FINANCIAL SERVICES FEDERATION

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The Financial Services Federation ("FSF") is grateful for the opportunity to provide a response to the draft discussion document relating to the disclosure regulations being developed in support of the Credit Contracts and Consumer Finance Amendment Act 2014 ("the CCCFA").

By way of background, the FSF is the industry body for the responsible and ethical finance and leasing providers of New Zealand. The FSF has over forty members and associates providing first-class financing, leasing, investment, banking and insurance products and services to over 1 million New Zealand consumers and businesses. The FSF's affiliate members include internationally recognised legal and consulting partners. A list of our members is attached as Appendix A.

Before answering the questions raised in the discussion document, the FSF notes that the draft covers three areas, being costs of borrowing and initial disclosure, minimum repayment warnings for credit cards and proportional rebate formulae. A disclosure aspect that is not covered in the discussion document but where the FSF believes guidance is needed is in relation to continuing disclosure – particularly as regards loan statements and given the repeal of S21(2)(a) of the previous CCCFA what may or may not be required to be included in a statement for a fixed term/fixed rate loan agreement.

The FSF's concern in regard to this is that continuing disclosure in this circumstance adds little if any value to the borrower but simply adds cost to the lender to provide such disclosure. The FSF believes that for the vast majority of such agreements it ought to be possible to disclose via a statement or loan schedule provided at the outset showing amounts and dates of scheduled repayments.

As will become obvious on reading this submission, there are two particular points on which the FSF and its members have strong feelings. These are with regard to the "right to cancel" provisions in the model disclosure statements, which require a date up to which the consumer has the right to cancel a credit contract, and the form that any required minimum repayment warning on credit card statements may take.

The FSF would welcome the opportunity to meet with regulators to discuss these issues in detail if that would be helpful.

Questions for Submitters:

Part One: Costs of Borrowing and Initial Disclosure

Costs of Borrowing

1. What information about costs of borrowing do lenders currently make publicly available?

The FSF submits that the information about costs of borrowing provided publicly by lenders varies considerably depending upon the products and the structure of the products they provide. These can be many and varied and complex. All responsible lenders disclose information about the fees associated with borrowing (such as establishment fees etc.).

However disclosure of interest rates is more problematic as many lenders use a range of interest rates and the setting of the appropriate rate is subject to many variables such as the appropriate loan product to meet the borrower's need and the meets borrower's profile, credit history etc., or by negotiation with the

borrower. The risks associated with both the borrower and the product itself are taken into account when setting an interest rate. On this basis, it is often unclear what the interest rate will be until the loan application has been assessed and approved and then the rate is made clear in initial disclosure before the loan agreement is signed. Without going through a responsible lending process with a prospective borrower to consider their individual circumstances and needs, it is often only possible to provide an interest rate range.

The FSF believes that providing an interest rate range is unhelpful to customers and often serves only to confuse them. Many will think they will qualify for the lowest published rate when they won't. The interest rate applying to a particular client is disclosed to them before they enter into the actual loan contract

In the case of dealers or agents providing finance at point of sale on behalf of a credit provider, it is also often the case that they have relationships with a number of credit providers which further complicates the issue of providing specific interest rate information until the credit provider to be used for a particular loan is known, the loan has been assessed and an interest rate struck.

2. Will the information described above assist consumers in comparing different products?

The FSF believes that providing information on the fees that lenders charge can be compared by consumers from one lender to another. However, for the reasons stated in the answer to question 1 above, it is often not possible for a lender to provide consumers with any more information than a range from which the interest rate might be struck depending on the profile and associated risk of the borrower and the risk of the lending product being offered. These ranges must necessarily be wide to reflect all these variables.

3. What are the costs to creditors in publishing and updating the information described at paragraphs 32 to 34?

The costs involved in updating information include things such as staff training, professional advice from lawyers etc to ensure compliance, some printing costs as well as the costs associated with changes to systems. An estimate from FSF members is that the costs to update information to customers are in the region of $100,000 per 350,000 customers.

4. How often might a lender's "cost of borrowing" change?

The FSF submits that a lender's cost of borrowing can be very volatile as it is subject to market conditions such as when interest rates move etc, over which lenders have no control. It is incumbent on a responsible lender to have in place good policies to monitor their cost of funds and to react when the cost of borrowing changes in order for them to remain in business.

5. Is there different information and/or further information about costs of borrowing that could be prescribed through these regulations? If so, please describe and set out the reasons why (e.g. potential benefits to consumers; potential compliance costs).

No.

6. Would a prescribed form (i.e. format) of disclosing costs of borrowing assist consumers? Why/why not? If yes, how would you suggest the information be presented in a way that meaningfully assists consumers?

The FSF refers to the answers provided for questions 1 and 2 above.

Model disclosure statements

7. Do you have any comments on the proposed amendments to the model disclosure statements (in particular, the drafting of the "right to cancel" and information on unforeseen hardship)?

As a general comment, because the existing Model Disclosure Statements are quite widely used by FSF members, the FSF supports the proposal to base the new Model Disclosure Statements on the existing Model Disclosure Statements: that will make it easier for lenders to adapt existing documentation. However the FSF has several issues with much of the proposed model disclosure statements and a major issue with the "right to cancel" section of the model disclosure provided in the discussion document.

The FSF also has reservations as to the utility of the existing Model Disclosure Statements which will continue to apply to their proposed replacements. Those reservations are addressed in respect of question 9 below.

Although the FSF is supportive of the fact that it is proposed to base new Model Disclosure Statements on the existing ones, the FSF nevertheless has a number of comments on the proposed new Model Disclosure Statements, as follows:

Proposed Model Disclosure Statements – Non-revolving credit contracts:

a) Change on page 1: The FSF accepts this is necessary due to the CCCFA now requiring disclosure to be made before the contract is entered into;

b) New "Security interest" text on page 3 of Disclosure Statements / page 25 of Consultation Document: The size of this section of the Disclosure Statement has increased markedly, but in the FSF's view not in a manner that adds clarity or which is likely to benefit consumers materially. The FSF accepts that this part of the Disclosure Statement has to expand as a result of the changes to Schedule 1 of the CCCFA made by the 2014 amendments, and accepts also that its criticisms relate to those amendments as much as to the proposed new form. On that basis, the FSF has several comments on different parts of this new text:

   i. "Nature of the security interest": The FSF is not clear as to how lenders are supposed to respond to this, and neither the Act nor the proposed form gives guidance about that. The Disclosure Statement should certainly do so.

      The FSF adds that it will be difficult to elaborate usefully on the nature of many security interests – many contemporary security interests describe themselves as a "security interest" and say no more than that. If this is directed at producing a more detailed description, the FSF suspects that responses to this requirement may prove to be of limited or no benefit to consumers;

   ii. "Extent of security interest": The FSF suggests that this item might be more usefully completed in future if the italicised guidance note requested a description of whether or not the security secured "all obligations" owed to the lender, or just the particular loan. That is significant information that may vary from security to security, whereas the text's present focus on whether "the debtor would, or may, remain indebted to the creditor" following enforcement is addressing something that is a given for almost all loans, and is very likely already widely understood;

   iii. "Consequences of giving a security interest over the above property": The FSF suggests that this heading might better convey what it is intended to deal with if it read "Consequences of giving another security interest over the above property to a third party", or even "Consequences of giving another security interest to a third party";

c) Amendments to "Right to cancel" text on page 4 of Disclosure Statements / page 26 of Consultation Document: The FSF was pleased that the 2014 amendments will repeal the former para (s) of Schedule 1 of the CCCFA, as the existing "Right to cancel" text prescribed by para (s) is in the FSF's view both too long and a difficult read, likely to be beyond many borrowers. Unfortunately, and

despite the repeal of the former para (s), the “Right to cancel” text that is now proposed will nevertheless largely perpetuate most of the repealed text, or at least will do so in the Model Disclosure Statements. The FSF would have preferred to see a greater attempt made to simplify the “Right to cancel” text. For example, “return to the creditor any advance” would be more explicable to most if it read “repay the money you borrowed” and would be happy to work with officials in order to achieve this.

The major concern the FSF has with the “right to cancel” wording is with the requirement to provide a date by which the borrower may cancel the contract in accordance with sections 27 and 35 for several reasons.

The first reason for this objection is the fact that lenders will incur significant cost to upgrade their systems in order for them to be able to provide a specific date by which the right to cancel will expire (as opposed to advising the borrower that they have 5 working days from the date of the agreement in which to exercise their right to cancel).

Secondly, FSF members also advise that such systems changes take considerable time to implement so if they were required to provide this information, it is probable that they would not be able to implement the required systems changes (particularly because there will be other requirements for systems changes as a result of other disclosure regulations and/or the Responsible Lending Code) in time to be compliant by 6 June 2015. The more changes that are required to existing systems as a result of becoming compliant with requirements of the Code and Regulations, the less likely it is that lenders will be able to meet the June deadline.

Whenever a change is required to documentation that is not generic (e.g. “you have the right to cancel the credit contract within 5 working days of signing it”) but requires a degree of personalisation (e.g. “you have until “X” date to cancel the credit contract”), the systems change required becomes significant meaning that the cost increases exponentially as does the time required in which to achieve the change. Some estimates of systems costs for such changes are provided in the answer to question 20.

Thirdly, disclosure is required before the contract is entered into, and documentation is often produced before a lender knows for certain what day the contract will be entered into. Due to both of those things, it is not possible for the lender to determine on which date the contract will be entered into and therefore on what date the right to cancel would expire. If disclosure is made on day 1 but the contract not actually signed until day 5, effectively the way the model disclosure document reads at the moment, the right to cancel would have expired on the day it is entered into which is not the case. This is not in the least bit helpful to consumers as they in fact would still have 5 working days in which to exercise their right to cancel.

The FSF therefore strongly recommends that the requirement for disclosure documents with regard to the right to cancel should read “If you want to cancel this contract you have 5 working days from the time you sign it in which to do so.”

With regard to the “right to cancel” wording, the section that reads “To cancel, you must:” under (b) of the model disclosure statement says “return to the creditor any advance and any other property received by you under the contract”. Lenders are more often than not providing finance to a borrower to assist them to purchase a good from a third party. Therefore lenders may not require the borrower to return property to them if they exercise their right to cancel. For example in a motor vehicle finance transaction, it would be more likely that if the borrower cancels the

credit contract, they would return the motor vehicle to the motor vehicle dealer from they purchased it.

Finally, a further small point – in the new text inserted in the middle of the "Right to cancel" section, there is no need for the "(1)": the text after it should simply run on from the first line of (b) above it.

d) New Hardship text on page 5 of Disclosure Statements / page 27 of Consultation Document: The FSF is largely comfortable with the new hardship-related text on the last page of the proposed Model Disclosure Statement, but does offer the following suggestions:

   i. Instead of explaining that a borrower may request "one of" what follows as paras (a) – (c), the text would be briefer and clearer if para (c) were deleted altogether, with the text then stating that a borrower might request "either or both of the following";

   ii. The FSF appreciates that the expression "specified period" is used in the corresponding part of the Act, but that does not mean that it must necessarily also be used in the Model Disclosure Statements. It would be much clearer if para (b) referred to "postponing payment dates for some time", or similar;

   The FSF also has concerns that the Ministry's suggested hardship statement will invite unmeritorious hardship applications which stand little or no chance of success. The fact that a relationship has ended, for example, does not in the majority of cases lead to hardship. Sections 57 and 58 of the CCCFA are clear as far as a lender's duty is concerned when receiving a hardship application. The Code will provide further direction in this respect. On this basis, the FSF opposes the suggested hardship statement and proposes the following:
   "If you are unable to keep up your payments because of an unexpected event that causes you hardship, you can apply to the lender for a hardship variation. To apply for a hardship variation, you need to make a request to the lender in writing explaining your situation."

e) New Dispute Resolution text on page 5 of Disclosure Statements / page 27 of Consultation Document: The FSF is mostly comfortable with this new text, but notes that the italicised note at "†" seems to envisage that there may be lenders subject to the CCCFA who belong to a disputes resolution scheme under the Financial Service Providers (Registration and Dispute Resolution) but who are not also required to register under that Act. The FSF suggests there will be few if any lenders in that category, and questions if the note is necessary. The model disclosure statement should also inform the consumer that the dispute resolution scheme applies only when the creditor and the borrower have been unable to resolve the dispute. As drafted, the borrower may think the scheme is the first port of call.

Proposed Model Disclosure Statements – Revolving credit contracts: Most of what has been said above in respect of the Disclosure Statements proposed for non-revolving credit contracts also applies to the version proposed for revolving credit contracts.

The FSF also notes that the version proposed for revolving credit contracts now contains a "Right to Cancel" section. While the FSF is not exactly enthusiastic about that text (as above) it agrees that as a matter of principle this form should contain such a section, and that the 2014 amendments to the CCCFA were correct to amend Schedule 1 of the Act to provide for that.

Both Model Disclosure Statements: Further, the FSF is also concerned that the model disclosure statements now stretch to 5 pages (or 3 pages if printed double-sided) and to 4 pages respectively. Despite its above in principle support for the new forms being based on the existing Model Disclosure Statements, the FSF also feels that there is a real need for any disclosure to be simple, generic and concise in order to ensure it is read by consumers, and the FSF feels that those contained in the discussion document are becoming too long.

One suggestion to reduce the length of the model disclosure statements might be to consider providing a link to the lender's website or that of Consumer Affairs for further information. For example under "Right to cancel" – the disclosure statement could say "You are entitled to cancel this contract by giving notice to

the creditor within 5 working days of receiving this form. To find out how to do so, please refer to "X" website." The same could apply to the "Unforeseen Hardship" section as in "If you are unable to keep up your payments because of an unexpected event that causes you hardship, please refer to "X" website to find out more about how to apply for unforeseen hardship."

8. From a creditor's perspective, what are the benefits of these disclosure statements, and do you currently, or are you likely to, use them?

Many FSF members presently use the version of the existing Model Disclosure Statement that is intended for use with non-revolving contracts. The Model Disclosure Statement for use with revolving contracts is less widely used by FSF members.

Typically, the Model Disclosure Statement is incorporated into a member's document at or near to the front page. Sometimes the Model Disclosure Statement text that is contained in the existing regulations is used almost verbatim, but in other cases the text may be adapted slightly, in order to best meet the requirements of the particular lender or its products.

The FSF would expect that when new Model Disclosure Statements are prescribed, it is likely that they will also be used by members to much the same extent as the existing forms.

The FSF has no doubt that the principal reason why the existing Model Disclosure Statement for non-revolving contracts used by some FSF members is because of its "safe harbour" status, so that the member using a Model Disclosure Statement is taken to comply with some of the disclosure obligations in the CCCFA.

That is undoubtedly the principal benefit to FSF members in using Model Disclosure Statements, and the FSF expects that will also be the main reason why the new Model Disclosure Statements will continue to be used FSF members.

That benefit does not however detract from the fact that as the FSF has noted above, the length of the model disclosure statements provided in the discussion document is a concern. Lenders are under pressure to ensure that their disclosure is clear, concise and effective and the FSF does not believe that this objective is met by the model disclosure statements. It is the experience of FSF member organisations that the longer the disclosure statements are, the less likely they are to be read by consumers.

9. From a consumer's perspective, is the information in these disclosure statements presented in a useful and clear way? If not, how could the model disclosure statements be improved?

The FSF cannot comment from a consumer's perspective but would say that in the experience of its members, their customers are not helped by disclosure that is too long and would suggest that it is easy to overwhelm borrowers with information.

As already noted above, and despite the use of the existing Model Disclosure Statement by some of its members, the FSF has always had reservations as to the utility of the existing Model Disclosure Statements. As the proposed new Model Disclosure Statements seem likely to be based on the existing ones, the FSF is likely to continue to have such reservations.

The reservations mainly flow from the CCCFA's approach to disclosure, and the sheer amount of sometimes quite technical information that the CCCFA requires to be disclosed in particular. Before the 2014 amendments to the CCCFA, the alphabetical list of items to be disclosed had already reached (u), and the 2014 amendments have added a further 5 items to that. That can be contrasted with the clearer approach previously taken by the First Schedule of the Credit Contracts Act 1981 which included only 8 items, or with the simplicity of the table previously required by the First Schedule of the Hire Purchase Act 1971.

The FSF doubts if all the items now required by Schedule 1 of the CCCFA really are "essential" information that really must be disclosed to borrowers in a separate section. It also wonders whether the volume of

information required to be disclosed may now be such that the more important disclosure information is often simply "lost" in the words when a consumer looks at the disclosure section in a loan document anyway.

10. Would you find it useful for the model disclosure statements to be produced in word format on the Ministry's website?

The FSF thinks it is unlikely that its members would find it useful for the model disclosure statements to be provided in a Microsoft Word format on the Ministry's website. That is because those FSF members that use the Model Disclosure Statements already have them incorporated into their document production systems, and that will continue to be the case.

The FSF suggests that the only parties likely to benefit from the Model Disclosure Statements being available in that way are parties who are making "one off" loans that are subject to the CCCFA and who are not themselves in the business of making loans. There will be few loans in that category, and the FSF doubts if they will justify the expense likely to be involved in doing this.

Part Two: Minimum repayment warnings on credit card statements

11. In your experience what proportion of credit card holders make only the minimum repayment each month? What proportion repays the balance in full each month?

The FSF currently has four members who provide credit card facilities to their customers. These are GE, Fisher & Paykel Finance via the Q-card, The Warehouse Financial Services Limited and American Express. The first point we would make with regard to credit cards is that it needs to be understood that there are very many and varied kinds of product available – they are not a standard product. They include low or no interest cards, deferred payment card facilities and there are some products which require payment in full each month (e.g. charge cards and similar products).

If a borrower holds a low or no interest card or one that offers deferred payments, it would be quite reasonable to assume that they might make only the minimum repayment and this could very well be to their benefit. If they hold other debt it might well be in their interest to repay other higher interest debt faster and then repay the credit card once that is cleared.

There are also many card holders who hold a credit card for emergencies, for travel or on-line purchases or to provide flexibility, and who much of the time keep their card at a $0 balance because they are not using it regularly.

The FSF would also suggest that it is important not to assume that all credit card products attract high rates of interest.

The product variations and the way in which card holders might use them to their own benefit therefore make it difficult to provide numbers around the proportion of card holders making only the minimum repayment or repaying the balance in full. However FSF members report the vast majority of their card holders pay more than the minimum required payment each month.

12. What information is currently available to consumers regarding the cost of repaying the balance at the minimum repayment?

The FSF would suggest that this is already prescribed to some degree by the CCCFA. The FSF's credit card issuing members provide information to their customers by way of paper statements (although it needs to be understood that these are becoming more and more obsolete as customers access their information on-line at their convenience rather than having to wait for a statement to be posted out to them) and on-line. Whichever way consumers access their credit card information, they are being provided with information on the balance outstanding and the interest that has accrued (if any) to the card account at that point in

time. Credit card providers also provide terms and conditions of holding a card to new credit card holders at the time of providing the facility. Some of these highlight the consequences of only making the minimum monthly repayment. Some also provide warning statements similar to that of the United Kingdom both on-line and on paper statements.

13. What information would be most helpful to consumers in alerting them to the costs of repaying the balance at the minimum repayment?

The FSF submits that it rather depends on what type of credit card product the consumer holds as to what information might be most helpful to them. If they have an interest free card facility for example, a standard minimum repayment warning might not be relevant. It is possible for card holders to have multiple interest free periods. It is also responsible behaviour on behalf of the consumer for them to repay interest-bearing debt first rather than interest free debt.

14. What other information and tools do credit card providers make available to credit card holders regarding the costs of repaying the balance at the minimum repayment? How often are these resources used by consumers? Do you consider them to be effective?

The FSF believes that the fact that the vast majority of card holders currently pay more than the minimum monthly amount required would suggest that consumers are already aware of the benefits of doing so.

15. In your view, should the minimum repayment warning be based on a non-calculation based written warning statement, or should it include calculated information similar to that included in the United States and Australian examples? Why?

The FSF would strongly submit that the warning statement similar to that of the United Kingdom Lending Code as described in paragraph 64 of the discussion document would be sufficient to provide consumers with the notice they need that the minimum payment is just that and that paying only that amount will mean a longer repayment period and higher interest costs than if they were to pay more. To do anything more than this would be both confusing to consumers for the reasons provided below and would incur significant systems costs for lenders.

Apart from the costs lenders would incur in having to complete a significant systems rebuild to provide information to cardholders similar to that of the Australian and United States examples, the calculations are also based on assumptions that only hold true at a certain period of time. By the time a consumer receives the statement it is highly likely that the information provided will be incorrect due to the dynamic nature of credit card balances. Indeed paragraph 57 of the discussion document states that the United States example is based on assumptions that the borrower pays the amount of the minimum payment mentioned in the statement of account each month, and that no other purchases or advances are added to the outstanding balance. It would also assume that no other payments were made to the outstanding balance during the month. It is however the reality that credit card balances are highly volatile as they are used more and more often by consumers for their daily payment functionality and as such the balance owing can change from day to day and indeed from minute to minute depending on spending and/or repayments. Therefore any payment information provided is often obsolete and even potentially misleading by the time it is received and therefore not always of particular value to the consumer.

The FSF further submits that the range of credit card products available that include facilities that allow for deferred payment, an interest free period and payment plans make the number of variables around the minimum payment required such that it is virtually impossible for card providers to provide meaningful information to consumers.

A further factor which the FSF urges officials to consider is that, if in spite of the strong opposition of the FSF and its members, officials decided to introduce one or other of the Australian or United States requirements, credit card providers will not be able to complete the necessary changes to their systems in time to be compliant by the deadline of 6 June 2015. It cannot be stressed strongly enough that a change to systems of this nature is major, expensive and extremely time-consuming. Estimates from FSF members

are that a systems build of this magnitude would take at least 6 – 8 months to implement from start to finish (and would also mean that any other planned systems changes the credit card issuer might have such as for product innovation, would have to be deferred to fit in this change). FSF card issuing members believe It will therefore be impossible to achieve this requirement within the timeframe of the Regulations and Code being finalised and the window to comply once that has happened and the 6 June 2015 deadline.

In order to be able to provide calculated information for each cardholder by this deadline, FSF members advise that the systems build would already have had to commence prior to now in order for them to be able to gather the required personnel, resources, funding and put in place the appropriate project methodology. Also, because of the potential cost involved in doing so, many credit card providers who are part of global organisations, would have to apply to their parent or head office for the extra budget and systems building window to be able to commence this work.

In terms of the potential cost of the minimum repayment warning options, these are addressed in the answer provided to question 20.

As already pointed out in the answer to question 12, monthly statements for credit cards as such are rapidly becoming obsolete. It is now a reality that more and more cardholders choose to suppress monthly paper statements in favour of being able to check their balances and make payments on-line. This is a further reason why the FSF would support the warning statement as per the United Kingdom Lending Code example (which could appear on the credit card statement page on-line) rather than the very complex requirements of the Australian and United States examples.

16. **If the minimum repayment warning was to include calculated information, what calculations should be included?**

For the reasons stated above, the FSF does not support the provision of calculated information in any form whatsoever.

17. **If the minimum repayment warning was to include calculated information, are there any assumptions that these calculations should be based on? How should these assumptions be treated in the billing statement?**

Paragraph 57 of the discussion document talks about the types of assumptions used in the United States example which would seem to be the only types of assumptions that could be made to provide this information. As stated previously in the answer to question 15 above, the FSF believes that the nature of credit card use is such that balances are highly volatile and therefore assumptions are often obsolete as soon as they are made.

18. **Should a calculated warning statement outline only the interest charged, as under the Australian warning, or the total cost including principal and interest as under the United States warning?**

For the reasons already stated, the FSF strongly objects to the suggestion that credit card issuers be required to provide any calculated information in any form.

19. **Should the minimum repayment warning include the contact information of a debt counselling service like the United States and Australian examples? Or the contact details of the credit card provider, as under the Australian example?**

The FSF assumes that what is meant by "debt counselling service" is similar to that of a budget advisory service here in New Zealand. On that basis the FSF would submit that, if a cardholder is having difficulty in meeting minimum repayments, it would be preferred that they contact the card issuer to discuss the issue in the first instance. Any suggestion that card holders contact any organisation other than the card holder could conflict with the hardship process and it is vital that this is the first course of action when a card holder gets into difficulty.

In the case of FSF members, a Memorandum of Understanding exists between the FSF and the NZ Federation of Family Budgeting Services ("NZFFBS") where members undertake to proactively refer their customers to an NZFFBS member for budget advice and assistance when they first start to exhibit signs of potential hardship (such as when a payment is missed or delayed). The FSF has chosen to partner with the NZFFBS because their budget advisers are qualified to provide appropriate advice and they have a quality assurance programme to ensure their members continue to do so. It is not the case that all other budget advisory services require their advisers to have a qualification to provide advice and on that basis the quality of the service provided can be patchy.

The FSF therefore submits that lenders should be the first point of contact for their customers and that responsible lenders will make the decision as to whether the customer should be referred to an appropriate budget advisory service if they deem it necessary.

20. What are the compliance costs of introducing a written, non-calculated minimum repayment warning?

As previously stated, of all the options presented with regard to credit card warning statements, the FSF clearly prefers the introduction of a simple minimum payment warning statement as opposed to the very complex information provided in the Australian and United States examples in the discussion document. The costs to do so would be significantly less compared to the costs associated with the major systems rebuild that would be required for lenders to provide the complex information of the Australian and United States examples. FSF card issuing members estimate that to provide the warning statement would require some IT build at a cost in the region of $40,000 whereas to implement the personalised calculator would make costs much higher. Estimates from FSF members to do this are in the region of $200,000 or more for each card issuer depending on the number of products they offer.

A further consideration other than the actual cost involved is the time it will take to build such a system as has been outlined in the answer to question 15 above. FSF members estimate that implementing a warning statement would take approximately 8 weeks as compared to 6 – 8 months to build a system capable of preparing individualised calculations. As noted above, this clearly raises issues as to whether the intended commencement date of June 2015 is achievable.

21. What are the additional compliance costs of providing a calculation-based minimum repayment warning similar to that used in (i) the United States and (ii) Australia (as opposed to a warning statement only)?

Please refer to the answer to question 20 above.

22. What are the additional benefits of providing calculated information to the consumer (as opposed to a warning statement only)?

As stated previously in the answer to question 15 above, the FSF would suggest that due to the volatility of credit card balances, calculated information is often obsolete almost from the moment it is produced so would suggest that the additional benefits, if any, would be minimal as opposed to a warning statement.

One FSF card-issuing member has implemented the calculated information warning as required in Australia. Following this, they analysed cardholder repayment behaviour data from a period 6 months before the implementation and 6 months following the implementation to compare whether the repayment behaviour changed from one period to the other. Their research shows that in fact there was no appreciable change in cardholder repayment behaviour from one period to the next which suggests that the warning is ineffective in changing behaviour.

23. Are there any circumstances in which a minimum repayment warning would not be required?

The FSF submits that it would add a further layer of complexity to the systems requirement for credit card issuers to implement a system that differentiated between circumstances where a minimum repayment

warning is required and where it is not. For this reason, whatever the requirements for the minimum repayment warning, they should apply across the board. In the case of charge card products however, the FSF would suggest that these could be exempted from the requirement to display a minimum payment warning in any form as they require payment in full each month as opposed to revolving credit products which allow part payment.

24. Should the New Zealand minimum repayment warning be based on any of these international examples explored in this discussion document and/or are there any aspects of these international examples you believe should be adopted in New Zealand?

For the reasons provided above, the FSF believes that a warning statement is sufficient to alert cardholders to the consequences of just paying the minimum repayment amount.

25. Are there any aspects unique to the New Zealand credit market that should be reflected in a minimum repayment warning?

The FSF does not believe so.

26. Are there any issues that arise with providing the billing statement, and the minimum repayment warning, electronically?

The FSF's credit card issuing members advise that it is more and more common for cardholders to access their statement information electronically and to suppress the issuing of a paper statement. They are able to do this at any time rather than waiting for a paper statement to arrive in the mail – by which time any information provided in it is obsolete.

Again, issues of the volatile nature of credit card balances are such that the warning statement appearing on the credit card balance page would be a sufficient alert to consumers rather than having to update the calculation whenever the balance changed.

27. How should the minimum repayment warning be provided electronically?

As above.

28. Are there other ways for lenders to alert credit card holders to repayment issues other than, or in addition to, minimum repayment warnings?

No.

Part Three: Proportionate rebate formulae

Rebate of consideration paid for repayment waiver in the event of full prepayment

29. Do you agree with the proposed formula for calculating the proportionate rebate of consideration paid for repayment waivers? If not, what alternative formula do you propose?

The FSF agrees with the proposed formula for calculating the proportionate rebate of consideration paid for repayment waivers.

Rebate of consideration paid for extended warranty in the event of early repayment

30. Do you agree with the proposed formula for calculating the proportionate rebate of consideration paid for an extended warranty? If not, what alternative formula do you propose?

The FSF does not agree with the compulsory rebate on unexpired premium of extended warranty. The right to cancel the extended warranty must be at the absolute and exclusive discretion of the owner of the asset. Where an extended warranty is financed by the loan, the warranty often has validity beyond the life of the loan as it relates to the asset, not the loan. For example, where an extended warranty is provided on a motor vehicle for a period of 5 years and financed by a loan and the loan is paid off over a 3 year period, the consumer should have the option to retain the extended warranty on the asset if they so choose.

The FSF does accept that to provide that choice would now require an amendment to new section 52B of the CCCFA. The FSF also notes that new section 52B only applies to extended warranty that is provided by the creditor, and that as a result part of the proposed regulations does not affect many of the extended warranty products with which FSF members are associated.

If there is anything further the FSF or its members can do to assist in this matter, please do not hesitate to contact me.

Lyn McMorran
EXECUTIVE DIRECTOR

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APPENDIX A

Membership List as at 1 December 2014

Debenture Issuers - (NBDT) Non-Bank Deposit Takers	Vehicle Lenders	Finance Company Diversified Lenders	Credit Reporting	Insurance	Affiliate Members
Rated • Asset Finance (B) • Fisher & Paykel Finance (BB+) • Medical Securities (BBB+) **Non-Rated** • Mutual Credit Finance • Prometheus Finance	• Aqua Group Ltd • BMW Financial Services • Branded Financial Services • Community Financial Services Limited • European Financial Services • Fleet Partners NZ Ltd • Mercedes-Benz Financial Services • Motor Trade Finances • Nissan Financial Services NZ Pty Ltd • ORIX NZ • SG Fleet • Toyota Finance NZ • Yamaha Motor Finance	• Advaro Ltd • Avanti Finance • Centracorp Finance 2000 • Dorchester Finance • Finance Now • Future Finance • GE Capital • Geneva Finance • Home Direct • Instant Finance • John Deere Financial • Oxford Finance Ltd • DTR Thorn Rentals • South Pacific Loans • The Warehouse Financial Services Group	• VEDA Advantage **Debt Collection Agency** • Baycorp (NZ)	• Autosure • Protecta Insurance • Provident Insurance Corporation Ltd **Associate Members** • Southsure Assurance	• American Express International (NZ) Ltd • AML Solutions • Buddle Findlay • Chapman Tripp • Deloitte • Ernst & Young • Finzsoft • KPMG • PriceWaterhouseCoopers • SimpsonWestern

Total: 49 Members