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We’ve heard that Kiwis are facing problems when borrowing and lending. . .



We’ve heard that Kiwis are facing issues when borrowing and lending:

Have you experienced problems with consumer credit? What happened?

We often experience problems with consumer credit usually on a weekly basis. **Case study1:** A finance company approved credit of \$19,000.00 to a woman who is receiving a Supported Living Benefit to purchase a car. After going over her budget with a budget advisor and doing a money mates course she decided after two months to send the car back. There was no way she could afford it on the money she was receiving. **Case Study 2:** Another client was approved credit of \$23,000.00 for a car. He was a seasonal worker and during the down times, would get into arrears with the car payments. At the end of the day food on the table came first and always would do. He came to us to access his KiwiSaver to pay off arrears and to help him catch up with his repayments. **Case Study 3:** Another client receiving a Supported Living Benefit, was approved retail finance for \$16,000.00 to purchase a therapeutic chair. Soon after receiving the chair, she realised there was no way she was going to be able to pay the weekly repayments over the long term, so applied for hardship with the retailer. She came to us to get a budget for Work and Income and informed us of the deal she had going with the local retailer. She said, she only gives them \$5.00 a week and that's it. She knows what her options are and continues to pay \$5.00 per week, despite the interest accruing on the debt. The codes of responsible borrowing and lending have definitely not been applied here. These are examples where they would have benefitted coming to a budget or BFC service before they entered into a finance contract with anyone.

Banks as lenders have regulations that they must adhere to when approving loans. Proof of payment or the ability to pay over the longer term is all part of being a Responsible Lender. They also have a social responsibility to be responsible lenders. If the banks turn down people for loans, then there is a good reason. Yet these same people can turn up in our offices with high interest loans, they are struggling to pay and this, despite a poor credit rating. Lenders have to ask more questions. Send potential customers to budget services first to verify they are responsible borrowers. Banks, have as a social responsibility to fund services that raise the financial literacy of the community to become responsible borrowers. More

regulations in the complex financial environment will free up communities from the predatory behaviors of finance companies who charge extremely high interest on their loans.

Are these issues serious enough to need a change in the law?

Yes there is a need for real change and not just amendments to the law.

Case Study 4: A client who was clearly in hardship unable to pay a long standing debt. He had lost a job through a mental health issue resulting in a significant reduction in his income. He was refused two applications for hardship from the finance company he had the debt with. The client was reported as being difficult to deal with by their customer service. However, despite being turned down for hardship he was encouraged to keep paying the debt at \$10.00 per week, the amount of which he suggested paying. The actual amount, interest included, was \$50.00 per week. In the meantime, the interest is causing the debt to snowball. Delaying sending it to a debt collection agency can end up being very expensive for the customer and for the purchaser of that debt, as it would have increased in size from the initial amount. We were alerted to this possible practice by another local budget service. Laws would prevent or go a certain way to curtailing this type of money making racketeering.

The reality for people today, is the financial environment has become very complex and at times difficult to navigate, especially for our clients. There are companies popping up all over the place . Many of them can end up making heaps of money, then disappearing. **Case Study 5:** A past client was tempted by the offer of a I pad from a door to door salesman representing a company, that is no longer operating. The item cost 3 times the amount she would have paid if she had purchased it from a local retailer. The salesman said the sales price was interest free, yet the woman spoken to at their head office said the interest was built into the full cost. We were able to get a refund for the woman based on two factors, one the Ipad took too long to charge and two, the woman felt she had been misled into thinking she was getting a good item at a good price. This was true, the woman had limited numeracy and literacy skills and was attending a course to increase them.

Here are some ideas for how to fix these problems. Tell us what you think.

<p>Should we cap the cost of some loans?</p> <p>And if so, what is the best way to limit interest and fee costs?</p> <ul style="list-style-type: none">› limiting the interest rate› limiting the total amount that borrowers have to pay back	<p>How can we address illegal behaviour?</p> <p>Options include:</p> <ul style="list-style-type: none">› increasing the requirements for who is allowed to be a lender› increasing penalties for breaking the lending rules› increasing the current levy on lenders to help fund enforcement› making the rules more specific around affordability testing and advertising	<p>What steps can address mobile shopping trucks' behaviour?</p> <p>We are looking at ways to:</p> <ul style="list-style-type: none">› include more sales of goods on credit in the CCCFA› require a fair sale price	<p>How can we make sure that lenders' fees are reasonable?</p> <p>Options include:</p> <ul style="list-style-type: none">› capping fee amounts› requiring lenders to prove their fees are reasonable	<p>Should there be more rules about debt collection?</p> <p>Options include:</p> <ul style="list-style-type: none">› increasing disclosure requirements› requiring debt collectors to offer affordable repayment plans› setting appropriate levels of contact
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Law changes could help fix these problems.

Tell us your thoughts on them.

⑩ Yes all Work and Income benefits should have a cap of \$5000.00 for debt at the most and capped repayments would be helpful i.e. no more than a percentage of a benefit should be paid out on debt. Existing debt should be subject to this repayment cap, while the debt is being paid, via a benefit.

⑩ Increasing the requirements for lenders will curtail unscrupulous lenders, who may thrive in free markets.

⑩ Three strikes and you are out possibly. Penalties for repeat offenders may not make a difference and instead may encourage them to create a fund especially to offset these costs. Maybe a credit rating system for creditors. Affordability testing via any budget or BFC service should be a requirement for people whose income falls into a certain

⑩ bracket. Creditors who adhere to the requirements would receive credit points.

What are the pros and cons of these ideas?

In our opinion the pros well outweigh the cons when it comes to capping. The majority of families that come to us are in survival mode. Taking risks with the basics like rent, power and food becomes the norm. Work and Income pay out thousands to cover arrears payment. There would be a reduction in Government debt. Capping debt repayments on debt while a person is on the benefit would allow the person to pay some of the debt off and still have money to cover their basic costs. The benefit is there to cover the basic living costs not to pay off high interest debt. On the other hand, the creditor could feel cheated in some way.

Truck Vendors

Clients complain regularly of truck vendors persistently knocking at their doors tempting them with more credit. We give out 'do not knock signs' and inform our clients to alert the vendor to the sign on the door and then ask them to leave. If they persist then ask them their name and inform then you are going to ring their company and complain, if they do not leave.

Budget Advisors will ring the truck companies on a client's behalf with the purpose of blocking a truck vendor from going to a client's home. There needs to be a rule around door knocking to with the purpose of getting new sales from old customers.

They must show, when applying to pay for annual levies that they have not breached the rule of touting or cold calling etc. Two strikes and they are out.

Retail trucks should have no advantage over retail stores and should be subject to the same fair trading acts that they are. This would also eliminate trucks focussing on certain areas to target I.e low socio economic areas.

People are informed through their contract agreement that a vendor will not cold call or tout for their business by knocking on their door unless the vendor is invited by the customer. Otherwise all communication would come via the companies main office. Vendors visiting a client to remind a customer to pay any monies owed, could be bordering on debt collection.

Are there other solutions that would work better?

A capping fee on lending would use a general formula to calculate a fair and reasonable rate of repayment. A customer's ability to pay would be part of the assessment. Anything outside of this rate would be the creditors extraordinary profit margin. Goods and services instead of interest would be the crowning glory to profit making, instead of the reverse.

Debt collection: If the code of sensible borrowing and lending is enforced and adhered to, along with regulations to creditors and vendor to ensure they act with integrity, then there would not be the need for the predatory debt collecting practises being utilised today. Debt collection agents, with the oversight of a police officer or an official of the Crown would ensure proper procedures are carried out.

If you need more information about the issues Kiwis are facing or the proposed solutions, visit our website.

Thank you for contributing. Your ideas will help find the best ways forward.

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MBIE intends to upload submissions received to MBIE's website at www.mbie.govt.nz. If you **do not** want your submission to be placed on our website, please indicate below. Please note that, even if your submission is not published, it is possible that someone may request it under the Official Information Act 1982. We will aim to contact you if this happens, and will apply the Official Information Act to decide what information is released and what information is withheld.

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