

Oral for the Credit Contracts and Financial Services law Reform Bill 104

1.45pm to 2.00pm, Paataka Room 1, Novatel Auckland Airport, Ray Emery Drive

Commerce Select Committee. Present: Chairman **Jonathan Young**, National, New Plymouth; Deputy-Chair **Clayton Cosgrove**, Labour, List; **Kanwaljit Singh Bakshi**, National, List; **Carol Beaumont**, Labour, List; **Kris Faafoi**, Labour, Mana; **Julie Anne Genter**, Green Party, List; **Melissa Lee**, National, List; **Mark Mitchell**, National, Rodney; **Jian Yang**, National, List.

Good afternoon. I am **Carolyn Savage**, President of the New Zealand Federation of Business and Professional Women and my colleague is **Vicky Mee**, Vice President Issues. Vicky works as a budgeter at a South Auckland community trust and addresses this Bill from her work with those whose lives are constricted and weighed down by their debt level.

Introduction. The Federation supports and applauds the government on introducing a Bill that will ensure all women and their families have fair access to credit and are protected from unscrupulous lenders with the possibility of significant and far-reaching harm. For too many years the lender has had too much power and consumers have become very vulnerable.

Gender Impact Analysis: We wish to repeat the request made in clause 1.5 of our written submission that a gender impact analysis of the proposed legislation be undertaken to provide a full understanding of those affected. In particular we are concerned that the majority of consumers with debt to mobile trucks are women. This is one of the most invidious types of credit with vulnerable low-income families lured into purchases of excessively priced goods, with high fees and currently little or no responsibility taken for checking the consumer's ability to pay. Beneficiaries with over \$100 per week to pay in truck debt are common.

For many women the only available credit is through high interest third tier money lenders or through mobile trucks for purchase of clothing, household goods and

increasingly food. Huge numbers of low income women are trapped in debt of this kind and there are no statistics available on the extent of the problem. We wish to see this addressed.

The Federation sees four areas of concern with the current Bill:

First, the timing and oversight of the Responsible Lending Code

Secondly, looking at the definition of oppression

Thirdly, advertising

Fourthly, ensuring dispute resolution services are accessible and workable

*First, consider **the Responsible Lending Code** as suggested in Clause 9D of the Bill. In clause 2.3.5 of our written submission we urged that the Code be put in place within a maximum time frame of one year rather than two years. Our concern is the number of people who will be weighed down by increasing debt in the interim. This implementation needs urgency. It will also need review to ensure it is meeting its objectives and we urge that in its first three years of operation there be annual reviews until it is bedded in.*

We accept that the Code is not binding but that following the prescriptions will count as evidence that the Law has been followed. Probably the most difficult part of the Code will be the section that requires the lender to be aware of the borrower's financial circumstances but allows the lender to rely on information supplied by the borrower. Our Federation has some concerns as to the practicality of this section.

Given that many door to door salespeople and mobile trucks target the streets of the lowest income sector of our communities it is apparent that they know prior to any contract that there is a strong likelihood that the consumer will have difficulty paying. Consumers are frequently unaware of their financial circumstances apart from the difficulty of getting food to the table and paying power bills. Part of this may be language difficulties, language literacy issues and lack of financial literacy.

We know of cases where information gathering is cursory at best. A Kiribati couple, with poor English, in one of the poorer streets in Pukekohe, was recently sold a

vacuum cleaner by a door to door salesman. Unfortunately they left it for three weeks before coming in to see a budgeter. The woman's first words were about moving house and getting cheaper rent because they had bought a vacuum cleaner! I was horrified to see that the contract was for \$5,500! When I rang up to discuss the problem with the company and explained that the couple would be unable to pay unless they stopped feeding their family of four children the reply was "Are you saying that the family provided us with fraudulent information?" It was a no win situation for the family and needless to say the vacuum cleaner was repossessed in three months and they've still got a large debt to pay off.

We would recommend that the duty of care of the lender be greater for:

- any contract amount over one thousand dollars. Evidence of income required to be cited and copied so it can be shown to any dispute resolution service if needed later*
- clients for whom English is a second language. Translation of contract conditions should be available.*
- clients with literacy issues*

This leads directly into our **second** major concern: the definition of oppression. At what point does it become stand over tactics when a very polite salesman remains in your home and continues to come up with reasons for you to buy even though you have asked him to leave? Returning to our vacuum cleaner sales theme there is an elderly couple in Pukekohe paying off a debt for the next eighteen months. They have a vacuum cleaner too heavy for the woman to lift because of her arthritis sitting unused in the cupboard. All because they could not work out how to get rid of a salesman after two hours other than sign the contract!

Is an oppressive contract one that has been obtained by emotional blackmail? Preying on the fears of women about their adequacy as parents is one of the key means used by salesmen to sell water filters and first aid boxes. Unfortunately once the foot is in the door these companies go on to extract money for years. Where does selling 10kg sacks of sugar on credit from a mobile truck to an intellectually handicapped young adult to eat in his room stand?

Our **third** concern is advertising. The Code is to ensure that advertising is not misleading, deceptive or confusing. Making it easy is the whole thrust of the plethora of finance company advertisements on TV and newspapers aimed at high risk consumers. The messages of “no credit checks” and “bad credit history, no problem” are everywhere. And in general those advertisements are not misleading, deceptive or confusing. They deal with the application stage only and they put the point across relevant to that stage of the process..

It's what they don't say that is the problem. There is no information on interest rates or fees or the conditions attached to the loan. There is no information on what happens when payments are late, what happens when payments are missed, what happens when goods are repossessed and that a five thousand dollar loan can quickly grow into a ten thousand dollar debt.

It may be that all loan advertisements need to be treated like cigarettes and have a warning attached: “Borrowing can cause harm to you and your family”;

Our **fourth** concern is ensuring debt resolution services are accessible and workable, this relates to clause 75. Difficulties arise when contracts are bought from other companies. This might be old debt from a closed finance company or more recent debt a current client has with another finance company. I am not talking about debt collection agencies. Recently I dealt with a client who had signed a contract as co-borrower for a car for her cousin in 2006. The client was then a twenty one year old solo mother on a benefit and had no income to support her being a borrower. The surrounding circumstances could definitely be classed as stand over tactics. When the new owner of the debt pursued her for recovery I attempted to take the matter to a debt resolution service and was told the company did not need to belong to a dispute resolution service as they are not currently in the business of extending credit. Anomalies like this need to be removed so that protection is provided.

Conclusion

The Federation of Business and Professional Women is grateful for the work that has been undertaken to improve the current situation but we also feel that there are many issues still requiring action and given the reliance which the Bill places on the Code of Conduct we would like to see a requirement to revisit this document at regular intervals to ensure that it remains relevant.

We recommend a central clearing point to help consumers access the right dispute resolution service. An 0800 phone number for dealing with all credit and loan issues would be helpful and ensure many debts do not increase with escalating costs because the consumer has no understanding of what steps to take.

We also cannot stress too much the need for adequate resources to be in place to ensure the implementation of orders from a District Court following breaches of the principles are followed up in a timely manner. Those resources must be in place if consumers are to be protected. Also critical to the success of this Bill is an advertising campaign so that consumers become aware of their rights in financial disputes.