



FinCap and the Credit Contracts Consumer Finance Act reform

- Frequently asked questions

Q: Why is FinCap speaking out so strongly on this issue?

A: The budgeting services we work with see tens of thousands of borrowers and their families each year who are going through incredible hardship because of predatory lending. These unaffordable debts are a significant driver of child poverty. New Zealand currently has very weak law to protect borrowers; this is a once-in-a-generation opportunity to get things right.

Is the fact that NZ payday lender Moola was ranked tenth in last year's Deloitte Fast 50, with revenue growth of 557%, in line with NZ values? We don't think so.

Q: So what is it you want changed?

A: We want the Government to add an interest rate cap to the proposed law.

Q: Isn't the Government already doing this?

A: No, they proposed an interest rate cap in the past and while they were campaigning; but now they have changed their mind. Instead they are proposing to limit the total amount that people will repay on individual high interest loans to no more than twice what they borrowed - that's called a limit on the total cost of credit, and is what Cash Converters already do.

Q: Isn't that just as good as an interest rate cap?

A: While it's a good thing to do, without an interest rate cap it's almost meaningless. Predatory Lenders will be able to work around the "twice what you borrowed" limit by increasing the size and number of loans they make to individuals. For example, a single harmful loan with an interest rate of several hundred percent could, under the total cost of credit limit, be carefully turned into a series of loans so that individually they do not exceed the limit but added together cause exactly the same harm as is done under the current law.

Q: If it a 100% limit doesn't work why do so many other countries have it?

A: The countries that we have identified as having a total cost of credit limit (including Australia and the UK) also have an interest rate cap.

Q: If you squeeze lenders like this won't you drive borrowers toward black market lenders and/or deprive them of access to loans that they need?

A: This has not been the experience overseas. In both the UK and Australia consumer advocates backed up by research have reported that interest rate caps have helped reduce the harm caused by predatory lending. They are now calling for stronger laws. 90% of our budget services report that the damage caused by high interest loans is such that they would rather they didn't exist. They also report that the loans are used for everyday expenses - food, car repairs and so on. With high interest loans no longer allowed, new options would emerge.

Q: Won't this put people out of business?

A: Some of the most predatory lenders will suffer, but these lenders are already making incredibly high profits from people who are struggling to make ends meet. Overseas experience has been that most lenders remain profitable after an interest rate cap comes in, changing their products to stay within the law.

Q: What about other lenders?

A: Unfortunately, this law won't cover all predatory lending. Retail finance such as truck shops and car finance won't be included.

Q: Lenders tell us they receive very few complaints from their borrowers.

A: That's because a lot of the time people have normalised the excessive repayments they are making. Many people also feel it's their own fault for being "bad with money" rather than the fault of the lenders who take advantage of that weakness and make it even worse. It is often advocates, especially financial mentors/budget advisers, who have to do the complaining.

Q: Why are you only campaigning on an interest rate cap?

A: We are covering other areas when we comment on the draft law to a Parliamentary Committee; however, we believe that an interest rate cap is the main simple thing the government can add to this law to make the biggest difference, which is why we have focused on it as the most important change needed to the law.

Q: OK, but what rate do you want put into law?

A: We don't want a percentage written into law. That's too inflexible. We want a process put into the law that means an interest rate cap is set by regulation.

Q: But you must have a rate in mind?

A: That's complicated. The UK has a .8% a day cap and that has achieved a significant reduction in harm. Australia bans interest on small high cost loans but allows a fee to be charged instead, then caps the level of fee at 20% of the loan amount. Both models should be considered by the Government.