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14 February 2023

Govt provides statutory relief for mortgage holders only, leaves those needing loans for vehicles and household appliances behind

The Financial Services Federation (FSF) is encouraging the government to reconsider the decision for a statutory relief package that only considers homeowners affected by the extreme weather event.

To address negative effects from the extreme weather affecting the upper North Island, the [Credit Contracts and Consumer Finance (Exemption for Emergency Relief) Amendment Regulations 2023](https://www.legislation.govt.nz/regulation/public/2023/0007/latest/whole.html) have been published to provide exemptions from sections of the CCCFA for credit provided under home loans or temporary overdrafts.

Lyn McMorran, Executive Director of the FSF which advocates for the responsible non-bank lending sector, says a significant number of New Zealanders are being left out.

“The federation is pleased that officials have acted swiftly to help support New Zealanders during this time, but the decision not to extend the exemptions to personal loans or other credit products at this time will restrict relief for people who will be really needing it.

“During consultation we made clear that home loans and overdrafts were not the most suitable products for the type of lending that people will need to help themselves get back on their feet following such a disaster, as for many people a vehicle or household item is their biggest asset. It is simply logical that products offered by non-bank lenders specialising in lending against household items and motor vehicles would be of greater use to people in these situations.”

“More than 48% of personal lending for such items likely to be damaged and needing urgent replacement is financed by FSF members alone, and 1.7 million New Zealand consumers and businesses deal with one of our non-bank lenders. That is a significant number of people and it is difficult to see this decision as considering all New Zealanders during this tough time, regardless of which responsible lender, bank or non-bank, they have a loan with.”

**The problem with this offering:**

As we communicated to officials last week, neither an overdraft nor a home loan is the appropriate product to provide emergency assistance to people needing funds to obtain accommodation, purchase replacement household goods or a replacement vehicle.

At the risk of stating the obvious, a housing loan is only available to someone who owns a house and has provided a mortgage over that house to a bank (or a non-bank housing lender). Therefore only those people in the fortunate position of owning a home can access this type of lending. Many of those most severely affected by the flooding of a fortnight ago and the weather event that we are still experiencing will not be in the lucky position of owning a home.

Furthermore, an overdraft as opposed to a personal loan is entirely unsuitable in this context. An overdraft is likely to be unsecured lending and therefore the cost of credit would be greater than that of a personal loan secured over the goods being purchased. And the fact that an overdraft facility does not amortise over a specified term like a personal loan does, will mean that the borrower could be left with a hard core debt with compounding interest being charged on it each month.

Furthermore, having to obtain an overdraft facility will seriously inconvenience someone who is in a desperate situation and needing to purchase necessary items by expecting them to arrange finance on a transactional account rather than at point of sale.

The CCCFA requires lenders to ensure that the lending product they are offering meets the borrower’s goals and objectives – in other words that it is suitable for the purpose for which the borrower requires the credit. This exemption is being provided to allow lenders to offer entirely unsuitable products for the purpose for which it is intended.

The FSF will continue to voice its concerns with officials and hopes a more sensible outcome that ensures people who need assistance can get it will ensue.

**And so the CCCFA fallout continues:**

The FSF is still calling for a repeal of the heavily prescriptive regulations that were introduced during the 2021 CCCFA review, citing that a regime that requires lenders to treat all consumes as vulnerable by default is unreasonable, and one of the reasons for the fallout of restricted lending that occurred subsequently.

“The idea that lenders have to get statutory relief to assist customers in an emergency, suggests the law is fundamentally flawed, and more needs to be done to get this right for New Zealand consumers.”

**More detail on the exemption:**

The Credit Contracts and Consumer Finance (Exemption for Emergency Relief) Amendment Regulations 2023 came into effect yesterday evening and can be accessed here: <https://www.legislation.govt.nz/regulation/public/2023/0007/latest/whole.html>.

This provides exemptions from sections 9C(3)(a)(ii) and (4)(a) of the CCCFA for credit provided under **home loans or temporary overdrafts** to existing customers for the purpose of addressing negative effects from flooding or other weather-related damage that occurs in the upper North Island in January and February 2023. Terms and conditions of the exemption specify a limit on additional credit of $10,000 per customer, a requirement to check that the borrower has not received credit covered by the exemption previously, and various conditions around providing hardship assistance. The exemption expires on 31 March 2023.  
  
**For and interview request please contact Hannah McKee at** [**hmckee@fsf.org.nz**](mailto:hmckee@fsf.org.nz)  
**Background:** The [Financial Services Federation](https://www.fsf.org.nz/) 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](https://www.fsf.org.nz/Site/consumer-info/#lending) and produced a [Responsible Borrowing Code](https://www.fsf.org.nz/Site/consumer-info/#borrowing) with FinCap in 2019. Find out more about FSF and see the full member list at [www.fsf.org.nz](http://www.fsf.org.nz/).