

1 December 2014

CCCFA Regulations
Competition and Consumer Policy Team
Ministry of Business, Innovation and Employment
PO Box 1473
Wellington 6140

By email: consumer@mbie.govt.nz

**SUBMISSION on
Credit-related disclosure and rebate regulations
discussion document**

1. Introduction

Thank you for the opportunity to make a submission on the credit-related disclosure and rebate regulations discussion document. This submission is from Consumer NZ, New Zealand's leading consumer organisation. It has an acknowledged and respected reputation for independence and fairness as a provider of impartial and comprehensive consumer information and advice.

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2. Responses to specific questions

Given the limited time available for making submissions, we have only commented on key issues.

Question 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).

In our view, lenders should be required to report the costs of the credit contract as an all-inclusive annual percentage rate (APR), in line with current international best practice.

We support the approach taken in Australia¹ and the UK² relating to disclosure of an APR. We are aware of companies advertising weekly or monthly rates which are likely to

¹ In Australia, the Consumer Credit Protection Act 2009 requires lenders to advertise the APR and AAPR to let consumers know the true cost of credit over a year.

underestimate the amount payable. A requirement for an APR would also make it easier for consumers to understand and compare the cost of credit.

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 support the use of a prescribed form for disclosing the costs of borrowing. Information presented in a standardised format will be easier for consumers to understand and compare.

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 suggest the "right to cancel" section of the model disclosure statements be amended to include the consumer's additional rights where goods or services have been rejected under the Consumer Guarantees Act (CGA). Where the supplier has arranged credit for the goods or services, the CGA allows the consumer to seek an order in the Disputes Tribunal transferring loan obligations to the supplier.

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?

Figures published by the Reserve Bank of New Zealand show \$3800 million outstanding in interest-bearing personal credit-card debt for the year to September 2014.³ This is a rise of six percent from September 2013.

The Reserve Bank data indicate a significant number of consumers are not paying off their balance in full each month and incurring interest charges as a result. The average interest rate on outstanding advances is 17.2 percent.

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 strongly support repayment warnings including calculated information. Consumers may be unaware of the high costs associated with repaying the minimum amount and simple warnings do little to help understanding.

Repayment warnings that include calculated information can assist consumers to understand how much money they could be saving if they pay off more than the minimum amount. This information also helps consumers make more informed repayment decisions.

We are aware that some lenders are arguing that these types of personalised warnings would require "costly systems upgrades".⁴ However, we do not agree that it would be costly for lenders to introduce personalised repayment warnings because we understand that lenders already have the systems in place to allow for this.

² In the UK, the Consumer Credit Act 1974 requires lenders to include the APR in all advertisements and credit agreements.

³ Reserve Bank of New Zealand, "Credit card balances", Retrieved 20 November 2014 from <http://www.rbnz.govt.nz/statistics/tables/c12/>

⁴ Sunday Star Times, "Warnings to beware the credit card trap", 30 November 2014

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?

In our view, a calculated warning statement should outline the total cost including principal and interest.

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 the Australian example?

We think it would be useful if the warning made consumers aware of the fact that there are free budgeting services available to assist consumers with their finances.

Question 23: Are there any circumstances in which a minimum repayment warning should not be required.

The only circumstance in which a minimum repayment warning should not be required is if there is a nil balance on the credit card.

Question 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?

We do not agree with the proposed formula for calculating the proportionate rebate of consideration paid for repayment waivers. The rule of 78 is a form of hidden prepayment penalty⁵ and is restricted or banned in a number of countries.⁶ It is also unduly complex so is unlikely to be easily understood by consumers.

We suggest that rebates are based on apportioning the waiver on a simple monthly basis as proposed for extended warranty rebates.

Question 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?

We support the proposed formula.

Thank you for the opportunity to make a submission on this discussion document. If you require any further information, please do not hesitate to contact me.

Yours sincerely



Sue Chetwin
Chief Executive

⁵ The difference between a rebate waiver calculated using the rule of 78 and a rebate waiver calculated on a simple monthly could be substantial and will, invariably, favour the lender.

⁶ For example, the rule of 78 is banned in a number of US States and the Uniform Commercial Code bans the use of the rule of 78 for loans longer than 61 months. Scotland has also banned the rule of 78.