

A nation in debt: When the wages never quite spread far enough - NZ Herald, 26 June 2007

Ten years ago, says Tai Tupa of the Otara Budgeting Service, you had to go into Hobson St in central Auckland to find a moneylender willing to lend to a low-income borrower.

"Now," she says, "there are two or three of them here in Otara, quite a lot at Hunter's Corner and in Mangere town centre and in Manukau. "Nowadays you can see all those advertisements on TV. They are everywhere. And you can get a cheap car practically anywhere with the finance."

Moneylenders have become as much a part of the culture in South Auckland in the past decade as they have been for centuries in Third World villages in India or in the Pacific Islands, from which many of their South Auckland clients come.

And their clients are often just as desperate as they were back in the villages. Lata and Kanikita Mohulamu, Mangere parents of seven children aged between 3 and 14, pay a total of almost \$800 a week on 11 regular payments including rent, loans for a van, a car, a computer, a vacuum cleaner, a couch and clothes from a visiting clothes truck, plus two general loans from Work and Income and from Instant Finance which they used for the costs of a funeral and to buy food.

Even McAuley High School and De La Salle College take \$10 each off the family each week to pay off their school fees.

Kanikita earns \$525 after tax in a 40-hour week at Fletcher Aluminium, or up to \$800 in a good week with overtime. The family also gets \$536 a week in family assistance.

But it is not enough, and Lata cries as she explains that she can't afford to buy her 14-year-old daughter a McAuley jacket for the winter.

"At the moment my daughter keeps on asking, 'Mum, can I have warm clothes?'" she says.

"I say, 'Wait, because I can't afford it at the moment.' I'm feeling sick. She keeps on asking me, 'Mum, I need the warm clothes,' because she walks from home to the bus stop."

Sue Lafaele and Loto Kaio, Otara parents of a 10-year-old boy, pay \$676 a week on two cars, rent and two personal loans taken out for two of their parents' funerals and when their power was disconnected.

They both work fulltime - Kaio as a welder from 8am to 4.30pm, Lafaele as a night cleaner at the airport from 11pm to 7am, plus five hours a week for the Service Workers' Union.

But he earns only \$14 an hour and she gets only \$11.30 in her main job, giving them a joint after-tax income of \$845 a week.

The higher level of family assistance since April 1 means they are now entitled to \$65 a week in family and in-work tax credits for their son. But when they last asked they were told they could get only \$7 a week, so they haven't claimed the money.

They need the two cars so that Lafaele can get home before Kaio leaves in the morning, and so she can take their son to school and pick him up after school. She sleeps in the evening before going to work.

"I can't sleep during the day. Last year I slept in and forgot to pick up my son. I did it twice, now I don't want to do it again," she says.

The family cut off the gas six months ago and now take cold showers and cook on a barbecue, using electricity only for light and appliances. They have no landline or cellphone. They often live on pork bones.

"The only one thing I care about is my son George," Lafaele says. Unlike middle-class borrowers, who often borrow to bring forward purchases which they could have saved for eventually, this is a world where people borrow simply because they have to.

Most have children. In 2000, 27 per cent of Pacific people, 23 per cent of Maori and just 8 per cent of Pakeha were unable to keep up payments for goods on credit in the previous year. Similarly, 24 per cent of Pacific people, 16 per cent of Maori and 5 per cent of Pakeha had got into arrears on their mortgages or rent, and 28 per cent of Pacific people, 23 per cent of Maori and 8 per cent of Pakeha had got behind on power, gas or water bills.

In the past five years, debts owed on goods such as cars, furniture and appliances have displaced rent and power bills as the biggest amounts owed, accounting for 38 per cent of all arrears owed by clients of the Federation of Family Budgeting Services last year. Rent and mortgage arrears were next with 32 per cent.

"The top two used to be accommodation and utilities. Four or five years ago they were by far the top categories," says the federation's executive officer Raewyn Fox.

"For the last two years the greatest percentage of debt has been in the category of retail goods providers including hire purchase and credit cards. We believe that is a direct result of the aggressive marketing of retailers, such as low deposits and six months before you have to start payments on a hire purchase."

Moneylenders have multiplied to meet the demand. South Auckland budget advisers report interest rates commonly around 30 per cent, plus fees, on items such as cars and appliances.

For shorter-term loans, corner shops such as Lelei Finance in the Mangere Town Centre lend money on the security of chattels such as a TV set or tapa cloth at interest rates of 20 to 25 per cent a month. For a six-month loan, Lelei owner Lelei Ufi says the interest would total 120 to 150 per cent.

"That is the rate that most of the pawnbroking business charges to the clients," he says.

An extreme case which bills itself as "New Zealand's largest payday advance company", online lender cantwait.com, charges 10 per cent every seven days for money lent until your next pay day - the equivalent of at least 520 per cent on an annual basis.

Vaiola Pacific Island Budgeting Service adviser Tupe Ieti says the default penalties for failing to meet payments can be horrendous. She had one client who borrowed \$500, disputed the terms, and was slapped with an extra \$70 on the loan for every week she failed to repay it.

"She borrowed \$500 and it got up to \$6000. The client was desperate. She was on a benefit," Ieti says.

Ieti threatened to take the lender to the Commerce Commission and eventually persuaded the company to wipe most of the penalty charges and accept gradual repayment.

Last week the Government announced further law changes that will require moneylenders to be registered, with penalties for lenders who fail to register or fail to disclose past convictions for dishonesty or fraud.

But there are no restrictions on interest rates and Lelei Ufi says he will continue charging 20 per cent to 25 per cent a month.