MINISTRY OF BUSINESS, INNOVATION & EMPLOYMENT
HĪKINA WHAKATUTUKI

EVIDENCE, MONITORING & GOVERNANCE

2014 Amendments to the Credit Contracts and Consumer Finance Act 2003

Baseline Evaluation

New Zealand Government

Ministry of Business, Innovation and Employment (MBIE)
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1 Introduction

1.1 Purpose

This report provides baseline data to enable monitoring of the effects of 2015 changes to the laws that cover consumer credit. The main changes are to the Credit Contracts and Consumer Finance Act 2003 (the CCCFA), the primary law that regulates the provision of consumer credit and sets out ongoing obligations for those who provide credit.

The Credit Contracts and Consumer Finance Amendment Act 2014 (the CCCF Amendment Act) was passed in June 2015. The CCCF Amendment Act amended the CCCFA and incorporated (and updated) the law governing repossessions.[1] The changes come into effect in full on 6 June 2015. Baseline research was carried out in February 2015 and the summary tables (Tables 1–4 in section 2) outline key baseline data.

1.2 Key Findings

The baseline evaluation findings illustrate the lending environment in New Zealand immediately before the implementation of the reforms, including consumer awareness and borrowing behaviours, lender practices, compliance with lending requirements and the size of the market. A number of themes emerged from the evaluation. These themes are outlined below and are referred to in the Baseline Consumer Survey report (section 4.3).

Low awareness of how to manage personal finances

Only a fifth of consumers felt they were highly knowledgeable about managing personal finances. A similar proportion of consumers reported knowing little or nothing about managing personal finances. The vast majority of borrowers believed they were given sufficient time to consider contracts before signing. Despite this, almost a third felt they were only "somewhat confident" they understood everything they needed to know about the agreement before signing. This finding may indicate that borrowers were unwilling or unable to take the time to ensure they fully understood the details before they entered into the agreement. Alternatively, it may simply reflect some uncertainty amongst borrowers about whether their understanding was correct or complete.

Low awareness of rights and obligations

Similarly, consumers had low awareness of borrowers' rights and lenders' obligations, with only around a third of rights and obligations being widely known. Young people, Māori and Pacific peoples, and people for whom English was not their best spoken language were particularly likely to have low awareness of borrowers' rights and lenders' obligations. Income and employment status also related to awareness of rights and obligations, while gender and household structure did not. Approximately two-thirds of borrowers were not aware that a lender did not have to offer more affordable payment options when a borrower could not make repayments. In contrast, almost three-quarters of borrowers correctly identified that a borrower can cancel a credit agreement if they change their mind within a few days of signing it. Low awareness of rights and obligations may be caused in part by low levels of consumers who reported reading the credit contract.

[1] Previously, repossession laws were contained in the Credit (Repossession) Act 1997.

Not all lenders were complying with registration required by law

All banks, credit unions and building societies were registered as required by law. However, approximately one-third of Other Lenders[2] were not registered as a financial service provider or with a dispute resolution scheme. This was a legal requirement at the time that data was collected.

Vulnerable consumers

Vulnerable consumers have been defined in this study as consumers who receive a low income, who are unemployed and/or for whom English is not the language spoken best.[3] Vulnerable consumers tended to be less confident than other consumers that they understood the terms and conditions of contracts they entered into. Consumers for whom English was not their best spoken language were less likely than other consumers to consider a range of lending options and were also more likely to experience issues with lending such as payments being more than expected.

Bank loans are the most widely used credit option

Bank loans are top of mind for consumers as an option for obtaining credit, and banks are also by far the most widely used provider of credit. The most frequently identified reasons for choosing a particular lender were low interest rates and fees and having an existing relationship with a particular lender.

The lending industry is changeable with high turnover

Based on the results of a desktop survey, 119 Other Lenders (46 per cent of the 2015 total) had entered the market since 2011, when similar research was conducted.[4]

Many lenders provided minimal information on their websites and in advertising

While practices differed across different lender categories (registered banks, credit unions, building societies and Other Lenders), the review of advertising practices found relevant information was not always included on websites and in newspaper advertisements.[5] Not all lenders provided information on credit and default fees. Other Lenders were least likely to do so. Where a lender offered a discount, the period of this discount was always stated. However, it was uncommon to find information about the total amount payable under the loan contract. The use of risk warnings by lenders was very low. No newspaper advertisements had risk warnings and only 10 of the 191 Other Lender websites had risk warnings. This finding may be because risk warnings were not required at the time of the study.

Māori and Pacific peoples

Māori and Pacific respondents were found to have lower awareness of borrowers' and lenders' rights and obligations. The majority of Pacific respondents, for example, mistakenly believed

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[2] The term 'Other Lenders' was defined by the Lender Desk-based Survey 2015 to include all credit providers that provide services directly to consumers and that are not banks, credit unions and building societies. This category has been capitalised in this report to distinguish it from the use of 'other lenders' in different situations.

[3] Commerce Commission. (2015). *Consumer Issues 2015.* www.comcom.govt.nz/dmsdocument/13722; Consumer Affairs Victoria. (2004). *Discussion Paper: What do we mean by 'vulnerable' and 'disadvantaged' consumers?* Retrieved on 23 February 2016 from www.consumer.vic.gov.au/library/publications/resources-and-education/research/what-do-we-mean-by-vulnerable-and-disadvantaged-consumers-discussion-paper-2004.pdf

[4] 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

[5] The research focused on advertisements from national and community newspapers between October and November 2014.

that a lender must offer more affordable payment options if a borrower cannot make repayments.

2 Summary Tables

These summary tables (Tables 1–4) outline the key main baseline data that was collected to enable monitoring of the effects of the 2015 changes to the laws that cover consumer credit.

The baseline data was compiled from three main studies that form a benchmark against which the progress towards the intended impacts of the reforms can be measured in future research. The three main studies were:

- CCCFA Baseline Consumer Survey (April 2015).[6] A quantitative survey of consumers.
- Lender Desk-based Survey (February 2015).[7] Desk-based research on lender's compliance with registration requirements and practices relating to advertising in which lenders, credit unions and building societies, and Other Lenders were all considered
- New Zealand Insolvency Statistics and Debtor Profile Report (2013/14 figures): Analysis of existing quantitative data on the level of problem debt and the characteristics of debtors.

Table 1: Summary table – Impact 1: Better informed decision making by consumers

Evaluation question	Target	Baseline measure	Other information	Section for more detail	Data source/ method	Assumptions/ limitations
1. What proportion of consumers is confident that they understood the terms and conditions of credit contracts they	Increased proportion compared with baseline	71% of borrowers said they were "very confident" that they understood everything they needed to know about the agreement, 27% of borrowers said they were only somewhat confident, and 1% of borrowers stated they were not at all confident. *Vulnerable consumers:* Borrowers with lower individual income tended to be less confident than borrowers with higher income. 62% of borrowers for whom English was not the	70% of those who borrowed from a bank or credit union stated they were very confident, compared with 79% of those who borrowed from a finance company etc[3] 5% who borrowed from a bank or credit union and 12% of borrowers from a finance company etc noted there was	5.1	Baseline Consumer Survey, February 2015	

[6] Research NZ. (2015). *CCCFA Baseline Consumer Survey 2015.* Wellington: Research NZ. ISBN 978-0-947497-91-0.

[7] Ministry of Business, Innovation & Employment. (2015). *Lender Desk-based Survey 2015.* Wellington: Ministry of Business, Innovation & Employment. ISBN 978-0-947497-90-3.

Evaluation question	Target	Baseline measure	Other information	Section for more detail	Data source/ method	Assumptions/ limitations
entered into?		language they spoke best were very confident, compared with 72% of those for whom English was the language they spoke best. 7% of borrowers noted one or more matters that they wished they had been better informed about. *Vulnerable consumers:* While 96% of borrowers for whom English was not their best spoken language said there was no other information about the loan or credit that they wished they had been told about (compared with 93% of borrowers for whom English was the language they spoke best), 57% of borrowers for whom English was not the language they spoke best said they experienced at least one issue over the course of their loan (compared with 34% of borrowers for whom English was the language they spoke best). Borrowers for whom English was not the language they spoke best had a larger proportion of issues with their loan across the board (compared with those who spoke English best), including payments being more than expected (18% compared with 2%), unexpected fees (11% compared with 7%), clarity of when payments were due (11% compared with 5%) getting behind on payments (23% compared with 4%), being turned over to a debt collector (19% compared with 1%), and having a change in financial circumstances (32% compared with 14%).	other information about the loan or credit they wished they had been told about.			

Evaluation question	Target	Baseline measure	Other information	Section for more detail	Data source/ method	Assumptions/ limitations
2. Are consumers who enter loan agreements well informed?	Increased/ decreased proportion depending on the measure	24% of borrowers said they considered other options for borrowing money before choosing the lender — of those, 63% said they shopped around and compared different finance options before deciding on a lender. *Vulnerable consumers:* Those borrowers for whom English was not their best spoken language were less likely to consider other options than were those for whom English was their best spoken language (6% compared with 25%). 4% of respondents said they did not read the agreement nor were they taken through the agreement by the lender or retailer.[3] 39% of borrowers said they read through the agreement themselves. 33% of borrowers correctly identified this statement was false: "if a borrower can't make repayments, the lender must offer more affordable payment options". 32% of borrowers correctly believed a lender can sell a borrower's credit contract to another lender. 73% of borrowers correctly believed that if a person is facing unexpected financial hardship, they can apply for changes to their agreement when they are unable to meet the payments. 69% of borrowers correctly believed that a person has the right to change their mind and cancel a credit agreement within a few days of	There was no significant difference between those borrowers who used a bank or credit union and those who used a finance company etc., regarding whether the borrower considered other options.	5.2 7.2 5.4	Baseline Consumer Survey, February 2015	The phrasing "taken through the agreement" may not capture situations where the lender has assisted the borrower with decision making in other ways. The baseline measure does not include those who answered 'don't know'.

Evaluation question	Target	Baseline measure	Other information	Section for more detail	Data source/ method	Assumptions/ limitations
		signing it.				
3. How clear and responsible is lender advertising?	Increase/ decrease depending on the measure	*Legibility:* Credit unions, building societies and Other Lenders rarely used what was considered to be illegible fine print on their websites. Five banks (41%) displayed illegible fine print on their websites. *Total amount payable*: It was uncommon to refer to the total amount payable under the contract. This was observed across all categories of lenders both in newspapers and on websites. Only one registered bank provided the total interest payable under the loan. Under the Responsible Lending Code, the total amount payable or its method of calculation will need to be included only if the amount of regular repayments is specifically referred to. *Circumstances relevant*: Other Lenders were the most likely lenders to give the impression that a borrower's circumstances were irrelevant. This was the only category to promise "no credit checks" and "instant approval". Registered banks, credit unions and building societies were more likely to not mention a borrower's personal situation. *Discount period*: In every instance found where a registered bank, credit union or building society offered a discount, they also provided the period of that discount (eg, 12 months' interest free). Most Other Lenders also provided the period of the discount when offering a		5.7	Lender Desk-based Survey 2015	Legibility was determined by looking at the size of the text and colour of the text and background on the website or advertisement (eg, small light grey text on a white background).

Evaluation question	Target	Baseline measure	Other information	Section for more detail	Data source/ method	Assumptions/ limitations
		discount.				
4. Are lenders providing information on fees and interest rates on their websites?	Increased proportion compared with baseline	The percentage of lender websites where credit fees (eg establishment fees) were found: • registered banks: 83% • credit unions and building societies: 61% • Other Lenders: 23%. The percentage of lender websites where default fees were found: • registered banks 67% • credit unions and building societies 39% • Other Lenders (excluding pawnbrokers) 16%. The percentage of lender websites where annual interest rates were found: • registered banks 75% • credit unions and building societies 67% • Other Lenders (excluding pawnbrokers) 18%.		5.7	Lender Desk-based Survey, 2015	Reasonable efforts were made by researchers to find the information on lender websites. However, it is possible some information was there but was not found.

Notes:

1 The Ministry of Consumer Affairs conducted a survey in 2004 that is similar to the Baseline Consumer Survey, February 2015. The 2004 report was an internal report carried out to assist with a targeted public awareness campaign. The 2004 study provides valuable historical data, but should not be treated as a baseline for the 2015 studies.

2 'Finance company etc' is a broad category, capturing finance companies, retailers, loan shops, payday advance loan companies, online short-term loan providers and pawnbrokers/pawnshops. It does not include banks, credit unions or building societies.

Table 2: Summary table – Impact 2: Reduced predatory/irresponsible lending

Impact 2: Reduced predatory/irresponsible lending						
Evaluation question	**Target**	**Baseline measure**	**Other information**	**Section for more detail**	**Data source/ method**	**Assumptions/ limitations**
5. Are lenders providing borrowers with the time and information to make an informed decision?	Increased proportion compared with baseline	In 80% of cases the lender or retailer took the borrower through the contract in person or over the telephone. *Vulnerable consumers:* 85% of those borrowers for whom English was not their best spoken language were taken through the contract or agreement and 57% read it, whereas 79% of borrowers for whom English was their best spoken language were taken through the contract or agreement and 39% read it. 2% of those who borrowed felt the lender did not give them enough time to consider the contract before signing. *Vulnerable consumers:* The proportion of borrowers who felt they were not given enough time was the same regardless of whether English was the borrower's best spoken language or not. Those with low income were more likely to feel they had not been given enough time (4% of those with an individual income of $30,000 or less, compared with 2% of those who had an income of $30,001 to $60,000 and 1% of those with an income of $60,001 plus). Of those who borrowed, 3% found payments were more than they expected,	Of those who borrowed from a bank or credit union, 83% said they had been taken through the contract or agreement, 37% said they had read it and 3% stated neither of these things had occurred. Of those who borrowed from a finance company etc,[2] 69% said that they had been taken through the contract or agreement, 49% said they had read it and 7% that neither of these had occurred. 1% of those who borrowed from a bank or credit union felt they had not been given enough time, compared with 4% of those who borrowed from a finance company etc.	7.2 5.1 6.1	Baseline Consumer Survey, February 2015	The Baseline Consumer Survey asked borrowers to think about the credit contract or agreement and identify whether the lender "took you through it". This phrasing may not capture situations where the lender assisted the borrower with decision making in other ways.

Evaluation question	Target	Baseline measure	Other information	Section for more detail	Data source/ method	Assumptions/ limitations
		7% found there were fees they weren't aware of and 6% said it wasn't clear when payments were due (*note that some responses may be from the same individual*). 7% noted one or more matters that they wish they had been better informed about (refer to baseline measures for 'Better-informed decision making by consumers' (Table 1) for further detail).		5.1		
6. What is the level of personal insolvencies?	Reduction in the proportion of total insolvencies from excessive credit use and interest payments, compared with baseline.	3418 insolvencies: • 1921 bankruptcies • 1145 No Asset Procedures • 352 Summary Instalment Orders. Cause of insolvency: • 27% from unemployment or loss of income • 9% from excessive use of credit facilities • 3% due to excessive interest payments.		6.2	Insolvency Statistics and Debtor Profile Report (2013/14 figures)	Insolvency statistics and debtor reporting includes all personal insolvencies reported to the Ministry, not just insolvencies resulting from consumer credit. *Cause* of insolvency was self-reported.
7. Are lenders making inquiries regarding the needs of borrowers and	Increased inquiries by lenders, as reported by consumers, compared	Approximately two-thirds of borrowers recalled being asked by lenders about three aspects of their ability to repay: • 68% recalled being asked about their current financial situation • 65% recalled being asked about other		6.3	Baseline Consumer Survey, February 2015	This section is particularly reliant on the honesty and accurate memory of

Evaluation question	Target	Baseline measure	Other information	Section for more detail	Data source/ method	Assumptions/ limitations
their ability to repay?	with baseline	loans they may have • 62% recalled being asked about their ability to make repayments. In 8% of all cases, the borrower did not recall the lender asking about any aspects of the borrower's ability to repay *and* the lender did not know about the borrower's credit history. According to borrowers, retailers were significantly less likely than other types of lenders to discuss the borrower's current financial circumstances in general (45%, compared with 68% of all lenders). Percentage of borrowers who recalled being required to provide the following documents before loan approval: • 56% photo identification • 53% details of existing loans • 51% permission for a credit check • 47% payslip or other evidence. 4% of respondents said they had been declined credit in the last two years (other than for a home loan) because of concerns about their ability to repay the debt. 11% of all Pacific respondents, 9% of all Māori respondents and 3% of all other respondents said they had been declined credit in the last two years.		6.3 6.3		respondents. This survey did not contact lenders to verify if they had information about the borrower's credit history or whether the borrower had been an existing customer when they applied for the credit.

Notes:

1 The Ministry of Consumer Affairs conducted a survey in 2004 that is similar to the Baseline Consumer Survey, February 2015. The 2004 report was an internal report carried out to assist with a targeted public awareness campaign. The 2004 study provides valuable historical data, but should not be treated as a baseline for the 2015 studies.

2 'Finance company etc' is a broad category, capturing finance companies, retailers, loan shops, payday advance loan companies, online short-term loan providers and pawnbrokers/pawnshops. It does not include banks, credit unions or building societies.

Table 3: Summary table – Impact 3: Increased compliance (with pre-CCCF Amendment Act obligations

Impact 3: Increased compliance (with pre-CCCF Amendment Act obligations)						
Evaluation question	**Target**	**Baseline measure**	**Other information**	**Section for more detail**	**Data source/ method**	**Assumptions/ limitations**
8. What proportion of lenders is complying with registration and dispute resolution registration requirements?	Increased proportion compared with baseline	All banks, credit unions and building societies were registered correctly. Percentage of Other Lenders that were: • registered as a financial service provider: 69% • a member of a dispute resolution scheme: 68%.		7.1	Lender Desk-based Survey 2015	
9. Are lenders providing a copy of the contract to borrowers?	Increased compliance as reported by consumers, compared with baseline	86% of recent borrowers reported being given a copy of the written agreement or contract they had signed 6% reported signing an agreement, but they were not given a copy 2% reported never signing an agreement/contract.		7.2	Baseline Consumer Survey, February 2015	

Note

1 The Ministry of Consumer Affairs conducted a survey in 2004 that is similar to the Baseline Consumer Survey, February 2015. The 2004 report was an internal report carried out to assist with a targeted public awareness campaign. The 2004 study provides valuable historical data, but should not be treated as a baseline for the 2015 studies.

Table 4: Summary table – General

General						
Evaluation question	**Target**	**Baseline measure**	**Other information**	**Section for more detail**	**Data source/ method**	**Assumptions/ limitations**
10. What kinds of content and themes are present in lender advertising?	N/A	*Speed and ease:* Over half the Other Lenders identified with websites emphasised speed and ease of obtaining credit on their websites. It was not, however, emphasised by banks or credit unions and building societies. *Flexibility and normality* were promoted by all three lender groups. *Aspiration* was used by banks and Other Lenders, but was not commonly used by credit unions and building societies. *Incentives:* Banks used incentives in newspaper advertising and websites significantly more than credit unions and building societies, and Other Lenders. *Celebrity endorsements:* Celebrity endorsements were rare, with two Other Lenders using celebrities to endorse their services. A more common practice was sponsorship of community groups by lenders.		5.7	Lender Desk-based Survey 2015	

Evaluation question	Target	Baseline measure	Other information	Section for more detail	Data source/ method	Assumptions/ limitations
11. What proportion of consumers is aware of their rights prior to entering a credit contract?	N/A	Young people, Māori and Pacific peoples, and people for whom English was not the language they spoke best, had lower awareness than other groups. 38% of all respondents were able to answer 5 or 6 (out of 6) statements correctly. Only 2 out of the 6 aspects of consumers' rights and obligations were widely known.		5.6	Baseline Consumer Survey, February 2015	
12. What proportion of consumers understands lenders' obligations that arise prior to entering credit contracts?	N/A	22% were able to answer 8 or more statements (out of 10) correctly. Only 3 out of the 10 aspects of lender obligations were widely known. Māori and Pacific respondents had lower awareness about lenders' obligations than other respondents.		5.6	Baseline Consumer Survey, February 2015	
13. What is the nature of issues experienced by people who borrow?	N/A	35% of borrowers identified one or more credit-related issues: • 15% financial circumstances changed • 8% lender changed or increased interest rates • 7% unexpected fees.		6.1	Baseline Consumer Survey, February 2015	

Evaluation question	Target	Baseline measure	Other information	Section for more detail	Data source/ method	Assumptions/ limitations
14. What are the characteristics of consumers who have gone through personal insolvency?	N/A	Gender: • 52% male • 48% female. Ethnicity (top three): • 58% New Zealand European • 17% Māori • 6% Other European.[2] Size of debt: • 48% $0–39,000 • 16% $40,000–99,999 • 36% over $100,000. Region: • Auckland: 991 (29%) • Christchurch: 353 (10%) • Wellington: 257 (8%) • Hamilton: 211 (6%) • Rest of North Island: 900 (26%) • Rest of South Island: 510 (15%). Employment status: • 33% currently employed • 18% unemployment benefit • 12% unemployed – not receiving benefit.		8.1	Insolvency Statistics and Debtor Profile Report (2013/14 figures)	Insolvency statistics and debtor reporting includes all personal insolvencies reported to the Ministry, not just insolvencies resulting from consumer credit.

Evaluation question	Target	Baseline measure	Other information	Section for more detail	Data source/ method	Assumptions/ limitations
15. How do borrowers feel about their knowledge of managing personal finances?	N/A	One in five (22%) respondents felt they were highly knowledgeable about managing personal finances. Borrowers and non-borrowers are equally likely to report knowing either "a reasonable amount" or "a lot" (both 77%). 19% of respondents reported knowing "little" (16%) or "nothing at all" (3%) about managing personal finances. 57% of respondents felt they knew a reasonable amount.		5.5	Baseline Consumer Survey, February 2015	
16. What types of lending options are front of mind for consumers?	N/A	Greatest awareness was of bank loans with 76% of respondents mentioning this option for borrowing in a hurry and 70% for planned purchases. Younger consumers are less aware of lending options.		8.4	Baseline Consumer Survey, February 2015	
17. For what purposes are consumers borrowing money?	N/A	59% had not borrowed in the previous two years. Those who had borrowed in the previous two years had done so for the following reasons: • mortgage (29%) • vehicle (24%) • major purchase for home (20%).		8.2	Baseline Consumer Survey, February 2015	
18. Where do consumers go to borrow	N/A	Bank (70%) Finance company (12%)		8.3	Baseline Consumer Survey,	

Evaluation question	Target	Baseline measure	Other information	Section for more detail	Data source/ method	Assumptions/ limitations
money?		Retailer (8%) Other (10%).			February 2015	
19. What is the number (and turnover) of lenders since 2011?	N/A	Number of lenders identified: • 12 banks • 24 credit unions and building societies • 260 Other Lenders. Turnover of Other Lenders: • 119 new Other Lenders identified • 141 (54%) third-tier[3] lenders identified in 2011 remained in operation in 2015 • 77 had either exited the market or could no longer be found.		8.5	Lender Desk-based Survey 2015	

Notes:

1 The Ministry of Consumer Affairs conducted a survey in 2004 that is similar to the Baseline Consumer Survey, February 2015. The 2004 report was an internal report carried out to assist with a targeted public awareness campaign. The 2004 study provides valuable historical data, but should not be treated as a baseline for the 2015 studies.

2 Ethnicity classifications by Statistics New Zealand.

3 In 2015 lenders were examined under three categories: "registered banks", "building societies and credit unions", and "Other Lenders". A similar study conducted in 2011 focused on third-tier lenders. Third-tier lenders were defined by the 2011 study to include finance companies, payday lenders and money lenders.

3 Background: Consumer credit law reforms

A number of changes were made to the laws governing consumer credit contracts through the consumer credit law reform process. The Credit Contracts and Consumer Finance Amendment Act 2014 (the CCCF Amendment Act) amended the Credit Contracts and Consumer Finance Act 2003 (the CCCFA) and incorporated (and updated) the law governing repossessions. The changes came into effect in full on 6 June 2015.

The Ministry of Business, Innovation and Employment (the Ministry) has also developed a Responsible Lending Code. The Responsible Lending Code provides guidance and assistance to lenders on how to comply with the new lender responsibility principles introduced by the reforms.

3.1 Policy objective of the reform Bill

The policy objective[8] of the Bill that led to the CCCF Amendment Act is to revise and update the law that governs consumer credit and broader financial markets so that it:

- requires creditors lend to consumers and manage consumer credit contracts responsibly
- provides improved protection for vulnerable consumers, including from unscrupulous lenders
- provides for consumer credit law to be dealt with holistically in one Act and is consistent with other financial sector legislation
- promotes and facilitates the development of fair, efficient and transparent financial markets.

3.2 Considerations when developing the Responsible Lending Code and regulations

During the development of the Responsible Lending Code and the consumer credit regulations, officials considered the following criteria:

- giving effect to the purpose of the updated CCCFA to, in particular:
    - protect the interests of consumers
    - promote the confident and informed consumer participation in credit markets
    - promote and facilitate fair, efficient and transparent credit markets
- promoting certainty for lenders (and the enforcement agency)
- minimising compliance costs
- not unnecessarily restricting consumer access to credit.

3.3 Intended impacts of the CCCFA reforms and associated activities

The intended impacts of the above reforms and new regulation are:

- Better informed decision making by consumers
- Reduced predatory/irresponsible lending

[8] Explanatory note, Credit Contracts and Financial Services Law Reform Bill. www.legislation.govt.nz/bill/government/2013/0104/17.0/DLM5146303.html

- Increase compliance with pre-CCCF Amendment Act obligations

The outcomes framework for the CCCFA reforms are summarised in Figure 1, p 26.

3.4 Summary of the legislative interventions

A number of changes were made to the CCCFA and associated regulations. Some of the key changes are identified as outputs (or interventions) in the outcomes framework in Figure 1, p 26. We elaborate on each of the outputs below.

Improved disclosure requirements

Several changes have been made to the general disclosure requirements:

- Lenders must disclose full details of all changes to consumer credit contracts agreed between the borrower and lender, or changes to interest rates, payments, fees or credit limits made unilaterally by the lender (previously these disclosure requirements did not apply where the change was beneficial to the borrower or where the borrower's obligations were reduced).
- Initial disclosure must be made prior to the loan agreement being entered (previously, lenders had up to five days after entering the agreement to make disclosure).
- Continuing disclosure must be made regularly for almost all credit contracts (previously these were not required if the contract had a fixed schedule of payments).

Publication of costs of borrowing information

Costs of borrowing include any or all credit fees, default fees and interest charge costs.[9] Lenders who use standard form contract terms must make those terms publicly available. This includes prominently and clearly displaying costs of borrowing information on their websites. A notice must also be displayed at the businesses premises that costs of borrowing information can be provided free of charge. The lender must also supply a copy of the information free of charge when requested.

Advertising practices

The lender responsibility principles extend to advertising by lenders across all kinds of media. The code provides guidance on a number of specific lending practices. For example, when referring to the amount of regular repayments for a particular term loan lenders should include the total amount payable under the agreement if ascertainable.

Extended cooling off period

Borrowers now have between five and nine working days to cancel a loan (depending on how they receive their disclosure statement). Before 6 June 2015, the period for cancelling was three working days.

Minimum repayment warnings on credit card statements

Credit card providers are now required to give a written minimum repayment warning on continuing disclosure statements for credit card statements. The warning highlights the general consequences of only making the minimum repayments each month and directs consumers to an online calculator on the Sorted website (https://sorted.co.nz). The calculator allows consumers to calculate the costs of repaying their credit card balance at different repayment levels.

[9] *Credit Contracts and Consumer Finance Act 2003*, section 9K.

Obligation to assist with informed decisions

The obligation to assist with informed decisions is one of the lender responsibilities introduced by the CCCF Amendment Act. Lenders must assist borrowers and guarantors to reach an informed decision as to whether to enter into the agreement and be reasonably aware of the full implications of doing so. This applies when lenders communicate with borrowers and guarantors, including in advertising. Lenders must not advertise or present information in a manner that is misleading, deceptive or confusing.

Strengthened principles regarding oppressive contracts

Other lender responsibilities under the CCCFA are ensuring agreements are not oppressive, that the lender does not exercise a right or power conferred by the agreement in an oppressive manner, and that the lender does not induce borrowers or guarantors to enter into agreements or give guarantees by oppressive means.

Obligation to treat borrowers/guarantors and their property reasonably and in an ethical manner

While the lender responsibility to treat borrowers/guarantors reasonably and ethically applies before, after and throughout the life of the loan, the CCCFA puts special emphasis on certain situations. For example, when breaches of the agreement have occurred and when a debtor under a consumer credit contract suffers unforeseen hardship.

Improved unforeseen hardship provisions

The CCCF Amendment Act clarifies the test for unforeseen hardship and provides for explicit processes and timeframes for consumers to apply for relief. Previously, debtors were required to apply for hardship relief before their loans were in default, making potential relief inaccessible for many borrowers. Consumers are now allowed to apply for relief in cases of hardship up to two months after they default on payments or up to two weeks after the creditor has notified them of the default. Lenders are obligated to decide whether to change the agreement subject to the application within 20 working days. Lenders must now also provide reasons if they reject the application.

Obligation to make inquiries to be satisfied that credit will meet borrower's requirements

Another lender responsibility is that lenders must also make reasonable inquiries so as to be satisfied that it is likely the credit they will provide will meet the borrower's requirements and objectives. As the Responsible Lending Code outlines, these inquiries might relate to the purpose for which the credit is sought, the timeframe for which the credit is required, whether the borrower requires flexibility or particular product features, and more. The level of appropriate inquiry depends on the circumstances; lenders should make more extensive inquiries where there is a greater risk that the agreement will not meet the borrower's requirements and objectives.

Obligation to make inquiries to be satisfied that the borrower/guarantor will make payments without suffering substantial hardship.

This is also a lender responsibility under the CCCFA. The Responsible Lending Code provides that, to meet this responsibility, a lender should make reasonable inquiries into the income, expenses and likelihood of repayment for both the borrower and guarantor. Lenders must then be satisfied that the borrower or guarantor will make the payments under the agreement without undue difficulty, as well as meet commitments for necessities and other financial commitments.

Increased penalties

The Commerce Commission can now issue infringement notices requiring lenders to pay an infringement fee if they commit any offences. Infringement fees of up to $2,000 can be issued.

Serious offences under the CCCFA may now attract substantial penalties of up to $200,000 for an individual and $600,000 for a company. The maximum level of statutory damages that borrowers can claim has increased to $6,000.

Strengthened registration incentives

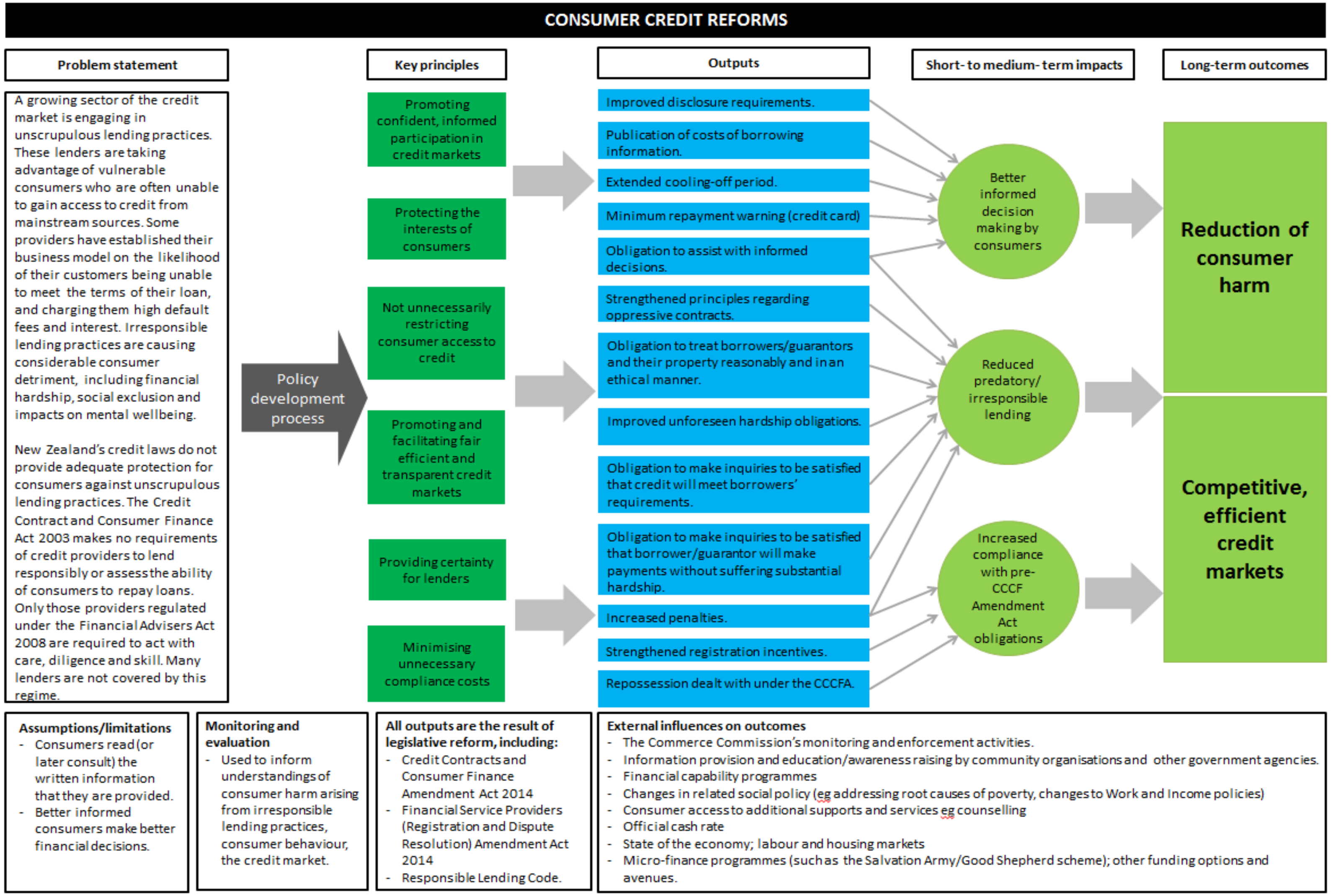
Previously, only financial service providers providing credit were required to be registered under the Financial Service Providers Register (FSPR) and, consequently, have membership with an approved dispute resolution scheme. The CCCF Amendment Act amended the Financial Service Providers (Registration and Dispute Resolution) Act 2008 to require all creditors under a credit contract to be registered (not just those that provide credit).

This ensures consumers have access to dispute resolution where debts have been on-sold — for example, to a debt collection agency. Additionally, creditors that are not registered under the Financial Service Providers (Registration and Dispute Resolution) Act 2008 are prevented from charging interest or fees.

Repossession now dealt with in the CCCFA and rules tightened

The CCCF Amendment Act repealed the Credit (Repossession) Act 1997 and incorporated its provisions into the CCCFA. This change facilitates the view that repossession is part of the credit process and that borrowers and their property are treated reasonably and respectfully, consistently with the lender responsibilities.

Figure 1: Outcomes framework for the Credit Contracts and Consumer Finance Act 2003 reforms



4 Evaluation objectives and approach

This report provides baseline information for an impact evaluation, focused on the three short- to medium-term impacts of the reforms (set out in the ‘impacts’ column of the outcomes framework in Figure 1).

The baseline data listed in this report was compiled from three main studies which are described below. The studies were conducted immediately before the implementation of the reforms and form a benchmark against which progress towards the intended impacts of the reforms (and the promotion of the reforms) can be measured in future research. The research included:

- a quantitative survey of consumers (the Baseline Consumer Survey, February 2015)
- desk-based research on lender’s advertising practices and compliance with registration requirements (the Lender Desk-based Survey 2015)
- analysis of quantitative data on the level of problem debt and the characteristics of debtors (New Zealand Insolvency Statistics and Debtor Profile Report (2013/14 figures).

The methodologies for these studies are described below and/or in the accompanying reports. Data collected in these studies can be replicated as part of future evaluation so that changes over a period can be analysed and impacts of the reforms can be assessed. To explore data on Māori and Pacific consumers because there is a higher incidence of vulnerable consumers among Māori and Pacific peoples, the baseline survey sought to ensure there were adequate numbers of Māori and Pacific respondents. Where there are significant differences between Māori, Pacific and other groups, these are stated.

4.1 Report Outline

Evaluation findings are grouped under the three impacts identified in the outcome framework

- Better informed decision making by consumers
- Reduced predatory/irresponsible lending
- Increase compliance with pre-CCCF Amendment Act obligations

Section 8 describes more generally the lending environment in New Zealand including characteristics of people with problem debt and for what purposes consumers borrow money.

Vulnerable consumers have been defined in this study as consumers who receive a low income, who are unemployed and/or for whom English is not the language spoken best. Where relevant, findings related to vulnerable consumers are noted in the report.

4.2 Lender Desk-based Survey 2015

The Lender Desk-based Survey 2015 looked at the size and nature of the lending industry, with a focus on current advertising practices by credit providers. Completed in February 2015, this study allows for comparison within the New Zealand lending industry by looking at lenders under three categories:

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

The terms of reference used in the study are in Appendix 1. Similar research, which focused on third-tier lenders, was completed in 2011 and enabled analysis of lender turnover.

4.3 CCCFA Baseline Consumer Survey

A telephone survey of New Zealand consumers was undertaken in February 2015 by Research New Zealand on behalf of the Ministry. The questionnaire was developed by Ministry researchers and policy advisors in consultation with Research New Zealand. The survey included questions on awareness of lending options, recent borrowing, and awareness of rights and obligations. All respondents (consumers) were asked a series of questions. A number of questions were specifically asked of recent borrowers, who made up 41 per cent of respondents.

Over-sampling of Māori and Pacific populations was carried out by identifying geographic areas (mesh blocks) known to have higher than average proportions of Māori and Pacific populations. Once the survey was completed, data was re-weighted by age, gender and prioritised ethnicity to adjust for the oversampling of Māori and Pacific respondents and any non-response bias by age or gender.

4.4 Analysis of existing insolvency statistics

The web database held by the Insolvency and Trustee Service (part of the Ministry) contains information on the main characteristics of debtors, including the Statement of Affairs form that debtors are required to complete on entering into an insolvency procedure. Other information sources include public registers and information provided by creditors and other third parties. Data from the 2007/08 financial year onward was extracted and analysed to allow for the effects of the economic downturn to be observed. Analysis included characteristics of debtors by gender, ethnicity, age, employment status and size of debt. Insolvency procedures include Summary Instalment Orders (SIOs), bankruptcies, and No Asset Procedures (NAPs). More background information is in Appendix 2.

4.5 Limitations

Baseline Consumer Survey, February 2015

Question 18 of the Baseline Consumer Survey asked borrowers to think about the credit contract or agreement and identify whether the lender “took you through it”. This phrasing may not capture situations where the lender assisted the borrower with decision making in other ways.

The survey used self-reported responses from consumers. As with any self-report study, answers rely on the memory and honesty of respondents. The survey did not contact lenders to verify information that respondents had provided. For example, if a borrower reported being provided/not provided with a copy of the contract, the lender was not contacted to confirm this.

Lender Desk-based Survey 2015

Prior to the baseline evaluation being carried out, the draft Responsible Lending Code had been released and the CCCF Amendment Act had been passed but had not come into force. Because this information was already publically available, it is possible that lenders had already started changing their advertising practices to ensure compliance when the changes came into effect.

Analysis of advertising was limited to websites, newspaper advertisements and Facebook pages. 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 which lenders had New Zealand-run Facebook pages. With the increased use of social media platforms, future research could look at other social media platforms.

When determining whether information on fees and rates were disclosed, disclosure of 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 the lender was providing all fees and rates associated with borrowing.

Reasonable efforts were made by researchers to find the information on lender websites. It is possible that some information was there but was not found.

Insolvency Statistics and Debtor Profile Report (2013/14 figures)

Insolvency statistics and debtor reporting includes all personal insolvencies reported to the Ministry, not just insolvencies resulting from consumer credit. While insolvencies were not self-reported, the cause of insolvency was self-reported.

5 Impact 1: Better informed decision making by consumers

5.1 Understanding of terms and conditions of credit contracts

The vast majority of recent borrowers (97 per cent) felt they were given enough time to consider the contract before signing it (Table 5).

Table 5: Time to consider contract before signing

Question 20. Did you feel that the lender gave you enough time to consider the contract before you signed it?

	Total
Unweighted base =	405*
Weighted base =	427*
Response	**%**
Yes	97
No	2
Don't know	1
Refused	0
Total	**100**

Notes: Total may not sum to 100% due to rounding.

* Subsample based on those respondents who reported having signed a contract or agreement on the most recent occasion. Excludes respondents who said they had borrowed from family or friends or had used an existing credit card on the most recent occasion.

Vulnerable consumers: The proportion of borrowers who felt they were not given enough time was the same regardless of whether English was the borrower's best spoken language or not. Those with low income were more likely to feel they had not been given enough time (4 per cent of those with an individual income of $30,000 or less compared with 2 per cent of those with an income of $30,001 to $60,000 and 1 per cent of those with an income of $60,001 plus).

Most borrowers' were "very confident" that they understood the terms and conditions of the contract, but others were not so confident (Table 6):

- Seventy-one per cent of borrowers said they were "very confident" that they understood everything they needed to know about the agreement.
- A significant proportion of borrowers were only "somewhat confident" (27 per cent).
- One per cent of borrowers were "not at all confident".
- Vulnerable consumers: Borrowers with lower individual income tended to be less confident than borrowers with higher income. Sixty-two per cent of borrowers for whom English was not the language they spoke best were very confident, compared with 72 per cent of those for whom English was the language they spoke best.

Table 6*: Understanding of terms and conditions*

Question 21. At the time, how confident would you say you were that you understood everything you needed to know about your loan or credit agreement? Would you say...?

	Total
Unweighted base =	434*
Weighted base =	464*
Response	**%**
Not at all confident	1
Somewhat confident	27
Very confident	71
Other	1
Don't know	0
Refused	0
Total	100

Notes: Total may not sum to 100% due to rounding.

* Sub-sample based on those respondents who reported borrowing money, getting a cash loan or applying for credit in the last 2 years, and who reported using one or more of the credit facilities listed in questions 7 and 8a. Excludes early respondents who said they had borrowed from family or friends or had used an existing credit card on the most recent occasion.

5.2 Considering options for borrowing money

Of all borrowers, 24 per cent said that they considered other options for borrowing money before choosing the lender. Of those who considered other options, 63 per cent said they shopped around and compared different finance options before deciding on a lender.

Vulnerable consumers: Borrowers for whom English was not their best spoken language were less likely to consider other options than those for whom English was their best spoken language (6 per cent compared with 25 per cent).

5.3 Additional information

When asked if there had been any information about their most recent loan that they wish they had been told about before signing, 93 per cent of borrowers reported not needing anything further.

Seven per cent of borrowers noted one or more matters they wish they had been better informed about. The question was asked on an unprompted basis, and the answers provided by respondents were categorised into the five main types of missing information shown in Table 7.

Vulnerable consumers: Ninety six per cent of borrowers for whom English was not their best spoken language said there was no other information about the loan or credit that they wished they had been told about (compared with 93 per cent of borrowers for whom English was the language they spoke best). Fifty-seven per cent of borrowers for whom English was not the language they spoke best experienced at least one issue over the course of the loan (compared with 34 per cent of borrowers for whom English was the language they spoke best).

Borrowers for whom English was not the language they spoke best, reported having a higher proportion of issues across the board (compared with those who spoke English best), including: payments being more than expected (18 per cent compared with 2 per cent), unexpected fees (11 per cent compared with 7 per cent), clarity of when payments were due (11 per cent compared with 5 per cent) getting behind on payments (23 per cent compared with 4 per cent), being turned over to a debt collector (19 per cent compared with 1 per cent), and change in financial circumstances (32 per cent compared with 14 per cent).

Table 7: Additional information wished told about

Question 22. After you signed the contract the last time you borrowed money, was there any other information about your loan/credit that you wish you had been told about?

	Total
Unweighted base =	405*
Weighted base =	427*
Additional information	**%**
Unexpected fees/insurance	2
Information about repaying the loan early	1
What the interest rates/repayment amounts would be	1
How to make repayments	1
Making it easier to understand the contract/how the credit works	1
Other	1
Total other information wanted	**7**
No – did not need any other information	93
Don't know	0
Refused	0

Notes: Total may exceed 100% because of multiple responses.

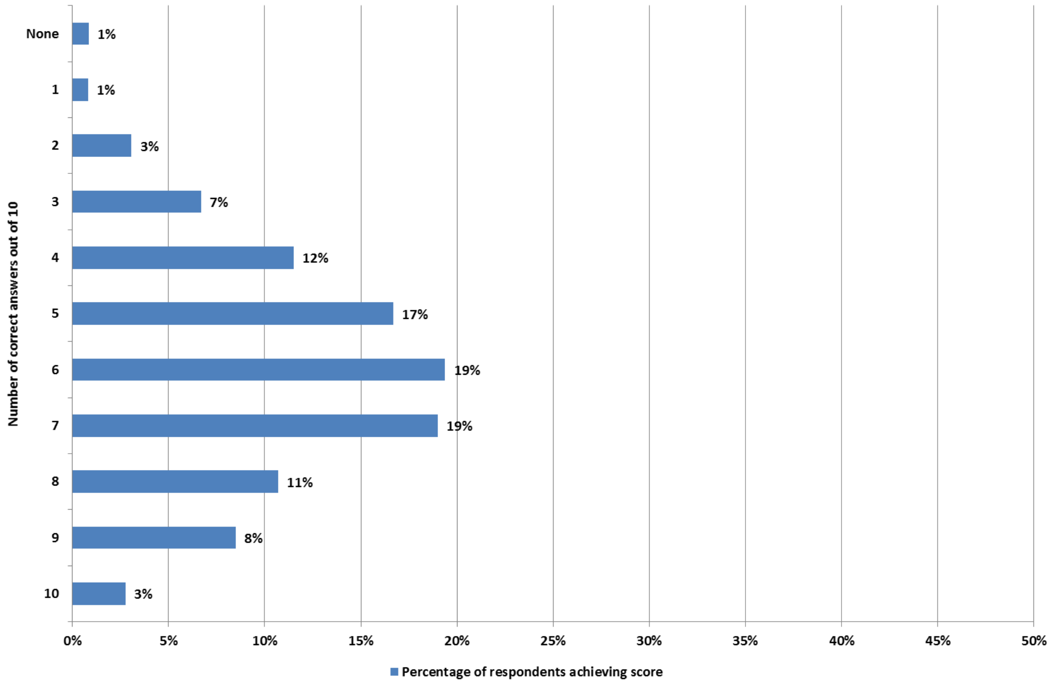
* Sub-sample based on those respondents reported having signed a contract or agreement on the most recent occasion. Excludes early respondents who said they had borrowed from family or friends or had used an existing credit card on the most recent occasion.

5.4 Understanding of lenders' obligations before entering credit contracts

The survey also sought to measure consumers' awareness of lenders' obligations. Respondents were asked to state whether 10 statements were true or false. These statements related to current legislation at the time the survey was undertaken (February 2015).

Awareness of lenders' obligations is lower than awareness of consumers' rights and obligations. Only 22 per cent of respondents answered eight or more statements correctly (as shown in Figure 2), with the average number of correct answers 5.96 out of 10.

Figure 2: Number of correct answers to true/false statements about lender obligations



The proportions of correct responses for each statement varied considerably from 29 per cent to 92 per cent.

Only 3 out of the 10 aspects of lenders' obligations were widely known:

- A lender has to provide a borrower with a written statement that includes the interest rate and any applicable fees: 92 per cent of respondents correctly answered that this was true.
- A lender is allowed to hire a debt collector if a borrower can't repay the loan: 86 per cent of respondents correctly answered that this was true.
- A lender has to provide a borrower with written information about their right to cancel the credit contract: 83 per cent of respondents correctly answered that this was true.

There were three aspects of lenders' obligations that less than a third of respondents correctly identified. The survey revealed a number of common misconceptions:

- A lender must not offer a borrower a higher loan amount than what they initially asked for: 29 per cent of respondents correctly answered that this was false. Forty per cent believed this statement was true, highlighting a common misconception among consumers.

- If a borrower can't make repayments, the lender must offer more affordable payment options: 33 per cent of respondents correctly answered that this was false.
- A lender can sell a borrower's credit contract to another lender: 33 per cent of respondents correctly answered that this was true. Almost one in three (31 per cent) wrongly believed this statement was false.
- A lender has to give a borrower financial advice: 47 per cent answered correctly that the statement was false).

Ethnicity

Pacific respondents were more likely to incorrectly believe aspects of lenders' obligations (Table 8):

- If a borrower cannot make repayments, the lender must offer more affordable payment options (58 per cent of Pacific respondents wrongly answered that this was true compared with 33 per cent of all respondents).
- A lender has to give a borrower financial advice (54 per cent of Pacific respondents wrongly answered that this was true compared with 32 per cent of all respondents).

Table 8: Statements about lenders' current legal obligations – percentage of respondents answering each statement correctly – by ethnicity

	Total	Pacific	Māori	Other
Unweighted base =	1200	200	421	579
Weighted base =	1200	64	135	1000
Statements	%	%	%	%
True statements				
A lender has to provide a borrower with a written statement that includes the interest rate and any applicable fees	92	**82**	**83**	93
A lender has to provide a borrower with written information about their right to cancel the credit contract	83	76	77	84
A lender can sell a borrower's credit contract to another lender	33	**15**	**23**	35
A lender is allowed to call or contact a borrower to offer more credit	53	43	46	55
A lender is allowed to hire a debt collector if a borrower can't repay the loan	86	**73**	**79**	88
A lender can repossess items that are bought on credit if a borrower can't repay the loan	80	75	75	81
A debt collector can knock on a borrower's door to ask for payment	61	54	**53**	62
False statements				
A lender has to give a borrower financial advice	47	**25**	40	49
A lender must not offer a borrower a higher loan amount than what they initially asked for	29	24	30	29
If a borrower can't make repayments, the lender must offer more affordable payment options	33	**17**	28	35

Awareness by borrowers

Table 9 compares the responses of respondents who said they had borrowed money in the last two years with those of non-borrowers. Borrowers were more likely to correctly answer two of the statements than non-borrowers:

- A lender has to provide a borrower with a written statement that includes the interest rate and any applicable fees (90 per cent of borrowers correctly answered that this was true compared with 84 per cent of non-borrowers).
- A lender is allowed to hire a debt collector if a borrower can't repay the loan (97 per cent of borrowers correctly answered that this was true compared with 88 per cent of non-borrowers).

There were no other significant differences between the two groups in terms of their awareness of lenders' obligations.

Table 9: Statements about lenders' current legal obligations – percentage of respondents answering each statement correctly, by borrower and non-borrower

	Total	Non-borrower	Borrower
Unweighted base =	1200	746	454
Weighted base =	1200	713	487
Statements	**%**	**%**	**%**
True statements			
A lender has to provide a borrower with a written statement that includes the interest rate and any applicable fees	92	88	97
A lender has to provide a borrower with written information about their right to cancel the credit contract	83	82	84
A lender can sell a borrower's credit contract to another lender	33	34	32
A lender is allowed to call or contact a borrower to offer more credit	53	50	58
A lender is allowed to hire a debt collector if a borrower can't repay the loan	86	84	90
A lender can repossess items that are bought on credit if a borrower can't repay the loan	80	79	81
A debt collector can knock on a borrower's door to ask for payment	61	60	62
False statements			
A lender has to give a borrower financial advice	47	45	49
A lender must not offer a borrower a higher loan amount than what they initially asked for	29	29	28
If a borrower can't make repayments, the lender must offer more affordable payment options	33	33	33

Consumer segmentation

To gain a better understanding of the consumer population in terms of consumers' understanding of rights and obligations, respondents were segmented based on their level of awareness of current legislation, as measured by the survey.

- Almost one in five respondents (18 per cent) were classified as having low overall awareness of borrowers' and lenders' rights and obligations.
- Almost half the respondents (48 per cent) were classified as having moderate overall awareness.
- One-third of respondents (33 per cent) were classified as having high overall awareness.

Table 10 provides a summary of the main characteristics of each segment and shows demographic, attitudinal and behavioural differences between the three groups.

- *Demographics:* Reflecting observations earlier in this chapter: age, ethnicity and English speaking ability are the key demographic differentiators between the three segments. Young people, Māori and Pacific peoples, and people for whom English is not their best spoken language are particularly likely to appear in the low awareness segment. Income and employment status also related to awareness of borrower rights and lender obligations, while gender and household structure did not.
- *Attitude:* Consumers in the low awareness segment are varied in terms of their self-reported financial literacy, their self-reported ability to manage their finances well, and their confidence in understanding the terms of credit contracts in cases where they have borrowed money. On balance, however, they provided lower self-ratings than those in the other two segments.
- *Behaviours*: Consumers in the low awareness segment are the least likely group to have borrowed money in the last two years. Those who did borrow during this period are twice as likely to have used a credit card as those in the moderate and high awareness segments.

Table 10: At-a-glance summary of segment characteristics

	Low awareness	**Moderate awareness**	**High awareness**
Size of segment	1/5 of population (18%)	1/2 of population (48%)	1/3 of population (33%)
Age	Younger than average (37% are under 30)	A range of ages represented	Older than average (only 11% under 30)
Ethnicity	Pacific (11%) and Māori (17%) are overrepresented	In line with total population	Unlikely to be of Pacific Island descent (2%)
English is their best spoken language[1]	Below average (77% yes)	High (93% yes)	Very high (99% yes)
Country of birth	57% born in New Zealand 22% born in Asia	7/10 born in New Zealand (71%)	4/5 born in New Zealand (79%)
Employment status	Two-thirds (67%) are *not* working	Two-thirds (65%) are working	Mostly working (75%) or retired (15%)
Income	Below average	A range of incomes represented	Higher than average
Self-reported financial literacy	Mixed	In line with total population	Not particularly high (only 30% know a lot)
Self-reported ability to manage money	Mixed (60% good/very good, 40% fair/poor)	High (77% good or very good)	High (81% good or very good)
Borrowing	Least likely (31% borrowed in last two years)	42% borrowed in last two years	44% borrowed in last two years

	Low awareness	Moderate awareness	High awareness
Products used	More likely to have used credit card (36%)	Only 15% used credit card	Only 16% used credit card
Confidence in understanding terms when borrowing	Fairly high (47% very confident)	High (71% very confident)	Very high (80% very confident)

Note: 1 Percentages are based on all respondents, not only those of migrants.

5.5 Consumers' financial literacy

Before directly assessing consumers' awareness of their rights and obligations around obtaining credit, it is useful to gain an understanding of the context in which consumers learn about this subject. This includes understanding consumers' perceptions about their own financial literacy in general.

Early in the survey, respondents were asked how much they knew about "managing personal finances in general". The findings (Table 11) are as follows:

- Just over one in five (22 per cent) respondents felt they were highly knowledgeable about managing personal finances.
- More than half the respondents (57 per cent) reported having a moderate level of financial literacy (knowing "a reasonable amount").
- More than one in five respondents (22 per cent) reported knowing "little" (16 per cent) or "nothing at all" (6 per cent) about managing personal finances.
- Just over three in four (79 per cent) respondents reported knowing "a reasonable amount" or "a lot", about managing personal finances.

Survey results suggest that a consumer's age and fluency in English are the factors that have the greatest impact on their self-reported financial literacy.

Table 11: Self-reported knowledge about managing personal finances – by borrower and non-borrower

Question 3. The next section of the survey is about borrowing money. First of all, how much would you say you know about managing personal finances in general? Would you say you...?

	Total	Non-borrower	Borrower
Unweighted base =	1200	746	454
Weighted base =	1200	713	487
Self-reported knowledge	%	%	%
Know a lot	22	24	18
Know a reasonable amount	57	53	63
Know little	16	16	16
Or would you say you really know nothing at all	6	7	3
Don't know	0	0	0
Refused	0	0	0
Total	100	100	100

Ethnicity

Pacific respondents were the most likely group to report knowing "nothing at all" (14 per cent, compared with six per cent of all respondents). Pacific respondents were also the least likely group to report knowing "a reasonable amount" (44 per cent, compared with 57 per cent of all respondents).

5.6 Awareness of consumers’ rights prior to entering a credit contract

To objectively measure consumers’ awareness of their own rights and obligations when it comes to applying for credit, respondents were asked to state whether six statements were true or false (Figure 1, Figure 3, Table 8 and Table 9). These statements related to current legislation at the time the survey was undertaken (February 2015).

Overall, there is room for improvement in terms of awareness of consumers’ rights and obligations – only 38 per cent of respondents were able to answer five or six statements correctly (Figure 3), and the average number of correct answers was 4 out of 6 (or 66 per cent correct). The proportions of correct responses for each statement ranged from 47 per cent to 85 per cent.

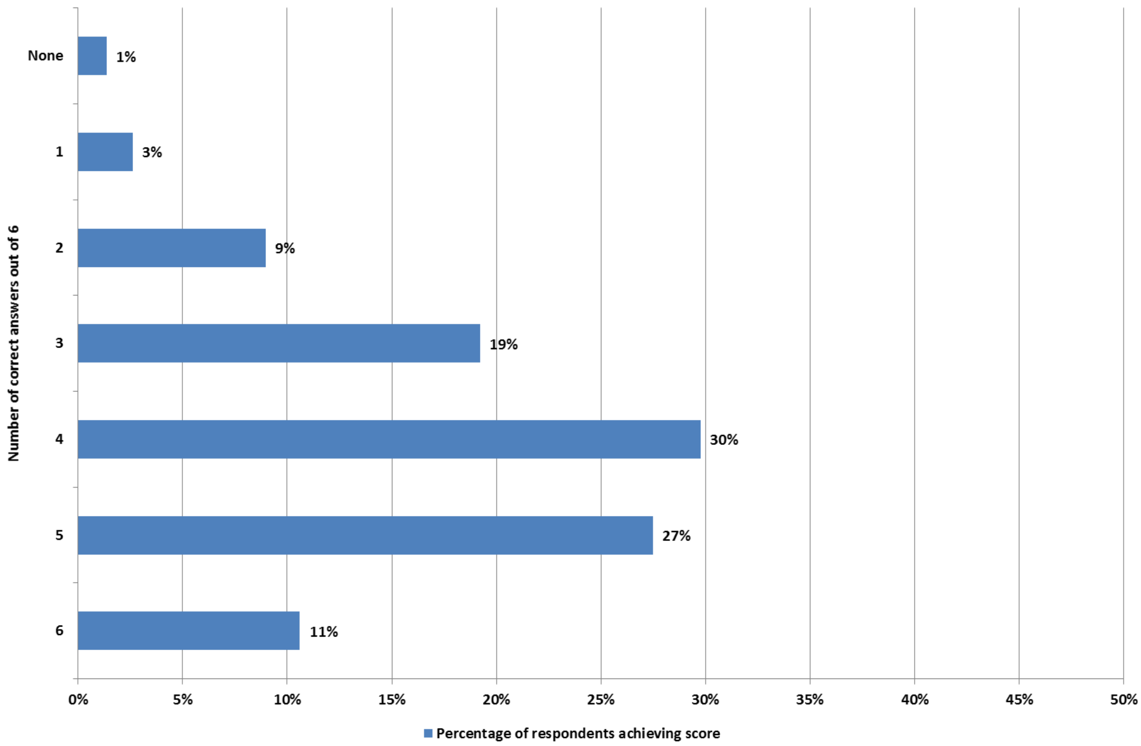
Only two out of the six aspects of consumers’ rights and obligations were widely known:

- If a person can’t pay back their loan, their guarantor may have to pay it: 85 per cent of respondents correctly answered that this was true.
- A person has the right to fully repay a loan at any time, but may have to pay early payment fees: 83 per cent of respondents correctly answered that this was true.

Two aspects of consumers’ rights and obligations were known by less than half of respondents:

- If a person can’t repay a loan, a debt collector can take any item in the house to pay for that debt, regardless of what the contract says: 48 per cent of respondents correctly answered that this was false.
- The law prevents lenders from charging very high interest rates: 47 per cent of respondents correctly answered that this was false.

Figure 3: Number of correct answers to true/false statements about consumers’ rights and obligations



Ethnicity

Table 12 shows awareness by ethnicity. Pacific respondents were particularly likely to incorrectly believe that *the law* prevents lenders from charging very high interest rates. Only 25 per cent of Pacific respondents correctly identified that this statement was false, compared with 47 per cent of all respondents.

Table 12: Statements about borrowers' current rights and legal obligations – percentage of respondents answering each statement correctly – by ethnicity

	Total	Pacific	Māori	Other
Unweighted base =	1200	200	421	579
Weighted base =	1200	64	135	1000
	%	%	%	%
True statements				
A person has the right to fully repay a loan at any time, but may have to pay early payment fees	83	73	78	84
If facing unexpected financial hardship, a person can apply for changes to their agreement when they are unable to meet the payments	69	72	68	69
If a person can't pay back their loan, their guarantor may have to pay it	85	72	82	86
A person has the right to change their mind and cancel a loan/credit agreement within a few days after signing it	67	60	63	68
False statements				
The law prevents lenders from charging very high interest rates	47	25	39	50
If a person can't repay a loan, a debt collector can take any item in the house to pay for that debt, regardless of what the contract says	48	38	45	49

Awareness by borrowers

Table 13 compares the responses of respondents who said they had borrowed money in the last two years against those of non-borrowers. Borrowers were more likely than non-borrowers to know that a person has the right to fully repay a loan at any time, but may have to pay early payment fees (87 per cent correctly answered that this was true, compared with 80 per cent of non-borrowers). However, there were no other significant differences between the two groups in terms of their awareness of borrowers' rights and obligations.

Table 13: Statements about borrowers' current rights and legal obligations – percentage of respondents answering each statement correctly – by borrower and non-borrower

	Total	Non-borrower	Borrower
Unweighted base =	1200	746	454
Weighted base =	1200	713	487
	%	%	%
True statements			
A person has the right to fully repay a loan at any time, but may have to pay early payment fees	83	80	87
If facing unexpected financial hardship, a person can apply for changes to their agreement when they are unable to meet the payments	69	66	73
If a person can't pay back their loan, their guarantor may have to pay it	85	84	85
A person has the right to change their mind and cancel a loan/credit agreement within a few days after signing it	67	65	69
False statements			
The law prevents lenders from charging very high interest rates	47	46	48
If a person can't repay a loan, a debt collector can take any item in the house to pay for that debt, regardless of what the contract says	48	45	53

5.7 Advertising by lenders

Advertising practices were compared against the criteria outlined in the terms of reference for the Lender Desk-based Survey 2015 (Appendix 1):

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

Content and themes

A review of content and themes (for example, the extent to which flexibility and aspiration were advertised) found different messages being communicated, depending on the advertising medium used and the category of lender.

Banks

'Aspiration' was common throughout the websites of banks, but with an absence of targeting of specific groups; it was only in the newspaper advertisements found that specific groups were targeted. For example, a particular bank's advertisement for a credit card in the lifestyle section of a national newspaper had 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 such as home loans and credit cards.

Incentives were found on half of the bank's websites. 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 found on bank websites and newspaper advertisements. Most tended to promote the variety of services offered, emphasising flexibility.

Normality was identified as a common theme on a number of bank 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

The websites of credit unions and building societies placed an emphasis on normality and familiarity. This was done on their websites by the use of words highlighting ownership by members. Normality was also achieved by 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 through the offering of a variety of services. Many gave the impression that credit could be used for a wide variety of purposes and by a diverse range of people. This was communicated by using images of many different types of people throughout the websites.

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 a website or in newspapers. Over half the Other Lenders with websites emphasised 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 the website. 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 and quick, bold phrases. Normality was achieved through testimonials, images of staff and staff information. These were 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.

Legible fine print

Credit unions, building societies and Other Lenders rarely used what was considered to be illegible fine print on their websites. Five (41 per cent) banks were identified as using illegible fine print on their websites by using small 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 with fine print were identified as illegible. It was also observed that retailers offering credit when selling a product 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 a reference to the total amount payable under the loan. This was observed across all lender categories of lenders in both newspapers and on websites.

Table 14 compares references to repayments as well as references to the total amount payable across lender categories and advertising mediums.

Table 14: Reference to repayments by lenders in advertising

Medium	Reference	Banks		Credit unions and building societies		Other Lenders	
		%	No.	%	No.	%	No.
Website	Repayments referred to	58	7	17	3	43	83
	Total repayable under loan provided	14	1	0	0	21	18
Newspaper	Repayments referred to	11	1	n/a	n/a	32	117
	Total repayable under loan provided	0	0	n/a	n/a	< 1	2[1]

Note: 1 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.

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). For example, that a borrower's income or credit history was irrelevant.

Table 17 compares mentions of circumstances across lender categories and advertising mediums.

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 to promise "no credit checks" or "instant approval".

Registered banks, credit unions and building societies were more likely to not make any mention of a borrower's personal situation. This was the case on their websites and in advertisements. It is not clear whether this meant that personal circumstances were relevant to whether credit would be granted but were not advertised, or were not relevant.

Table 15: Mention of circumstances by lenders in 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
	N/A 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
	N/A or silent	9	n/a	n/a	57%	64	232

Period of discount provided

In all instances where a registered bank, credit union or building society offered a discount, they 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 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 the 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.[10]

Of the 191 Other Lenders that had websites, 10 provided a form of risk warning on their websites. No risk warnings were found on websites belonging to banks or credit unions.[11] There were also no risk warnings found in any newspaper advertisements in the study. This low finding may be because risk warnings were not required at the time of the study. All lenders in the Other Lender category that included risk warnings on their websites offered both personal loans and payday loans. A search was not carried out to find whether those that did not have risk warnings were offering high-cost credit. Of the 10 Other Lenders providing risk warnings, a number also provided links to external budgeting services. These lenders also tended to provide other information more readily (for example, credit fees and annual interest rate).

Case study – Risk warning on an 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

[10] Responsible Lending Code at 3.6.

[11] However, a search was not carried out to find out whether banks and credit unions advertise high-cost credit agreements.

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. Only 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, it should also include a risk warning as part of the message conveyed by the celebrity.[12]

A more common practice observed was sponsorship or endorsement by lenders, for example sponsoring sports teams and having the team do in-store signings. Many websites listed community groups and sports teams that they sponsored. This was especially seen by banks, credit unions and building societies.

Information on fees and rates

From June 2015, costs of borrowing information is required to be made publicly available as part of the disclosure regulations. Costs of borrowing include credit fees, default fees and annual interest rate, as well as default interest charge rates.[13]

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.

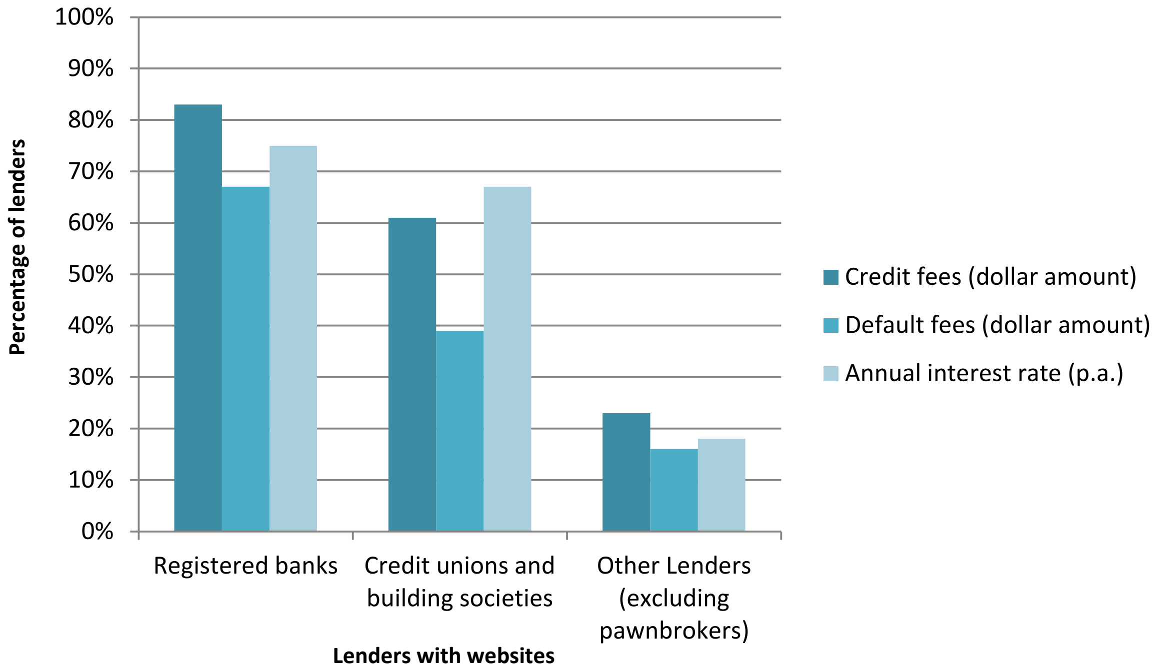
When referring to repayments, the website mentioned the total payable under the loan. It also made it clear to the user that steps would be taken to look into the borrower's credit history to ensure repayments could be met.

Figure 4 provides information on the number of lenders with websites that provided at least one credit fee, at least one default fee and the annual interest rate. Of the different fees and rates, most lenders were more likely to disclose credit fees and least likely to disclose default fees.

[12] Responsible Lending Code at 3.6.

[13] Credit Contracts and Consumer Finance Act 2003, s 9K.

Figure 4: Rates and fees located on lender websites



Other Lenders were far less likely to provide fees and rates on their websites than were banks, credit unions and building societies. However, the Other Lenders that did provide fees and rates made this information reasonably accessible. Websites by Other Lenders were relatively easy to navigate, and it could be determined quickly whether fee information was available on the website.

6 Impact 2: Reduced predatory/irresponsible lending

6.1 Issues experienced by people who have borrowed money

Respondents to the baseline survey who had borrowed or taken out credit in the last two years were read a list of potential issues and asked whether they had experienced any of those issues after their most recent borrowing (Table 16).

While most borrowers reported that they did not experience any of the issues discussed, 35 per cent did identify one or more issues. The most frequently encountered issue (mentioned by 15 per cent) was that the borrower's financial circumstances changed since they borrowed or applied for credit.

Table 16: Issues experienced by borrowers

Question 23. And still thinking about the last time you took out a loan, got credit or borrowed money, did you experience any of the following issues later on?

	Total
Unweighted base =	434*
Weighted base =	464*
Issue	**%**
Your financial circumstances changed	15
The lender changed or increased the interest rate charged	8
There were fees that that you weren't aware of	7
It wasn't clear when payments were due	6
You got behind on payments	5
Payments were more than expected	3
You were turned over to a debt collector	2
Other issues	3
Experienced at least one issue	**35**
Experienced at least one issue – excluding a change of financial circumstances	**24**
Not applicable	7
No issues	57
Don't know	0
Refused	0

Notes: Total may exceed 100% because of multiple responses.

* Subsample based on those respondents who reported borrowing money, getting a cash loan or applying for credit in the last two years and who reported using one or more of the credit facilities listed in questions 7 and 8a. Excludes early respondents who said they had borrowed from family or friends or had used an existing credit card on the most recent occasion.

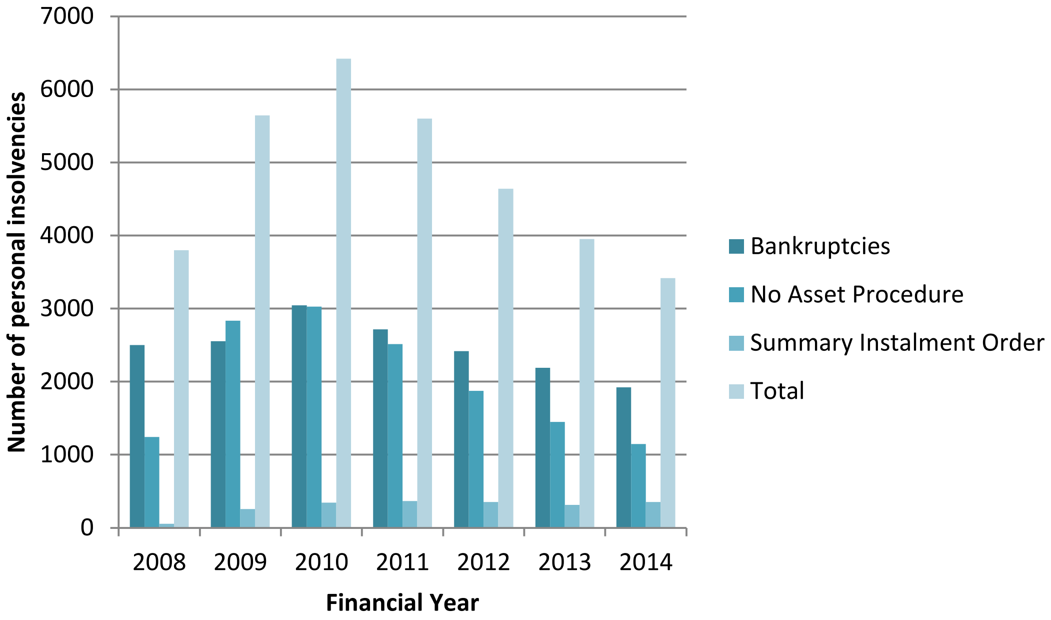
6.2 Level and cause of problem debt

Data on personal insolvency volumes was obtained from Insolvency and Trustee Service data (the service is part of the Ministry.) The total personal insolvency volume is made up of Summary Instalment Orders (SIOs), No Asset Procedures (NAPs) and bankruptcies (both debtor and creditor applications).[14] More information is provided in Appendix 2.

Personal insolvency volumes

Time series analysis shows total insolvency volumes decreasing from a high of almost 6500 in 2010 to 3418 in 2014 (Figure 5).[15] These insolvencies comprised 1921 bankruptcies, 1145 NAPs and 352 SIOs.

Figure 5: Personal insolvency volumes – total, 2008–2014



Insolvency by cause and employment status

Debtors were asked to choose a "main" cause of their insolvency (Table 17). Unemployment or loss of income was by far the greatest contributor to insolvency, with 931 cases (27 per cent) in 2014. Appendix 3 provides detail on insolvency by employment status. Although, possibly because of the financial crisis, volumes have dropped by two-thirds since a high of over 2700 cases in 2010. Insolvencies caused by excessive use of credit facilities and excessive interest payments declined between 2009 and 2011 but have plateaued since 2012.

[14] Insolvency statistics and debtor reporting includes all personal insolvencies reported to the Ministry, not just insolvencies resulting from consumer credit

[15] Insolvency data is provided by financial year, so 2014 is from 1 July 2013 to 30 June 2014. The time series began in 2007/08, so the baseline data could include any effects caused by the global financial crisis.

Table 17: Personal insolvency volumes by cause, 2008–2014

Cause	2008	2009	2010	2011	2012	2013	2014
Unemployment or loss of income	1208	2101	2720	2301	1524	1058	931
Excessive use of credit facilities	502	566	490	409	357	335	323
Domestic discord or relationship breakdowns	288	378	491	444	395	356	272
Ill health or absence of health insurance	290	470	466	400	329	303	263
Liabilities due to guarantees	202	294	311	360	275	274	196
Adverse legal action	223	345	579	348	290	321	192
Excessive interest payments	42	155	149	143	107	104	100
Economic conditions affecting industry	37	84	122	134	277	216	168
Failure to provide for taxation	130	173	84	62	141	126	149
No detail provided	466	605	511	495	439	380	391
Other	410	471	495	502	507	477	433
Total	**3798**	**5642**	**6418**	**5598**	**4641**	**3950**	**3418**

Appendix 3 shows insolvency volumes by cause and employment status. Of those who entered into insolvency in 2014, 30 per cent were unemployed, 17 per cent were on the unemployment benefit and 11 per cent were unemployed but receiving no benefit.

Level of debt

Table 18 includes bankruptcies, SIOs and NAPS. SIOs and NAPs are entered into if total debts are less than $40,000. In 2014, 48 per cent of insolvency cases were for less than $40,000, 16 per cent were between $40,000 and $100,000 and 36 per cent were for debts over $100,000.

Table 18: Personal insolvency volumes by debt level, 2008–2014

Debt	2008	2009	2010	2011	2012	2013	2014
$0–9,999	329	475	489	426	433	355	258
$10,000–19,999.99	657	1066	1152	973	824	639	520
$20,000–29,999.99	622	986	1087	915	623	519	461
$30,000–39,999.99	492	843	871	718	513	394	393
$40,000–49,999.99	210	171	184	137	123	104	126
$50,000–59,999.99	176	178	156	120	116	105	103
$60,000–69,999.99	144	160	137	140	101	103	92
$70,000–79,999.99	115	139	150	105	116	98	91
$80,000–89,999.99	111	158	156	117	99	73	69
$90,000–99,999.99	82	84	137	110	79	70	58
$100,000+	831	1377	1890	1829	1612	1486	1247
Total	**3769**	**5637**	**6409**	**5590**	**4639**	**3946**	**3418**

6.3 Enquiries by lenders regarding the needs of the borrower and their ability to repay

Ability to repay credit

Respondents to the baseline consumer survey who had obtained credit in the last two years were asked whether, on the most recent occasion, they recalled their lender asking them about three aspects of their ability to repay the credit. Approximately two-thirds of borrowers said the lender had asked them about one or more of:

- their current financial situation in general (68 per cent)
- any other loans they might have (65 per cent)
- their ability to make repayments (62 per cent).

In 16 per cent of all cases, the borrower did not recall the lender asking about any aspects of the borrower’s ability to repay, but as far as the borrower was aware, the lender already knew about the borrower’s credit history. In 8 per cent of all cases, the borrower did not recall being asked by the lender about any aspects of the borrower’s ability to repay *and* as far as the borrower was aware, the lender did not know about the borrower’s credit history. Table 21 summarises information the borrower reported being asked about when obtaining credit.

Retailers were significantly less likely than other types of lenders to discuss the borrower’s current financial circumstances in general (45 per cent, compared with 68 per cent of all lenders).

Table 19: Ability to repay credit

Question 15. When you talked to or contacted the lender, did the lender ask you about any of the following?

	Total	Bank	Finance company (other than a bank, credit union, or building society)	Retailer	Other
Unweighted base =	434*	274	83	38	39
Weighted base =	464*	334	59	38	34
Topic	**%**	**%**	**%**	**%**	**%**
Any other loans you might have	65	68	61	43	66
Your ability to make repayments	62	64	59	45	67
Your current financial circumstances in general	68	72	62	45	63
Other	1	1	2	1	0
The lender already knew about your credit history	64	73	40	39	39
Not applicable – did not talk to the lender	2	1	8	7	0
None – lender did not ask	5	2	6	14	16

Notes: Total may exceed 100% because of multiple responses.

* Subsample based on those respondents who reported borrowing money, getting a cash loan or applying for credit in the last two years and who reported using one or more of the credit facilities listed in questions 7 and 8a. Excludes early respondents who said they had borrowed from family or friends or had used an existing credit card on the most recent occasion.

Ethnicity

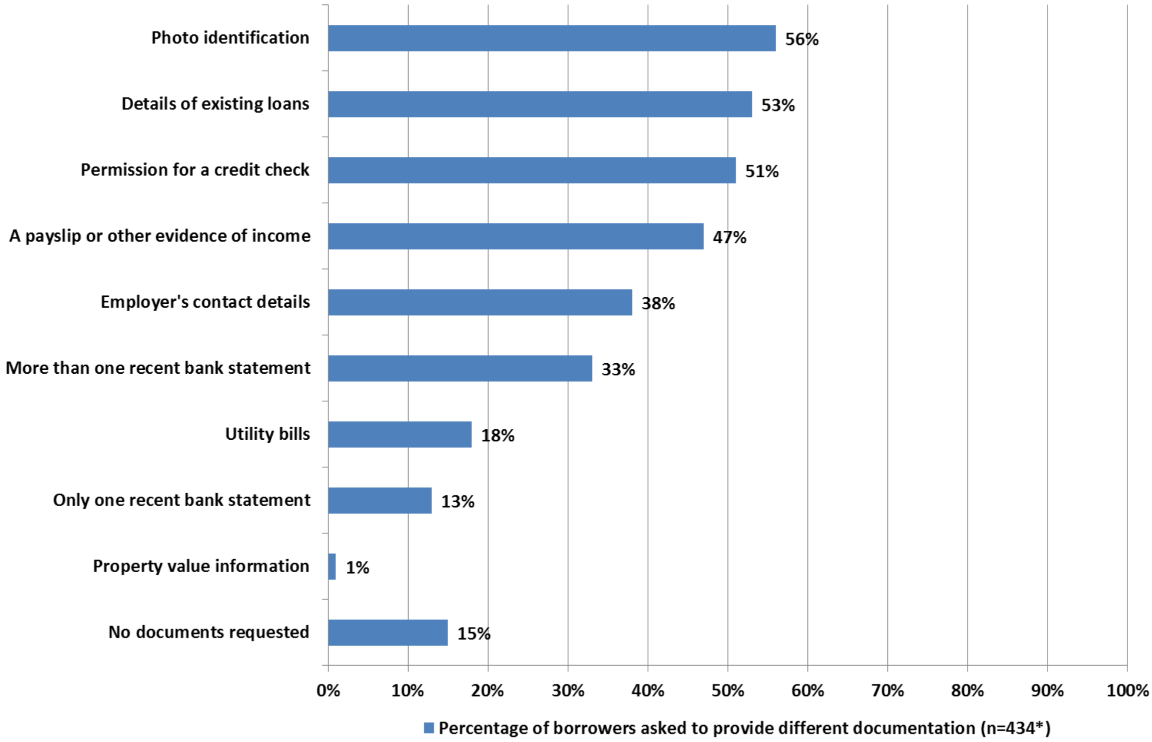
There were no significant differences by ethnicity in relation to the types of questions asked by lenders. However, there were some significant differences by ethnicity in relation to the documentation requested by lenders.

Documents requested

Figure 6 details the types of documentation that borrowers stated that they had to provide the last time they applied for credit, borrowed money or took out a loan. Most frequently, they reported being required to provide photo identification (56 per cent) or details of existing loans (53 per cent). Fifteen per cent of borrowers said that no documentation had been requested by the lender.

Figure 6: Types of documentation requested by lenders

Question 16. Which of the following documents did you have to provide before taking out a loan/getting credit/borrowing money?



Note: Subsample based on those respondents who reported borrowing money, getting a cash loan or applying for credit in the last two years and who reported using one or more of the credit facilities listed in questions 7 and 8a. Excludes early respondents who said they had borrowed from family or friends or had used an existing credit card on the most recent occasion.

Ethnicity

Pacific borrowers were significantly more likely to report that they had to provide the following documentation the last time they applied for credit, borrowed or took out a loan:

- More than one recent bank statement (51 per cent, compared with 40 per cent of Māori borrowers and 31 per cent of “Other” borrowers).
- A payslip or other evidence of income (67 per cent, compared with 54 per cent of Māori borrowers and 44 per cent of “Other” borrowers).
- Utility bills or other proof of address (40 per cent, compared with 26 per cent of Māori borrowers and 16 per cent of “Other” borrowers).
- Photo identification (73 per cent, compared with 64 per cent of Māori borrowers and 54 per cent of “Other” borrowers).

Māori borrowers were significantly more likely to report having to provide their employer’s contact details (53 per cent).

Refusal of credit

All survey respondents were asked whether they had been declined credit, other than for a home loan, in the last two years, because of concerns by the lender that they might not be able to repay it (Table 20). Four per cent of respondents said they had been declined credit because of concerns about their ability to repay debt. More than half of all respondents reported not borrowing or applying for credit in the last two years (58 per cent).

Table 20: Refusal of credit

Question 29. In the last two years has any lender declined you credit, other than for a home loan, based on their concern that you might not be able to repay it?

	Total	Pacific	Māori	Other
Unweighted base =	1200	200	421	579
Weighted base =	1200	64	135	1000
Response	**%**	**%**	**%**	**%**
Yes	4	11	9	3
No	37	29	39	37
Have not borrowed in the last two years	58	56	51	59
Don't know	1	3	1	1
Refused	0	1	0	0
Total	**100**	**100**	**100**	**100**

Note: Total may not sum to 100% due to rounding.

Ethnicity

Māori and Pacific respondents were significantly more likely to report they had been declined credit in the last two years (11 per cent and 9 per cent respectively, compared with 4 per cent of all respondents).

7 Impact 3: Increased compliance (with pre-CCCF Amendment Act obligations)

7.1 Proportion of lenders complying with the registration and dispute resolution registration requirements

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 that provide financial service 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.[16]

All banks, credit unions and building societies were registered correctly on the FSPR. However, as shown in Table 21, only some Other Lenders were correctly registered as a creditor providing financial services to retail clients.[17]

Table 21: Registration of Other Lenders on the Financial Services Provider Register

Registration	Number of Other Lenders	Percentage of Other Lenders (%)
Financial Service Provider Register	179	69
Dispute Resolution Scheme[1]	177	68
Not registered as a creditor under a credit contract	28	11

Note: 1 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.

Registration was particularly low among pawnbrokers. Twenty-seven lenders offered pawnbroking as a service, but only five were registered on the FSPR, four of which 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. A search of the second-hand dealers and pawnbrokers register found that seven pawnbrokers were registered. Six of these were not registered under the FSPR. A total of 41 per cent of pawnbrokers were registered under at least one register. This is still much lower than all Other Lenders.

[16] Details of Dispute Resolution Schemes can be found on the Companies Office website (www.business.govt.nz/fsp/about-the-fspr/dispute-resolution-schemes).

[17] Details of lenders not found on the FSPR have since been passed to the Financial Markets Authority.

It is also 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.

7.2 Provision of information by lenders

Signed agreements

Eighty-six per cent of recent borrowers in the baseline survey stated that they were provided with a copy of the written agreement or contract they had signed (Table 22). Six per cent reported there was an agreement, but they were not given a copy, while a similar proportion reported never signing an agreement/contract (2 per cent) or that none was involved (4 per cent).

According to those surveyed, when compared with banks, finance companies and retailers were more likely to have given the borrower a copy of their agreement/contract (95 per cent and 100 per cent, respectively). However, it should be noted that the result for banks (82 per cent) is affected by a large proportion of bank borrowers obtaining credit using a credit card. When those borrowers are excluded, 91 per cent of borrowers from banks said they were provided with a copy of their credit agreement/contract.

Table 22: Provision of agreement/contract

Question 17. And still thinking about the last time you [took out a loan/got credit/borrowed money], were you given a copy of the written agreement or contract that you had signed?

	Total	Bank	Finance company**	Retailer	Other
Unweighted base =	434*	274	83	38	39
Weighted base =	464*	334	59	38	34
Response	%	%	%	%	%
Yes	86	82	95	100	92
No – I was not given a copy	6	7	1	0	8
I never signed an agreement or contract	2	3	0	0	0
There was no agreement/contract involved at all	4	4	4	0	1
Don't know	3	4	0	0	0
Refused	0	0	0	0	0
Total	**100**	**100**	**100**	**100**	**100**

Notes: Total may not sum to 100% due to rounding.

* Subsample based on those respondents who reported borrowing money, getting a cash loan or applying for credit in the last two years, and who reported using one or more of the credit facilities listed in questions 7 and 8a. Excludes early respondents who said they had borrowed from family or friends or had used an existing credit card on the most recent occasion.

** Finance company in this instance refers to a lender other than a bank, credit union or building society.

Provision of information

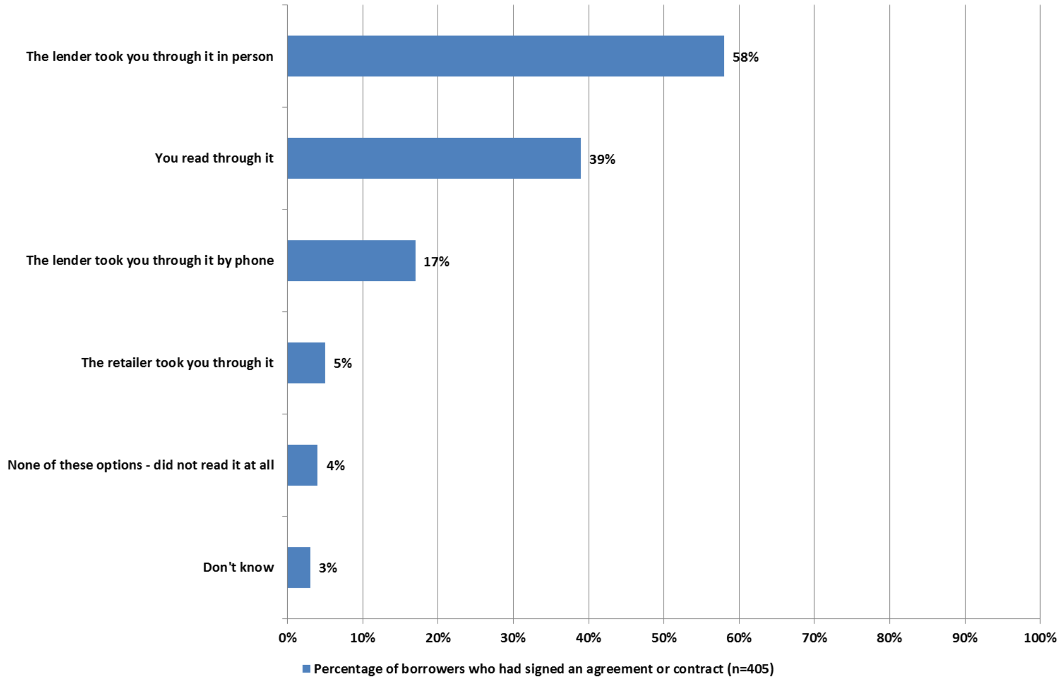
The subsample of borrowers who reported that there was an agreement or contract (regardless of whether they received a copy of it) were then asked whether the lender or retailer took them through it (Figure 7).

Eighty per cent of borrowers reported that the lender or retailer took the borrower through the contract – either in person (58 per cent) or over the phone (17 per cent). Thirty-nine per cent of the borrowers in question reported they read the contract or agreement themselves. Four per cent of borrowers who had a signed agreement said that none of these options applied – they had not read it at all.

Vulnerable consumers: 85 per cent of borrowers for whom English was not their best spoken language reported being taken through the contract or agreement and 57 per cent read it, whereas 79 per cent of borrowers for whom English was their best spoken language reported being taken through the contract or agreement and 39 per cent read it.

Figure 7: Extent to which borrowers were taken through documentation

Question 18. And thinking about that contract or agreement, which of the following apply to you?



Notes: Total may exceed 100% because of multiple responses.

Subsample based on those respondents who reported signing a contract or agreement on the most recent occasion that they borrowed money, got a loan or applied for credit. Excludes early respondents who said they had borrowed from family or friends or had used an existing credit card on the most recent occasion.

Seventy-one per cent of borrowers spent at least five minutes going over the details of the agreement or contract (Table 23).

Table 23: Length of time reading documentation

Question 19. And how long would you say [the lender/retailer spent taking you through the agreement] or [you spent reading the agreement].

	Total
Unweighted base =	382*
Weighted base =	399*
Time (prompted to choose one of these time periods)	**%**
Less than 2 minutes	4
More than 2 but less than 5 minutes	24
More than 5 but less than 10 minutes	25
10 minutes or more	46
Don't know	1
Refused	0
Total	**100**

Notes: Total may not sum to 100% due to rounding.

* Subsample based on those respondents who reported signing a contract or agreement on the most recent occasion that they borrowed money, got a loan or applied for credit. Excludes early respondents who said they had borrowed from family or friends or had used an existing credit card on the most recent occasion.

8 Impact area: General

8.1 Characteristics of consumers with problem debt

Personal insolvency volumes by gender

In terms of personal insolvency volumes by gender, 52 per cent were men and 48 per cent were women. Men are more likely to become bankrupt, while women are more likely than men to enter into an SIO or NAP. Bankruptcies (Figure 8) and NAPs (Figure 9) have dropped since the economic downturn for both males and females. In 2014, 1146 men became bankrupt and 701 women, while 462 men and 689 women entered into an NAP. SIO numbers have generally remained constant for both males and females. A total of 215 women and 137 men entered into SIOs in 2014 (Figure 10).

Figure 8: Bankruptcies by gender, 2008–2014

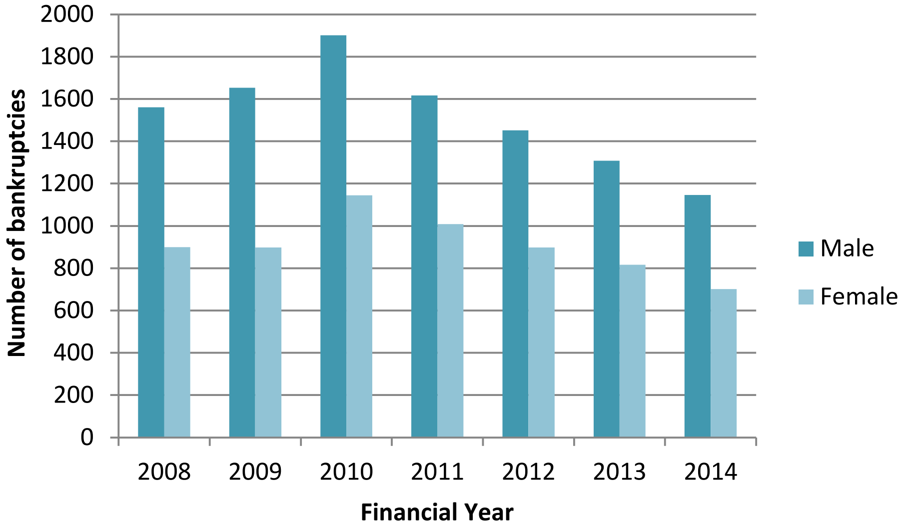


Figure 9: No Asset Procedures by gender, 2008–2014

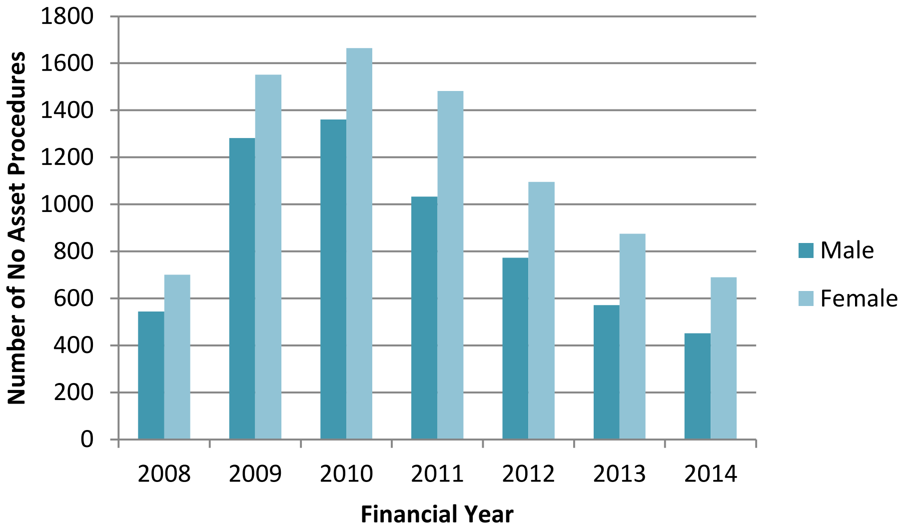
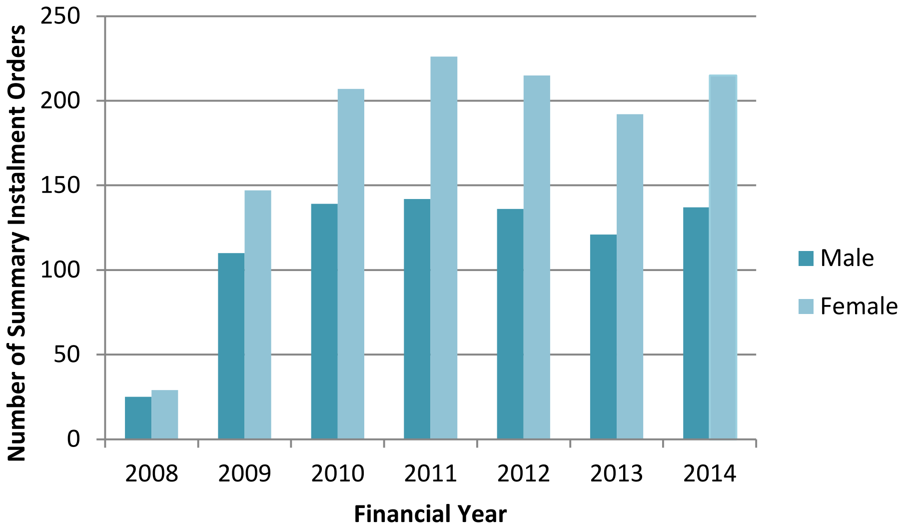


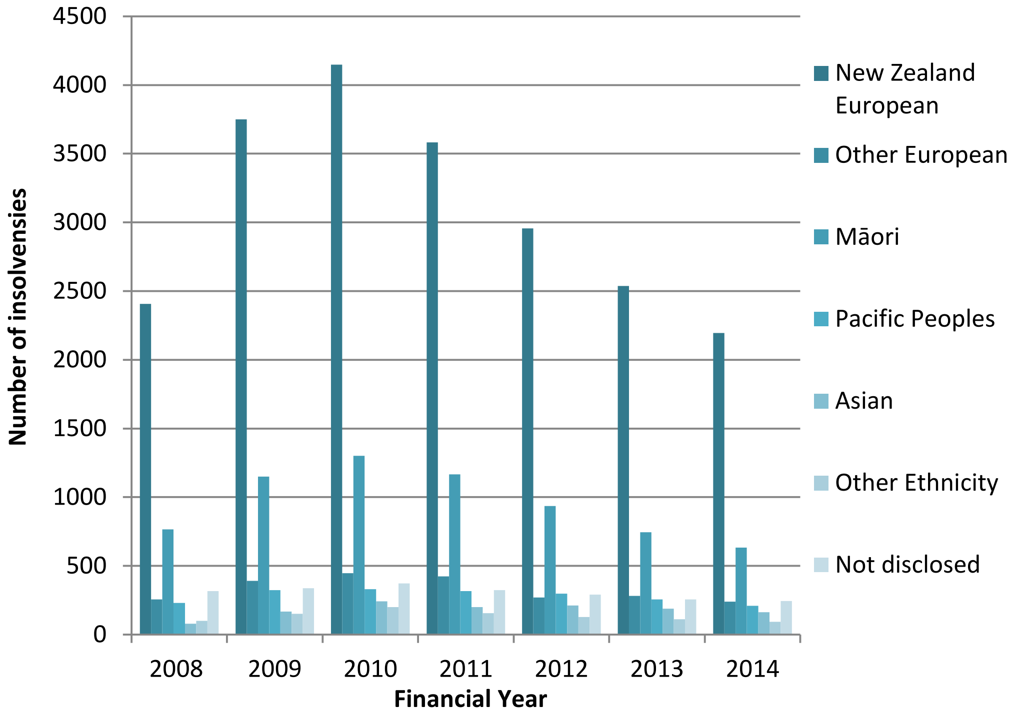
Figure 10: Summary Instalment Orders by gender, 2008–2014



Personal insolvency volumes by ethnicity

Figure 11 shows insolvency rates by ethnicity since 2008.

Figure 11: Insolvency by ethnicity, 2008–2014



Most debtors who enter into insolvency procedures identify as New Zealand European. New Zealand European, other European, Pacific peoples and Asian peoples are underrepresented compared with their proportions in the New Zealand population. In contrast, Māori, people of "other ethnicity" and people who chose not to disclose their ethnicity are overrepresented. People of Asian ethnicity are particularly underrepresented. In the 2013 census, 11.8 per cent of the population identified as Asian, but Asian peoples accounted for 4.3 per cent of insolvency cases in 2014.

Personal insolvency volumes by region

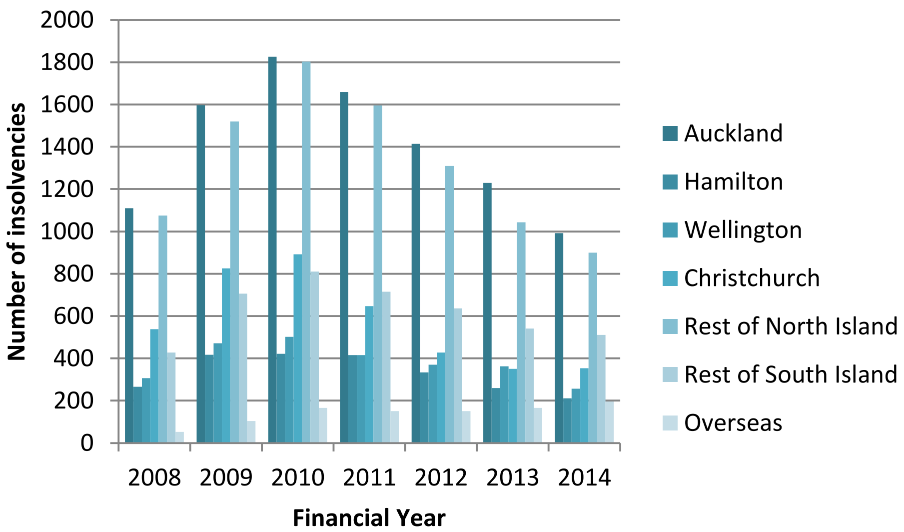
Table 24 shows insolvency rates by region. Volumes for the rest of the North Island appear proportionally higher than for other regions. That is, in 2014, the rest of the North Island accounted for 26 per cent of personal insolvencies but only around 22 per cent of the population

Personal insolvency volumes decreased in all regions since 2010, particularly in Christchurch, see Figure 12.

Table 24: Personal insolvency volumes by region, 2008–2014

Region	2008	2009	2010	2011	2012	2013	2014
Auckland	1110	1597	1825	1659	1414	1229	991
Hamilton	266	417	422	416	333	259	211
Wellington	307	472	501	416	370	362	257
Christchurch	538	826	892	647	427	350	353
Rest of North Island	1075	1520	1802	1595	1310	1043	900
Rest of South Island	428	706	810	715	636	541	510
Overseas	52	104	166	150	151	166	196
Total	**3776**	**5642**	**6418**	**5598**	**4641**	**3950**	**3418**

Figure 12: Personal insolvency volumes by region, 2008–2014



8.2 Purposes consumers are borrowing money for

Respondents were asked if they had borrowed money, got a cash loan or applied for credit in the last two years, and, if so, for what purpose(s) they had done so. Almost three in five respondents (59 per cent) reported that they had not borrowed or applied for credit during this time. However, this does not mean that some respondents in this group did not use existing lending vehicles (for example, credit cards) to make a purchase on credit. Table 25 lists the reasons for borrowing among the 40 per cent of respondents who said they had borrowed money in the last two years. A wide range of reasons for borrowing was identified. The top three items on the list could be described as planned purchases: 29 per cent of borrowers had borrowed for a mortgage, 24 per cent to buy a vehicle and 20 per cent for a major purchase for their home.

The list also includes several examples of unplanned spending, such as borrowing to pay bills, other loans or debts (14 per cent), for an emergency such as an illness or a car repair (10 per cent) and to cover day-to-day expenses such as groceries, petrol and school trips (8 per cent).

Table 25: Reasons for borrowing money

Question 6. Thinking about your own situation, have you borrowed money, got a cash loan or applied for credit in the last 2 years. Was it...?

	Total borrowers
Unweighted base =	454*
Weighted base =	487*
Reason	**%**
For a mortgage	29
To buy a car	24
For a major purchase for your home (such as a refrigerator, washer/dryer, or television)	20
To pay other bills, loans or debts	14
For a holiday or recreation	14
For an emergency like an illness or a car repair	10
To cover day-to-day expenses such as groceries, petrol, school trips etc.	8
To cover an overdue credit card bill, or other debt	6
For family emergencies	5
To pay utilities expenses (eg, power and gas)	4
To purchase presents/gifts for other people (eg, birthday, Xmas, and wedding)	4
House renovations/home improvements	4
To give/send money to family	3
For business purposes	3
To pay the rent	2
To pay for school fees and uniforms	2
To avoid bouncing a cheque	1
To buy a boat	1
Other	4

Notes: Total may exceed 100% because of multiple responses.

* Subsample based on those respondents who have borrowed money, got a cash loan or applied for credit in the last two years.

Ethnicity

There were no significant differences between Pacific, Māori and other respondents in terms of their likelihood of having borrowed in the last two years. Among the subsample of borrowers, Pacific respondents were significantly more likely to report having borrowed money for family emergencies (18 per cent, compared with 8 per cent of Māori borrowers and 3 per cent of "Other" borrowers).

8.3 Where consumers go to borrow money

When asked what type of company or person the respondent had mainly borrowed from, 70 per cent said through a bank (Table 26). This is consistent with the dominance of bank loans when respondents were asked about their awareness of lending options.

Far fewer respondents said they had obtained credit from a finance company (12 per cent), even though this source was mentioned frequently when respondents were asked about their awareness of lending options. Eight per cent obtained credit through a retailer on the most recent occasion.

Table 26: Source of borrowed money

Question 8. What type of company or person did you [borrow money] from (mainly)?

	Total
Unweighted base =	446*
Weighted base =	475*
Source	**%**
Bank	70
Finance company (other than a bank, credit union, or building society)	12
Retailer	8
Loan shop	3
Credit union/building society	2
Family/friends	2
Work and Income	1
Payday advance loan company	0
Other	1
Don’t know	0
Refused	0
Total	100

Notes: Total may not sum to 100% due to rounding.

* Subsample based on those respondents who have borrowed money, got a cash loan or applied for credit in the last two years.

Ethnicity

Māori and Pacific borrowers were less likely to report having borrowed money from a bank (58 per cent and 56 per cent respectively, compared with 73 per cent of “Other” borrowers).

8.4 Awareness of mainstream lending options

Bank loans are top of mind for consumers when borrowing money in a hurry and also for planned purchases.

- On an unprompted basis, 76 per cent of respondents mentioned bank loans as an option for borrowing in a hurry (Table 27) and 70 per cent as an option for a planned purchase (Table 28).
- Finance companies were also mentioned as a potential source for borrowing in a hurry (34 per cent) and for planned purchases (47 per cent), but to a much lesser extent than bank loans.
- For borrowing in a hurry, respondents were more likely to mention family and friends than finance companies as a viable source (52 per cent).

Consistent with their lower awareness of lending-related rights and obligations, younger consumers (aged under 30) were less aware of lending options such as bank loans.

Table 27: Unprompted awareness of options for borrowing in a hurry – by borrower and non-borrower

Question 4. If a person needed to borrow money in a hurry, for example in the next 2 to 3 days, for an emergency or to tide them over, what are all the options available for them to do this? (Unprompted awareness)

	Total	Non-borrower	Borrower
Unweighted base =	1200	746	454
Weighted base =	1200	713	487
Option for borrowing	%	%	%
Bank loan	76	72	81
Family/friends	52	48	57
Finance company (other than a bank, credit union, or building society)	34	33	36
Loan shop/loan company	24	20	29
Credit card	19	14	25
Loan sharks	9	8	9
Pawnbroker/pawnshop	8	6	11
Cash advance from WINZ	6	5	7
Existing overdraft on cheque account	5	5	6
Credit union/building society	5	5	5
Temporary overdraft	4	3	6
Payday advance loan company (where people are loaned money against their pay or wages)	4	3	4
Savings/investments	3	2	3
Mortgage extension/re-mortgage	3	3	3
Cash advance from employer	2	1	2

Cash-in insurance, superannuation schemes	2	2	2
Sell belongings/valuables	2	1	4
Hire purchase (with retailer)	1	0	1
Retailers store card	1	0	2
Rent to own/rent to buy	0	0	0
Other (Specify)	7	7	7
None	1	2	0
Don't know	8	11	4
Refused	0	0	0

Note: Total may exceed 100% because of multiple responses.

Ethnicity

Māori and Pacific respondents were significantly less likely than average to identify bank loans as an option for borrowing money in a hurry (65 per cent and 64 per cent respectively, compared with 78 per cent of “Other” respondents).

Table 28: Unprompted awareness of borrowing options for planned purchases – by borrower and non-borrower

Question 5. If a person needed to borrow money, to buy a car, refrigerator, television or some other purchase for the house, where could they go, or who could they approach for this? (Unprompted awareness)

	Total	Non-borrower	Borrower
Unweighted base =	1200	746	454
Weighted base =	1200	713	487
Borrowing options	%	%	%
Bank loan	70	67	74
Finance company (other than a bank, credit union, or building society)	47	43	53
Hire purchase (with retailer)/layby	33	31	35
Family/friends	33	32	35
Loan shop/loan company	20	18	22
Credit card	17	14	23
Retailers store card	10	9	12
Cash advance from WINZ	6	6	7
Credit union/building society	4	4	3
Loan sharks	4	4	4
Savings/investments	4	3	5
Car dealership/car finance	4	2	6
Mortgage company/mortgage extension	4	3	5
Existing overdraft on cheque account	3	2	3
Pawnbroker/pawnshop	3	3	4
Temporary overdraft	2	1	4
Rent to own/rent to buy	2	1	4
Through the retailer (method not specified)	2	3	2
Cash advance from employer	1	1	0
Cash-in insurance, superannuation schemes	1	1	0
Payday advance loan company (where people are loaned money against their pay or wages)	1	2	0
Online lenders	0	0	1
Other (specify)	8	7	10

	Total	Non-borrower	Borrower
Unweighted base =	1200	746	454
Weighted base =	1200	713	487
Borrowing options	**%**	**%**	**%**
None	2	2	1
Don’t know	3	4	0
Refused	0	0	0

Note: Total may exceed 100% because of multiple responses.

8.5 Number (and turnover) of lenders

Size and nature of the lending industry

The Lender Desk-based Study 2015 identified 12 banks, 24 credit unions and building societies, and 260 Other Lenders.

The number of outlets varied significantly across categories. Five banks had over 100 outlets (42 per cent), while 4 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. Of Other Lenders, 208 (81 per cent) operated out of 1 outlet, and 18 (7 per cent) Other Lenders had more than 10 outlets. Of the 10 Other Lenders with most outlets, 5 were car finance companies operating within car dealerships.

Turnover of Other Lenders

As outlined in Table 29, in the Other Lenders category there were 119 new lenders. Of the third-tier lenders identified in the 2011 study,[18] 141 (54 per cent) remained in operation in 2015. Seventy-seven had either exited the market or could no longer be found. Where the lender has changed its trading name there is a possibility that lender was included in this figure when it is actually still in operation. However, many of these should have been picked up when searched on the Companies Office website.

Table 29: Number of Other Lenders

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 the 2011 study, which identified 218 third-tier lenders. This is slightly larger than the increase observed between a similar five-year period between 2006 and 2011 (33 lenders). While comparison with 2011 third-tier lenders gives some insight into the level of turnover, the definitions are different.

[18] 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
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.

Lending services offered

Table 30 lists lending services offered by different lenders. Cash or personal loans were identified as the most offered service in all categories, followed by vehicle loans.

Table 30: Lending services offered by all lenders in 2015

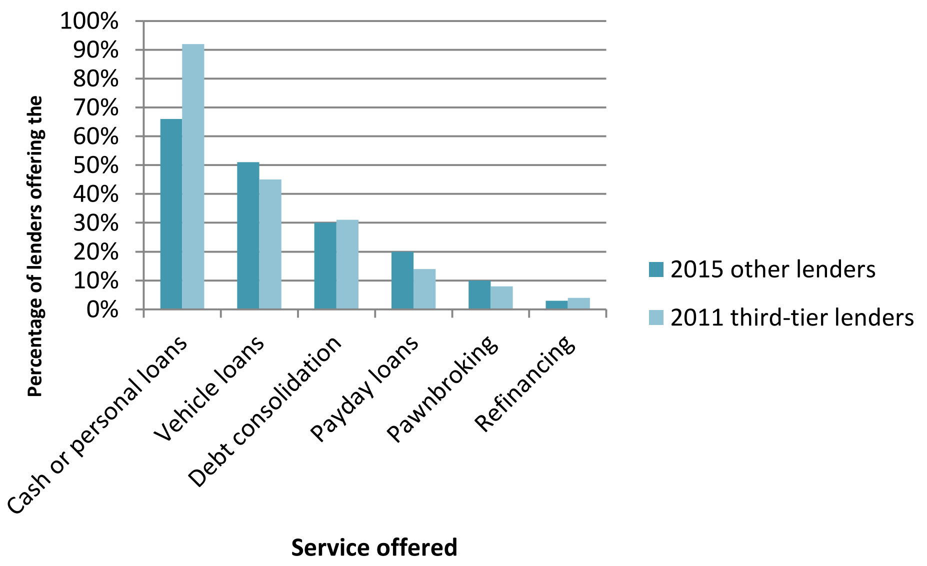
Lending services	Banks	Credit unions and building societies	Other Lenders
Cash or personal loans	10 (83%)*	17 (71%)	172 (66%)
Vehicle loans	7 (58%)	9 (37%)	133 (51%)
Debt consolidation	6 (50%)	7 (29%)	79 (30%)
Payday loan	0	1 (4%)	51 (20%)
Pawnbroking	0	0	27 (10%)
Refinancing	7 (58%)	0	8 (3%)
Credit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

Note: Percentages provided in brackets out of the number of total lenders in each lender category.

The percentage of Other Lenders offering debt consolidation, pawnbroking and refinancing has stayed similar since 2011.[19] The number of Other Lenders offering cash and personal loans has decreased significantly, while lenders offering vehicle loans and payday loans have each increased more than 5 per cent since 2011.

Figure 13 compares services Other Lenders offer in 2015 and services offered by third-tier lenders in 2011.

Figure 13: Changes in services offered, 2011 and 2015



[19] These comparisons are drawn between the 2011 third-tier lenders and the 2015 Other Lenders.

Appendix 1: Terms of reference for the Lender Desk-based Survey 2015

The following tables define the terms used in the Lender Desk-based study 2015 and provide examples. The definitions used for the purposes of this research do not strictly align to the guidance in the Responsible Lending Code.

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

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)

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

Information on rates and fees

Terms	Research definition	Examples	Definition in the amended *Credit Contracts and Consumer Finance Act 2003*, section 5
Credit fees	Fees payable by the borrower under the credit contract	Establishment fees and prepayment fees	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 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
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 *Credit Contracts and Consumer Finance Act 2003*, 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

Appendix 2: Definitions of insolvency procedures

Summary Instalment Order

A Summary Instalment Order (SIO) is a formal arrangement between a debtor and their creditors that allows the debtor to pay back all, or an agreed part, of their debts by way of instalments.

A Summary Instalment Order may be entered into if total unsecured debts are less than NZ$40,000 and the debtor is unable to pay those debts immediately. Summary Instalment Orders can last for up to five years.

No Asset Procedure

A debtor who is unable to pay their debts may have an alternative to bankruptcy through the No Asset Procedure (NAP). Unlike bankruptcy, the No Asset Procedure lasts for one year and is designed for debtors who have between $1,000 and $40,000 of debt with no realisable assets and no means of repaying their debt.

Entry into an NAP releases the debtor from their provable debts, and they are no longer liable to repay any part of them.

Bankruptcy

Bankruptcy is a legal process that gives people who cannot pay their bills relief from the burden of their debt.

The right of a debtor to apply for bankruptcy is provided by the *Insolvency Act 2006*. Alternatively, creditors can apply to the High Court to make a debtor bankrupt.

Once a debtor is adjudicated bankrupt this stops all creditors from seeking to collect debts from the bankrupt. The bankrupt's assets then vest in the Official Assignee.

Bankruptcy lasts for three years following receipt by the Official Assignee of a completed Statement of Affairs from the debtor. At the end of bankruptcy, the debtor is released from the debts provable in their bankruptcy.

Appendix 3: Insolvency data: Cause by employment status

	ACC	Currently employed	Domestic	Employed part-time AND receiving benefit	Other Benefit	Retired	Sickness Benefit	Sickness benefit/ACC	Student	Trading as director/shareholder of limited liability company	Trading in partnership	Trading on own account	Unemployed no benefit	Unemployment Benefit	Unpaid family worker	Other	Not Disclosed	Total
Adverse legal action	1	52	1	4	5	12	4	2	2	6		13	48	17	3	5	17	192
Domestic discord or relationship breakdowns		96		21	22	8	10	8	4		1	13	14	61	7	7		272
Economic conditions affecting industry.		80		3	5	11	1	3	1	6		10	25	16	4	3		168
Excessive drawings		4		1		2		1	2					1	1		1	13
Excessive interest payments on loan monies and capital losses on repayments		40		3	6	15	3		1	2	2	5	9	10	1	2	1	100
Excessive use of credit facilities		126	1	23	25	23	8	6	10	1		4	29	54	6	6	1	323
Failure of another business organisation					1													1
Failure to keep proper books of account and costing records		5				1		1		1		4	3	1		1		17
Failure to provide for taxation		71	1	2	1	3	1	2	1	9	3	19	21	4	4	3	4	149
Gambling, speculation and extravagance in living		16			2	1		1				1		4		1		26
Ill health or absence of health insurance	1	27	1	4	28	24	40	59	3	1		2	13	42	2	16		263
Inability to collect debts due to disputes, faulty work or bad debts		7		3	1	3		2		2		3	3	3			1	28
Lack of business ability including under quoting or failure to assess potential of business		20		2		2	2			1		3	4	5				39
Lack of sufficient working capital		43		7	7	2	4	2		2	2	4	9	17	1	6	1	107
Liabilities due to guarantees		101	2	5	9	12	2	3	4	4		4	29	11	3	4	3	196
Seasonal conditions including floods and drought		3			1										1	1		6
Unemployment or loss of income	2	170	8	44	64	31	60	52	28	2	1	15	152	274	13	14	1	931
Withdrawal of credit facilities																	1	1
Other		65	1	6	10	13	7	8	5	5		7	27	21	3	13	4	195
Not disclosed		106		18	23	22	6	5	4			4	2	26	2		173	391
Total	**4**	**1032**	**15**	**146**	**210**	**185**	**148**	**155**	**65**	**42**	**9**	**111**	**388**	**567**	**51**	**82**	**208**	**3418**