



Te Ope Whakaora

SOCIAL POLICY AND PARLIAMENTARY UNIT

Working for the eradication of poverty in NZ

Credit-related Disclosure and Rebate Regulations Ministry of Business, Innovation and Employment

Submission on behalf of The Salvation Army New Zealand Fiji and Tonga Territory

BACKGROUND

1. The Salvation Army is an international Christian and social services organisation that has worked in New Zealand for over one hundred and thirty years. We provide a wide-range of practical social, community and faith-based services, particularly for those who are suffering, facing injustice or those who have been forgotten and marginalised by mainstream society.
2. We have over 90 Community Ministry centres and churches (corps) across the nation, serving local families and communities. We are passionately committed to our communities as we aim to fulfil our mission of caring for people, transforming lives and reforming society through God in Christ by the Holy Spirit's power.
3. This submission has been prepared by the Social Policy and Parliamentary Unit (SPPU) of The Salvation Army. This Unit works towards the eradication of poverty by encouraging policies and practices that strengthen the social framework of New Zealand.
4. This submission has been approved by Commissioner Robert Donaldson, the Territorial Commander of The Salvation Army New Zealand, Fiji and Tonga Territory.

RESPONSES TO DISCUSSION PAPER QUESTIONS

PART ONE: COSTS OF BORROWING AND INITIAL DISCLOSURE

1. Costs of borrowing

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

The Salvation Army submits that this information will likely help *some* consumers compare different products. We have stated “some” because a lot of the clients with credit-related issues that we work with are often desperate and going through highly pressured times when assessing their credit options. The information could be up-to-date and very helpful in allowing the consumer to compare credit products, but for desperate people facing desperate circumstances, more information will, in our experience, not lead to “shopping around”, as these people often quickly take whatever credit they can get. These MBIE proposals are positive, but the reality is that information alone will not lead to better informed credit-decision making by some consumers.

However, some consumers will likely find this approach helpful and use this information to make a credit-related decision.

Question 3: What are the costs to creditors in publishing and updating the information described above?

We cannot provide an answer to this question as we are not a creditor. However, The Salvation Army submits that for responsible lenders, publishing and updating this information should be a fundamental part of their business model and costs. We submit that publishing and updating this information is likely a relatively minimal cost, particularly as any *updating* of the information will utilise a pre-established template.

We suggest that a set regular timetable for lenders to update their materials be established. For example, a quarterly update timetable might help reduce costs for creditors, but also provide more accurate information to the consumer. It is likely that the largest cost for this process would be any print or signage materials as changing content on websites is straightforward and inexpensive. We submit that this type of disclosure is integral to responsible lenders, and costs should not negate the regular publishing and updating of this information.

Question 4: How often might a lender's "costs of borrowing" change?

Again, The Salvation Army is not a lender. However, we have mentioned above that a regular timetable to assess, and if necessary update, the costs of borrowing should be established for creditors. There are several external forces that could affect a lender's costs of borrowing and these forces are often unpredictable e.g. market forces, economic policy shifts, and so on. We submit it is crucial to regularly capture any changes to the costs of borrowing as this is good business practice for the lender, and it ideally allows for better informed credit related decisions.

Question 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?

We contend that a prescribed form would be beneficial to assist consumers. Therefore, MBIE should provide a clear and comprehensive form or template that creditors should use in their disclosure. We believe this is necessary because:

1. It provides uniformity across the sector for lenders.
2. There is a consistent format that is used to ensure creditors include all of the necessary information in this form.
3. This prescribed form could be in a simple and straightforward format that is not too 'flashy' for the consumers. This simple form might limit the bombardment of a creditor's advertising to the consumer and ideally allow for reasoned, rather than emotional, decisions.

If the aim is to meaningfully assist consumers, this form must be bold and direct. For instance, a form with bold lettering in red saying "ALERT" or "BEFORE YOU SIGN", or some other direct phrase could help the consumer pause, reflect and hopefully compare the credit product(s) before them and then make a better decision. This kind of "alert" or urgent signalling in the design approach taken would hopefully stir the consumer to look closely at the prescribed form with its costs of borrowing.

Furthermore, this design approach is also likely beneficial to the lender since better informed consumers are engaged with, obligations to the CCCFA are being met, and the prescribed form they use is in line with industry standards.

2. Model Disclosure Statements

Question 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)?

We support the proposed changes to the model disclosure statements. In terms of the “right to cancel”:

- The reduction in the amount of words/sentences here is positive;
- Can this written notice be in the form of an email?
- What steps does the consumer need to take to ensure the lender has received this notice within the right to cancel period? For example, is sending an email to cancel the contract enough? Or does the consumer need to follow up that the email/letter has been received, opened and read by the *right* staff member within the lender’s business?

In terms of “unforeseen hardship”:

- The wording/terminology is positive here;
- Again, we have questions as outlined in the “right to cancel” provision about the requirement to submit something in writing in these hardship circumstances;
- Also, there is no mention in this section about the onus on the lender to respond to any request within a certain period of time.

Furthermore, there is no mention of what the lender’s process will be. For example, the consumer does not know what happens to their request, how long it will take to be addressed, and what criteria the lender uses to assess whether or not to permit the variation.

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

We submit that these model statements are definitely presented in a clear way. We hope these statements are useful. But many of our clients seeking quick credit are in desperate situations. Also, consumers with numeracy or literacy issues, or with English as a second language, will likely struggle with these statements even though they have been edited effectively.

Presentation in bold font and in clearly definable sections might help make these documents more useful. Also, an ongoing theme might be employed here that might help consumers. Taking our example from above, if the term “ALERT” or “BEFORE YOU SIGN, LOOK” was in bold and red across the forms, consumers might pay more attention to that information. If

this theme was consistent throughout the proposed forms, then consumers might follow these items more closely throughout the document they are reviewing.

Question 10: Would you find it useful for the model disclosure statements to be provided in a Microsoft Word format on the Ministry's website?

Yes. Moreover, MBIE could send these forms out via their e-news or other forms communication. We contend that it is beneficial for more people, NGOs and community groups to be aware of these key forms, even if they are not directly working in a credit-related area. Also, we recommend that MBIE work closely with key NGOs and agencies to disseminate these forms and the other key CCCFA provisions. For instance, MBIE could work closer with the Ministry of Pacific Peoples, Pacific churches, and key Pacific organisations to ensure, the information is being disseminated effectively within the Pacific communities.

PART TWO: MINIMUM REPAYMENT WARNINGS ON CREDIT CARDS

3. Current Framework

Question 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?

This question is very difficult to accurately answer. We have experience of both types of clients in our work. For many of our clients, making the minimum repayment is often the only payment they can actually make as they cannot afford anything more because of their financial hardships. These clients often turn to credit cards as an emergency or very immediate form of credit. Because they are only making the minimum repayment, they suffer in the long term repaying these debts. But some of these clients are consciously making the minimum repayment because they cannot afford anything more. While other consumers have falsely believed that making this minimum repayment is the best option for them.

Very few of our clients can afford to repay the full balance of a credit card. We have had cases where they have borrowed from elsewhere to repay that credit. Or some consumers have used their credit cards for regular bills or to repay other debts. These consumers are making these types of decisions simply because they do not have enough income to cover their expenses and/or debts.

Question 12: What information is currently available to consumers regarding the costs of repaying the balance at the minimum repayment?

Most information regarding this issue comes from any information the credit card businesses provide. In our experience, budgeters and financial advocates in the community are some of the few people that try to pass this important credit card information to consumers. Unfortunately, if a consumer has not engaged a good budgeter or financial advocate, or even some helpful and knowledgeable family member or friend, then this consumer is unlikely to receive these types of insightful information.

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

We submit that to effectively alert consumers about this issue, some possible solutions are:

- Greater promotion of budgeters, financial advocates, and financial literacy programmes;

- Could MBIE possibly engage in some sort of media campaign offering helpful tips to the wider New Zealand public? Consumers, in particular vulnerable ones, are likely to pick up direct and helpful information via TV or even social media. With all of the recent major reforms to credit and consumer issues, this campaign could be helpful to inform people about key messages and link them to important MBIE information and documents. Maybe a campaign like “DID YOU KNOW...” could be launched that had creatively presented issues like “DID YOU KNOW...” that repaying the minimum amount on your credit card bill is worse for you?’

4. Regulations for minimum repayment warnings

Question 15: In your view, should the minimum repayment warning be 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?

We support a calculation based minimum repayment warning similar to the USA and Australia.

We believe this approach is more helpful in immediately informing the consumer about the realities of various credit card repayments. This would hopefully lead to similar shifts in knowledge and credit related behaviour as outlined by paragraph 61 of the discussion paper. Also, a non-calculation based warning does not provide enough information and would mean that the consumer would have to go to another link, document, phone number or website to determine the true costs. The calculation based approach seems to provide the key information immediately for the consumer and then, if they want to, they can move to another stage to make changes to their repayments.

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

We support the calculations used in the Australian model. However, the calculation of the total cost from the American model seems to provide more understandable information for the consumer and so this calculation could be used. We also support the exceptions outlined in paragraph 65 under the Australian model.

Question 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?

We believe that paragraph 60 provides some guidance as to what assumptions could be used here. However, it is unlikely, as the American model assumes, that no other purchases are added to the balance. Again, this is very unlikely for many of the clients that we see daily who, as aforementioned, often turn to credit cards in desperation rather than a luxury. Whatever assumptions are used, we support the American position that “calculations must be disclosed to the card holder in a *prominent and conspicuous location on each paper and electronic billing statement*” (paragraph 57).

Question 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?

See answer in question 15.

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

We submit that this warning should have both a number for a debt counselling service, as well as the details of the actual provider. Determining who will be the debt counselling service(s) listed in the statement will be difficult in the New Zealand situation as there are very few debt counselling services working nationally.

5. Exploring Solutions

Question 24: Should the New Zealand minimum repayment warning be based on any of the 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?

See answers in previous section.

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

Clearly identifying credit counselling or financial assistance services that are neutral in the community will be difficult. Many of these providers are already working at or beyond capacity. Therefore if these services were to be included in such warnings, it is logical that greater funding and resources are required for these groups.

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

It is correct to wonder if electronic billing might render the warning ineffective. This could be remedied by credit card providers emailing or text messaging alerts to users that the credit card statement is available. Or an alert could come to the consumer as soon as they log in to check their accounts. Many bills work this way with power companies emailing bills (and updating to ensure the email is correct) and mobile phone companies texting alerts about their bills.

Question 27: How should the minimum repayment warning be provided electronically?

The warning should be bold and clear and follow the American requirements from paragraph 57. We have already mentioned how alerts and emails can be used here.

PART THREE: PROPORTIONATE REBATE FORMULAE

Question 29/30: 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?

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?

We support both of the proposed formula in this discussion paper.

CONCLUSION

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