-tier lenders in 2011.

**Graph 1: Services offered, 2011 and 2015**



<sup>17</sup> These comparisons are drawn between the 2011 third-tier lenders and the 2015 Other Lenders.

## Regions

Table 9 provides a breakdown of the regions in which Other Lenders have outlets. This also provides a comparison with the 2011 study. Given the inclusion of retailers in the 2015 study these changes may be overinflated. As expected, and seen in the 2011 study, lender outlets are concentrated in the main cities, with Auckland having the highest concentration of lenders 171 (34 per cent). This is slightly smaller than the percentage in 2011 (38 per cent).

In comparison with the 2011 study, most total outlet numbers have been mirrored across the different regions, with slight increases in the Bay of Plenty, Hawkes Bay, Northland, Otago, and Southland and the biggest increase in the Tasman-Nelson region.

**Table 9: Other Lender outlets comparison by region, 2011 and 2015**

Region	Total Other Lender outlets 2015	Percentage of total 2015 (%)	Total third-tier lender outlets 2011	Percentage of total 2011 (%)
Auckland	171	34	127	38
Canterbury	68	14	54	16
Wellington	60	12	39	12
Waikato	30	6	22	7
Bay of Plenty	36	7	20	6
Manawatu-Wanganui	25	5	17	5
Hawkes Bay	23	5	13	4
Northland	20	4	11	3
Taranaki	9	2	8	2
Otago	19	4	6	2
Southland	10	2	5	1
Gisborne	7	1	4	1
Tasman-Nelson	17	3	4	1
Marlborough	0	0	3	1
Wairarapa	5	1	2	1
West Coast	3	0	1	0
Online only	36	n/a	22	n/a
<b>Total</b>	<b>539</b>	<b>100</b>	<b>358</b>	<b>100</b>

Table 10 shows the distribution of lender outlets across Auckland and Wellington in 2015 and 2011. For Christchurch, only the total number of outlets was compared to 2011. This is because of the changes to the economic landscape since the 2010 and 2011 earthquakes.

**Table 10: Other Lender outlets comparison within main cities, 2011 and 2015**

Region		Outlets 2015 (no.)	Outlets 2011 (no.)
<b>Auckland</b>	<b>Total</b>	<b>171</b>	<b>127</b>
	South Auckland	60	47
	Rest of Auckland	111	80
<b>Wellington</b>	<b>Total</b>	<b>64</b>	<b>39</b>
	Central Wellington	21	8
	Porirua	13	9
	Rest of Wellington (including Lower Hutt)	30	22
<b>Christchurch</b>	<b>Total</b>	<b>50</b>	<b>49</b>
	Central Christchurch	11	
	North-East Christchurch	4	
	North-West Christchurch	19	
	South-West Christchurch	5	
	South-East Christchurch	16	

Note: The “rest of Auckland” category includes Central Auckland, which has 46 outlets.

## Registration among Other Lenders

All creditors under a credit contract have to be registered as a financial service provider and be a member of a financial dispute resolution scheme. To be correctly registered to provide financial services to retail clients, lenders must be registered as a creditor under a credit contract on the Financial Service Provider Register (FSPR) and with a dispute resolution scheme.

Most financial service providers who provide financial services to retail clients must belong to a dispute resolution scheme under section 48 of the Financial Service Providers (Registration and Dispute Resolution) Act 2008 (FSPA). If they are a creditor (offering credit contracts to consumers), then they also need to be registered to provide this financial service as a creditor under a credit contract.

All banks, credit unions and building societies were registered correctly on the FSPR. However, as shown in Table 11 only some Other Lenders were correctly registered as a creditor providing financial services to retail clients.

**Table 11: Registration of Other Lenders on the Financial Services Provider Register, 2015**

<b>Registration</b>	<b>Number of Other Lenders</b>	<b>Percentage of Other Lenders (%)</b>
Financial Services Provider Register	179	69
Dispute Resolution Scheme	177	68
Not registered as a Creditor under a credit contract	28	11

Note: Two Other Lenders were registered on the Financial Service Provider Register but did not belong to a dispute resolution scheme as they were not providing retail services to clients. However, their websites seemed to be offering personal and cash loans to retailers (a Christchurch-based lender and an online only lender).

Sixty-nine per cent (179) of Other Lenders were found to be registered on the FSPR, and 177 Other Lenders (68 per cent) also belonged to a dispute resolution scheme. Fifty-six per cent (147) of Other Lenders satisfied all three requirements of being registered on the FSPR, belonging to a dispute resolution scheme, and being registered as a creditor under a credit contract.

Twenty-eight Other Lenders (11 per cent) were not registered as being a creditor under a credit contract despite seeming to offer credit contracts to retailers. Twelve Other Lenders had been deregistered but appeared to still be lending (for example, advertising in newspapers or having an active website).

Registration was particularly low among pawnbrokers. Twenty-seven lenders offered pawnbroking as a service, but only five of these were registered on the FSPR, four of which also offered cash or personal loans (that is, they did not exclusively offer pawnbroking services). This low level of registration may be explained, in part, by the separate registration requirement for second-hand dealers and pawnbrokers. The second-hand dealers and pawnbrokers register was searched and found that seven pawnbrokers were registered. Six of these were not registered under the FSPR. Forty-one per cent of pawnbrokers were registered under at least one register. This proportion is still much lower than for all Other Lenders.

It is possible that some lenders that could not be found on the FSPR are in fact registered. Ten Other Lenders did not provide enough information in their advertisements to search for them on the FSPR. For example, providing only a first name and phone number. Other Lenders may be sole traders who are registered under their own name rather than a business name. Trading names were often listed on the FSPR, but it is possible that these were not all picked up by the search.

### ***Case study – An Other Lender that provides only a name and phone number***

The advertisements simply stated a first name and a phone number to contact for a loan. The advertisement asks a person to text rather than call, and does not mention outlets or a website. The same advertisements were found in seven different community papers throughout the North Island. The amount and distribution of advertising suggests this particular lender is not a small local trader, but there was not enough information to confirm this.

All of the advertisements mentioned “dented credit” and “beneficiaries”. This lender is one of nine Other Lenders that gave minimal details of their business through their advertising. This made it difficult to find out further information about their business without contacting them directly.

## **Websites, social media and online tools**

All banks had working websites, as did most credit unions, building societies and Other Lenders. Most lenders could be found in online directories. Online applications and Facebook pages were utilised by credit unions and building societies significantly less than the other two categories of lenders. Table 12 summarises the use of websites, Facebook and online applications by all lenders.

**Table 12: Online presence of lenders, 2015**

<b>Online presence</b>	<b>Banks</b>	<b>Credit unions and building societies</b>	<b>Other Lenders</b>
Working websites	12 (100%)	17 (71%)	191 (73%)
Online application	8 (67%)	6 (25%)	121 (46%)
New Zealand Facebook pages	7 (58%)	5 (21%)	108 (41%)
Yellow pages	11 (92%)	18 (75%)	159 (61%)
Finda	9 (75%)	18 (75%)	146 (56%)

Note: Percentages provided in brackets out of the number of total lenders in that lender category. For example, 73 per cent of Other Lenders had working websites. One of these websites worked only on a mobile device, so could not be accessed from a desktop computer.

The 2011 study gathered data on the use of websites and online applications by third-tier lenders. The 2015 study, which included some of the existing third-tier lenders from the 2011 study, saw a significant increase in lenders with websites. A 19 per cent increase in Other Lender-operated websites was observed. Fifty-four per cent of third-tier lenders had websites in 2011, and 73 per cent of Other Lenders had websites in 2015.

In 2011, it was found that 99 third-tier lenders (45 per cent) gave consumers the option to apply for credit online. The 2015 study identified 121 Other Lenders (46 per cent) having online applications on their websites. It is thought that the reason for this nominal change is because of differences in the definition of online application. While the 2011 study does not define exactly what an online application was, the 2015 study took a strict approach. An online application was counted only where a user could apply for credit completely online. This was usually done by the user clicking into an “apply online” section in which they had to provide their personal details to apply for credit. They would then typically get a call back or response from the lender regarding their application. Email enquiries, forms to print to take to the branch and expressions of interest were not considered online applications in the 2015 study.

Other Lenders that were found on Facebook often used incentives to draw users to their websites such as asking users to “like” their page to go into the draw to win cash prizes. They were then directed to the lender’s website where the winners were announced. Other Lenders were also more likely to use Facebook as a way to promote their finance deals, while highlighting the flexibility of their services, often by posting ‘aspirational’ images and non-essential items.

It was also observed that all seven banks with Facebook pages used at least one other social media page. These included Twitter, Instagram and YouTube.

**Case Study – Facebook page of an online-only Other Lender**

This online only Other Lender was one of the more active lenders on Facebook, with nearly 11,000 likes. It posted regular updates on topics unrelated to finance such as messages to popular sports teams or New Zealand entertainers. This lender also invited users to “like” its Facebook page to go into the draw to win cash prizes. Consumers were then directed to its website, which is where the cash draw winners were announced.

**Newspapers**

A search of 136 community newspapers and 8 national papers revealed 364 advertisements by lenders. There were 93 community papers with advertisements by Other Lenders, and six community papers with advertisements by banks. Of the eight national papers reviewed, six included advertisements by Other Lenders and one included advertisements by banks. No advertising was found by credit unions or building societies in any of these newspapers.

Table 13 shows the number of lenders using newspaper advertisements and the number of advertisements they are responsible for. It can be seen that a relatively small number of Other Lenders are responsible for a large number of advertisements. In contrast, half of the banks advertised, but did not advertise frequently.

The registered bank with the most advertisements had three advertisements, while the most advertisements found by an Other Lender was 32.

**Table 13: Newspaper advertising by lenders**

Lender type	Lenders using newspaper advertising		Number of print advertisements	
	Number of lenders	Percentage within category (%)	Number of advertisements	Percentage out of total advertisements (%)
Banks	6	50	9	2
Credit unions and building societies	0	0	0	0
Other Lenders	50	19	364	98

### **Case study – an online-only Other Lender**

This online only Other Lender had the most advertisements found by this study. The 32 advertisements were found in newspapers throughout the country. The same advertisement was used in each newspaper.

The advertisement stated that the lender specialised in emergency cash loans. While there were no credit checks, to qualify a borrower needed a job or a phone plan.

### **Example of the same newspaper advertisement used 32 times**



The vast majority (94 per cent) of newspaper advertising by Other Lenders occurred in community papers. This result was predicted from the 2011 study, which identified that third-tier lenders advertise more in community papers. Of the 136 community papers reviewed in the 2015 study, 68 per cent (93 community newspapers) were found to contain advertising by Other Lenders. By comparison, in the 2011 study, 48 per cent of the 175 community newspapers reviewed contained third-tier lender advertising.

Two-thirds of advertising by banks occurred in community papers. Six out of the eight national papers reviewed had Other Lender advertising, while only one contained registered bank advertisements. The national paper with the most advertisements had five advertisements, and the community paper with the most advertisements had 20 advertisements.

Although fewer community papers were reviewed in the 2015 study than in the 2011 study, the same percentage of lenders using this form of advertising was found in both studies (19 per cent).

### **Case study – Advertising in a South Auckland community paper**

One issue of a South Auckland community newspaper contained 20 advertisements despite being only 24 pages long. The 2011 study found 19 lender advertisements in the same paper. Most advertisements were located in the classified section.

In this paper only one small lender mentioned looking into the borrower's current financial situation. Seven of the advertisements gave the impression that the borrower's personal circumstances were irrelevant.

Most advertisements seemed to be targeting people who needed cash last minute and people with a bad credit history. Advertisements highlighted essential day-to-day items that loans could be used for and that it was quick and easy to obtain credit. Six lenders mentioned the types of borrowers who they would lend to, including beneficiaries and new immigrants.

## Ethnic newspapers

The 2011 study looked at six Tongan and Samoan language newspapers that contained targeted advertising by lenders. This study was unable to locate five of these newspapers and was able to locate only one other ethnic community paper. Advertisements were found in both of these papers. One other small Pacific Island language paper was also located, but it contained no advertisements for any New Zealand businesses.

### ***Case study – Advertising in a Pacific Island language paper***

One issue of this paper was reviewed, and the results were kept separate from other newspapers that were reviewed. In the single issue, seven advertisements were found from Other Lenders. No advertisements were found from credit unions, building societies or banks. Some of these advertisements were not in English or only partly in English.

There was specific targeting of Pacific Island peoples in every advertisement. Advertisements mentioned sending money across to a specific Pacific island and listed essential items credit could be used for.

## Advertising content and themes

Advertising practices were compared against the criteria outlined in the terms of reference under three areas:

- content and themes (websites and newspapers)
- advertising practices (websites and newspapers)
- information on fees and rates (websites only).

A review of content and themes found different messages being communicated depending on the advertising medium used and the category of lender.

### **Banks**

'Aspiration' was a common theme observed throughout the websites of banks. Bank websites did not appear to target specific groups. However, there was targeting in the newspaper advertisements. For example, a bank advertised its credit card in the lifestyle section of a national newspaper with an image of a woman shopping for shoes and the words "say yes to more style in your lifestyle". Banks also used newspaper advertisements to advertise specific services (for example, home loans, credit cards, and phone applications ('apps')).

Incentives were found on half of the websites of banks. Four of the five banks offering credit cards also offered an interest-free period on the credit card balance brought over from another bank. The use of incentives by banks was high compared with the use of incentives by credit unions, building societies and Other Lenders.

There was no obvious promotion of speed and ease within the advertising or websites of banks. Flexibility was a more common theme, promoting the variety of services offered.

A small number of banks used normality on their websites, often through the use of catch phrases mentioning how their lending services benefit New Zealanders. They also tended to use words such as "ours", "together" and "families".

## **Credit unions and building societies**

Credit unions and building societies emphasised normality and familiarity on their websites by highlighting ownership by members. Normality was also identified through the use of testimonials and sponsorship of community initiatives and charities.

Speed and ease were not emphasised on the websites of credit unions and building societies. Only one specifically stated “easy banking” on its website. Flexibility was a common theme shown through the offering of a variety of services. Many websites gave the impression credit could be used for a wide variety of purposes.

Aspirational messages and imagery were not commonly used on the websites of credit unions and building societies. A few showed incentives on their websites, usually by displaying promotions on their home pages.

This study did not locate any advertisements by credit unions and building societies in newspapers.

## **Other Lenders**

Other Lenders emphasised different features depending on whether the advertising was through the website or in newspapers. Over half of Other Lenders with websites emphasised the speed and ease of obtaining credit.

Other Lenders also tended to use aspirational imagery and luxury items on their websites. These images would sometimes be accompanied by motivational phrases such as “get your dream car today”. It was also common for lists of non-essential items such as boats and swimming pools to be provided on these websites. Incentives were relatively uncommon.

Newspaper advertisements by Other Lenders focused on flexibility while mentioning essential items such as bills, groceries and existing debt. Rather than motivational phrases and imagery, newspaper advertisements used single words to communicate with consumers quickly.

Normality was achieved through testimonials, images of staff and staff information. This was seen both on websites and in newspaper advertising.

## **Advertising practices**

This section looks at specific advertising practices employed by lenders on their websites and in newspaper advertisements. The terms of reference (Table 4) clarify these terms.

### **Legible fine print**

Credit unions, building societies and Other Lenders rarely used illegible fine print on their websites. Five (41 per cent) banks displayed what was defined to be illegible fine print on their websites by using grey text over a white background.

The use of illegible fine print was found more frequently in newspapers than on websites. Fine print was illegible in two of the six registered bank advertisements using fine print. Eighty-four of the 124 (68 per cent) Other Lender advertisements using fine print were also illegible. It was also observed that retailers offering credit sales were more likely to use very small, illegible fine print in their newspaper advertisements.

## Repayments and total repayable under the loan

When websites referred to repayments in a dollar amount, it was uncommon to find that they also referred to the total amount payable under the loan contract. This was observed across all categories of lenders and in both newspapers and on websites. Only one bank website was found to provide the total interest payable under the loan. This was given through a loan calculator, but it was less clear whether this also included fees. Table 14 compares references to repayments as well as references to the total amount payable.

**Table 14: References to repayments and total amount payable by lenders in advertising**

Advertising medium	Reference	Banks		Credit unions and building societies		Other Lenders	
		%	No.	%	No.	%	No.
Websites	Repayments referred to	58	7	17	3	43	83
	Total repayable under loan contract provided	14	1	0	0	21	18
Newspapers	Repayments referred to	11	1	n/a	n/a	32	117
	Total repayable under loan contract provided	0	0	n/a	n/a	Less than 1	2 <sup>(a)</sup>

Note: (a) Only two advertisements out of the total advertisements reviewed referred to the total payable under the loan, and both were car retailers (large international car brand, smaller local car retailer).

### Case study – Registered bank website

This registered bank provided a loan calculator that included total interest payable under the loan contract. The calculator allowed the user to choose the length of the loan, as well as whether they wanted a floating or fixed annual interest rate. The calculator then provided the principal repayment amount in weekly, fortnightly or monthly rates, as well as the total interest payable over the life of the loan. What was less clear was whether this included any other loan fees.

*Example of the loan calculator on the bank's website*

Repayments (Principal & Interest)

*Weekly*  
\$173.92

*Fortnightly*  
\$347.95

*Monthly*  
\$754.43

*Total Interest Payable*  
\$81,063.26

Like what you see?

[REQUEST A CALL](#)

## Relevance of circumstances

A lender could give the impression that circumstances were relevant or irrelevant to obtaining credit, or it could remain silent about the relevance of the borrower’s circumstances (which was counted as a ‘not applicable (n/a)’ response).

Other Lenders were the most likely category of lender to give the impression that a borrower’s circumstances were irrelevant. This was the only category where promises such as “no credit checks” or “instant approval” were found.

Registered banks, credit unions and building societies were more likely to not make any mention of a borrower’s personal situation (see Table 15). This was the case on their websites and in advertisements. It is not clear whether this information was missing or simply not applicable.

**Table 15: Mention of circumstances by lenders in advertising**

Advertising medium	Relevance	Banks		Credit unions and building societies		Other Lenders	
		%	No.	%	No.	%	No.
Websites	Relevant	25	3	22	4	45	85
	Not relevant	0	0	0	0	15	29
	Not applicable or silent	75	9	78	14	40	77
Newspapers	Relevant	0	0	n/a	n/a	9	32
	Not relevant	0	0	n/a	n/a	27	100
	Not applicable or silent	100	9	n/a	n/a	64	232

## Period of discount provided

In all instances where a registered bank, credit union or building society offered a discount, each also provided the period of that discount (for example, 12 months’ interest free). Most Other Lenders also provided the period of the discount when offering a discount.

It was observed that all lenders were less clear about what would happen after the period of the discount ended and the fees and interest that the borrower might incur after that.

## Risk warnings

The Responsible Lending Code provides that to comply with lender responsibility principles, a lender should include a prominent risk warning when advertising high-cost credit agreements. It also states that this warning should make clear that high-cost credit agreements should not be used for long-term borrowing.<sup>18</sup>

Of the 191 Other Lenders that had websites, 10 provided risk warnings on their websites. Other Lenders that included these risk warnings offered both personal loans and payday loans. Of the ten Other Lenders who provided risk warnings, some also provided links to external budgeting services. These lenders tended to provide other information more readily, such as credit fees, total payable under the loan and the annual interest rate.

<sup>18</sup> Responsible Lending Code at 3.6.

No risk warnings were found on websites belonging to banks, credit unions or building societies. No risk warnings were found in newspaper advertisements. This low finding may be because risk warnings were not required prior to the reforms. The Responsible Lending Code refers to risk warnings only for high-cost credit agreements, not for all lending. A search was not carried out to find whether those that did not have risk warnings were offering high-cost credit.

#### ***Case study – Risk warning on one online-only Other Lender website***

“Financial Health Warning: This website only offers short term loans. Short term loans can be expensive and may not solve your money problems. There may be cheaper borrowing options and/or other assistance available to you. For example, if you are on government benefits, ask if you can receive an advance from WINZ [Work and Income New Zealand]. To decide if this product is right for you, please review our website carefully” – extract from the website.

#### **Celebrity endorsements**

Celebrity endorsements were rare across all groups of lenders, both on websites and in newspaper advertising. Two Other Lenders used celebrities to endorse their services.

The Responsible Lending Code states that to comply with lender responsibility principles, if a lender uses a celebrity to advertise high-cost credit, they should also include a risk warning as part of the message conveyed by the celebrity.<sup>19</sup>

A more common practice observed was sponsorship or endorsement by lenders. Many websites listed community groups and sports teams that they sponsored. This was especially seen by banks, credit unions and building societies. One lender (a large recognisable rental company that has over 20 outlets nationwide) sponsored a prominent New Zealand rugby league team and advertised in-store signings by members of the sports team.

#### **Information on fees and rates**

From June 2015, costs of borrowing are required to be made publicly available by the lender. Costs of borrowing includes credit fees, default fees and the annual interest rate, as well as default interest charge rates.<sup>20</sup>

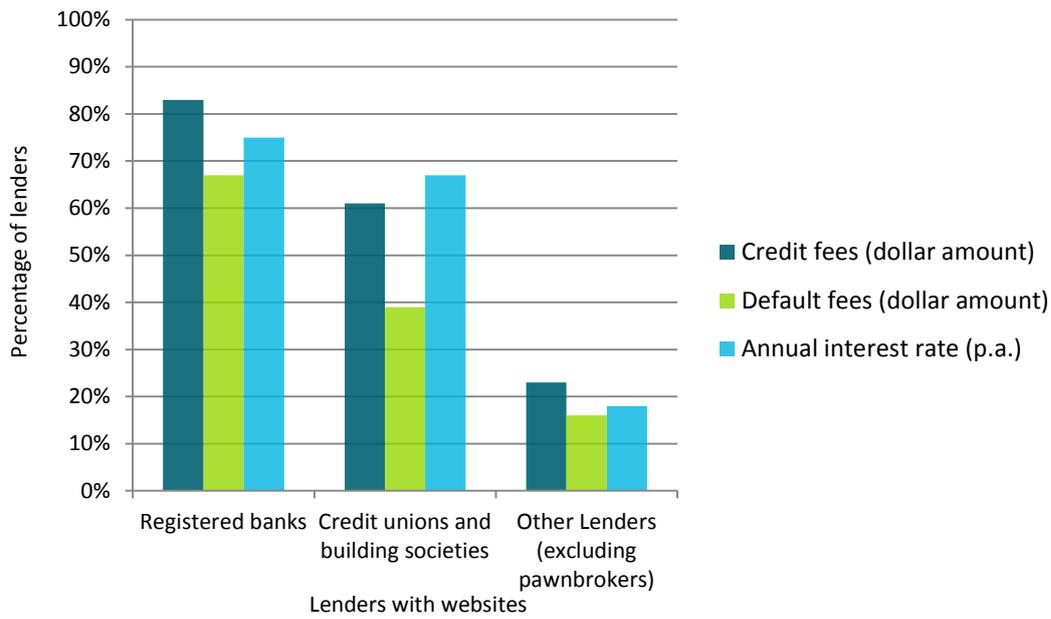
Graph 2 provides information on the number of lenders with websites where fees could be located. At least one credit fee, at least one default fee and the annual interest rate were sufficient to satisfy this definition (see the terms of reference, Table 5, for more information on what is included). Credit fees were more commonly located than default fees.

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<sup>19</sup> Responsible Lending Code at 3.6.

<sup>20</sup> Credit Contracts and Consumer Finance Act 2003, s 9K (1).

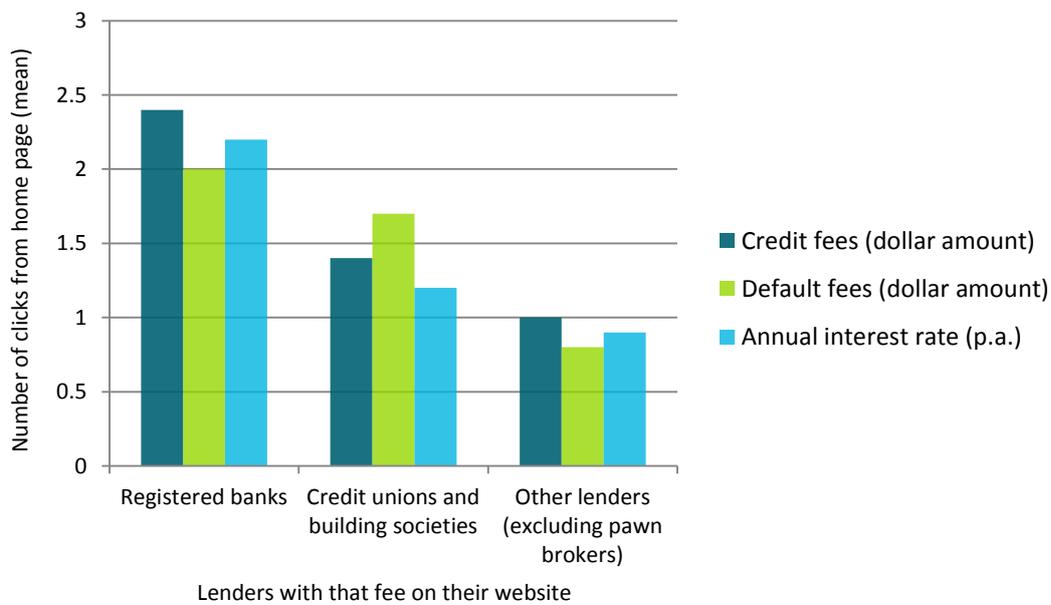
**Graph 2: Rates and fees located on lender websites**



It was far less likely that fees and rates could be located on Other Lender websites than on the websites of banks, credit unions and building societies.

Other Lenders that did provide fees and rates made this information reasonably accessible. Graph 3 shows the number of clicks to access the information from the home page. For each fee category, the number of clicks from the home page was recorded (zero clicks if it was on the home page). This graph only includes lenders where the particular fee could be located on the website.

**Graph 3: Number of clicks to access information on rates and fees**



Websites by Other Lenders were relatively easy to navigate, and it could be determined quickly whether fee information was available on the website. When searching for fee information on the websites of banks, the information was more likely to be there, but more difficult for researchers to find.<sup>21</sup> This may have been because banks tend to offer a wider variety of services than Other Lenders offer.

Links on bank websites were less likely to give a clear indication of where fee information would lie, and in some instances fee information for the same service was split across a number of pages.

While default fees were searched for, there was no formal search to find default interest charge rates on lender websites (for clarification of default fees and default interest charge rates, see the terms of reference, Table 5). When looking for other rates and fees, it was uncommon to also come across information on default interest. It was not clear whether this information was missing or simply not applicable. It is possible that default interest rates are not being charged.

### **Case study – Example of a user friendly Other Lender website**

This Other Lender, which operated only online, provided fees and rates in a clear and user-friendly manner. It displayed credit fees, default fees, its annual interest rate and a risk warning.

The credit fee, default fee and annual interest rate were all displayed in the same place on the website, within two clicks of the home page. The website was set out with clear headings and links. For example, there was a “fees” link that took the user to a list of fees.

When referring to repayments, the website mentioned the total payable under the loan. It also stated steps would be taken to look into the borrower’s credit history to ensure repayments could be met.

#### **List of fees provided on this Other Lender’s website (two clicks from home page):**

### **Fee Table**

547.50% Annualised Interest Rate (AIR)

1.5% interest on the principle amount of the loan excluding fees and interest per day

\$25 application fee

\$10 per direct debit charged when we deduct payment from your account

\$35 extension fee should you require additional time to repay

\$60 default fee if you fail to make your payment.

<sup>21</sup> Banks’ websites were the hardest to navigate. This difficulty is not necessarily represented by the number of clicks. Most information was found fewer than three clicks from the home page. However, more time was spent finding this information and going through different links, even though technically it was usually only a few clicks from the home page.