

21 September 2021

Submitted via: consumer@mbie.govt.nz

Competition and Consumer Policy Team
Ministry of Business, Innovation and Employment
Wellington

RE: Updated addendum to the Responsible Lending Code: COVID-19

FinCap welcomes the opportunity to comment on the proposed *Updated addendum to the Responsible Lending Code: COVID-19 (proposed addendum)*. FinCap works toward people, whānau and communities free of hardship by supporting the 890 financial mentors working across Aotearoa. We anticipate that disruption to communities from COVID 19 will cause and compound hardship for many. Right now alert level changes are creating many barriers to maintaining or working towards financial well-being.

We support the proposed addendum to the code on the basis that some additional considerations are added and because this is preferable to the status quo. However, we believe earlier commencement or at least pointing lenders to the version of Chapter 12 of the responsible lending code¹ that is due to commence from February 2022 would lead to less harm to whānau and communities facing hardship. We also would like to see specific guidance to refer people facing hardship to financial mentors and guidance on the arrangements surrounding these referrals.

We expand on these in our responses to the consultation questions in the submission below.

About FinCap

FinCap (the National Building Financial Capability Charitable Trust) is a registered charity and the umbrella organisation supporting the 200+ local, free financial mentoring services across Aotearoa. These services support more than 70,000 people in financial hardship annually. We lead the sector in the training and development of financial mentors, the collection and analysis of client data and encourage collaboration between services. We advocate on issues affecting whānau to influence system-level change to reduce the causes of financial hardship.

¹ See <https://www.mbie.govt.nz/assets/responsible-lending-code.pdf>

Responses to consultation questions

Should the Addendum to the Responsible Lending Code: COVID-19 be reinstated?

Yes, with expanded guidance. COVID 19 poses practical barriers to maintaining or working towards financial wellbeing. For instance, it is currently more difficult to access the expert assistance of a financial mentor which is usually done in a face to face setting. People experiencing hardship may also be experiencing longer wait times due to high demand for support from Government when looking to access assistance they are entitled to and that could help them avoid default on repayments. Additional guidance for lenders can lead to better outcomes for borrowers experiencing hardship.

If the Addendum were reinstated, should any changes be made?

Yes. FinCap recommends that section 11 of the proposed addendum add guidance for lenders to consider the process they would have taken if the new Chapter 12 of the responsible lending code (currently due for commencement in February 2022) was already in place. There should also be specific guidance for a lender to offer a referral to financial mentors for anyone who may be facing hardship as well as guidance not to take any further collection action until the borrower has had time to understand all their options with their financial mentor.

The new Chapter 12 of the responsible lending code was developed through a robust process of consultation with lenders and community organisations who represent borrowers. FinCap strongly supports where it landed as a good step towards guiding more lenders to better assist borrowers facing hardship. Lenders will have to respond to the guidance within six months and many borrowers impacted by COVID 19 now will likely still be at some risk of hardship at that time.

We recommend that the guidance in section 11 points lenders to consider an approach consistent with the new Chapter 12 guidance in the proposed addendum. This will ensure lenders are being guided to prepare for the changes in February and increase the chance that their approach to assistance makes sense to borrowers who interact with them in relation to hardship multiple times over the next six months.

Financial mentors' mahi involves supporting a person to understand their financial position as well as their options moving forward and then offering support to take up those options. Their expertise can make all the difference through helping a person with developing a plan that means they can move away from hardship even when facing complex issues with debt to multiple creditors. The MoneyTalks financial helpline provided by FinCap and funded by MSD is available to support people to easily connect with a financial mentor.

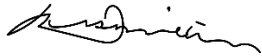
We recommend adding guidance to the proposed addendum for lenders to proactively offer referrals to MoneyTalks wherever a borrower may be facing hardship. This should include a requirement to check that the borrower understands the offer and to also allow a pause on collections until the point where a person taking up the referral has had an opportunity to take up the local assistance that Moneytalks may refer on to. This period of time should not be defined because there may be different practical constraints to receiving assistance from a financial mentor for different people due to COVID 19.

There may also be a complex and time-consuming group of issues to work through once engaging with a financial mentor for many. The guidance should also instruct lenders to work co-operatively with financial mentors as despite potential constraints on quick turnaround, the work of financial mentors

is likely to lead to better outcomes in terms of lenders receiving repayments where realistic while borrowers are simultaneously transitioning away from hardship.

Please contact Jake Lilley, Policy Advisor at FinCap on 027 278 2672 or at jake@fincap.org.nz to clarify any aspect of this submission.

Ngā mihi

A handwritten signature in black ink, appearing to read 'Ruth Smithers', with a stylized flourish at the end.

Ruth Smithers
Chief Executive
FinCap