



FINANCIAL SERVICES FEDERATION

**MEDIA RELEASE**

**July, 2019**

## **FSF suggests unique solution to better protect vulnerable borrowers**

The Financial Services Federation (FSF) is confident that its own, unique suggestion to MBIE will do more to help vulnerable borrowers than the Bill's proposed interest and fees cap or a straight interest rate cap will.

FSF, the industry body representing responsible finance and leasing companies operating in New Zealand, has submitted on the Credit Contracts Legislation Amendment Bill (CCLAB), which aims to target irresponsible lending and reduce harm being done to vulnerable consumers.

The option in the Bill to limit the accumulation of interest and fees on high cost loans - an interest and fees cap on high-cost loans to 100% of the original loan principle - will be hard to enforce says FSF's Executive Director, Lyn McMorran. Unless the provision is strictly enforced, lenders will be able to roll over loans into a new loan as soon as the 100% threshold is reached. Even if lenders are prevented from rolling over such loans, there is nothing in the Bill to prevent borrowers moving their debt from one lender to the next as soon as the threshold is reached, and they are unable to repay the debt.

FSF members considered whether they would support the imposition of a straight interest rate cap of 50% per annum (which is being campaigned for by FinCap – the national network of financial mentors). For various reasons, the FSF does not fully support this option either.

Therefore, McMorran says, FSF has come up with a third option.

FSF's 60 members (which include BMW Financial Services, Turners, Avanti Finance and Latitude Financial Services) are confident this alternative option will allow the Commerce Commission to better target and enforce where harm is being done.

"We need to remember the majority of loans carried out in New Zealand are done responsibly, the debt is paid and the consumer walks away happy with their vehicle, washing machine, etc," McMorran says, "But we also agree with Minister Faafoi that there are certain lenders engaging in predatory behaviour who need to be stopped for good.

"An interest-rate cap on their entire industry however is a blanket, band-aid approach, and resources would be much better spent on *targeted* enforcement in areas where harm is being done such as payday lending.

“While our members are not in this market, it cannot be ignored that there is clearly a demand for high cost lending products, and this will not go away if people are desperate for short-term finance to meet essential needs.

“Care needs to be taken to avoid driving compliant lenders out of business completely, potentially forcing vulnerable consumers to fill that need with noncompliant or even black-market lenders and leaving consumers worse off than they are currently.”

## FSF’s Alternative Proposal:

The FSF has therefore proposed in its submission that legislation should clearly define "payday lenders" and "payday loans". Along with suggested definitions, FSF further outlines this concept in its submission:

- Payday lenders should then be clearly identified as such on the Financial Services Providers Register (FSFR), and enforcement to ensure they are meeting their responsible lender obligations should be specifically targeted towards them and mobile traders.
- These definitions would then apply to the way in which all registered “payday lenders” would be able to provide their products and they would be unauthorised to provide any credit contracts outside of these definitions.
- Lenders who fall into these definitions would be required to have their directors and top executives undergo fit and proper persons tests, a more manageable and productive task for the Commerce Commission than asking the entire sector to do so, which is currently suggested.

FSF is still firm in its stance that passing any further legislation will not make a difference to harm being caused by irresponsible lenders unless it is properly enforced, and hopes its alternative suggestion might be a way to ensure this.

**FSF will appear in front of the Finance & Expenditure Select Committee in support of its Submission on July 24. The FSF’s submission can be [downloaded here](#).**

### Background:

The Financial Services Federation (FSF) represents responsible, non-bank financial institutions. FSF has a strict eligibility process, and all members are subject to the FSF Code of Conduct which ensures its reputation as the setter of industry standards in responsible lending. FSF members take their compliance obligations seriously, and support quality regulation that balances the ability to do business with consumer protection. Find out more about FSF Responsible Lending Code and see the full member list at [www.fsf.org.nz](http://www.fsf.org.nz).

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FSF Membership List July 8, 2019					
Debenture Issuers - (NBDT) Non-Bank Deposit Takers	Vehicle Lenders	Finance Company Diversified Lenders	Finance Company Diversified Lenders	Insurance	Affiliate Members
<u>Rated</u> Asset Finance (B)	BMW Financial Services <ul style="list-style-type: none"> <li>➤ Mini</li> <li>➤ Alphera Financial Services</li> </ul> Branded Financial Services Community Financial Services European Financial Services Go Car Finance Ltd Honda Financial Services Mercedes-Benz Financial Motor Trade Finance Nissan Financial Services NZ Ltd <ul style="list-style-type: none"> <li>➤ Mitsubishi Motors Financial Services</li> <li>➤ Skyline Car Finance</li> </ul> Onyx Finance Limited Toyota Finance NZ Yamaha Motor Finance <u>Leasing Providers</u> Custom Fleet Fleet Partners NZ Ltd ORIX NZ SG Fleet Lease Plan	L & F Ltd <ul style="list-style-type: none"> <li>➤ Speirs Finance</li> <li>➤ YooGo</li> </ul> Avanti Finance Caterpillar Financial Services NZ Ltd CentraCorp Finance 2000 Finance Now <ul style="list-style-type: none"> <li>➤ The Warehouse Financial Services</li> </ul> Flexi Cards Future Finance Geneva Finance Home Direct Instant Finance <ul style="list-style-type: none"> <li>➤ Fair City</li> <li>➤ My Finance</li> </ul> John Deere Financial Latitude Financial Pioneer Finance South Pacific Loans Thorn Group Financial Services Ltd Turners Automotive Group	Prosopa NZ Ltd Personal Loan Corporation <u>Credit Reporting</u> Equifax (prev Veda) Centrix <u>Debt Collection Agencies</u> Baycorp (NZ) Illion (prev Dun & Bradstreet (NZ) Limited Experian Intercoll Receivables Management	Autosure Protecta Insurance Provident Insurance Corporation Ltd Southsure Assurance	AML Solutions Buddle Findlay Chapman Tripp EY Finzsoft KPMG Paul Davies Law Ltd PWC Simpson Western FinTech NZ HPD Software Ltd  Total : 60 members