

**THE NEW ZEALAND FEDERATION OF FAMILY BUDGETING SERVICES  
INC**

**SUBMISSION TO THE OFFICE OF THE PRIVACY COMMISSIONER  
REVIEW OF THE CREDIT REPORTING PRIVACY CODE 2004**

**SUBMISSION ON 2(a) CONTENT OF CREDIT REPORTS**

**1. Topic**

**2(a) Content of credit reports**

Consideration of what information should be included in credit reports.  
Some examples are:

- a. Positive credit information (whether the Code **should** move along the spectrum between full positive and full negative credit reporting)

**2. Code Reference**

Part 1 clause 5 definitions.

**INTRODUCTION**

The New Zealand Federation of Family Budgeting Services Inc (the Federation) is a collective of community organisations sharing a common code of ethics, philosophy, and commitment to delivering top quality, free budgeting advice to family/whanau and individuals. The current membership comprises 148 budget services nationwide that employ more than 1200, mostly volunteer, staff. Federation services field more than 280,000 enquiries each year, well over a call a minute. Federation services will deliver more than 700 community education programmes to schools and community groups this year; and annually throughout Aotearoa-New Zealand, Federation services will support a family through debt crisis every 5 minutes. Last year alone, over 28,000 clients saw a Federation budget adviser and more than 17,000 families were provided with ongoing and in-depth support, education, and advice. The clients seen by Federation advisers have overdue debts (arrears) of well over \$200 million. Since the credit crisis of 2008-2009 the demand for services has increased markedly.

The New Zealand Federation of Family Budgeting Services sees the day-to-day impact of the Credit Reporting (Privacy) Code 2004.

This experience highlights the inadequacies of the Code. The Federation believes the existing Code has a negative impact on many of its clients. Most, but not all, of these clients are low income.

The Federation supports a move to make the obtaining of credit more open, transparent and fair. It wants to see more information on credit records. This information would include not simply the negative information on credit

records now but also information about a person's payment record. This would highlight their ability to pay/not to pay.

By increasing the amount of information held on credit records the issues outlined below would be mitigated.

To answer the question posed in the topic: Positive credit information (whether the Code should move along the spectrum between full positive and full negative credit reporting). The Federation believes the Code **should** move along that spectrum.

We have also read the submissions of Veda Advantage on topic 2(a) and consider that the more comprehensive credit reporting advocated would make the obtaining of credit more open, transparent and fair.

We consider that more information would ultimately lead to an improvement in the financial lives of the people the Federation's members assist.

## **THE CODE IN ACTION**

### **1. The current Code allows low income people to:**

- Obtain credit from a range of providers
- Obtain credit beyond their means to service it
- Obtain credit without the provider having a full picture of the debt they already hold with other providers
- Obtain credit when they are already having difficulties paying existing debt
- Obtain credit to service existing debt
- Obtain credit under a multitude of names.

While lenders can, in part, be blamed for allowing some of the above to occur, the current content of credit reports does not allow lenders to obtain a full picture of a person's financial situation nor ability to pay.

Federation advisers witness daily, the impact of this. Clients have been provided credit when they had no real ability to pay. This ultimately leads to insolvencies and bankruptcies. It also leads to the suffering which that entails not just for the insolvent person but for their families and dependents.

### **1. The current Code does not allow people to rehabilitate:**

Federation advisers regularly see people who have fallen behind on their credit commitments due to job loss or a marriage/partnership break up. They default on loans and this becomes an entry on their credit record.

Over time many people in these situations get their lives sorted out. But what they can't sort out is their credit record. Despite recovering their

financial situation and paying their debts, their credit record shows them to be a poor debtor.

These people have been called 'credit orphans.' The only credit then available to them may be from loan sharks. This is not desirable.

## **2. The current Code inhibits traditional lenders from providing a range of risk-priced credit forcing some people into the hands of loan sharks:**

Many New Zealanders, who have had credit issues in their past, are not able to obtain credit from a mainstream bank due to information on their credit record. They are seen to be a high risk.

This means they are locked out of a credit system which is protected by regulations and standards. Instead they are forced to obtain credit from loan sharks.

They would be better protected by being able to borrow from mainstream lenders at rates reflecting their credit risk.

## **3. Best practice**

The Federation is aware that the current Code, as it applies to the content of credit reporting, is not considered best-practice amongst like minded countries.

## **5 Experience and expectation**

At the outset we referred to the Federation and its member's experience. It has taught us valuable lessons about people who are financially over-committed and what happens to them and their family. It has also highlighted a cycle of expectation which leads to that state.

We believe that greater information would change expectations and behaviours over time and reduce the harm and suffering which so many go through. We believe that it is likely to be better than relying upon education or self regulation (i.e. the individual deciding not to seek credit when they cannot afford it.)

What do we mean?

To oversimplify, rather than talk in specifics without the authority of those we deal with, this cycle is something like this (with variations):

- People expect and pattern their behaviour based on what their experience has been and that of the others they know.
- In their experience (shared and otherwise) one can borrow to buy items they cannot otherwise afford and then borrow to service that

borrowing. Until the day of reckoning when they run out of borrowing and have to pay and cannot.

- Towards the end of that cycle they become increasingly desperate and desperation may tempt them to 'modify' or falsify details to get around being identified with past debt as well. Some times the desperation is at the beginning of the borrowing cycle when they know they cannot afford what they are seeking but believe that somehow it will work or do not think it through.
- An element of the latter is the belief that if a lender is willing to provide credit then their situation must be able to be resolved with a positive outcome. The reason they can obtain credit/be lent to is often only because the lender cannot a) tell who they are and b) does not have an accurate picture of their merit as a borrower.
- Stronger customer due diligence and/or identification measures would help to deter (or disqualify from the credit sought) those who vary their names or assert a false claim to an identity.

## **SUMMARY**

The Federation believes the current content of credit reports is inadequate and fails the people it represents.

The Federation urges the Office of the Privacy Commissioner to extend the amount of information held on credit reports, such as payment history.

Increased information on credit reports, such as payment history will:

- Ensure lenders have a fuller picture of a person's financial situation and ability to pay
- Ensure some potential borrowers are not provided credit when they cannot afford to service it
- Allow people who have improved their financial position (following arrears) to obtain credit from mainstream lenders
- Improve access to mainstream lenders for high risk borrowers (instead of loan sharks)
- Change the expectations of those who tend to over-commit by making it harder for that to happen.