

CHiLD POVERTY ACTION GROUP

Child Poverty Action Group

Box 56150

Mt Eden

Web address: www.cpag.org.nz

17 May 2010

Hon John Key
Prime Minister
Private Bag 18888
Parliament Buildings
WELLINGTON

Dear Prime Minister,

RE: CREDIT REFORM (RESPONSIBLE LENDING) BILL

A member's bill, the Credit Reform (Responsible Lending) Bill will have its first reading in Parliament on 26 May 2010. I write to urge the National caucus to vote in favour of the bill being read a first time and referred to a select committee.

The bill has two main points. It proposes to –

*cap the interest rates which creditors can charge on loans. Rather than setting a specific maximum, the bill provides for the Governor of the Reserve Bank to set maximum annual percentage rates of interest payable on consumer credit contracts.

*requires lenders to make inquiries to ensure that borrowers have a reasonable prospect of repaying loans.

At present, under New Zealand law, lenders can charge whatever annual interest rates they want. This puts New Zealand out of step with many other countries, which already have caps written into their laws. Most countries define the top rate. Nine of Canada's ten provinces have laws capping the interest rates which can be charged by creditors. Three Australian states and the Australian Capital Territory cap rates at 48 per cent a year, Ireland caps at 200 per cent, Germany at 20 per cent and Japan at 18 per cent. There are also caps in many South American and African countries. The United Kingdom and the United States are also investigating such laws.

The fact that New Zealand does not have such a cap leaves low income, vulnerable borrowers who cannot obtain loans from banks paying extremely high interest rates charged by unscrupulous lenders.

A 2006 report by Research New Zealand and titled *Fringe Lenders in New Zealand: Desk Research Project* identified 185 fringe lending companies, 94 per cent of which offered cash or personal loans. Of these, 71 operated in Auckland, with a particular concentration in South Auckland.

The study found that fringe lenders drew people into using their services by targeting specific communities such as beneficiaries, emphasising the simplicity and alleged affordability of their loans, and stating that almost anyone could obtain credit, regardless of their lack of security or employment status. As a disincentive to loan defaults, some companies printed the names and photos of defaulters in their community newspapers.

A more detailed 2007 research project, titled *Pacific Consumers' Behaviour and Experience in Credit Markets with Particular Reference to the "Fringe Lender" Market*, recorded that the most common interest rate mentioned by borrowers spoken to was 38 per cent.

Examples detailed in the study included the case of a man who borrowed \$9000 to buy a car and thought that he would repay a total of \$11,000. However, when interest and fees were added in, his total bill was in fact \$21,000. In another case, a man purchased a car for \$10,000, but faced total loan repayments of \$25,000. A third example was that of a woman who bought a car worth only about \$5000, but discovered that it would in the end cost her \$29,000.

New Zealand lags well behind other nations in its failure to pass laws to provide borrowers with at least a minimum of protection from excessively high interest rates. The Credit Reform (Responsible Lending) Bill would be a small step to assist in redressing this and I urge you to vote in favour of it.

Yours faithfully,

M.Claire Dale
Susan St John
Vicki Carpenter
Mike O'Brien
Janfrie Wakim

Executive Members
Child Poverty Action Group
<http://www.cpag.org.nz>