How the lending laws are changing

THE CREDIT Contracts and Financial Services Law Reform Bill will, if Parliament accepts the commerce committee's proposed changes, bring in new consumer protections:

▶ Create a responsible lending code informing lenders what constitutes responsible lending. Parliament would have to okay the code, which is not expected to be in place until late 2015.

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▶ Shopping around for a loan will become easier as it will force lenders to disclose everything about a loan before a credit contract is entered into. Lenders will be required to publish their standard contract terms and lending charges in their places of business, even if that is a mobile shopping truck, and on their websites. That information will have to be provided free of charge to anyone who asks for it.

▶ "Minimum repayment warnings" printed on credit card statements, warning of the long-term cost of making only minimum repayments.

▶ Increase fines against companies for serious breaches of the act to $600,000 in line with the Fair Trading Act.

▶ The Commerce Commission will be able to issue "infringement notices" for minor breaches of the law in cases where court action would not be justified.

▶ Repossession agents will be licensed by the Department of Internal Affairs.

But the new bill won't change a number of other issues:

▶ Stop debt collectors from taking childrens' toys to sell to clear their parents' debt. Security will not be able to be taken over certain essential goods, including bedding, medical equipment, identification documents like passports, and cooking equipment. But while this is a "Crucial consumer protection", the committee said: "Items of cultural significance and childrens' toys were not included as they can be difficult to define, and we do not wish to impede consumers' access to credit."

▶ Require lenders, in some cases, to tell borrowers where they on-sell a loan. Lenders reserve the right to sell loans. The new laws will require them to tell borrowers when they do so but exempts securitisations and covered bond issues. The banks argued that both of these exemptions were vital to their funding but would become prohibitively expensive if they had to write to everyone whose loan they were selling or ring-fencing.

In these cases, the bank remains the point of contact for the borrower.

▶ Bring in interest rate caps to set an upper limit on the interest lenders could charge, something that is in place in Canada, the US, some European countries, Japan and South Africa.

The changes are not universally popular. The banks, for example, argue that they are already responsible lenders and the law changes should be targeted at loan sharks and lower tier lenders rather than them. And Labour and the Greens have claimed many vulnerable consumers have been trapped in cycles of debt and despair as a consequence of the change delays.