Consumer Finance and Predatory Lending

HIGHLIGHTS

Labour will:

- Conduct a Review of the Credit Contracts and Consumer Finance Act
- Support and facilitate financial education in schools to ensure that all students leave school with an adequate standard of financial capability
- Increase funding to Community Law to make sure borrowers can access legal advice.

We will protect consumers, lift incomes, and reduce the need for predatory lending

Consumer finance becomes predatory when services are provided in an unethical way, with high interest rates and insufficient information provided to prospective borrowers. Pay day lenders, mobile shop operators and used car salespeople often prey on the poorest and most vulnerable in society.

Labour is committed to regulating the sector to protect consumers whilst providing access to legal services and developing the financial literacy of New Zealanders to enable them to make informed decisions on matters of consumer finance.

Labour acknowledges that often it is the poorest and most vulnerable in New Zealand that are the victims of predatory lenders. Labour is committed to a high wage, high productivity economy. Labour’s other policies are aimed at increasing incomes – this will reduce the need for payday loans and protect the vulnerable from predatory lending.

Insufficient growth of real wages and the increases in costs of living, especially in Auckland have seen further growth of predatory lending practices. Borrowers often do not make free ‘choices’ when they acquire payday loans or products from mobile shops instead, they are compelled to purchase the necessities of life for themselves and their family but due to insufficient incomes are required to borrow.
Review of Lending Practices

Labour finds that the voluntary responsible lending code is an inadequate way of preventing predatory and oppressive lending.

**Labour will:**
- Initiate a review of the Credit Contracts and Consumer Finance Act, including the 2015 amendments. As a part of this review, specific focus will be given to advertising as the use of sports celebrities and other community figures as well as activity sponsorship may unduly influence prospective borrowers. The review will also investigate whether it is possible to implement a cap on interest rates.

Access to Legal Advice

Labour recognizes the importance of community law in both providing legal advice to borrowers and taking legal action when issues arise. A significant portion of community law’s work involves credit contracts related work.

**Labour will:**
- Provide further funding for community law with a view to increase legal services to those seeking financial advice around borrowing.

Building Financial Capability

Low levels of financial capability are a key factor in making New Zealand families vulnerable to predatory lending practices. Labour supports activities that develop the financial literacy skills for the most vulnerable in order to provide them with the tools make sound judgements about borrowing. Labour acknowledges that young people are especially vulnerable to predatory lending practices.

**Labour will**
- Partner with the private sector and expand budgetary and financial literacy services to schools to ensure that all students leave with comprehensive skills to help them make informed choices about finance.
Social Lending and Credit Unions

Labour acknowledges that credit unions, peer-to-peer, and social lending services can serve as fairer alternatives to predatory and payday lenders. However, these services are under-utilised by the vulnerable.

Labour will
- Actively encourage the development of private sector services similar to the Ministry of Social Development’s public-private social lending scheme
- Aim to reform the laws governing credit unions and cut red tape in order to give them legal status and allow them to lend to small business.

Keeping Consumer Law Relevant

Labour acknowledges the changing nature of markets and supports ‘best practice’ in the consumer finance industry.

Labour will
- Constantly review and update consumer legislation where necessary
- Commit to sufficiently resourcing agencies that monitor consumer laws so that any breaches can be promptly addressed.