FINANCIAL SERVICES FEDERATION

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Lending data shows borrowers feeling the bite of COVID-19

- **Exponential growth in concerned customer enquiries**
- **What responsible lenders are doing to help**
- **Responsible lending sector applauds Government on initiatives so far - what else should be done**

We may be allowed out of the house, but we're not out of the woods yet when it comes to the financial effects of COVID-19, says Lyn McMorran, Executive Director of the Financial Services Federation (FSF).

Data collected by FSF, which represents responsible finance and leasing companies operating in New Zealand, shows new lending has virtually stopped since COVID-19 Alert Levels were introduced.

Members are instead focussing on helping the thousands of Kiwis and small businesses financially affected, something that is unfortunately expected to worsen over the coming months as wage subsidies run out and companies are forced to make some tough decisions.

FSF members have been hugely responsive in assisting customers experiencing urgent financial stress, whether it be changing to interest-only payments; a payment deferral period; lowering payment amounts and extending the term of the loan; and other measures.

FSF has been pleased with Government's willingness to listen about what needs to change to empower the responsible lending sector to do all it can to help borrowers at this time. Bringing forward protections from loan sharks is a step in the right direction, but more can be done.

In this Q&A, Lyn McMorran is asked to expand on these points, as well as what's next for the financial services sector, and why, she says, the effects of COVID-19 will most resemble The Great depression than any other crisis of the past.

Questions:
1. What are Financial Services Federation lenders seeing?
2. What are your members doing to help their customers?
3. Have there been misconceptions?
4. Business lending: how have small businesses fared?
5. Banks seemed to get outcomes from Government very early on. Is there anything the non-bank sector needs from Government to do all it can to help consumers and businesses?
6. What is your advice for borrowers and lenders now?
7. What is next for the sector?
8. Where do you think the current situation sits compared to financial crises of the past?

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1. What are Financial Services Federation lenders seeing?

"New lending has virtually stopped entirely over Alert Level 4 for our members, apart from the odd vehicle loan for essential workers. Instead, our members are focussing on helping their customers who are requesting assistance through this time."

2. What are your members doing to help their customers?

"Data from our members shows an exponential growth in the number of enquiries by customers concerned about the financial effects of COVID-19.

FSF members have been hugely responsive in assisting customers experiencing urgent financial stress, with 3,700 loan variations in the first fortnight of lockdown alone, and 5,843 in the second.

A variation might mean changing to interest-only payments; a payment deferral period; or lowering payment amounts and extending the term of the loan, depending of course on the individual's unique situation. Not all have resulted in a loan variation, this is because enquires all sit at different stages of the assistance spectrum, with some people having their employment immediately affected, while others simply want to talk to somebody and ask "What if?".

It's positive to see people taking the initiative to proactively contact their lender to check in, it means people have been listening to the message to get in touch with their financial provider if they are concerned with how COVID-19 might affect them financially, and we still encourage that.

We're pleased our members have been so responsive to their customers' situations, but that's also true of the entire responsible lending sector including banks."

3. Have there been misconceptions about what lenders can do?

"When the term "repayment holiday" was popularised at the beginning of lockdown there were some misconceptions that this meant payments are simply waived. It's good to see the term "deferral" being favoured now, as while this can provide some urgent relief, it does increase the debt at the end.

The noise around these terms meant this was the default position for many borrowers, but our members have been able to pull things back a bit to discuss whether that's actually the best possible outcome for someone, and whether there are other ways that might not leave them in a worse financial hole in six-month's time."

4. Business lending: how have small businesses fared?

"Of the 7,186 enquiries our business-lending members received, 92.5 per cent have so far been provided variations to their loans to help them get through.

From the first fortnight of lockdown to the next, business motor vehicle assistance enquiries went up by 500 per cent.

Our members tend to fund a lot of small business owners and one of their key assets is their motor vehicle, without which they can't get to where their customers are, so they were particularly concerned about what might happen to that vehicle.

Obviously, there is no such thing as repossession happening at the moment, and that's the last thing a lender would want to do anyway. But I think people get really concerned when the future is just so uncertain.

Ninety-three per cent of those business motor vehicle enquires have so far resulted in a loan variation, others may have just been erring on the side of caution or a variation is still being worked through."

5. Banks seemed to get outcomes from Government very early on. Is there anything the non-bank sector needs from Government to be able to do all it can to help consumers?

"We have been talking with Government since day one of lockdown about what can be done to allow the responsible non-bank sector to do all they can to assist borrowers during this time. It's understandable that the banks were the first priority as they do provide the vast majority of mortgages in New Zealand, for example, however there's more we'd like to see.

Prior to COVID 19, lending laws were the same for all financial institutions under the Credit Contracts and Consumer Finance Act (CCCFA). However, at the beginning of lockdown, banks were swiftly made exempt from the requirements of the CCCFA when varying a loan to assist their customers experiencing financial stress, meaning banks could do more to assist customers urgently without falling foul of the law.

This effectively meant we currently have a two-tiered CCCFA, which is interesting as it is something we've never seen before.

FSF is currently working with Government officials on how this can be extended to responsible non-bank lenders to ensure they are in the best possible position to help consumers in financial stress due to COVID-19.

At the moment, a fair interpretation of legal requirements for a loan variation means that if a lender varies a loan contract for someone suffering from financial stress as a result of COVID-19, without determining whether the variation may put the borrower into financial hardship, they are effectively breaking the law.

This is because the lender must not vary a loan contract without fully understanding what the borrower's future financial circumstances will be, to ensure the variation doesn't put the borrower into further future hardship."

"However, when you're dealing with someone affected by COVID-19, it's often impossible to know what the future holds, especially for employment, but that doesn't stop lenders from wanting to do what they can to help customers in the situation they're in now.

The conversation we have been having with officials is that lenders need to be empowered, to do all they can to help borrowers, and there's never been a more compelling time for a human lens over the letter of the law.

As you can see from our data, our members are helping customers regardless, but to be able to do this without worrying about falling foul of the regulator would provide a lot more certainty. We have been pleased with officials' willingness to listen and, given the urgency and scale of those seeking assistance, look forward to a satisfactory outcome that will benefit borrowers sooner rather than later. "

6. What's your advice for borrowers and lenders now?

"Communication remains key.

We are still encouraging consumers to get in touch with their financial services providers, but also encouraging providers to proactively call their customers, something many of our members are doing already.

I had a phone call from an organisation I am associated with just the other day asking, 'How are you going in your bubble, is there anything we can do to help?'.

Many organisations will be focusing on fighting fires just now but I think when you have time, this sort of thing is extraordinarily powerful in terms of customer relationships.

We'd also encourage lenders and borrowers to check whether there is a credit-related insurance contract associated with a loan. In a few instances this type of insurance has been described falsely as "junk insurance", but the thousands of policy holders who might have their employment affected by ty COVID-19 certainly won't be calling it that."

7. What's next for the sector?

"We may be allowed out of the house, but unfortunately, we're not out of the woods when it comes to the financial effects of COVID-19 on everyday new Zealanders.

In fact, we expect this to only worsen when household expenditure normalises as Alert Levels rise, and when wage subsidies run out and companies are forced to make some tough decisions. This points to the urgency for lenders to be empowered to do all they can to help consumers at this time without worrying about breaking a technicality in the law."

8. You have been in finance for a long time, where do you think the current situation sits compared to financial crises of the past?

"While this situation is like nothing we have seen before, I think if you compare it to some of the crises we have had in the past 100 years, the Depression, the 1987 Share Market Crash, and Global Financial Crisis, it most closely reflects The Depression.

The highest unemployment rate around the GFC was 6.8%, 11% during the 1987 crash, and 20% during the Depression. This time, predicted rates are anywhere between 11%-30%.

Just like The Depression, COVID-19 is also a worldwide situation affecting everyone from all walks of life, and not just those in the share market or property investment. The issue we are all dealing with right now is the great unknown, as none of us have lived through anything like this before."

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Background:
The Financial Services Federation represents responsible finance and leasing companies operating in New Zealand. FSF members take their compliance obligations seriously and all members are subject to a Code of Conduct which ensures its reputation as the setter of industry standards in responsible lending. FSF published the Responsible Lending Guidelines and in 2019 produced a Responsible Borrowing Code with FinCap. Find out more about FSF and see the full member list at www.fsf.org.nz

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