Justice Innovation Centre
Community Law Canterbury
Te Ture Whānui o Waitaha

Research report

Survey of financial mentoring and budgeting services in Aotearoa on high cost loans, debt collection and other consumer credit issues

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About the Project and the Researchers

This research is part of a collaborative project between:

- FinCap, New Zealand's umbrella body for financial capability and budgeting services;
- Canterbury Community Law, a not-for-profit organisation working to reduce and remove barriers to the law;
- Dr. Liz Gordon, social science researcher from Pukeko Research Ltd and Justice Innovation Centre, Community Law Canterbury;
- Victoria Stace, lecturer at the School of Law at Victoria University of Wellington;
- Emeritus Professor Jeremy Finn from Justice Innovation Centre and the College of Business and Law at The University of Canterbury; and
- Dr. Ganesh Nana, chief economist and Sam Green at Business and Economic Research Limited (BERL).

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Executive summary

This survey of local financial capability and budgeting services is part of a larger research collaboration between FinCap and the Justice and Innovation Centre, Community Law Canterbury, funded by the Borrin Foundation. It was carried out in December 2018, and reported in February 2019. Responses were included from 76 agencies from all regions of Aotearoa ("participant agencies")

Data findings are reported here, but little further analysis is completed. This is because this report will feed into the larger study, which aims to provide sound evidence to inform the legislative reform of the Credit Contracts and Consumer Finance Act (2003).

Around 15,000 clients were seen by participant agencies in 2018, in organisations ranging from quite small (less than 50 clients) to very large (up to 1700). Women make up more than half of those clients, with around half being Māori and 20% Pasifika overall. There are relatively low levels of migrant and Asian clients. Overall, client type differs according to the location and focus of the agency, with a "great diversity" of people.

The clients often come to agencies as a "last resort", and in "dire straits". Most have high levels of consumer debt, and payments are often in arrears. Most debts are triggered by particular factors such as unemployment, change in circumstances, mental illness, family demands or other.

The main types of debt are to Work and Income, store or consumer debt, direct sales, overdraft/ credit card or loans. Most have more than one type of debt, an increasing debt burden, the inability to make minimum payments and/ or the need to borrow for basic items. Multiple loans are the norm.

A major section of this study is around high-cost loans. These are defined as those with interest rates in excess of 50%, often taken out on a short-term basis. The growth of high-cost debt has been marked in recent years. Many such loans have real interest rates in hundreds of percent. One example given, using fees and costs of a particular agency, show a person borrowing $100 for two weeks being required to pay back over $250 on time, with, of course, default fees if the deadline is missed. Such loans can often be applied for online and are easy to get, even with a poor credit rating.

Most high-cost loans are taken out to cover household expenses, car repairs/ registration or rent. As they are usually short term, they appear to fill a gap between the cost of basic needs and the ability to pay for these. This means, in effect, that many whānau end up struggling to pay their basic costs plus the very high burden of servicing/repaying a high-cost loan.

Most people who take out high-cost loans do so because they are unable to obtain credit in other ways, and/ or because these loans are accessible and convenient and can be processes quickly, alongside other factors. Most agencies reported that, on average, clients are unable to repay such loans on time, causing higher fees and – often - further debt.

Agencies report that most clients with high-cost loans have a low or very low understanding of the fees or costs they are incurring. Also, most appear to have more than one high-cost loan, with either the same or, more often, different lenders. Reasons for multiple borrowing include a worsening of their general financial situation, to repay prior debt, for new and different reasons or they are encouraged by lenders to borrow more. More than 1 in 4 appear to have three or more high-cost loans. Most such loans are of low value, up to $1000, although many are also larger.

In a forced-choice response, 90% of agencies believed that clients were worse off overall (not just financially) by having borrowed a high-cost loan. A further question moderated that finding, noting that some were better off with such loans.

Alternatives to high-cost debt included: “very few” options; good budgeting to alleviate household debt; Work and Income loans; a new low- or no- interest scheme and non-financial support (e.g. foodbanks).

Around half of agency clients with high-cost loans appear to have been referred to debt collectors. Debt collectors nearly always add additional collection fees. Many also continue to charge interest on the debt, which agencies almost unanimously object to. Collectors engage in a range of collection practices, most of which appear to be punitive. A small number engage positively with agencies and clients to resolve debt. Agencies note a small number of disturbing practices by debt collectors. Some agencies note that clients make it harder for themselves.

A number of questions were asked about the use of insolvency procedures by high-cost loan clients. Only a small number recommend such procedures, most that do advocating a no-asset procedure for their clients (i.e. when they have no means to repay the debt). Agencies note that insolvency is not always the best option. Barriers include one NAP per lifetime, secured and government debt excluded, other options including microfinance community loans and KiwiSaver financial hardship withdrawals, good budgeting with a repayment regime and the need to avoid the personal ramifications of insolvency.

A number of agencies (19/76) report that they or their clients had made complaints to either the Commerce Commission or relevant Dispute Resolution Scheme about lenders, most (70%) to the former. All but one of these alleged a breach of the Credit Contracts and Consumer Finance Act and most agencies were satisfied or very satisfied with the outcome of these complaints.

There was strong support (84%) for a suggestion of a Tribunal to deal with issues around high cost loans.

The main influences on client borrowing overall were the ability to borrow funds when needed and widespread advertising promising ‘easy’ money. Nearly all agencies agree or strongly agree that “the more vulnerable the client, the less likely they are to be influenced by interest rates”. In a range of qualitative responses, agencies discuss the implications of this in terms of the fee and cost burden on the borrower, their vulnerability, the lack of understanding of the implications of the debts and the absence (often) of viable alternatives.

The final question opened up the debate and invited participants to make any comments they wished on the matters covered in the survey. There were comments on borrowers, lenders, lending practices, regulation and examples of effects of current lending practices. Finally, agencies provided some recommendations on what should happen.

The survey is attached as an appendix.

About this survey

This survey is the first output of a larger study of consumer credit and high-cost debt being carried out by FinCap and Community Law Canterbury. FinCap is the national umbrella organisation for local financial capability and budgeting organisations, and the Justice Innovation Centre at Community Law Canterbury is committed to investigating the contemporary operation of legal systems. The project is funded by the Borrin Foundation. The aim of the overall project is to collect and analyse data to inform upcoming changes to the Credit Contracts and Consumer Finance Act (2003) and its amendments.

The survey (attached as Appendix 1) was launched on 10 December and closed on 26 December 2018. The survey was developed on the Qualtrics platform and included a range of qualitative and quantitative questions. In total it included 52 questions, of which seven provided the participants with the opportunity to respond qualitatively (in their own words). Questions included list rankings, Likert-type scales, choosing among semi-qualitative options and various numerical choices.

The expected completion time for the survey was around 15 minutes. No ethical approval was needed for the survey as the organisations were approached as professional bodies and were not asked to reveal individual client data. Nevertheless, the confidentiality of individual respondents and the data they revealed was assured.

An initial email was sent out to 194 local organisations on the mailing list of FinCap. Five emails were non-deliverable, so 189 organisations received the initial email.
Reminders were sent on 17 December and again (final reminder) on 19 December. The final response was received on 24 December. One email was received from an organisation explaining that it had no time left to complete the survey.

In total 86 responses were received, but a number of these only completed up to 31% of the survey, which was largely demographic data. In the data-cleaning phase these were removed, leaving 76 responses. Two were incomplete: one at 67% and one at 90%. All the others completed the survey. The overall response rate of included responses against total potential respondents was therefore just over 40% of the total client population.

The organisations and clients

Nearly all of the organisations participating in the survey (75/76) offered financial mentoring and budgeting advice. Most offered at least one other service including advocacy, support or access to loans. The services offered by number are shown in Figure 1 below.

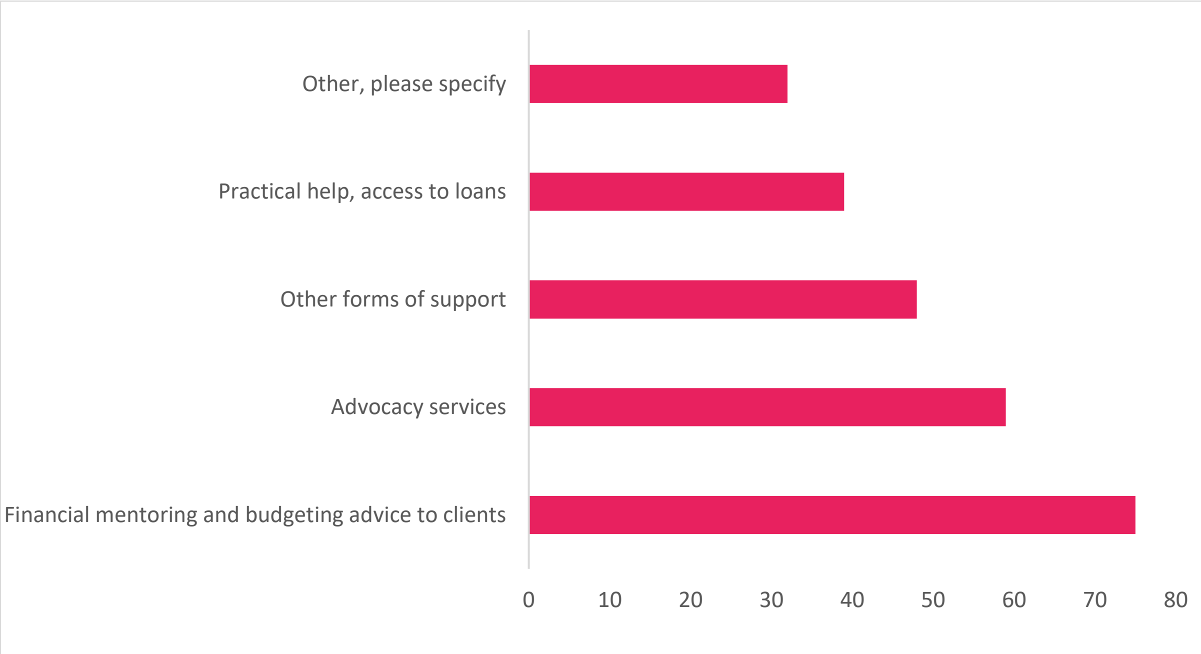


Figure 1. Services offered by number of participant organisations (n=76).

The organisations also carry out a range of other services. A number employ staff who are qualified to supervise SIOs (summary instalment orders), while some offer further financial capability services, such as community education, negotiating settlements with credit providers or running money management systems for vulnerable people. In addition to financial capability services, some provide free clothing, furniture and food, including food parcels.

A number also have in-house social services including counselling, family support, family violence services, empowerment programmes, youth services and others. Some mentioned having a Justice of the Peace in-house and offering other justice-related services.

The responses demonstrate that few services, only 4 out of 76, offer solely budgeting advice. Most offer at least two, and often three or more, services within their organisation. Many are multi-lateral services, including financial, social and other forms of support under one roof. In the cities, organisations might be more or less specialist in the services they offer. In smaller towns, diversity is more likely to be needed due to a lack of other services, as one participant noted: “All sorts as being a small town and operating out of a Church we get all sorts of people with all sorts of issues, especially the homeless”.

The 76 budgeting services were located in every region of Aotearoa. The sample provided an extensive regional spread, as shown in Table 1.

Location	Number
Northland, Auckland	15
Waikato, Bay of Plenty, East Cape and Taupo	23
Taranaki, Manawatu, Whanganui, Hawkes Bay	15
Wellington, Wairarapa	8
Nelson, Marlborough, Canterbury, West Coast	11
Otago, Southland	4
TOTAL	76

Table 1. Location of services participating in survey

Participants were asked to estimate how many clients they had seen in 2018 "on issues relating to consumer credit, debt or loans". Services range from quite small, with 7 seeing less than 50 clients in the year, to very large. Results are shown in Table 2.

Number of clients in 2018	Number of organisations
Less than 50	7
51-100	18
101-200	14
201-300	12
301-400	10
More than 400	15
TOTAL	76

Table 2. Number of organisations by number of clients seen in 2018

Of those agencies reporting more than 400 clients, actual numbers of clients ranged from 500 to 1000, with one very large organisation reporting 1700 clients in 2018. A moderate estimate is that the agencies responding to this survey had 15,000 debt-related clients in 2018.

Clients seek budgeting and financial capability support for a whole range of reasons, and not all of them involve debt. The survey asked what proportion of clients seen by organisations had non-mortgage debts. Around two-thirds of agencies noted that between 80 and 100% of clients had such debt. Another 20% stated that between 61 and 80% of clients had debt. The remainder of agencies (around 12%) thought that between nil and 60% of clients had debt at the time of consultation. These figures are very significant. Most clients who arrive at budgeting services hold non-mortgage debt. The implications of this large figure are considered later in the report.

Most agencies report that women make up more than half of all their clients. The modal figure cited in the survey response was 70%, with a range from 50% to 100%. The proportion of Māori clients differs significantly across the country, ranging at agency level from 10% to 100% of all clients. Northland, the Waikato, East Cape and parts of Whanganui/ Manawatu cite very high rates of Māori clients, with low figures in the South Island. Rates of Pasifika clients also vary greatly, with many citing around 10% of Pasifika clients and a few agencies noting up to 50% in South Auckland and the Waikato. Between 0 and 10% of clients are of Asian origin. Finally, a few Auckland agencies note elevated rates (20-30%) of new migrants and refugees, but most have few such clients.

Participant organisations were asked to describe their clientele in their own words. Many participants noted that there was a wide diversity of people seeking assistance. The following three quotes sum up many of the 'diverse' characteristics:

> *Great diversity of clients and what they require help with. Typical thing is they are all over committed and not getting enough income to meet the basic requirements for family life.*
>
> *We have a diverse range of clients who come from all walks of life - from high income earners, vagrants, beneficiaries, people with learning, speech & hearing difficulties & those with mental health issues.*
>
> *We have a great diversity of clients that present, although they all have one common thread for about 90% and that is they have low disposable income, rent costs are high and for the 10% there has been a major event in their lives which has altered their finances.*

Many come to the financial capability and budgeting agency in dire straits:

> *Majority are seeking help as a last resort, about to be evicted from their rental, power about to be cut off, no money for food, debt collectors knocking at the door.*
>
> *They often have little knowledge and understanding of financial products, high accommodation costs, casual employment, have children to support, pressures to assist extended family.*
>
> *Carrying a heavy weight -they have nowhere else to turn. They don't know what to do, overwhelmed, some are horrified it has come to this, some have got loans to buy food for their families.*

Consumer debt is a major driver of those seeking assistance.

> *Most of our clients have consumer debt or utilities debt, with the average debt being $10,000.*
>
> *Tempted by consumer culture but not able to afford the goods they buy. Some are genuinely under hardship. Many do not fully understand what they are committing to in loan contracts, or they are desperate.*
>
> *Across all socioeconomic levels including homeless. Usually have debts that are in arrears or with collection agencies.*
>
> *There are no real characteristics of clients who present with debt other than debt is mostly historical collection agency debt, cumulative large power bills, and large weekly car payments*

which is not provisioned for in their income. Significant increase in clients who were previously employed and unable to continue paying these loans/debts on a benefit. Increase of assistance with KiwiSaver Hardship applications.

It is Māori and Pasifika clients who come to seek advice on to control debts. They are bound to take loans and also because of family problems. They take these loans because it is very easily available

Participants discuss the drivers of debt, from buying food to aiming for the latest consumer goods. Factors that put clients into debt include family demands, mental illness, a sudden change in circumstances (especially unemployment or illness), chronic unemployment (as one person put it: “those who have been out of work for a long time or have never had a job, and are more or less resigned to the situation“) disability and being on benefits, which limits spending opportunities markedly. The participants emphasise that debt is a problem for people of all ages, from youth, through younger people forming families, older adults and pensioners.

Client debt

Figure 2 below provides a summary of the types of debt held by presenting clients, by number of agencies, by frequency of debt.

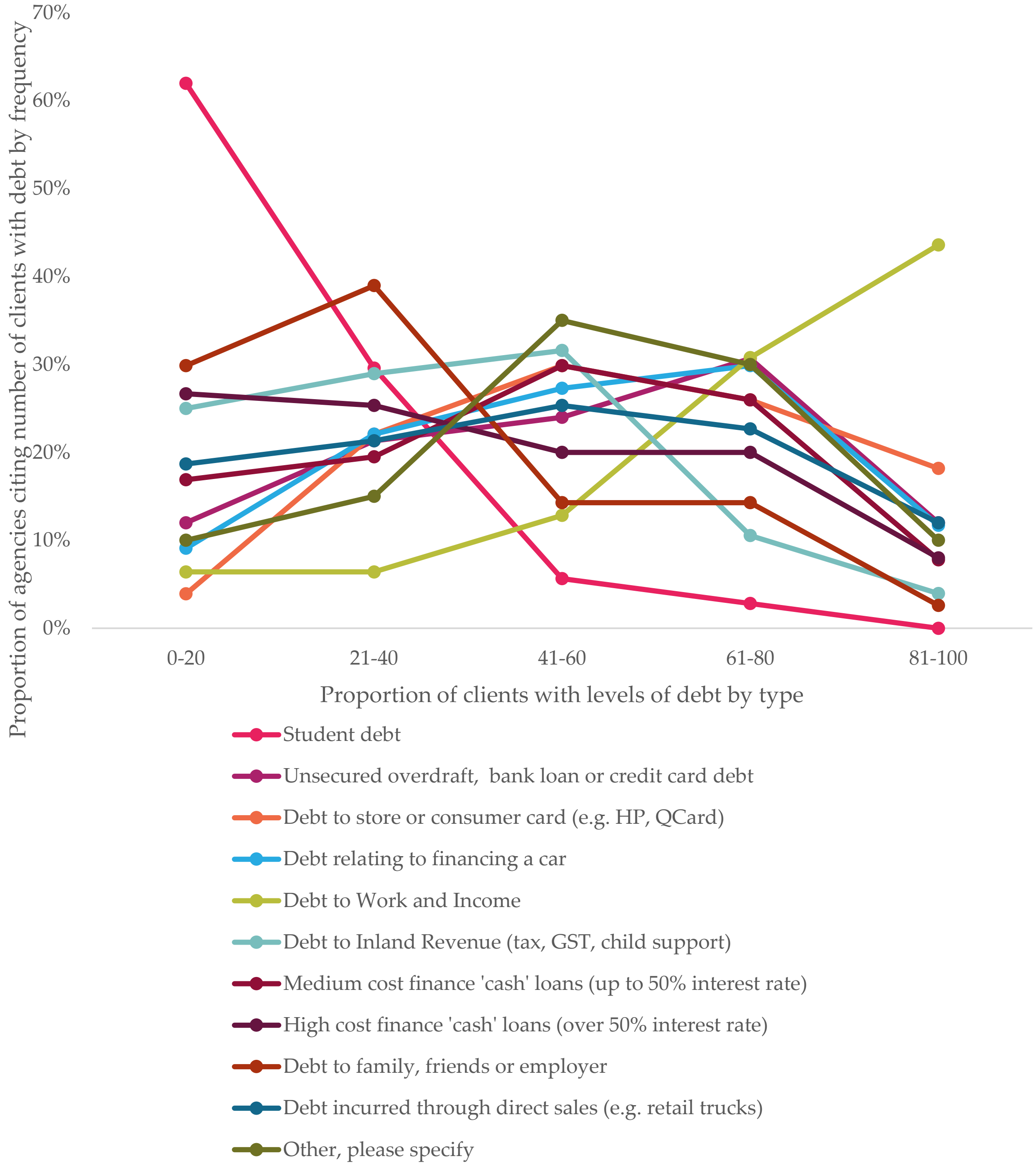


Figure 2. Presenting debt, by agency and proportion of clients.

As an example, take the aqua-shaded line denoting 'Debt to Work and Income'. In the graphic, less than 10% of agencies report that 10-20% of clients have such debt, whereas over 40% of agencies report that 80-100% of clients are in debt to Work and Income. The blue line travelling from top left to bottom right denotes student debt. Over 60% of agencies report that 0-20% of clients have no student debt, while no agencies report that all clients have such debt.

Looking to the types of debt most commonly held by clients, in order from most to least common, they are: Work and Income debt, store or consumer debt, direct sales debt (e.g. retail trucks), overdraft or credit card debt, medium cost finance, high-cost finance, IRD debt, debt to family, friends or employer and student loan debt.

Other debt types were also noted by participants. These included Ministry of Justice fines and fees, power suppliers and other utilities, mortgage debt, tenancy debt, debt to services (e.g. doctors, dentists, schools). Some of the day to day debts are incurred because "money often used to pay huge loan repayments".

Participants were asked to "please describe the common sources of the debt burden of a person seeking assistance from your agency". The responses reflected a large diversity of debt types and patterns. Other than factors already mentioned, the responses emphasised: the growth of multiple loans and the inability to meet minimum payments, the growth of 'quick' (payday) loans, the increase in indebtedness and repayment requirements to Work and Income, borrowing for unexpected costs, debt to utility companies and loans taken out in response to advertising of 'easy' finance.

Participants were asked to estimate, on average, how many different loans their clients had at the point of entry to the budgeting agency. The results are shown in Figure 3.

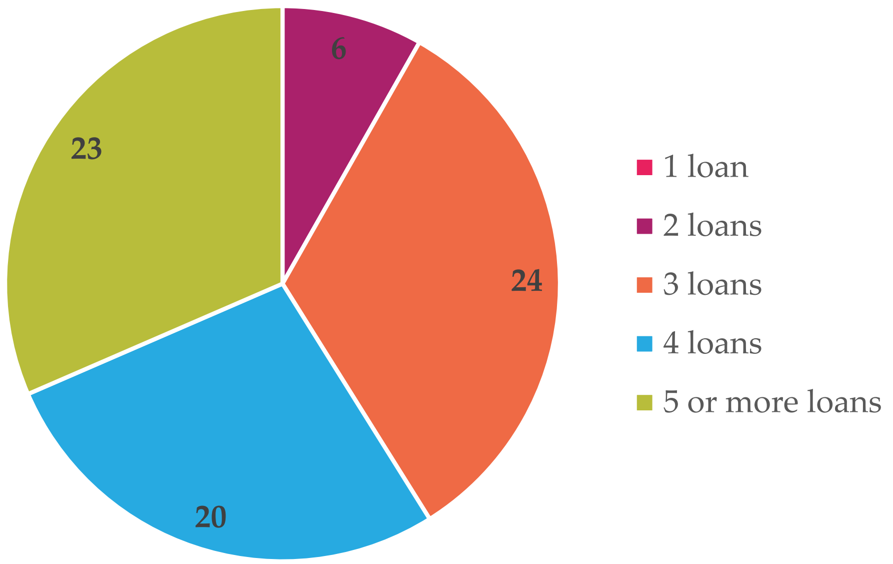


Figure 3. Average number of loans held by presenting clients, by agency (n=73)

No agencies estimated the average number of client loans to be one only. Most thought that clients, on average, held three, four, five or more loans of all kinds, the mean figure being 4 loans.

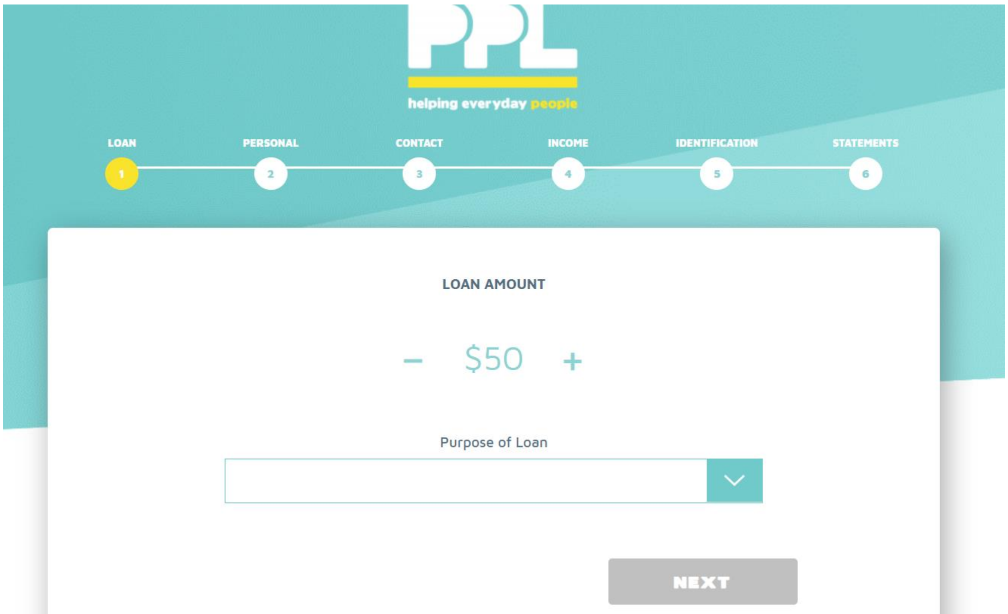
This section has examined the types of loans held by clients and the number of loans by client, on average. The next section examines what we have called 'high-cost loans'.

High-cost loans

In the survey, high-cost loans were defined as those with interest rates in excess of 50%, often taken out on a short-term basis. The growth of high-cost debt in Aotearoa New Zealand in the past few years has been marked, with the emergence of a large number of agencies offering easy-to-access unsecured debt at high and compounding interest rates, plus fees and penalties. High-cost loans are easy to distinguish from ordinary finance loans, as noted in MBIE's June 2018 discussion paper on the review of consumer credit regulations (p. 11):

> *There is a disjunction between most finance companies, which charge up to around 36% p.a., and high-cost lender rates that range from 100-400% p.a. for a 3-12 month loan, and are many hundreds of percent interest p.a. for a short (under six week) loan.*

Companies such as DTR, Cash Converters, Pretty Penny, and others, as well as retail trucks, may supply high-cost loans. They are often friendly and inviting, offering easy money online or in shopfronts. The screenshot below is of Pretty Penny (PPL), one of the lenders cited several times by survey respondents, "helping everyday people". This is the landing page for people who click 'apply' from a Google search. It asks the person to cite how much they wish to borrow and the purpose of the loan. Purposes listed are: car maintenance (rego), council and water rates, education expenses, family emergency, home repairs, household goods, medical/dental, other, phone bill, utilities, rent/bond or travel expenses.



The terms and conditions are available on another page. In this case, on a $100 loan paid urgently for the period of two weeks, the repayments will include set-up and establishment fees ($88), interest at 1% per day (365% per annum) and - potentially - same-day deposit and extension of first payment fees of $44. All fees are part of the debt and are subject to interest. After two weeks, if the loan is paid back on time and in full, the amount due will be up to $264.48 – more if the daily interest rate is compounded (i.e. interest is paid on each day's interest), which it usually is. If not, penalties apply. It is not clear if borrowers are required to read and understand the terms and conditions before committing to the loan.

This is just one example of a high-cost loan. Companies have essentially been able to charge whatever fees and interest rates they like, in an essentially unregulated market. Also, a significant portion of those seeking assistance from local financial capability and budgeting agencies have one or more high-cost loans, with most having two or three.

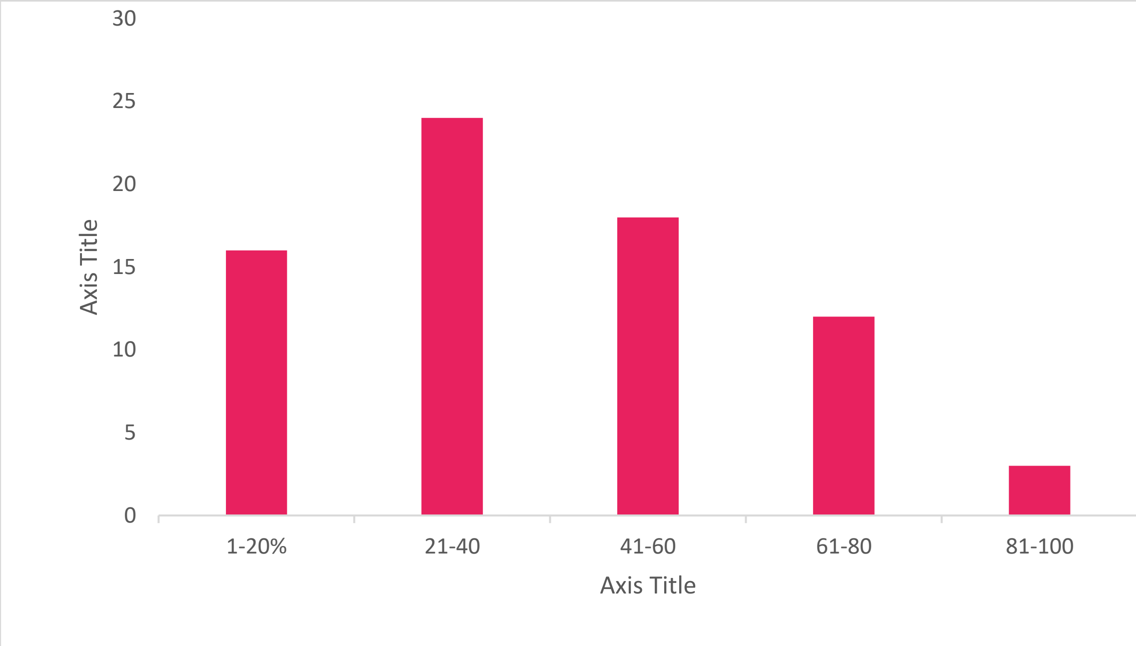


Figure 4. Participants' estimates of proportion of clients with high-cost loans

There was significant variance in the responses to this question by agencies. Some suggest that the visibility of high-cost lender outlets in town centres affects the number of loans. Others think that it is about how quickly communities have embraced this type of loan, with big city dwellers more likely to take on this kind of debt. There is little doubt also that high-cost debt is targeted at some communities, for example Pasifika communities who face cultural obligations to supply funds to support families in other countries.

Participants were asked to rank the reasons that clients take out high-cost debt, from the most common reason to least common. The results of the ranking exercise are shown in graphic format in Figure 5, showing the top 3 rankings only. The list of reasons covered is not comprehensive, covering about 90% of reasons.

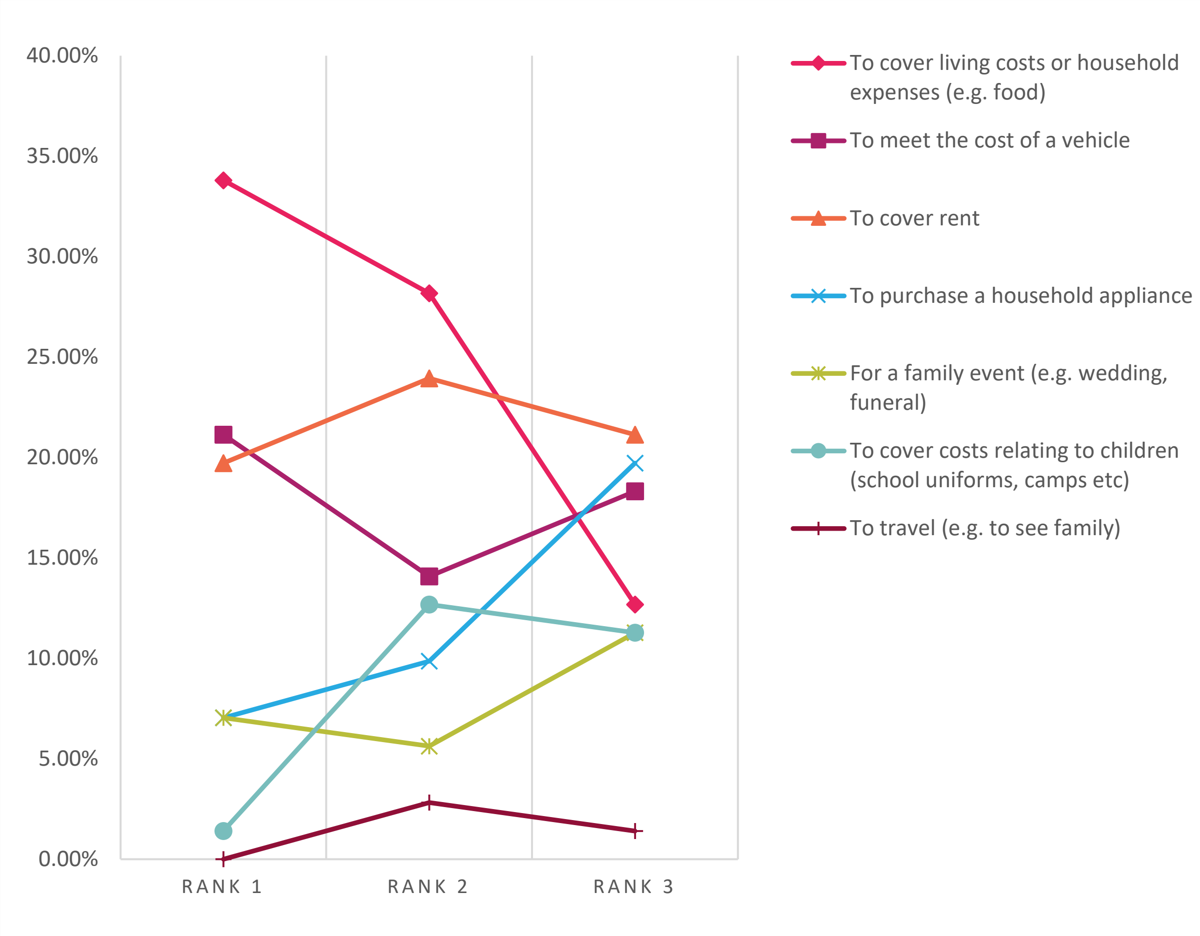


Figure 5. Reasons for taking out high-cost loans ranked (by participants), top 3 ranks

The strongest reason by a distance is living and/or household costs, followed by housing rental costs, vehicle costs and purchase of household appliances. From the perception of the agencies, then, the majority of high-cost loans are taken out to meet ordinary living costs rather than special or emergency events that arise unexpectedly.

A picture emerges from the answers above of high-cost debt filling a gap between what it costs a whānau to meet their basic needs, and the income they have available to pay for those things.

This is of concern because if incomes are so low that basic costs cannot be met, the very high fees and charges that need to be repaid over a short period of time will put further strain on the whānau budget.

Participants note that other common reasons for borrowing from high-cost lenders include to consolidate debt or pay off other debts, to meet medical costs and to meet the costs of addictions such as cigarettes and gambling.

The next question in the survey addressed the drivers of high-cost loans. There is a need to understand why this type of debt has risen so quickly over recent years. Figure 6 charts the views of the agencies about the main reason their clients take out high-cost loans.

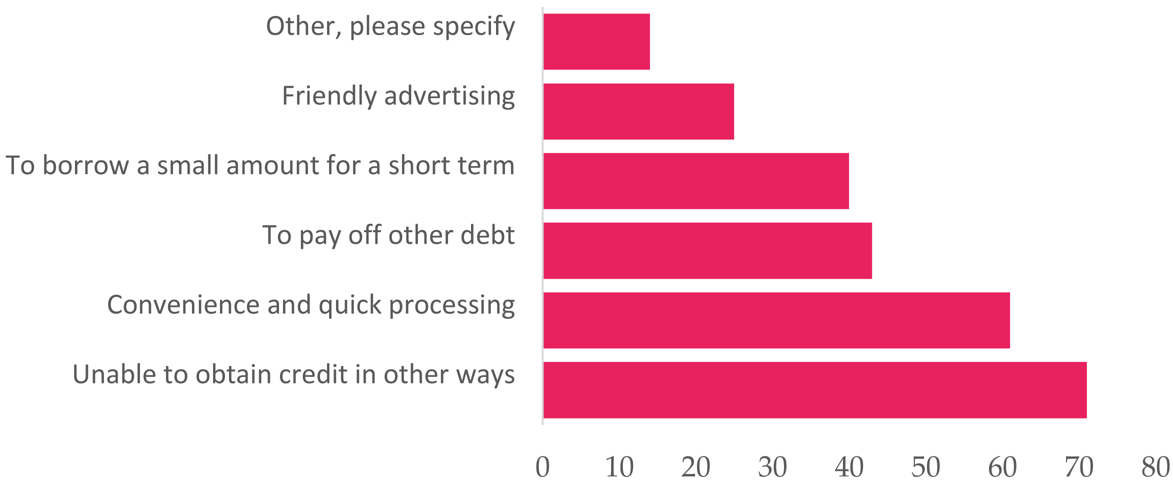


Figure 6. Opinions of agencies about why clients take out high-cost loans.

Not surprisingly, given that clients primarily borrow to meet normal household costs, they tend to borrow from high-cost lenders as the only avenue available to them. A second reason is the accessibility of these loans. They are available quickly (at additional cost, in the example given above) and quite easily. Around half of agencies are of the view that many clients take out high-cost loans to pay off other debt, or to borrow a small amount for a short time. A range of other reasons are given by agencies, including pressure from salespeople, family problems, ease of borrowing and the fact that it can be done online.

Agencies were asked what proportion of their clients were able to pay off their high-cost loans within the original timeframe and without further borrowing. In total, 70 of the 74 agencies who responded to this question noted that 1-20% of clients (55 agencies) or 21-40% of clients (15 agencies) were able to repay their high-cost loans within the original agreement. The main implication of this low rate of on-time repayment would be that clients would face further fees and penalties added onto the cost of their borrowing. Default in the high-cost loan sector is a costly business.

Complicating this picture is reports from agencies that many clients hold more than one high-cost loan at a time. A small number of agencies (3) report that 80-100% of clients have more than one loan, but most agencies (29) report that only 1-20% have more than one. Eighteen agencies report 41-60%, and 14 agencies report 21-40%, of clients have more than one high-cost loan.

In a further question on this, two thirds reported that most often multiple loans were held with different lenders, or (25%) about half and half with the same or different lenders. This means that local financial capability and budgeting agencies were obliged to deal with a range of agencies in trying to negotiate repayment of the loan debts.

Agencies were asked about the level of understanding clients had of the fees and costs incurred in taking out a high-cost loan. The responses are shown in Figure 7 below.

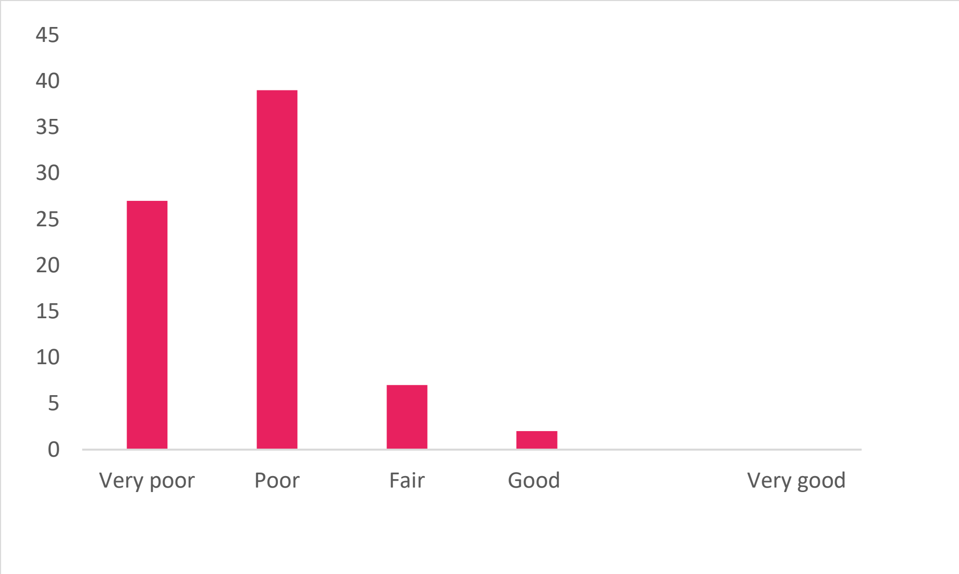


Figure 7. Level of client understanding of high-cost loan fees and costs, as reported by agencies (n=76)

The overwhelming response was that clients had a very poor, or poor understanding of the costs they incur in taking out a high-cost loan. As these costs can escalate very quickly, as shown in the 'Pretty Penny' example above, this is of significant concern.

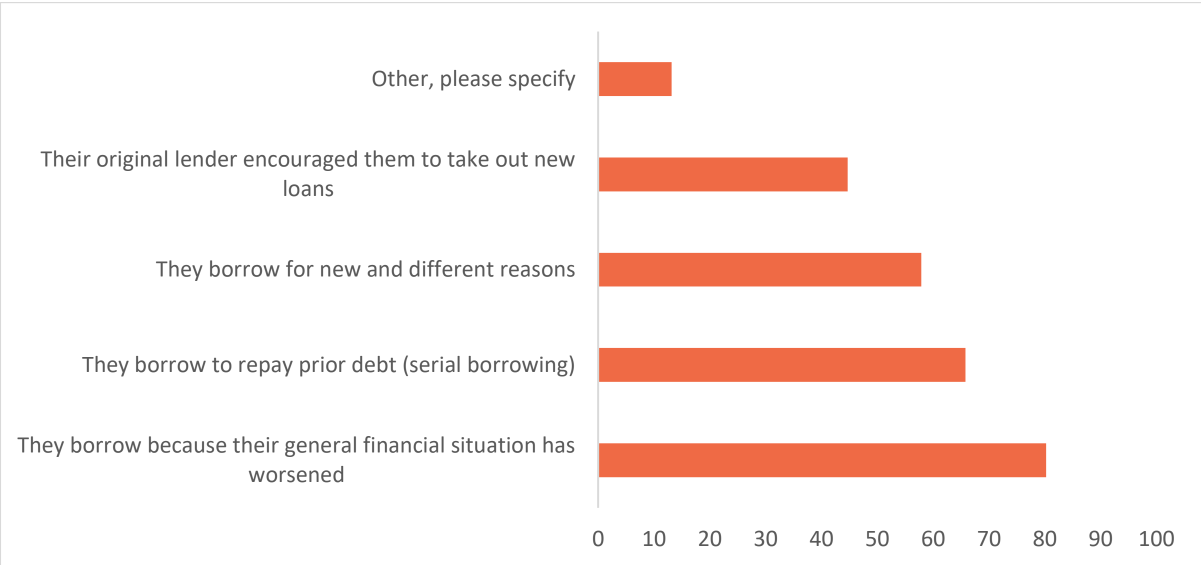


Figure 8. Reasons given by clients for holding multiple high-cost loans, agency reporting (n=76)

Figure 8 above probes further into multiple high-cost loans, and asks agencies to list all the reasons that clients give for having such loans. The responses indicate that clients generally give more than one reason. Over 80% borrow because their general financial situation has worsened. This may be driven either by the need for new and different spending (58%), to repay prior debt (66%) and/or by the lender encouraging them to take out new debt. Other reasons given include:

> *They are so desperate to get cash.*
> *Their benefit does not cover their cost of living*
> *They had no other option, they needed essentials for their children i.e. medication, food, clothing*

Driven by addictions
These companies make it so easy for clients with poor credit to borrow money.

The agencies were also asked: "What proportion of the clients you have seen in the last twelve months have three or more high-cost loans (with any lender)?" The aim of this question was to probe the extent of multiple loans held by client. The responses are shown in Figure 9 below.

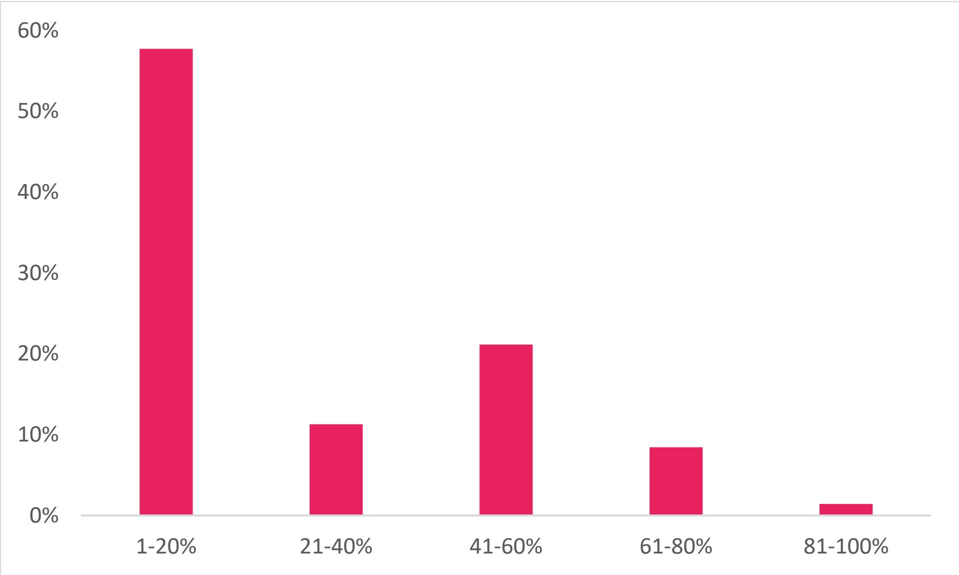


Figure 9. Proportion of clients with three or more high-cost loans (estimate by agencies) (n-76)

In 60% of agencies, only 1-20% of client have three or more high-cost loans, but in 40% of agencies, a higher proportion of clients have such loans, including one (smaller) agency reporting that 81-100% of clients have three or more loans.

Agencies were also asked to estimate the value of these high-cost loans. The results are shown in Figure 10 below. While the amounts borrowed at high-cost tend to be small, this also means that, with mandatory costs added, the actual amount repaid can be many times the amount borrowed, especially if the client defaults on a loan instalment or repayment. In Figure 10, more than half (55%) on average have borrowed less than $1000, while only 3% have borrowed more than $10,000. The median amount borrowed is $600-1000.

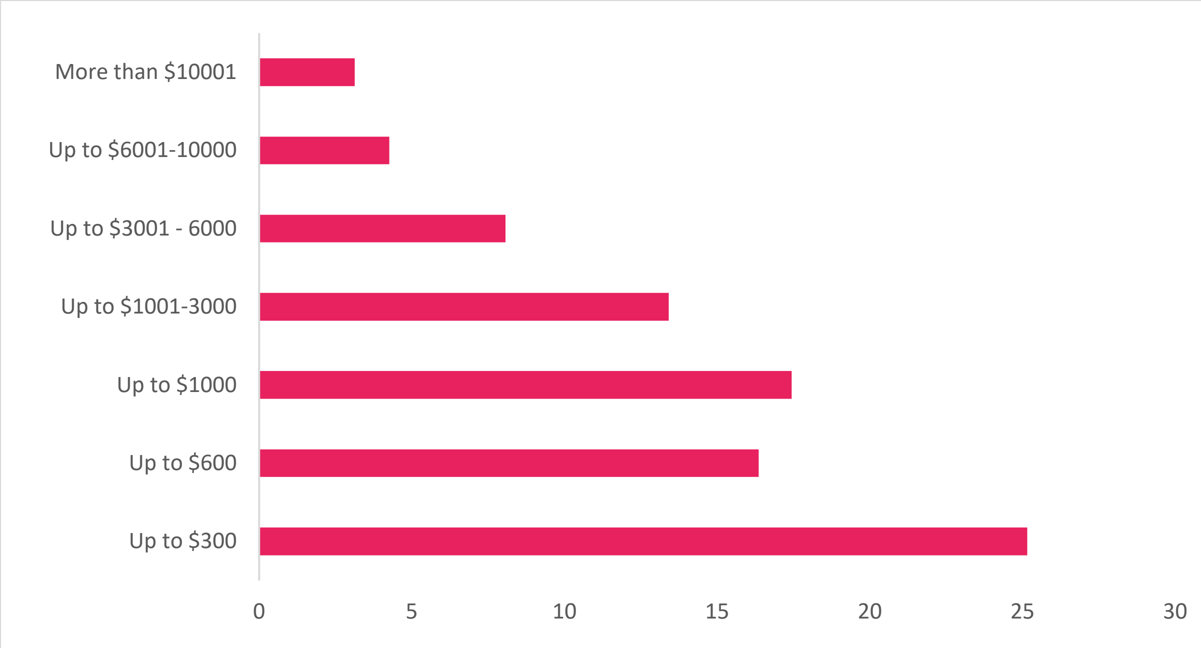


Figure 10. Amount borrowed on high-cost loans (agency estimate % of total agencies)

This section of the report has shown information provided by local financial capability and budgeting agencies about high-cost loans and debt. The following section examines some broader issues around high-cost loans and debt more generally, and asks for agency views on a number of matters.

Implications of debt

The ability to borrow money is important for a wide variety of reasons in Aotearoa New Zealand today. It can be completely unproblematic, and indeed can lead to financial gain (for example mortgage borrowing), important goods (e.g. a car to get around in) or timely spending on important items. On the other hand, it can quickly become a millstone around the necks of borrowers, of repayments are unable to be made on time. We were therefore interested in how local financial capability and budgeting agencies viewed high-cost debt, and in particular whether it was a net positive or a net negative in the lives of their clients. This was particularly important because earlier answers have made it clear that this is often the only kind of debt available to low income whānau.

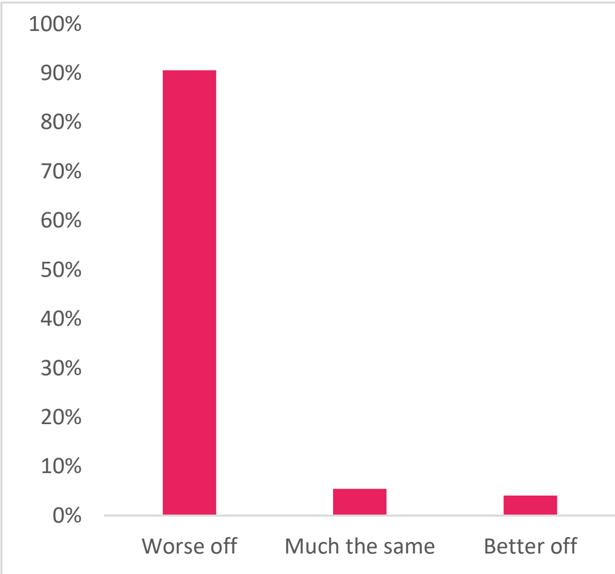


Figure 11. Views of agencies about effects of debt on overall client wellbeing

The response we received was unequivocal: over 90% of the agency responses stated that clients were worse off in an overall sense (not just financially) as a result of taking out high-cost loans. See Figure 11.

Only 3 agencies thought that, overall, people were better off from having borrowed a high-cost loan, and 4 thought that the situation of borrowers remained much the same regardless of whether or not they have taken out high-cost loans.

The survey probed further on this issue, asking the agencies what proportion of their clients would have been better off if they had been denied access to a high-cost loan. Nine participants noted that up to 20% would have been better off. Five thought 21-40% would have been better off without the high-cost loan. Fourteen thought between 41-60% would have been better off. Overall, 45 participants thought more than 60% of clients would have been better off if they had been denied access to a high-cost loan.

These figures are interesting but need to be read within context. The local financial capability and budgeting agencies have the role of sorting out often complex financial debt problems for their clients, and it may seem as if the loans were not worth the problems they caused. But, presumably, the clients did think so at the time, and others have managed to repay their high-cost loans without getting into difficulties.

Agencies were asked what alternatives exist for their clients. Responses were of five kinds. The first noted that there were no options: “very few, they can’t get other loans”:

> *There are not very many alternatives out there for clients, Loans are so easy to access these days and sometimes this is the only way out they can see, especially if they are too ashamed to see a Budget Navigator/Financial Mentor until after the fact, by this time it is too late to change your mind - you are stuck with this loan.*

The second option emphasised that financial mentors (budget advisers) were able to help alleviate, mitigate or resolve debt problems:

> *Negotiate with creditors, no interest loan, following a budget*

> *They needed to engage with budget service sooner, we could have ensured wrap around services with social workers & food plan to assist with addressing needs. In some cases, clients have had income insurance and not realised, they could have made use of their hardship application as part of their purchase agreement for cars they are repaying. WINZ could have reduced their advance offsets & debt repayments to minimum repayment amounts instead of maximum. There are so many ways we could've relieved pressure earlier.*

> *Consider discussing with existing creditors if they would consider short term lowering of their current debt repayments for a specific period to allow them to get back on track with their budget.*

Many of the responses mention Work and Income. Advances from that agency have to be paid back (and there is no discretion to write off money owed) but there are no interest charges or set-up costs. However:

> *They could also talk to their WINZ Case Manager about their situation, but some feedback we are getting is that they feel judged by WINZ staff and they are not approachable.*

A number of suggestions are made about what might be seen essentially as a national loans scheme through Work and Income with reasonable terms and conditions:

> *They currently obtain advances from WINZ which they pay back at no interest, why not expand this scheme. Especially for total dental care or debt consolidation loans.*

> *Borrowing from Work & Income for car repairs, rent arrears, power arrears and food insolvency.*

Such a scheme might be quite separate from the benefit scheme and may be available to everyone. In the absence of such a government scheme, a number of microfinance low and no interest loans have sprung up in recent year, and financial mentors see these as a viable alternative for some:

> *No interest lending through Sal Army, Good Shepherd, Nga Tangata Micro Finance, but generally can only be accessed through Social Service or Financial Mentor. W&I advances are not well known to be available to non-beneficiaries.*

> *There are some low-cost lenders around but you must fit the criteria and a lot of people who come to our service would not fit the criteria. They would have too much debt and not enough income. There is limited access to nil interest loans, but they are required to demonstrate that they can afford to repay the loan. Insolvency is often the only avenue left for them.*
>
> *Reorganising the whole budget with advice and doing hardship repayments with current creditors to release some cash---Nga Tangata loans are interest free. If urgent we can organise a stop payment for a short time and use that money.*

Other non-financial help in the community, such as foodbanks or goods to support whānau are also important tools in the arsenal of some of these agencies.

Finally, there are a range of insolvency options that are available when the debt burden becomes too large. These are explored in an ensuing section.

Debt collection

Agencies were asked what proportion of their clients with high-cost loans had their debts referred to a debt collector. Estimates were given across the spectrum, from 1-20% of clients right up to 80-100%. There are shown in Figure 12 below.

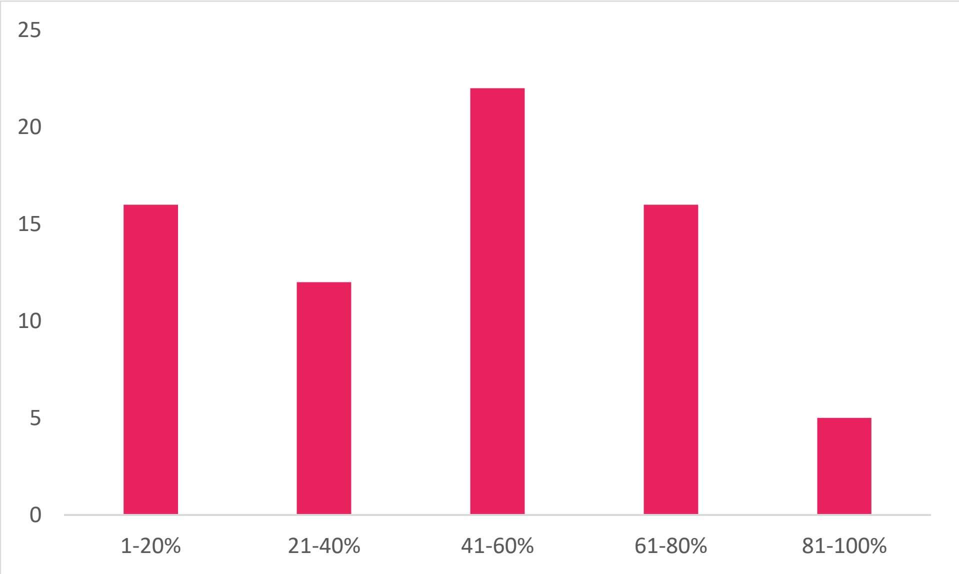


Figure 12. Proportion of clients with high-cost loans referred to a debt collector by number of agencies (n=76).

On average, across the agencies, it appears that around half of clients have been referred to debt collectors. This section briefly considers issues around debt collection approaches.

Debt collection doesn't come free. Agencies are almost unanimous (96%) that it is very common (somewhat common = 4%) for debt collectors to add additional fees and costs to the debt, in the process of seeking to have it repaid.

As well, it is common for interest on debts to continue to be charged when they have been passed to a debt collector. With only two or three dissenting voices, budgeting agencies decried this practice:

> *NO NO NO! We need to stop the clock and allow people to take responsibility for what they are trying to deal with without ongoing penalties.*
>
> *No The debt has been sold on with the Debt Collection fee added that should be the final amount owing.*
>
> *Definitely not. Understand a fee, but this too should be reasonable and standardised, there is huge variation between collection agencies.*
>
> *Feel all interest should be frozen until repayment plan is established. Companies who sell debt to collection companies - collection companies should pay for privilege of collecting the debt.*
>
> *No. If it has gone to a debt collector because they could not pay anyway why carry this on?*

No. The company that has passed the debt on has cut their losses and were not getting paid at all so recovering the debt that is outstanding at the point of being passed on to debt collectors should suffice. If the debt collectors are charging interest it just makes it even harder for the client to repay the debt and means that they are in the same position as when the debt was with the originating company.

No, have found also that the creditor and debt collection agency set fees as a percentage and they would not be regarded as fair and reasonable. example - mortgagee sale - $32, 000 added and client had 2 letters only, insolvency will be only option for client.

The practices of debt collectors are an important issue for local financial capability and budgeting agencies. Aside from the question of collection costs and interest, the survey explored what other practices by debt collectors were experienced by agency clients, whether helpful or punitive. Figure 13 below outlines the responses provided, by number of agencies.

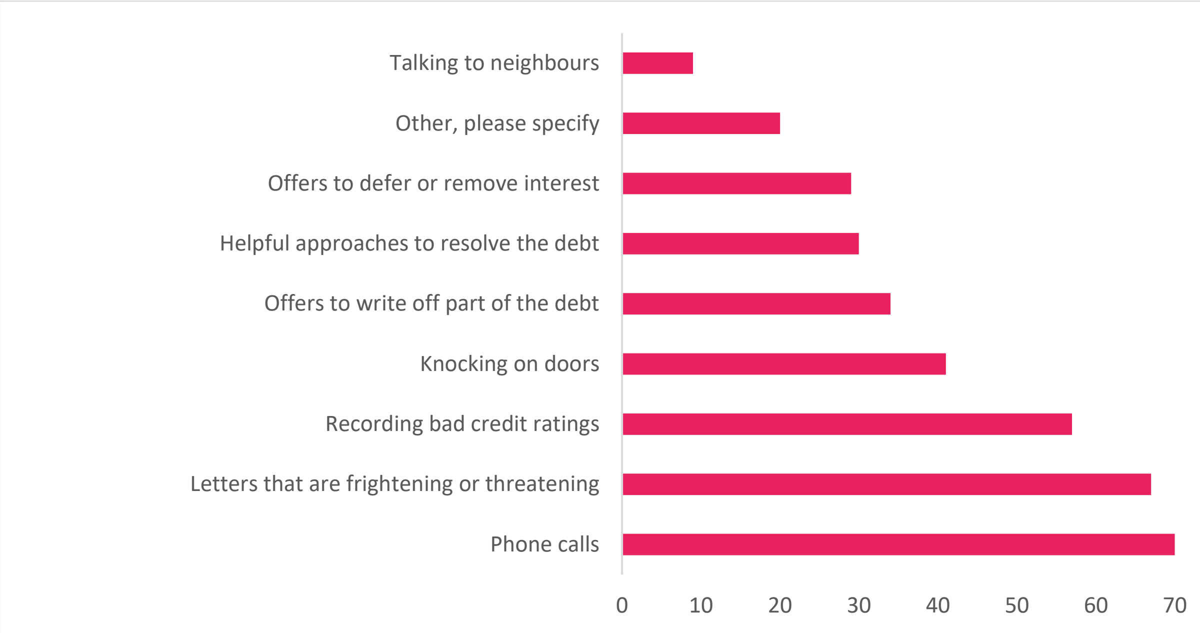


Figure 13. Count (number of agencies) of debt collection practices experienced by agency clients (n=76).

The most common practices cited in Figure 13 are also the most punitive, except that an old practice of knocking on neighbour's doors appears to have been significantly reduced due, perhaps, to privacy concerns. A couple of agencies commented that debt collectors can show a human face:

We do have the odd collector who is quite engaging and wants to help their customer when applying for hardship.

Some companies can be helpful when they know the client is working with a budget adviser to try to resolve the debt.

But most of the "other" practices cited by agencies are punitive. Several noted debt collectors approaching employers about the person's debt. Some note demands for direct payments from benefits, leaving "no essentials money available (food and rent)".

Other practices include the use of private investigators, attachment orders, Facebook ‘stalking’, text messaging, emails or threats to repossess goods.

A couple of agency responses noted that clients make it harder for themselves:

> *Mixed results due to persons ability to articulate their personal situation*

> *Unfortunately, many of these clients ignore the first approaches and only seek help when there is nowhere else to avoid paying and need to seek other sources to loan money*

Finally, several agencies outlined some disturbing financial practices:

> *Write off one part but replace it with a MUCH larger amount. BULLY tactics.*

> *Threats to repossess, offers to defer interest if the client takes out more debt with same company*

> *Threatening to take further action BUT if they pay in full including a little bit of interest then no further action will be taken.*

The issue of debt collection evoked quite passionate responses from local financial capability and budgeting agencies, and is worthy of further study. One person noted that these questions should really be directed at the clients themselves, so a future study may involve interviews with clients.

Insolvency

Insolvency in its various legal forms is a solution for people who have got into debt to such an extent that they have no possibility of repaying it under normal conditions. Agencies were asked what proportion of clients with high-cost loans were recommended to, or seriously considered, going into an insolvency procedure to address their debt situation. Responses are outlined in Figure 14 below.

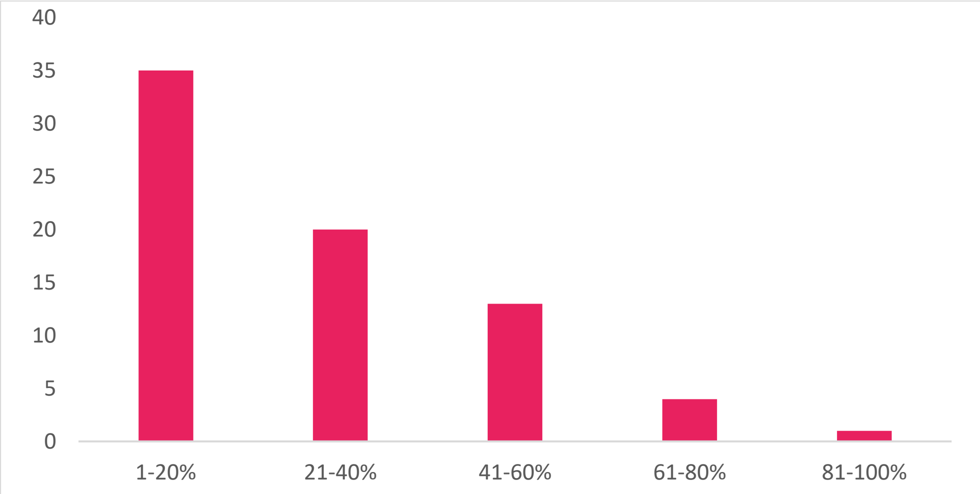


Figure 14. Proportion of high-cost loan clients recommended for insolvency procedure by number of agencies (n-76).

Although responses indicated such recommendations were at the lower end of the scale (mode = 1-20%, median = 21-40%), there were still a number of agencies reporting multiple recommendations for use of such procedures. The actual procedure selected varies according to the means of the client and the size of the debt. The most often considered procedures (by % of total agencies) are outlined in Table 3 below.

No Assets Procedure (owe less than $47,000 and have no means to pay it off)	77
Summary Instalment Order (owe less than $47,000 and are able to pay it off)	18
Bankruptcy	5

Table 3. Most considered insolvency procedure by % agencies

Agencies were also asked whether there were any reasons why insolvency procedures were not considered a viable option. The reasons given fell into five main categories, which can be summarised as ethical matters, usefulness, access to other avenues to clear debt, using budget discipline to repay and the impact of insolvency (both practical and personal) on the lives of the people.

The ethical issues raised by agencies related to both “fairness to creditors” and the responsibility of debtors as debts are “taken knowingly and the clients have commitments to pay that”. There were only a small number of such comments.

Agencies question the usefulness of insolvency in many cases:

The clients were managing to repay the debts. You can only do a NAP once in your life, so if you owe a minimal amount it would not be worth proceeding. Also, if the company has been contacted they may review their payments. Also, an SIO needs a surplus in the budget. Most clients don't have one but just manage to get on with it and repay the debts.

Can't enter SIO with secured debt, NAP not that helpful if not making payments on any debt

Debts that were owed to the government made it not worth it.

Other avenues to relieve debt include a range of microfinance community loan models, the use of KiwiSaver hardship withdrawals and further options.

Insolvency is only considered after budgeting has failed - even when the client requests it. Although most people ask for help with KiwiSaver withdrawal nowadays.

Many people choose KiwiSaver financial hardship over insolvency

This depends on the client's personal and living situation, we have clients that have done NAPs, and we try to negotiate with creditors in the first instance if clients can afford to repay some debt weekly. However, some clients avoid creditors and change their mobile numbers so creditors cannot get hold of them and don't want to address their debts. We have been able to help clients with Debt Relief Loans through Nga Tangata Microfinance. This is the best option for those who only owe $2,000-$3,000.

In many cases agencies prefer to work with their clients on alternatives to insolvency.

We do not recommend Insolvency if we believe the client will be able to repay the debt in a certain time frame, or their circumstances are likely to change. E.g. within the year they may have found work.

Ability to actually clear debt with a clear focused budget.

Only one client in +300 clients in 2018 proceeded to Insolvency. Generally, we have been able to work through debt, come to amicable arrangements with creditors and avoid this action.

We consider all options but negotiation with creditors is best option.

Insolvency is starting to affect ability to get housing. Last resort.

Finally, many responses emphasise the personal and financial ramifications of insolvency. The first few responses below touch on issues of stigma, shame and potential discrimination:

Stigma of being bankrupt.

Shame, public information, credit record.

Some clients were embarrassed about taking this course of action - a cultural issue.

Some clients thought it was shameful, or they would not be able to have a bank account so how would they get their benefit. Some just would not even consider going Bankrupt because *it would be advertised in the newspaper. SIO was accepted as OK as clients felt they should pay back what they had spent so it was fair.*

Yes, the stigma, can't travel without permission

The second set of responses examine the actual potential effects of insolvency:

I don't believe in these procedures as clients will not be better off in the long run, their names will be tarnished in the future, they will have trouble long after they have paid their debt in full. I believe in negotiating with the creditor to set a plan that is both acceptable and achievable by both parties.

Impact on future work opportunities.

We consider all options but negotiation with creditors is best option. Insolvency is starting to affect ability to get housing. Last resort.

Effect on credit rating

Risk to employment, not able to open a new bank account.

Clients have car as security and are scared of losing it.

Decisions around insolvency involve agencies working with clients to weigh up alternatives. While insolvency does have some advantages, it is reasonably clear that there are also significant disadvantages to the individuals concerned, both material and personal. The main impression from the qualitative responses is that budgeting agencies prefer to help individuals repay their debts, through negotiation with lenders and good budgeting practices, rather than opting for insolvency, where an alternative is possible.

From a regulatory perspective, there appears to be significant costs to insolvency options for the individuals and whānau concerned. There may be a need to rethink insolvency systems in Aotearoa New Zealand, as too many people appear to be stuck “between a rock and a hard place”.

Making complaints

One third of agencies reported that one or more of their clients with high-cost loans have "challenged the claims of the lender either by legal action or by complaint to regulatory authorities". To get a clearer picture, agencies which reported such action (n=19) were then asked how many client files resulted in a complaint about lender behaviour to either the Commerce Commission or a Dispute Resolution Scheme. Responses are provided in Figure 15 below.

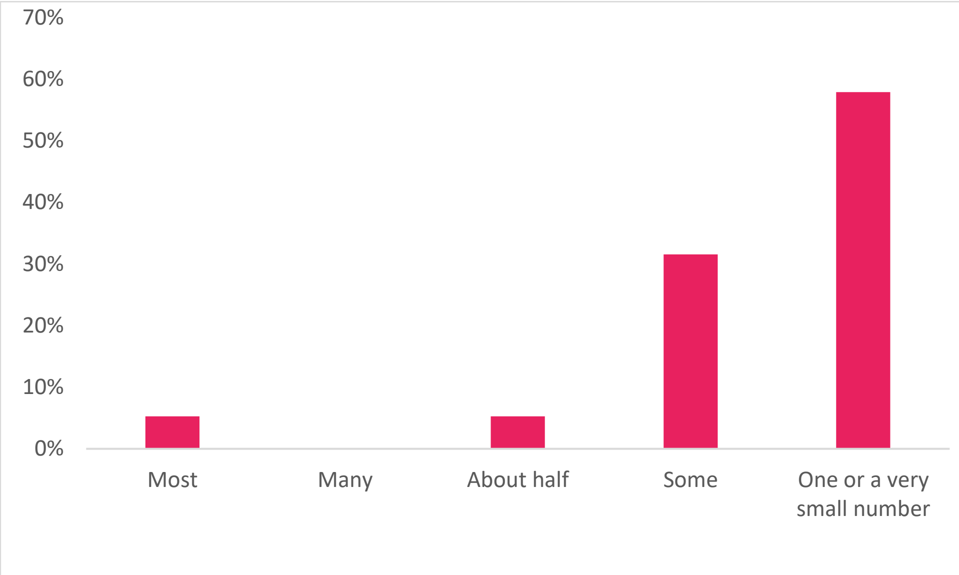


Figure 15. Percent agencies reporting general number of complaints by clients (n=19)

One agency reported most clients complained, and one "about half". Most, however, reported only a few or one or two complaints were made by their clients.

Eighteen of the agencies indicated that complaints were made alleging a breach of the Credit Contracts and Consumer Finance Act. Four agencies alleged a breach of the Fair Trading Act. One agency noted that the complaint was about a retailer offering a cashback to a client, but on condition that they added some more goods to the bill.

One complaint was made on the basis of the common law, which was where a creditor was "trying to make a widow pay an account of her late husband even though she was not a signatory to the debt and did not benefit from the goods".

Two other complaints were noted. One noted that clients do not always know what they are signing.

Of the 19 agencies responding in this section, 14 reported they would be most likely to complain to the Commerce Commission, and five to a Dispute Resolution Scheme.

Levels of satisfaction with the outcomes of complaints about lender behaviour are outlined in Figure 16 below.

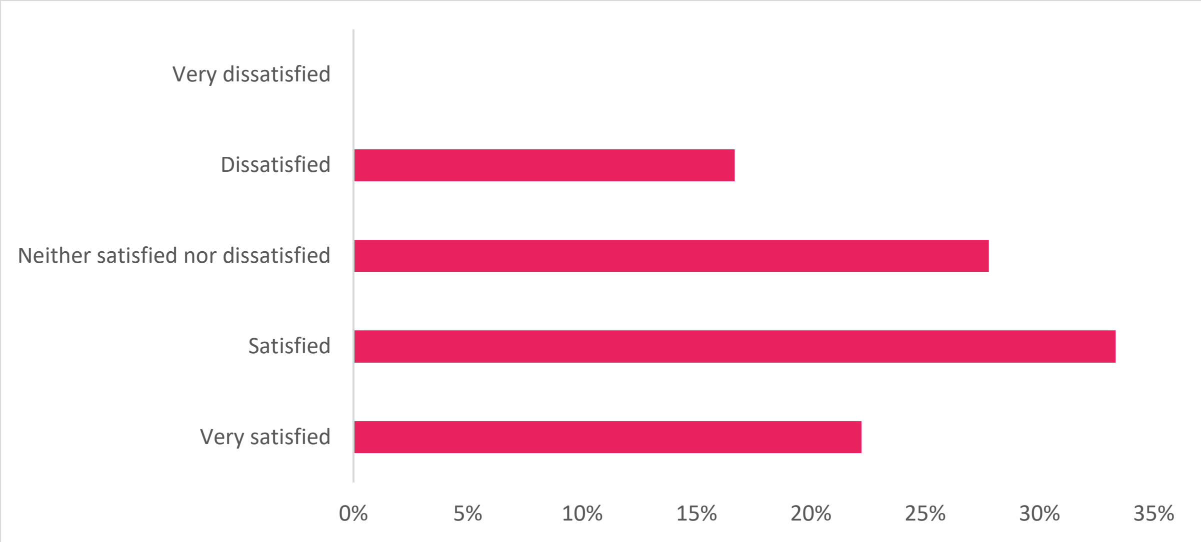


Figure 16. Level of satisfaction with outcome of complaint about lender behaviour (n=19).

More than half of those responding indicated they were satisfied or very satisfied with the outcome of a complaint about lender behaviour. None were very dissatisfied.

Only five of the agencies took the opportunity to make further comments, as follows:

> *Commerce Commission take too long, and Disputes Resolution usually fob them off by sending them back to the creditor*
>
> *We try to encourage complaints to both the Commerce Commission and the dispute scheme. Many people are afraid to complain so the amount of complaints received are unrepresentative of the level of issues.*
>
> *Still awaiting outcomes*
>
> *Would like progress reports as ComCom deals with complaints*
>
> *No remedy for individual complaint. Commerce Commission only actions repetitive behaviour*

Because of the small numbers in this section, little further information was available.

Other issues

Agencies were asked whether they would support the creation of a Tribunal to deal with issues about high-cost loans. There was strong (84%) support for such a move. Three agencies would not support such a proposal, and 9 didn't know.

In terms of overall debt, agencies were asked to provide their views on the main influences on client borrowing overall. The mean responses of this 'ranked' question are listed in Table 4 below.

Factors	**Mean**
The main factor is the ability to borrow funds when they are needed	43.84
The main factor is the cost of borrowing including fees and interest rates	5.15
The main factor is advertising that promises 'easy' money	38.54
Other, please specify	5.72

Table 4. Main factors influencing overall borrowing behaviour (n=76).

Access to funding and advertising are clearly the main drivers of lending, although some think that lenders who include fees and interest rates in their calculations attract lenders. Other comments are mainly related to personal reasons for lending, such as: "shopping addiction", "keeping up with the Joneses", and "I deserve it" attitudes, "Advertising no interest or weekly repayments. People aren't looking at other fees that are added" and finally it depends on "which lender is willing to lend to them".

The following question references research literature that notes the more vulnerable the client, the less likely they are to be influenced by interest rates.

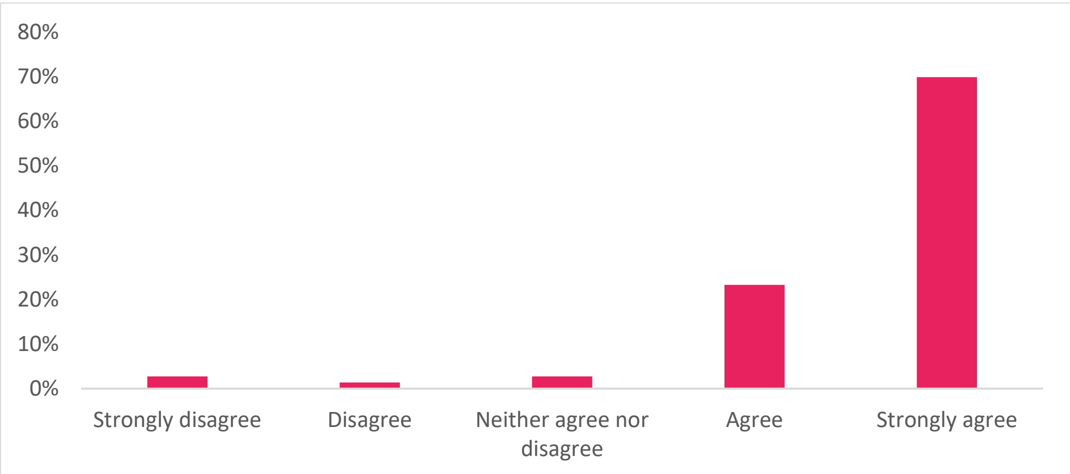


Figure 17. Views on "the more vulnerable the client, the less likely they are to be influenced by interest rates" (n=76).

Nearly 70% strongly agree with this statement, although there are some competing opinions on this. Qualitative responses fall into several categories. The most common comments affirm that there is a strong relationship between vulnerable borrowers and high-interest loans. A selection of these follow:

Strong correlation between high vulnerability and adverse rates and terms
the higher the vulnerability, the lower the understanding of the rates & terms of the loan

Increased vulnerability = higher interest and risk of penalties on late payments received.

The greater the vulnerability the more onerous the terms and rates

We feel that vulnerable people are preyed upon by loan sharks who charge high interest

Vulnerable people present a higher risk, so have fewer options. Vulnerable people are only accepted by the high rates and harsh term lenders.

This relationship is very strong. Some clients have gone to high risk lender due to debt they have incurred with the main banks.

The phrase 'it costs more to be poor' comes to mind. Often high cost lending is the only credit made available to clients although if the lender was following the principles of responsible lending then many clients should not be able to access high cost credit either.

An increasing number of lenders are now prepared to work at resolving bad lending situations which can be connected with irresponsible lending practices, however these irresponsible lending practices are still rife.

There were also a large number of comments concerning the lure of high-cost lending as a 'quick fix' for the financial woes of borrowers, including the following:

Clients generally have a lack of understanding surrounding the full total cost of credit - all they want is an easy fix for their situation and if they are able to access some funds then they aren't too worried about the cost of getting the loan or how they are going to repay it as it is the immediate issue that is driving their need/decision.

Vulnerable clients want the money (for whatever reason) and disregard the additional costs of fees and interest rates

Some, where English is their second language get talked into more than they wanted; other are tired of being on such low benefits and never having enough to make ends meet and some are just spenders and don't think about the consequences of their spending.

Vulnerable people just want to get the money to pay their debts / costs. They spend little time thinking about extra fees, costs - they just want the money NOW. Many of the lenders that we deal with have not established affordability properly and so this is why the lender ends up in the position they are in with debts going to debt collection or the total becoming bigger and bigger due to the term of the loan extending as they are unable to pay it meaning extra interest and default fees etc.

The vulnerable will borrow loans regardless of the interest cost because it is 'easy to get'.

With some of our client's language and social deprivation are a factor, however by far the biggest factor between interest rates and terms is their belief in the want or absolute need for a loan. I believe that the interest rates and terms go out the window when somebody is desperate (their opinion) and a company says they will loan to them.

A lot of clients do not even read the contract - they just want the money quickly. I encourage clients to read the "fine print".

When the client needs the money they need it! They will not bother to shop around or look for a cheaper option. Mainly this is their last resort and high interest 'pay day' loan companies lend the client money when no one else will. If the client sees that borrowing this money gets them out of a hole then they don't make the connection with the high rates of interest. They just see e.g. 6 easy payments of $120 per week.

A third set of comments discuss the lack of knowledge and understanding of the debt terms and conditions.

Vulnerable clients often don't know what is in a contract, they don't read or understand the contract, and they are happy to have borrowed as much as possible.

They are keen to get the money they don't understand the cost or term. They often are told this will cost you $30 a week but don't understand that is over 3 years.

100% of my clients when I point out the interest rate they are paying they have no clue and were embarrassed.

My perception is that the less able the client is to fully understand the T & Cs of a loan, the less they fully realise the consequences. This makes them more vulnerable to the lender taking advantage for many lenders do not undertake an ethical and due diligence approach.

Lack of financial literacy.

Social inequality. People on low incomes trying to achieve a life style they can't afford. They don't understand the implications of borrowing money and the long-term effect of this.

Reading and numeracy literature is a large factor as contracts and forms in general are a mystery and nothing has been explained.

This is not a thought process if they don't understand what they are committing themselves too. They are only interested in dealing with the situation at hand.

I would suggest that most people with a low income would not have an understanding of the cost of borrowing, many of our clients do not realise, when they borrow an amount, it could cost double that after the interest and costs have been added. They are very vulnerable and really need a lawyer to be with them!

Many of our clients do not understand and have not fully had the loan terms, fees, and interest rates explained to them to where they understand all consequences associated when payments re not made on time. It should be compulsory for any loans where clients are asked to be guarantors to seek legal advice.

They don’t understand the legal aspects of it, no or little understanding of interest rates. When we run money mates and take the time to go over contacts and how to read the contract we often hear they didn’t know about most of this stuff.

Vulnerable borrowers usually lack the ability to understand the "fine print" in agreements (lack of literacy skills is often a factor). Agreements are often very long (one was 57 pages) and full of financial terms that are not easily understood. The important parts are often buried in the middle of the document.

A fourth set of views relate to access issues:

They have difficulty accessing low cost finance due to their income level and previous credit history.

The rates & terms of the loan generally exceed the borrower's ability to pay the loan without experiencing further hardship, specifically if a payment is missed. Clients are hit with hefty fees & are often encouraged to take out further borrowing. I have found that clients are less likely to borrow high cost loans if they are fully aware of the overall cost.

A small number of participants made broader points about debt in society:

Online borrowing is fast easy and done in their own home most will pay for overdue Rent, garage debt, and dental than having to face feeling intimidated by Work and Income they spoke about case managers treating them unfairly so considered a loan not understanding the rates and terms of the loan however this didn't bother them until they ran into hardship

Some clients are vulnerable due to the location of where they live being a small rural town with only a few second-hand clothing shops, so they apply for loans online, or buy from mobile trucks as it is convenient for them. The salespeople tell them they can pay the goods off in small instalments and its easy to sign up and paperwork will be sent in the mail. Some clients sign up to loans, but don't realise what they are getting into if they cannot afford to pay, they don't read contracts or agreements.

The final question provided the opportunity for agencies to contribute their own thoughts to this project through the survey. This was another qualitative question which invited participants (who had got through 51 questions already) to add anything else they wanted to say. It is a tribute to the dedication of these agencies to their clients that they did, indeed, have a lot to say. The main themes only will be represented here.

Final comments

Participants in the survey offered final comments that covered a wide scope. There were comments on borrowers, lenders, lending practices, regulation and examples of effects of current lending practices. Finally, there were some recommendations on what should happen.

Borrowers

Beneficiaries are too vulnerable to be accessing consumer credit facilities and will not accurately ascertain their actual financial position prior, therefore should be recommended budget advise prior to all lending.

Vulnerable people become desperate. Once trapped in adverse credit, crime can follow.

Once someone is 'trapped' in the cycle of high cost lending they have no money available for essential costs and are driven to continue relying on this line of credit to purchase essential needs. The community interest free loan schemes are helpful but are not a viable source of credit in an emergency.

The pressure to buy is huge from door knockers and the language skills are poor for some sellers and customers

It is hard to imagine how this can be solved. While we still have a society that values spending money e.g. Christmas, funerals etc, and while consumer credit is available, some will still continue to make very poor decisions. I would like to see a real push against spending, and a ban on advertising consumer credit.

Lenders

There has to be something more that can be done to make lenders more responsible. It is not good enough to blame the consumer when the understanding, literacy and intellect of many consumers means that they are unlikely to consider (or care about) the consequences of the loan.

I am very happy with the Consumer Credit Laws being introduced. There has been a long history of Consumers being abused by Predatory Lenders.

The commitment of retailers to do thorough credit checks and be responsible for the reality that this client cannot afford to buy those goods - the client's wellbeing, financial security and mental health are affected by ever increasing debt levels allowed by retailers/loan companies

Needs to be tightened to stop loan sharks preying on vulnerable people and then threatening behaviour to get loans repaid.

Further to my above comment the main banks also need to take some responsibility, they advertise cheap credit cards, overdraft facilities, student loans etc. when people default on repayments the banks tend to have a knee-reaction. Many clients have said the banks are great when they want to give you money but as soon as you get into difficulty, they are hard to deal with then their debt ends up in a collection agency pushing them into taking high risk and high interest loans to meet other needs. Main banks need to take more responsibility in the first instance.

Lending practices

It is too easy to obtain without customer truly understanding what they are signing for.

Change in outcomes for clients that have debt for vehicles that have been repossessed and sold.

Credit accessibility is the origin of child poverty and food poverty. We have created an expectation that anyone can have whatever they want and this need not be connected in any way to actual income, affordability and family needs.

It's far too easy to get credit with absolutely no regard to the ability to repay. There are VERY few "Responsible Lenders" out there.

Tighter controls on credit and advertising. Credit is far too accessible. People lending money need to go their credit check thoroughly

Overall consumer credit is too readily available. Our whole society is now geared towards instant gratification in all areas, and those least well equipped to cope are presented with the greatest pressure to buy.

Companies giving credit need to take in to account realistic costs for food, accommodation, power, etc before ever considering giving a loan. Also interest free term loans should also make sure that at the end of the interest free period the client can definitely afford the loan. We see too many clients who do not pay loans off in the time and do not understand what they will be paying from then onwards.

Lenders need to ensure that clients/customers are able to afford the credit and need to have proof that this is the case / they need to be more responsible lenders and if the client is marginal a back-up option should be available for all concerned.

Regulations

I would like to Creditors to have a deeper look into people's ability to repay loans before credit is given. Bank statements at least.

Consumer credit should be available, assess for each individual client based on their ability to pay, full budget assessed

Yes. Better regulation on these pay day loans. Home Direct and similar should be banned. Should ban door knocking to see items. Debt consolidation is not always the best/cheapest answer.

It is definitely time something was done. Example client borrows $100 to buy food, unable to pay loan back and 4 months later owes $582

Recommendations

There should be compulsory guidance before any financial contract is signed, this should be outside the independent of the company giving the loan.

if there was a viable alternative for the vulnerable to be able to borrow money (under very strict oversight conditions) at low interest rates & costs

I think there should be an agency dealing with WINZ clients who seek loan and be monitored

there needs to be limits on total interest that can be charged on borrowing. there should also be maximum interest rate per annum

Whilst we talk about high cost borrowing with (loan sharks) I feel that banks can also help eliminate the need for consumers to approach these sort of lenders if, they made the application for hardship information accessible to clients. Many have come into the service that have been unaware that banks have a hardship application service, this is also the case with IRD. There should be more leniency with those listed with the Credit Rating Bureau - once a debt is paid in full, names should be removed. Holding names on the CRB file after debts are paid actually impacts borrowing from banks etc & encourages borrowing from high cost lenders. (the penalty remains).

More advertising with simple messages for any person who may be thinking of borrowing, perhaps even allowing borrower a chance to take the contract away to give them a chance to get advice from someone!!

Yes there needs to be an interest rate cap and yes there needs to be better worded applications, but the reasons why people go thee in the first place need to be addressed also.

Client workshops, one on one BFC financial capabilities is the best way we can help the people to understand consumer credit

Standard law of compliance would be great.

The CCCFA is still not reaching far enough into NZ's lending culture to protect the most vulnerable members of society.

Need a lower interest option and limit access to clients of how many loans they can have at a time.

There should be much stricter controls on loan sharks offering high-interest loans and a cap on interest rates. Finance companies should be audited rigorously and frequently. They should be made to conform to the ethical requirements laid down by the ministry which should have greater powers to hold companies to account.

consumer credit should be based on your ability to comfortably repay the loan. if the loan is going to affect your core necessities in life, impact on the care and nurturing of your children, than the loan should not be offered.

People need to be informed about what they are signing up to before they are given the loan. They need to be able to speak to an independent party beforehand. No ring and borrow money online etc. Registered lenders only with proven New Zealand registration and if they sell must inform their debtors. Many being sold off shore and no longer in New Zealand.

Irresponsible lenders prey on the most vulnerable in our community and they get away with it because the people don't understand the consequences of signing the contract. Everyone should be referred to a financial mentor to prepare a budget before entering into any credit agreement. Even better financial mentors should have access to 'no interest loans' of an equivalent value to offer them when they do.

I would like to see much more investigation by finance companies to ensure their customers can actually afford the loans - a complete and comprehensive budget is required, not the cursory details asked for at present. Clients should be allowed a longer "cooling off" period to allow them to seek further advice or change their minds. All costs, including administrative costs (e.g. charging clients for each phone call or email sent or received) should be stated plainly in the document. Clients need to understand exactly what their repayments will be each week/month.

Appendix 1. Survey questions

Q1 This survey provides the opportunity for organisations to provide information on their work in the area of consumer credit, offering advice, mentoring, legal support or other roles. The information used will be used as part of a research project to guide input to the Government's proposed law reforms - this aspect of the work is a joint project between FinCap and Community Law Canterbury.

Your response is very important to us. The confidentiality of your agency's responses is guaranteed.

The link you have clicked to get into this survey is personal to your agency. If you need to stop the survey in order to consult on any responses, you will be able to resume the survey by clicking on the email link again.

The survey is best completed by a person who prepares reports on your agency's work and has an overview of the situation of your clients.

We thank you for your participation.

The first section considers general information about your agency and your clients as a whole.

Q2 Do you offer.....? (please tick all that apply)
▢ Financial mentoring and budgeting advice to clients (1)
▢ Advocacy services (2)
▢ Other forms of support (3)
▢ Practical help, access to loans etc (4)
▢ Other, please specify (5)
▢

Q3 Where are you primarily located (if across regions, your own location)?
▼ Northland (1) ... Southland (17)

Q4 As a rough calculation, how many clients has your organisation seen during 2018 on issues relating to consumer credit, debt or loans?
o Less than 50 (1)
o 50-100 (2)
o 100-200 (3)
o 200-300 (4)
o 300-400 (5)
o (If more than 400), we have seen roughly the following number this year (6) ____

Q5 Roughly what percentage of your clients seeking budgeting information or advice have non-mortgage debts of any kind?
▼ 0-20 (1) ... 81-100 (5)
Q6 Roughly what percentage of your clients are women?
▼ 10 (1) ... 100 (10)
Q9 Roughly what percentage of your clients identify as Maori?
▼ 10 (1) ... 100 (10)
Q10 Roughly what percentage of your clients identify as Pasifika?
▼ 10 (1) ... 100 (10)

Q11 Roughly what percentage of your clients identify as Asian?
▼ 10 (1) ... 100 (10)
Q12 Roughly what percentage of your clients identify as recent immigrants or refugees (i.e. have entered New Zealand within the past ten years)? An estimate only is sought as this information may not be collected by you.
▼ 10 (1) ... 100 (10)
Q8 In your own words, describe the characteristics of those clients who seek assistance because of debt. Is there a 'typical' client or is there a great diversity of people?

Q14 We are interested in the most common forms of debt held by clients seeking help from your agency. Below are listed a range of debt types. Please indicate to the best of your ability what percentage of your clients who have debt (rough estimate) present with each of the following kinds of debt (Your responses will add to more than 100% where there are multiple sources of debt).

	0-20 (1)	21-40 (2)	41-60 (3)	61-80 (4)	81-100 (5)
Student debt (1)	o	o	o	o	o
Unsecured overdraft, bank loan or credit card debt (2)	o	o	o	o	o
Debt to store or consumer card (e.g. HP, QCard) (3)	o	o	o	o	o
Debt relating to financing a car (11)	o	o	o	o	o
Debt to Work and Income (4)	o	o	o	o	o
Debt to Inland Revenue (tax, GST, child support) (10)	o	o	o	o	o
Medium cost finance 'cash' loans (up to 50% interest rate) (5)	o	o	o	o	o
High cost finance 'cash' loans (over 50% interest rate) (6)	o	o	o	o	o
Debt to family, friends or employer (7)	o	o	o	o	o
Debt incurred through direct sales (e.g. retail trucks) (8)	o	o	o	o	o
Other, please specify (9)	o	o	o	o	o

Q15 Thinking about your previous answer, please describe the common sources of the debt burden of a person seeking assistance from your agency

Q16 At the point that a client seeks your assistance, on average how many different loans is the person usually trying to repay, excluding secured debt (e.g. mortgage)?

o 1 (1)
o 2 (2)
o 3 (3)
o 4 (4)
o 5 or more (5)

Q18 What proportion of those seeking assistance with debt in your agency over the past twelve months have one or more high costs loans?

o 1-20% (1)

o 21-40% (2)
o 41-60% (3)
o 61-80% (4)
o 81-100% (5)

Q36 Why did your clients initially borrow from a high cost lender? Please rank your responses (move them up or down) from most to least common reason.
______ To cover rent (1)
______ To cover living costs or household expenses (e.g. food) (2)
______ To purchase a household appliance (9)
______ To cover costs relating to children (school uniforms, camps etc) (3)
______ To meet the cost of a vehicle (4)
______ To travel (e.g. to see family) (5)
______ For a family event (e.g. wedding, funeral) (8)
______ Other (6)
______ Unknown (7)

Q51 What is the motivation for individuals taking out their first high-cost loan? (tick as many as required)
▢ Convenience and quick processing (1)
▢ Unable to obtain credit through traditional banks (4)
▢ Friendly advertising (5)
▢ They only needed to borrow a small amount for a short term (6)
▢ To pay off other debt (7)
▢ Other, please specify (8)

Q52 What proportion of high-cost-debt related clients you have seen in the last twelve months have been able to repay high-cost loans in the originally agreed timeframe without additional borrowing/ arrears:
o 1-20% (1)
o 21-40% (4)
o 41-60% (5)
o 61-80% (6)
o 81-100% (7)

Q19 What proportion of high-cost debt clients you have seen in the last twelve months have more than one high cost loan (with any lender)?
o 1-20% (1)
o 21-40% (2)
o 41-60% (3)
o 61-80% (4)
o 81-100% (5)

Q26 If they have more than one high-cost loan, will it most often be with....
o The same lender (1)
o Different lenders (2)
o About half and half (3)

Q37 What level of understanding do you think your clients have about the costs (fees and interest rates and penalties) they may incur in taking out a high cost loan?
o Very good (1)

o Good (2)
o Fair (3)
o Poor (4)
o Very poor (5)

Q20 Of clients who have had more than one high cost loan, what reasons do they give for this? (tick as many as required).

▢ They borrow to repay prior debt (serial borrowing) (1)
▢ They borrow because their general financial situation has worsened (2)
▢ They borrow for new and different reasons (3)
▢ Their original lender encouraged them to take out new loans (4)
▢ Other, please specify (5)

Q25 What proportion of the clients you have seen in the last twelve months have three or more high cost loans (with any lender)?

o 1-20% (1)
o 21-40% (2)
o 41-60% (3)
o 61-80% (4)
o 81-100% (5)

Q35 We are interested in the individual value of high cost loans taken out by your clients (i.e. the value of each loan, not the composite value if there are multiple loans).
This question requires you to calculate the average amount borrowed as a high cost loan. The answer should be in % terms of total high cost loans. The total must add up to 100%. Estimate to the best of your ability.
We know this question is difficult but we think it is important the government understands the amounts being borrowed. Please do your best.
The proportion of clients borrowing up to $300 : _______ (1)
The proportion of clients borrowing up to $600 : _______ (2)
The proportion of clients borrowing up to $1000 : _______ (3)
The proportion of clients borrowing up to $1001-3000 : _______ (4)
The proportion of clients borrowing up to $3001 - 6000 : _______ (5)
The proportion of clients borrowing up to $6001-10000 : _______ (6)
More than $10001 : _______ (8)
Total : ________

Q27 Considering the clients you have seen in the last twelve months who have taken out one or more high cost loans, would you say that the clients were in an overall sense (i.e. not just financially) better off or worse off as a result of having taken out a high cost loan?

o Worse off (1)
o Much the same (2)
o Better off (3)

Q28 In your assessment and considering the clients you have seen in the last twelve months, what proportion of your clients would have been better off in an overall sense if they had been denied access to a high cost loan?

o 1-20% (1)
o 21-40% (2)
o 41-60% (3)
o 61-80% (4)

o 81-100% (5)

Q29 What alternative avenues are there for clients who need to take out high cost loans but cannot afford to repay them?

This section briefly considers debt collection

Q47 What proportion of clients with high cost loans who approach you have had their debt referred to a debt collector?
o 1-20% (1)
o 21-40% (4)
o 41-60% (5)
o 61-80% (6)
o 81-100% (7)

Q48 How common is it for additional fees and costs to be added by debt collectors?
o Very common (1)
o Somewhat common (2)
o Not very common (3)

Q49 In your view, should interest continue to be charged on debt that has been assigned to or sold to debt collectors?

Q50 What types of practices and behaviours have your clients experienced from debt collectors?
▢ Helpful approaches that seek to resolve the debt (1)
▢ Letters that are frightening or threatening (2)
▢ Knocking on doors (3)
▢ Talking to neighbours (9)
▢ Phone calls (5)
▢ Recording bad credit ratings (4)
▢ Offers to write off part of the debt (6)
▢ Offers to defer or remove interest (7)
▢ Other, please specify (8)

This section briefly considers insolvency options

Q30 Of the clients you have seen in the last twelve months who have one or more high cost loans, what proportion were recommended to, or seriously considered, going into an insolvency procedure to address their debt situation?
o 1-20% (1)
o 21-40% (2)
o 41-60% (3)
o 61-80% (4)
o 81-100% (5)

Q31 What insolvency options were most often considered?
o No assets procedure (owe less than $47,000 and have no means to pay it off)
o Summary instalment order (owe less than $47,000 and are able to pay it off)
o Bankruptcy (owe more than $47,000)

Q32 Were there any reasons why insolvency procedures were not considered a viable option?

Enforcement and legal action

Q39 Have any of your clients who have borrowed money at high interest rates challenged the claims of the lender either by legal action or by complaint to regulatory authorities?

- o Yes (1)
- o No (2)
- o Don't know (3)

Q40 In 2018 how many client files resulted in you or the client making a complaint about lender behaviour to either the Commerce Commission or a Dispute Resolution Scheme?

- o Most (1)
- o Many (2)
- o About half (3)
- o Some (4)
- o One or more / only a very small number (5)

Q41 Was the basis for the legal challenge(s): (indicate all that apply)

- ▢ An allegation of breach of the Credit Contracts and Consumer Finance Act
- ▢ An allegation of breach of the Fair Trading Act or other statute (please give details)
- ▢ A principle of the common law (if the latter please give details)
- ▢ Other, please specify (4)

Q42 If you did consider making a complaint about lender behaviour on behalf of a client, would you be more likely to complain to the Commerce Commission or a Dispute Resolution Scheme?

- o Commerce Commission (1)
- o Dispute Resolution Scheme (2)
- o Neither (please comment if appropriate) (3) ____

Q43 If you did make one or more complaints about lender behaviour during 2018, what is your general level of satisfaction with the outcome? (Choose one)

- o Very satisified (1)
- o Satisfied (2)
- o Neither satisfied nor dissatisfied (3)
- o Dissatisfied (4)
- o Very dissatisfied (5)

Q44 Do you want to make any comments about the complaints processes generally? (Comment or leave blank)

Q45 Would you support the creation of a specialist tribunal to deal with issues about high-cost loans?

- o Yes (1)
- o No (2)
- o Don't know/ not applicable (4)

In this final section, we want to call on your experience to consider some wider questions relating to debt.

Q22 What percentage of your clients with debt are primarily influenced by the following factors at the point of taking out consumer debt. Your response should be in percentages and the total must add up to 100%

The main factor is the ability to borrow funds when they are needed : _______ (1)

The main factor is the cost of borrowing including fees and interest rates : _______ (2)

The main factor is advertising that promises 'easy' money : _______ (3)

Other, please specify : _______ (4)

Total : ________

Q23 The literature suggests that the more vulnerable the borrower, the less likely they are to be influenced by interest rates in deciding to take out a loan. What is your view of this statement?

- o Strongly disagree (1)
- o Disagree (2)
- o Neither agree nor disagree (3)
- o Agree (4)
- o Strongly agree (5)

Q24 In your own words, what is, in your experience, the general relationship between the vulnerability (income, need, social deprivation, language skills etc) of the borrower and the rates and terms of the loan?

Q34 Finally, have you any other comments you would like to make relating to consumer credit?