MINISTRY OF CONSUMER AFFAIRS
MANATŪ KAIHOKOHOKO

EMBARGOED UNTIL 1PM, FRIDAY 17 AUGUST, 2007

Pacific Consumers' Behaviour and Experience in Credit Markets, with Particular Reference to the 'Fringe Lending' Market

Research Findings Report and Government's Response Strategy

August 2007

New Zealand Government

CONTENTS

Introduction

In 2006, the Ministry of Consumer Affairs asked the Centre for Pacific Studies at the University of Auckland to conduct qualitative research into Pacific consumers' behaviour and experience in the fringe lender market in South Auckland.

The research involved in-depth interviews with key people from community organisations based in South Auckland and focus group interviews with Pacific consumers. The researchers' report *Pacific Consumers' Behaviour and Experience in Credit Markets, with Particular Reference to the 'Fringe Lending' Market* is attached as Part C of this paper.

Part A of this paper sets out the wider context for the research and states the research objectives and the methodological approach taken. In particular, it places the research within the monitoring and evaluation framework of the Credit Contracts and Consumer Finance Act 2003 (CCCFA).

Part B contains a summary of the main research findings. It continues by outlining the government's initial response to the research, including what the Ministry of Consumer Affairs is proposing to do, and the implications of the research for the monitoring and evaluation of the CCCFA.

PART A: CONTEXT

Monitoring and evaluation of the Credit Contracts and Consumer Finance Act 2003

Reviewing legislation is part of the Ministry's routine work to ensure that consumer legislation is working well. These reviews take two forms

- *A review of the operation and implementation of the legislation*
  These reviews are usually undertaken after about two to three years of actual operation of the legislation. Their aim is to ensure that the legislation is functioning as intended. It provides an opportunity to clarify legislative intent or rectify legislative design issues which have only become apparent after implementation and which may be hampering the effectiveness of the legislation.

- *A full review of the legislation including the underlying philosophy of the Act*
  These reviews are usually undertaken after at least five years actual operation of the legislation.

The CCCFA came into force from 1 April 2005. A review of the operation and implementation of the CCCFA will be completed by 31 March 2008. Following this, a report will be forwarded to the Minister of Consumer Affairs. The Report will recommend possible areas where the legislation may need to be amended to improve its effectiveness.

The research contained in Part C of this report forms part of the process of monitoring and evaluation that will inform the CCCFA Operation and Implementation Review. The Ministry of Consumer Affairs' consumer issues management process is the primary source of evidence for monitoring the practices of credit providers and the experiences of consumers in credit markets.

The consumer issues management process includes gathering information from organisations such as the Financial Services Federation, New Zealand Federation of Family Budgeting Services, National Association of Citizen's Advice Bureaux and community law centres. Where the need for further information is identified, discrete research exercises such as that into Pacific consumer behaviour and experiences in credit markets, are undertaken.

Information from the Commerce Commission on matters relating to enforcement is also part of the CCCFA monitoring framework.

The monitoring framework is based on the policy objectives of the CCCFA, and aims to:

- identify the specific issues associated with each purpose, and how these issues have been addressed in the CCCFA

- understand how the CCCFA influences the behaviour of credit providers and consumers, and

- identify any issues relating to enforcement of the CCCFA which affect the achievement of the stated purpose.

The monitoring framework is designed to be flexible. This allows for emerging issues in credit markets to be prioritised and followed up with more in-depth information, such as market research and legal casework analysis.

Objectives of consumer credit law

The CCCFA is the principal legislation that governs credit provision. All lenders are bound by this Act. The policy objectives underpinning the CCCFA are to:

- promote efficient credit markets that are conducive to voluntary transactions
- require effective information disclosure, so that
  - consumers can distinguish between different credit products and, as far as possible, make rational choices between those products and cash purchases
  - consumers are adequately protected from deception
- allow for innovation in the design of credit products
- provide adequate incentives for compliance with the law by all parties to a credit transaction
- discourage oppressive conduct by lenders.

Through the information gathered during monitoring, the Ministry will be able to assess whether the policy objectives of the CCCFA are being met. If it is found that consumers are suffering loss because the objectives of the Act are not being met, the Ministry will work towards implementing or recommending appropriate interventions.

An intervention could be a policy recommendation or it could be an informational programme. The aim of any intervention would be to change the behaviour of traders or consumers. For example, if the problem occurs because consumers do not understand their rights under the CCCFA, then a targeted informational campaign may be recommended. Alternatively, if the problem is due to the CCCFA provisions being unclear or vague, an amendment to the Act may be recommended.

Gathering information about credit markets

Through its evidence gathering, the Ministry has identified the fringe lending market as one in which consumers are more likely to suffer detriment in the form of harsh and oppressive credit contracts, high interest rates, fees and penalty charges, and a resulting high level of indebtedness. From its consumer enquiries database, the Ministry also identified that within the fringe lending market, low income, non-English speaking consumers are more vulnerable, and that Pacific Island consumers are over-represented among those who suffer detriment as a result of fringe lending practices.

In order to gather more detailed information about the fringe lending market, the Ministry commissioned desk research[1] in 2006 to look at the regional distribution of fringe lending businesses. The research revealed that fringe lenders appear to be concentrated in lower income communities, particularly in South Auckland. Of the 71 fringe lenders located in Auckland, 23% have a branch in or around Manukau City, 14% have an office in Otahuhu, 14% in the North Shore and 8% in West Auckland. Fringe lenders may be defined as sharing some of the following characteristics[2]:

- small, often owner-operated, specialising in personal cash loans
- higher interest rates than mainstream lenders
- large administration fees out of proportion to the size of the loan (may include establishment, security inspection, documentation and loan shortfall insurance policy fees)
- loans may be secured against personal property (e.g. cars, houses, household appliances)
- item for security often worth considerably more than the loan (e.g. car, house)

[1] See Research New Zealand, *Fringe lenders in New Zealand*, July 2006.
[2] See Research New Zealand, *Fringe lenders in New Zealand*, p.14.

- loan amounts are often small and repayment short term (sometimes even next pay day)
- provide immediate availability of cash
- may offer pawnbroker services
- may deal with defaulters through strategies such as ‘naming and shaming’ (e.g. in community newspapers)
- holding ATM cards, garnishing benefit payments, etc., targeted at specific communities (particularly ethnic communities, beneficiaries, low income neighbourhoods and those with poor credit ratings)
- possibly less flexible terms and conditions, few credit checks and little paperwork to fill out; and
- may provide limited documentation or overly simplified contracts (which is often promoted in their advertisements).

The Ministry of Consumer Affairs operates a dedicated free phone for Pacific consumers. Anecdotal data from this source suggests that in some cases Pacific consumers are getting into financial difficulties through what would appear to be oppressive and otherwise unlawful conduct by fringe credit providers.[3]

It was in this context that the Ministry commissioned the research on Pacific consumers’ behaviour and experience in fringe lending credit markets. The research was based in South Auckland where there is a large Pacific population and where fringe lenders are particularly prevalent.

[3] Such cases are referred to the Commerce Commission which is responsible for the enforcement of the CCCFA.

Pacific consumers in credit markets research

Background

It would appear that providing credit to Pacific consumers is a distinct submarket within the overall credit market. There is evidence that Pacific consumers are targeted by fringe lenders through advertising and other marketing practices. One marketing technique is to play on the socio-cultural obligations, *faalavelave*, of Pacific consumers and their need to have access to finance on short notice to meet these obligations.

Research objectives

Within the context of monitoring the CCCFA, the Ministry's research objectives were to explore the behaviours and experiences of Pacific consumers in relation to obtaining consumer credit in the New Zealand fringe lending market.

Specifically, trader practices as experienced by consumers that were identified for investigation were:

- current disclosure practices
- availability and accessibility of lending institutions in the area
- typical brokerage and fee schemes - in the context of the legislative requirement of 'reasonable'
- oppressive contracts and credit provider conduct
- influence of finance marketing – advertising to, and targeting of, Pacific consumers; and
- lending practices in relation to motor vehicles.

The study of consumer behaviour/knowledge was also an important research objective. In particular, the research canvassed:

- frequency of 'shopping around' in credit markets
- what type of demand necessitates the need to borrow, e.g. church and family obligations
- knowledge and recall of recourse and redress methods/attempts
- consumer understanding of responsibilities and obligations
- saving money vs. the cost of credit

- level of consumer concern in relation to defaulting and credit ratings; and
- consumer debt and the consequences of bad credit deals.

Research Methodology

The research was qualitative[4] in nature and involved

- Twelve semi-structured face-to-face interviews with key informants from nine agencies providing assistance to Pacific consumers in South Auckland.
- Ten focus group interviews, each lasting two to three hours involving Pacific consumers. Both men and women were interviewed and these included a range of ages, household income levels, and educational qualifications.
- Fifty individual face-to-face interviews, each between one and a half and two hours, with Pacific consumers were conducted (although some were interviewed with their partners).

Caveat on usage of the data

The qualitative nature of the research means that it provides a snapshot of the South Auckland fringe credit market as experienced by those Pacific consumers and community organisations interviewed. Further research would be needed to establish whether the experiences of Pacific consumers extend themselves to other geographical locations and other communities within New Zealand.

[4] Qualitative research provides an understanding of how or why things are as they are. Unlike quantitative research, there are no fixed set of questions but, instead, a topic guide is used to explore various issues in-depth. The discussion between the interviewer and the respondent is largely determined by the respondents' own thoughts and experiences.

PART B: SUMMARY OF FINDINGS AND GOVERNMENT RESPONSE STRATEGY

Summary of findings

The research identified that Pacific consumers reported borrowing to meet the needs of everyday household expenses as the most common reason for using the services of fringe lenders. Purchasing large items, especially cars, was the second most common reason for borrowing. Potentially exploitative lender practice particularly with respect to car loans was noted in the research.

Meeting social and cultural obligations was mentioned as the third most common reason for borrowing and, like the first, is an area often requiring access to ‘instant cash’. These social and cultural obligations are usually for events for which people cannot easily plan, so increasing their potential susceptibility to unreasonable and oppressive credit provider practices.

The research reported positive stories about how Pacific people manage their finances across these three areas, including that most loans are repaid. However, the overall picture is that Pacific consumers’ need for easily accessed cash loans and inability to access cheaper credit options, leaves them exposed to high cost credit and the possibility of oppressive credit contracts.

The researchers concluded that experiences and perceptions expressed by the interviewees challenged the notion that, if certain information is available (through improved disclosure), consumers will use it to make the decisions that will shape the development of a competitive credit market. Even those Pacific consumers with reasonably high levels of financial literacy and awareness of the high costs involved in the fringe credit market felt they had limited choice about the conditions under which they accepted the credit they sought.

The research report also suggested that the ways in which information is provided (small print, technical language, etc.), and by whom, can prevent the consumer arriving at the understanding needed to make an informed decision.

The research noted that Pacific consumers expressed a fear that questioning or complaining about the credit contract would prevent them from being able to borrow at all. Furthermore, seemingly important questions appear not to be asked by Pacific consumers because of the trust placed in the credit provider, especially when the credit provider is a member of the same ethnic community. According to the report, there is evidence that the CCCFA does not sufficiently protect credit consumers dependent on fringe lenders. Stronger enforcement of the Act by the Commerce Commission was seen as necessary by the community organisations interviewed.

Among respondents there was a low awareness of the CCCFA combined with a low awareness about avenues for redress. The need for more, better and earlier consumer education is strongly indicated as is the need for Pacific community leaders to work closely with the various community and legal agencies in developing and publicising Pacific-friendly information.

For the majority with lower levels of financial literacy, concern about getting the money was more important than the terms of the credit contract. The vital information for Pacific consumers appeared to be the size of the weekly repayment rather than the total cost of a loan.

Government response

The research provides rich insights into Pacific consumers' behaviour and experiences in the South Auckland credit market and their perceptions of government's role and the legal rights and responsibilities of consumers and traders.

It should be said from the outset that many of the issues identified by the research are complex, requiring a response at government, business and community levels. These issues will also require a concerted effort over time.

From the research, the following work priorities for government have been identified

- continued enforcement effort where traders are not complying with the law
- providing a means by which consumers can work their way out of debt
- an information and capability building programme to address consumers' lack of access to information about their rights in a transaction or how to get redress
- addressing overly-aggressive marketing practices
- engaging at the government, community and business level to develop potential solutions to the problems
- completing the review of the CCCFA.

The work programme draws on preliminary discussions with the Ministry of Social Development, the Ministry of Pacific Island Affairs and the Commerce Commission and is in keeping with relevant work being undertaken by these agencies. Several initiatives, described next, require a cross agency approach and are being led by other agencies. Where this is the case, the work programme outlines the Ministry of Consumer Affairs' participation in the initiative.

The table below summarises the key issues and the responses:

Issue	*Response*
Non-compliance with current legislation	• Enforcement by Commerce Commission • Possible incorporation of the Credit (Repossession) Act into CCCFA • Improved access to redress • Registration of credit providers
Helping consumers to work their way out of debt	• New Insolvency provisions
Information needs	• Building the capability of key agencies to address their clients' consumer credit issues. o Training needs assessment. • Pilot consumer clinics • Targeted information for consumers at risk o The TrueCost' pilot campaign
Marketing practices	• Review of Code of Financial Advertising
Need for wider engagement and ownership of issues and solutions	• Consumer Credit Summit • Social responsibility in lending
Ensuring effectiveness of CCCFA	• Complete review of CCCFA o Further quantitative research o Disclosure provisions o Discussion on Interest rate caps

1. Non-compliance with current legislation

The research provides additional evidence of conduct by credit providers which appears to be in breach of the law and is causing serious detriment to Pacific consumers. Areas of apparent non-compliance include what appear to be breaches of:

- the Credit Contracts and Consumer Finance Act 2003 – oppressive conduct and contracts, unreasonable credit fees, in particular default fees, and inappropriate credit related insurance

    - the Second-hand Dealers and Pawnbrokers Act 2004 – illegal 'buyback of goods' contracts

- the Fair Trading Act 1986 – misleading and deceptive conduct, and false and misleading representations

- Consumer Guarantees Act 1993 – creditors' failure to accept that they are responsible for the representations of car dealers and brokers, and failing to accept that they are suppliers under the Act and therefore directly liable for any breaches of the guarantees

- Credit (Repossession) Act 1997 - creditors continuing to add penalty interest and other fees to the amount owing after they have repossessed and sold a consumer's car.

Similar examples emerge from other research studies and other work carried out by the Ministry of Social Development, the Ministry of Pacific Island Affairs, the Commerce Commission, and Insolvency officers in the Insolvency and Trustee Service of the Ministry of Economic Development.[5] The common thread is that the behaviour of non-complying creditors could be argued to amount to oppression.[6]

Improved Enforcement of the CCCFA, Fair Trading Act and Consumer Guarantees Act

The Commerce Commission is responsible for the enforcement of the CCCFA. One difficulty it has had with enforcement is that the number of complaints received about credit issues has been considerably lower than anticipated. To address this problem the Commerce Commission is undertaking several initiatives including strengthening relationships with community groups (particularly in South Auckland) and undertaking proactive compliance inspections of credit providers. As a result of its proactive

[5] The studies being referred to cover wider than South Auckland and Pacific consumers and also suggest the issues are not confined to the fringe lender end of the consumer credit industry.

[6] Oppression is a term used and defined in the CCCFA to cover situations where a creditor's conduct or the provisions of a credit contract are harsh, oppressive, unjustly burdensome or unconscionable. The CCCFA allows a court or a disputes tribunal to reopen and vary a credit contract where it is found to be oppressive.

approach, the Commerce Commission has recently completed a number of successful investigations.

The Ministry of Consumer Affairs' research reflects the Commerce Commission's understanding that South Auckland is an area of particular non-compliance. The Commerce Commission has taken a number of enforcement actions to date against South Auckland based traders targeting 'vulnerable' consumers. More enforcement actions in South Auckland are due to be completed within the next few months.

The Commerce Commission is looking in particular to take some cases that will enable them to establish a precedent around the reasonableness of establishment and default fees and other fees charged by credit providers.

In addition to investigating apparent breaches of the CCCFA, the Commerce Commission is also able to simultaneously assess for breaches of the Fair Trading Act. In respect of the Second-hand Dealers and Pawnbrokers Act, false representations that second hand dealers and pawnbrokers have the right to hold goods will probably amount to a breach of the Fair Trading Act.

As breaches of the Consumer Guarantees Act are often also breaches of the Fair Trading Act, the Commerce Commission is also able to assess for non-compliance in this area.

Enforcement of the Credit (Repossession) Act 1997

As already mentioned, the research has pointed to apparent non-compliance with the Credit (Repossession) Act. One of the difficulties for consumers is that there is no agency (like the Commerce Commission) responsible for monitoring and enforcing compliance with the Credit (Repossession) Act. It is extremely hard for consumers to take a personal action for breach of this law. One option the Ministry of Consumer Affairs is considering is whether matters covered by the Credit (Repossession) Act should be included in the CCCFA. Under this scenario, the Commerce Commission would have a role to monitor and enforce compliance with credit repossession requirements alongside other CCCFA matters.

Improved Access to Redress

Where consumers have effective access to dispute resolution and redress, credit providers have an additional incentive to comply with the law. An issue illustrated in the research is that access to redress is often difficult for consumers in dispute with credit providers. Many credit contracts, especially those for the purchase of a motor vehicle, involve amounts that exceed the jurisdiction of the Disputes Tribunal. District Court action, including defending a judgement debt application bought by a creditor, is too expensive for most consumer debtors.

Credit provider registration linked with improved consumer dispute resolution

As part of decisions taken following the Ministry of Economic Development's review of financial products and providers, Government recently announced that controlling shareholders, directors and senior management of entities providing non-banking financial services will be required to be registered and to meet 'negative assurance criteria'. The registration system will give some assurance about the integrity of people running financial institutions including credit providers.

The registration database will be publicly accessible. This means that consumers will be able to search the register of credit providers and obtain information on their integrity and the capability of the people running the lending operations.

As part of the licensing requirement all financial providers, including fringe credit providers, will have to belong to a consumer dispute resolution scheme. This will provide consumers with low cost access to an effective consumer dispute resolution forum where they can address concerns about unfair or inappropriate treatment.

An effective, fair, independent and transparent financial sector dispute resolution scheme will provide improved access to redress for consumers. The Ministry of Consumer Affairs is providing policy input into the development of the registration system and the consumer dispute resolution scheme and will seek to ensure that both are easily accessible.

2. Helping consumers work their way out of debt

As the research shows, an ongoing need to use credit means that some people will fall into debt for loans that they are unable to repay. The reform of the Insolvency Act, which is expected to come into force in December 2007, provides for two procedures which will make ways out of the 'debt trap' available for some consumer debtors.

<u>Procedure One: Reform of the Summary Instalment Order Process</u> – a Summary Instalment Order (SIO) is a court order, made by a District Court Judge, which allows people to repay their debt in regular instalments over a period of up to three years. Creditors are barred from taking court action to collect debts while an SIO is in force in relation to those debts. When an SIO is

made, a supervisor is appointed to help the debtor manage their payments. Budget advisors often act as supervisors.

The reform extends the existing SIO regime. The total debt threshold will rise from $12,000 to $40,000, and the Official Assignee in the Ministry of Economic Development's Insolvency and Trustee Service will have responsibility for overseeing this regime. The Official Assignee also has the discretion to extend the term of the order from 3 to 5 years. An SIO will be granted when a debtor is unable to immediately repay those debts but can pay some or all of them over time. The reforms will make the SIO option much more accessible to debtors. It may also be a point at which information and education can be provided about debtor's rights under consumer law, and a point at which breaches of the law can be spotted and referred on to appropriate agencies.

Procedure Two: The No Asset Procedure – the reforms will also introduce a 'No Asset Procedure' (NAP) as an alternative to bankruptcy. This is aimed at consumer debtors who have run up debts. It provides a one off chance for a consumer debtor to make a fresh start. The NAP will last 12 months instead of the normal 3 year term for bankruptcy. A debtor would be eligible to enter into a NAP if they:

- have no realisable assets, and
- have not previously been admitted to the NAP, and
- have not been adjudicated bankrupt before, and
- have debts of between $1,000 and $40,000, and
- have no means of repaying any amount of the debt under a prescribed means test.

Consumer debtors will be able to access the NAP as for a bankruptcy, either by voluntarily filing a Debtors Petition for bankruptcy at the High Court, or after a creditor has applied to the High Court. In either case, the Court will appoint an Official Assignee, and an Insolvency Officer from the Insolvency and Trustee Service will be assigned shortly after adjudication to administer the NAP on behalf of the Official Assignee. The Official Assignee retains overall discretion to allow a debtor entry into the No Asset Procedure.

These changes are due for implementation in December 2007. There is information on the reforms on the Insolvency and Trustee Service (ITS) website (www.insolvency.govt.nz). ITS is also currently undertaking targeted education around New Zealand. A revised leaflet for consumers on personal bankruptcy will be available. ITS will provide information to budget advisors and are planning training for budget advisors and WINZ case managers, possibly in tandem with the Ministry of Consumer Affairs and the Ministry of Social Development. ITS is also active in informing business, particularly the credit industry of the reforms.

3. Information Needs

Several initiatives, described below, draw on preliminary discussions with the Ministry of Social Development, the Ministry of Pacific Island Affairs and the Commerce Commission and are in keeping with relevant work being undertaken by these agencies.

The Ministry of Consumer Affairs has discussed its work programme, as it relates to broader issues such as financial literacy and over-indebtedness, with the Ministry of Social Development. The objective is to identify where the Ministry of Consumer Affairs can add value to the Ministry of Social Development's programmes.

The Ministry of Consumer Affairs will focus on spreading knowledge of consumer credit law, through initiatives that include the design and delivery of informational campaigns and continuing to develop effective relationships with community agencies.

Building the capability of key government and community agencies to understand and use the CCCFA to assist their clients

In circumstances of consumer debt and credit contract issues, consumers (and as the research shows, especially Pacific consumers) are reluctant to take action, seek help, or go looking for information until their issue has reached a crisis point. At this point, the research indicates, consumers in debt to fringe lenders will frequently seek help from community organisations such as budget advisory services, or are likely to come to the attention of Work and Income and the Insolvency and Trustee Service.

Information is most effective when it is provided at the time it is needed and in the place where guidance or help is being sought. In this case, the best time and place to inform consumers about their rights and their options for redress is when they are taking action over a problem, and at the place where they go for assistance. The Ministry of Consumer Affairs is particularly interested in working with Work and Income to explore how their clients can have non-complying loans and debt demands properly identified and assessed.

The research shows that these agencies would benefit from in-depth training and capability building on the CCCFA so that they are better placed to identify any legal issues with financial contracts, how to make effective use of the hardship provisions of the Act on behalf of their clients, and how to obtain redress for their clients. Frequently, their staff are addressing emergency situations such as imminent repossession of goods, where the priority is to try to negotiate a payment arrangement with the creditor, rather than spend time looking for breaches of the law.

The Ministry currently provides training in consumer law for community organisations that deal with consumer credit problems, such as Citizens Advice Bureaux, budget advisory services and community law centres. In consultation with these and other community organisations the Ministry will extend this capability building activity.

Training needs assessment – the first step

As a first step, following the presentation and release of this work programme and the research findings to South Auckland community organisations, especially the key informants in the research, South Auckland community agencies will be invited to participate in needs assessment workshops to establish what their organisation needs to better assist their clients. A further similar needs assessment activity for community agencies nationally will enable the Ministry to put together an on-going capability plan for the future.

Officials from the Ministry of Consumer Affairs and the Ministry of Social Development have met to discuss capability issues among WINZ case managers and frontline staff in relation to their work on over-indebtedness. In comparing the Ministry of Social Development's research on fringe lending and other sources of client debt, (particularly their research on the level of debt among beneficiaries), with the Ministry of Consumer Affairs' research, both agencies have been able to develop a richer and better informed picture of the issues needing to be addressed.

Among other concerns, there is evidence that Work and Income grants and benefits are possibly inadvertently being approved to pay debts that may arise from unenforceable contracts or contracts that contain amounts which have been charged in breach of the law. The research highlights a perception that fringe lenders will lend to beneficiaries because they know that if the debtor cannot repay the loan, the government will.

Ministry officials have also met with Ministry of Pacific Island Affairs' officials to discuss opportunities for developing training modules on credit law and working together on information campaigns, to support the Ministry of Pacific Island Affairs' financial literacy initiatives.

Piloting Consumer Clinics

The Ministry of Consumer Affairs will be working with the Otara Community Law Centre to pilot a fortnightly consumer clinic at their premises. This will enable the Ministry to assist law centre clients, and to gather additional information about consumer issues particularly involving credit and debt. This small scale, tightly focussed, project will be evaluated to look at the possibility of extending it.

Targeted Information

The issues identified in the research are that current disclosure arrangements under the CCCFA, while simpler than earlier legislation, may still be too complex and technical for consumers making a decision to enter into credit contracts. In addition, the key disclosure information is accompanied by a very long, complex, and legalistic credit contract which many consumers could not understand, even if they did try to read it. Some of the research participants have called for plain English contracts and simplified disclosure.

More information about the CCCFA and its enforcement is needed by community groups, traders and consumers, particularly in the biggest area of detriment which involves the purchase of motor vehicles on credit. In particular, a major area of concern is that consumers are reluctant to ask relevant questions of motor vehicle traders.

The TrueCost Checklist public awareness campaign response

The Ministry of Consumer Affairs runs separate public awareness-raising campaigns every year on the CCCFA and the Motor Vehicle Sales Act (MVSA). This year's campaign will combine the two activities. The aim is to reach the South Auckland car buying audience, particularly Pacific consumers, and to address the reluctance of some consumers to ask relevant questions when borrowing money to buy a car.

This multi-media campaign pilots a new approach and commenced in the second week of August 2007. The campaign is aimed at Pacific consumers and South Auckland community agencies and encourages consumers to ask questions about credit deals associated with buying a car. The media campaign includes a 'TrueCost' checklist mailer being provided to all South Auckland households. The mailer contains important information about purchasing cars using credit. This campaign has been developed with input from the Ministry of Consumer Affairs' Pacific Island Reference Group in South Auckland. The TrueCost checklist and some of the key information is being provided in English, Samoan and Tongan.

The Ministry of Pacific Island Affairs supports the campaign and the Ministry of Social Development has been informed, with the TrueCost checklist and information being sent to Auckland Work and Income offices.

The pilot campaign will be evaluated to determine whether to extend the campaign to a wider audience.

The effectiveness of the disclosure requirements of the CCCFA including when and how this disclosure takes place is a key part of the review of the operation and implementation of the CCCFA. The TrueCost checklist campaign will help inform the Review by testing a simplified form of disclosure accompanied by advice on how to make a good credit decision. For more information, visit www.truecost.govt.nz.

4. Marketing Practices

The research describes a high level of concern among Pacific consumers and community groups about the way in which fringe lenders market their services. Research participants describe extensive advertising targeting welfare beneficiaries and those with bad credit ratings (including those who are bankrupt) and direct appeals to consumers on the street and in shopping malls. Research participants were concerned that the extent and methods of this marketing were resulting in more consumers making bad credit decisions.

Earlier desk research into the geographical distribution of fringe lenders in New Zealand[7], commissioned by the Ministry of Consumer Affairs, identified that the advertisements of fringe lenders often use a number of hooks to encourage people to use their services. For example, by emphasising the effortlessness and speed of applying for and getting a loan.

The Advertising Standards Authority (ASA) administers a Code for Financial Advertising. This Code provides that financial advertisements '*should observe a high standard of social responsibility particularly as consumers often rely on such services for their financial security*'.

Credit advertising and marketing are important and legitimate ways for credit providers to reach their customers and enhance competition and innovation in the credit market. Nevertheless, some credit advertising and marketing may promote consumer over-indebtedness or poor product choice.

The Ministry of Consumer Affairs has asked the ASA to consider the implications of the research for their Code, with a view to including guidelines relating to the particular effects on vulnerable consumers of advertising credit products as an easy solution to problems of over-indebtedness.

[7] See footnote 2

5. Engaging with Community and Business groups regarding financial issues and vulnerable consumers

In the context of more consumers getting into a debt spiral combined with reported low levels of financial literacy, the Government is giving a high priority to providing a forum to discuss the issues consumers of credit providers are facing and to canvass solutions for addressing these issues. The information gained from this forum will also provide insights about the operational effectiveness of the CCCFA to inform the Review of the Act.

Consumer Credit Summit

The Minister of Consumer Affairs intends to convene a summit of individuals and groups with an interest in financial issues and consumers later in 2007. The purpose of the summit would be to bring the wide range of interested business, voluntary sector and community groups, and government agencies together to talk about how current credit law, lending practices, financial education and community and business partnerships operate and new ideas for enhancing this suite of practices/initiatives.

The summit concept is modelled on a recent successful round table in Australia, where a range of parties discussed credit issues. Such a forum has the advantage of having a wide cross section of groups allowing business, voluntary and community groups to hear each others' concerns and to have free and frank discussions about solutions to the issues raised.

Social Responsibility in Lending

Two of the areas for exploration at the summit will be the concept of socially responsible lending and the provision of low cost loan products including possible avenues for small amount lending. The concept of socially responsible lending is being given increasing emphasis, world-wide. In Australia, some banks have recognised the importance of committing to corporate social responsibility. For example, in late 2005 the ANZ published its Corporate Responsibility Report 2005 detailing among other things the benefits of its financial inclusion initiatives for disadvantaged consumers (ANZ Bank, 2005). In New Zealand, Westpac has established a Community Consultative Council with the purpose of understanding the bank's impact and responsibilities within the New Zealand community.

6. Ensuring the effectiveness of the CCCFA

Review of the CCCFA

As already mentioned, information gathered during the monitoring of the CCCFA will enable the Ministry to assess whether the policy objectives of the CCCFA are being met. Part of this Review will be to establish whether further interventions are required.

Further research to measure consumer detriment

The Ministry of Consumer Affairs proposes to conduct quantitative[8] research to measure consumer detriment in fringe credit markets as part of its CCCFA monitoring regime. This will build on the qualitative research study conducted in South Auckland in order to discover whether the South Auckland issues are also found nationally. This research would further inform informational and capability building initiatives similar to those discussed in this paper.

Disclosure

The Ministry of Consumer Affairs has identified that in some credit markets the disclosure provisions of the CCCFA do not appear to be effective in allowing consumers to distinguish between different credit products or to make rational choices between credit products and cash purchases.

When the Ministry reports back on the operation of the CCCFA in March 2008 it will be recommending changes to the disclosure provisions. As already mentioned, a pilot, the TrueCost checklist campaign will help inform these recommendations by testing a simplified form of disclosure accompanied by advice on how to make a good credit decision.

Interest Rate Caps

One suggestion raised in the research to deal with the issues faced by users of fringe lenders in their community was for the government to regulate to set a maximum interest rate (interest rate cap).

This suggestion stems from the concern that fringe lenders charge very high effective interest rates for short term borrowing. The concept behind having a capped interest rate for loans is to

[8] Quantitative research incorporates the statistical element (e.g. how many?), designed to quantify the extent to which a target group are aware of, think this, believe that or are inclined to behave in a certain way. For reliable conclusions to be drawn from the research, samples for quantitative research must be representative of the target group.

achieve a reduction in the total cost of the finance. The perceived benefit is that it stops lenders from being extortionate, i.e. setting their own very high rate to gain excess profits off vulnerable people.

An assessment of countries with capped rates show there is much variation in the level that is set. In Australia, for example, New South Wales, Victoria and ACT have a 48% interest rate cap. Ireland has a 200% cap. Germany has a 20% cap and Japan an 18% interest rate cap. Overseas experience shows that lenders respond to a capped rate in two ways.

- A rate set low may reduce the willingness of a lender to lend money if they consider the risk of default on the loan is higher than the rate of return.

- A rate set high will encourage lenders to gouge the market by increasing their lending rates to the maximum rate. If all lenders follow suit then consumers will pay more for their loans than they would have under a typical free market system.

With respect to lending options, Ireland, with an interest rate cap of 200 percent compared to the United Kingdom which has no limit, has a smaller range of short term loan options than the United Kingdom. The Irish ceiling appears to have excluded low-income consumers from the market or may have led consumers to use products that are unsuitable for their needs.

The Australian experience suggests that if an interest rate is set too low, reducing the profit margin of a lender, the lender responds by increasing their fees. In effect this increases the total cost of the loan, possibly even negating the effect of the cap. An 'emergency' amendment to the Australian Uniform Credit Code is currently being pursued to close this particular loop-hole.

Payday lenders and fringe credit lenders play an important role in lending for unforeseen financial difficulty such as a funeral expense or illness (or lending to consumers who have difficulty in borrowing from mainstream banking institutions). There is a concern that capping interest rates would encourage such lenders to go underground. This would mean the protections of the CCCFA would not be available to those accessing finance from such sources. To allow these lenders to operate and meet this kind of consumer need, the interest rate would need to be capped at a very high rate, somewhat defeating the intention behind capping in the first place.

Another concern is that a capped interest rate set by the government could possibly give consumers a false sense of security. A consumer may believe the rate has been set at a level which the government has determined is within a range that is 'safe' for the consumer to enter into. This will not always be the case given the variability of conditions and circumstances in which people find themselves.

On the basis of overseas experience, the Ministry of Consumer Affairs does not consider that interest rate caps should be pursued.   The Ministry will, however, continue to monitor international practice on capped interest rates and other mechanisms to improve credit practices.

PART C: FINAL RESEARCH REPORT – PACIFIC CONSUMERS' BEHAVIOUR AND EXPERIENCE IN CREDIT MARKETS WITH PARTICULAR REFERENCE TO THE 'FRINGE LENDER' MARKET

Our Ref: 12568.00

PACIFIC CONSUMERS' BEHAVIOUR AND EXPERIENCE IN CREDIT MARKETS, WITH PARTICULAR REFERENCE TO THE 'FRINGE LENDING' MARKET

FINAL REPORT

AUCKLAND UNISERVICES LIMITED

a wholly owned company of

THE UNIVERSITY OF AUCKLAND

Prepared for:

Ministry of Consumer Affairs
33 Bowen Street
Wellington

Prepared by:

Dr Melani Anae & Dr Eve Coxon
with
Dr Ieti Lima, Lusi Atiga & Hilary Tolley

Date: 22 March 2007

KIA ORA

MALO E LELEI

FAKAALOFA LAHI ATU

KIA ORANA

TALOHA NI

NI SA BULA

NAMASTE

TALOFA LAVA

ACKNOWLEDGEMENTS

The researchers acknowledge the valuable advice and support received from the Ministry of Consumer Affairs' Research, Evaluation & Monitoring team, especially Wiebe Zwaga. They also particularly thank Josephine Bartley and Tuatagaloa Efi Efaraimo from the Ministry's Manukau Office. Very special thanks must go to our study participants – those from local community organisations who agreed to be interviewed and the large number of Pacific people who shared their experiences and views with us through both focus group and individual interviews. *Faafetai lava, Malo 'aupito.*

CONTENTS Page

CHAPTER ONE

OVERVIEW & CONTEXT OF THE STUDY

1.1 The Brief

The Ministry of Consumer Affairs' Research, Evaluation and Monitoring Team commissioned the research study documented in this report. The study's purpose was to explore the impact of lending and credit practices in the 'fringe lending' marketplace on Pacific peoples in South Auckland.

The Credit Contracts and Consumer Finance Act (CCCFA) 2003, effective from 1 April 2005, has put in place consumer protection mechanisms such as the requirement of full disclosure of the terms of credit contracts and the outlawing of oppressive contracts and conduct by credit providers. However, anecdotal evidence suggests that current fringe lending practices continue to lead to consumer detriment for Pacific peoples, and are pervasive in South Auckland. This research study is one component of the Ministry of Consumer Affairs' current monitoring and evaluation of the effectiveness of this legislation. It aims to provide more information about trader behaviour and why Pacific consumers are more at risk from detrimental trader practices.

The objective of this research study, therefore, was twofold: to gather qualitative information on Pacific peoples' behaviours, experiences, understandings and perceptions with regard to credit markets; and to highlight the extent to which fringe lenders exploit the vulnerability of Pacific peoples, many of whom are low income with particular socio-cultural obligations. It is hoped that the research will provide direction to the Ministry of Consumer Affairs in developing strategies aimed at addressing Pacific peoples' needs in this area. The study also aimed to generate discussion in Pacific communities about ways of protecting themselves from and reducing their vulnerability to disadvantageous trader practices.

Specific areas nominated by the Ministry for the researchers to investigate included:

a) Trader practices as experienced by consumers in relation to:

- current disclosure practices;

- availability and accessibility of lending institutions in the area;
- typical brokerage and fee schemes - set in the context of the legislative requirement of 'reasonable';
- oppressive contracts and credit provider conduct;
- influence of finance marketing schemes – advertising to, and targeting of, Pacific consumers; and
- lending practices in relation to motor vehicles.

b) Consumer behaviour/knowledge in regard to:

- frequency of 'shopping around' in credit markets;
- what type of demand necessitates the need to borrow, e.g. church and family obligations;
- knowledge and recall of recourse and redress methods/attempts;
- consumer understanding of responsibilities and obligations;
- saving money;
- level of consumer concern in relation to defaulting and credit ratings; and
- consumer debt and the consequences of bad credit deals.

1.2 Research Methodology

The following assumptions underpinned the research:

- 'Fringe lenders' are defined as second-tier lenders as outlined in *Fringe Lenders in New Zealand* (Report to MCA, Research NZ, July 2006, pp. 13-14).
- Pacific peoples are being deliberately targeted by 'fringe lenders' especially in South Auckland.
- Pacific consumers have differing understandings/perceptions and experiences of 'fringe lenders'.
- The term 'Pacific peoples' contains considerable cultural and historical diversity which will need to be addressed in appropriate ways by the researchers.

Following a brief desk study (see below p.5) reviewing relevant research and other resources in order to provide a context for the qualitative research, the research issues/questions established by the Ministry were addressed through qualitative research activities as follows:

- Semi-structured face-to-face interviews with key informants with experience in dealing with Pacific consumers in South Auckland. Twelve participants from a range of local community organisations/service providers were involved in this stage of the data collection.

- Ten focus group interviews, each lasting two-three hours and involving a total of 94 general Pacific consumers. These included a range of ages, from people in their twenties to those in their seventies, and both men and women (one, held at a Tongan kava kalapu, was male only).

Although the intention was to include representative numbers of the range of specific Pacific Nations groups, time-consuming efforts to recruit from other than the Tongan and Samoan communities were not successful. Because of time pressures and disruptions resulting from the Christmas/New Year period, our two Pacific researchers, one Samoan and one Tongan, increasingly resorted to their own networks for participant recruitment. Consequently these two groups dominated and all focus groups were conducted in either Samoan or Tongan. (A Samoan-speaking Tuvaluan participated in one group).

- Fifty face-to-face interviews, each between one and a half and two hours, with individual participants (some of whom were interviewed with their partners) were conducted.

The brief was to interview equal numbers of those who had positive and those who had negative experiences with fringe lenders, but because of difficulties recruiting the 'positive' group it was suggested by the Ministry's Manukau Office advisors that Pacific consumers who have borrowed from banks, taken out mortgages and have had positive experiences of mainstream credit institutions be included. The 50 participants recruited were divided equally between men and women, covered the full range of adult age groups, included both island and New Zealand born, and were drawn from a wide range of paid and unpaid occupation groups. Although more inclusive of other Pacific Nations than the focus groups, these participants also were largely Tongan and Samoan. Worth noting here is that many of the key informants, and also the Ministry staff at the Manukau office, informed the researchers that Tongan and Samoan communities provide the vast majority of people using their services. Based on the fact that these are the only two languages that fringe lenders advertise in, it is reasonable to assume that the total sample is reflective of Pacific consumers active in the South Auckland fringe-lending market.

A breakdown of the demographic information provided by the total of 124 Pacific consumer participants (those involved in both individual and focus group interviews completed only one set of information) is provided in Appendix 1.1. A breakdown of information pertaining only to the 50 individual participants is provided in Appendix 1.2. More demographic details are provided in the Introduction to Part B of the report.

All data from individual and group interviews were recorded, transcribed, translated into English as necessary, and analysed using conventional qualitative data analysis. All individuals were given acronyms and full confidentiality was assured. This was stipulated in the ethics approval for the research provided by the University of Auckland Human Subjects Research Committee.

1.3 Pacific Research Protocols

The research team was committed to ensuring that appropriate 'Pacific' cultural protocols and processes were embedded in the research design and implementation. Throughout the study the team maintained a commitment to:

- uphold Pacific 'ownership' of the objectives and processes of the research;
- seek and utilise Pacific input at all stages of the research and use consultative and participatory processes;
- proceed in a manner appropriate to the cultural contexts concerned and ensure, through the use of highly skilled ethnic-specific bilingual interviewers, that language was not a barrier to participation;
- ensure that the Papalagi members in the research team acknowledged their cultural limitations, and affirmed their commitment to working in culturally safe ways;
- ensure that all aspects of the research were monitored closely for safety and relevance by our senior Pacific researchers; and
- ensure that senior Pacific researchers managed and had overall responsibility for research interfaces with Pacific participants.

1.4 Contextualising the Study: A brief review

In order to provide a context for the qualitative research and some framings for the analysis of the research findings, a brief desk study reviewing selected relevant research and other resources is included in this initial part of the report.

The Credit Contracts and Consumer Finance Act (CCCFA)

The Credit Contracts and Consumer Finance Act (CCCFA) 2003, effective since 1 April 2005, is described by the Commerce Commission as 'changing the landscape of New Zealand Credit Law'[1] in order to cater for the needs of both credit consumers and providers. It was constructed with the twofold purpose of promoting consumer protection and 'allowing credit products to be both flexible and innovative'. It also claims to bring New Zealand's credit law into line with international trends, particularly those established in Australia. [2]

Key aspects of the CCCFA, geared towards providing better protection to consumers when they take out a loan or buy goods on credit, include the setting of minimum standards with regard to: better information for consumers; greater transparency about payments required, interest charges, fees and other charges through the provision by the lender of a written disclosure statement; improved redress for consumers in the case of oppressive conduct from the lender; the possibility of both early repayment and the right to vary the terms of the loan repayment in the case of unforeseen hardship; and the requirement of insurance cover only as necessary.

The CCCFA covers personal loans, home loans, long term leases, credit cards, hire purchase, overdrafts, student loans and housing buy-back schemes. Under the Act, credit providers are able to charge 'reasonable' interest and fee rates and must not engage in 'oppressive' practices. The Commerce Commission is responsible for promoting compliance with the CCCFA and has the power to prosecute in cases of the Act being breached. Credit providers who do not comply face penalties much more hard-hitting than under previous legislation.

Identifying 'At Risk' Consumers

[1] Commerce Commission, *Credit Contracts and Consumer Finance Act: A general guide for the credit industry*, March, 2005.
[2] Rebstock, P. 'Foreword' in *Credit Contracts and Consumer Finance Act: A general guide for the credit industry*, March, 2005.

Shortly before the CCCFA became effective, a report documenting the findings of a survey on consumer credit behaviour and knowledge was released.[3] The research was commissioned by the Ministry of Consumer Affairs to inform the development of a targeted 'public awareness campaign' about the CCCFA. A nationally representative sample of 700 New Zealanders, five per cent of them Pacific people, was interviewed by telephone for a benchmark survey, the specific objectives of which were to identify the primary target audience for the campaign and the key issues to address. Information was collected in the following areas:

- attitudes to money matters in general;
- awareness of credit and lending options;
- respondents' credit and borrowing behaviour;
- awareness of borrowers' rights and obligations; and
- awareness of lenders' obligations.[4]

Findings of particular interest to the study reported here (of Pacific peoples' responses to reasons for borrowing as compared to other ethnic groups), indicate that significantly higher proportions of Pacific people reported:

- their most common reason for borrowing was for essential items (44% cf. 14% other);
- borrowing to pay other loans/debts (36% cf. 7% other);
- borrowing to give/send money or purchase gifts for other people (24% cf. 3% other); and
- borrowing less than $1000 (51% cf. 14% Maori).[5]

In terms of financial behaviours, high proportions of Pacific peoples also reported:

- worrying about spending/borrowing beyond their means (71%);
- not being good at saving (36%);
- running out of money before payday (34%);
- not paying much attention to what they spend (33%).[6]

---

[3] Kalafatelis, E., Johnson, M. & M. Simpson-Edwards, *Identifying Consumers 'At Risk': Benchmark Survey of Consumer Credit Behaviour & Knowledge.* Wellington: BRC Marketing and Social Research, November, 2004.

[4] Ibid, 4.

[5] Ibid, 36-39.

Other findings of interest were the high proportion of Pacific people who reported knowing little or nothing about money matters (48% cf. 23% other) and that they did not know where to go for information (23% cf. 14% other).[7]

Intriguingly, the researchers concluded 'at risk' borrowers are *unlikely to be Pacific Peoples*' (emphasis in the original) because they reported borrowing from family and friends rather than institutions (the question did not clearly stipulate fringe lenders as an option). However, because of the high proportion both borrowing for essential items and knowing little or nothing about money matters, Pacific people were included in the 'at risk' group.[8]

Fringe Lenders in New Zealand

A recent desk research project undertaken for the Ministry of Consumer Affairs by Research New Zealand, provides useful information in terms of locating the qualitative research reported here. The Ministry commissioned the 2006 study as a means of exploring the relevance of the CCCFA to fringe lenders operating at the lower end of the credit market, to which low income communities resort when unable to borrow from banks and other mainstream credit institutions.

The desk study collated information on: the size of the fringe lending industry in New Zealand; the type of lending services being offered; where fringe lenders are located; and how they initiate contact with their consumers.[9]

The study identified 185 fringe lending companies, 94% of which offer cash or personal loans, 43% car loans and 26% debt consolidation loans. In terms of location, a significant number (71) operate in Auckland and are concentrated in South Auckland. Over half of the total number of fringe lending companies advertise in at least one community or ethnic newspaper with Tongan (*Taimi o Tonga)* and Samoan (*Samoana)*

[6] Ibid, 31.
[7] Ibid, 6-7.
[8] Ibid, 47.
[9] Cagney, Paula and Debbie Cossar, *Fringe Lenders in New Zealand: Desk Research Project.* Wellington: Research New Zealand, July 2006, p.8.

papers carrying the most advertisements, the former in Tongan language only and the latter in both Samoan and English.[10]

The study also provides a useful analysis of fringe lenders' advertising – the 'hooks' used to draw people into using their services. Those with particular relevance to Pacific communities include:

- *Placement*: unlike in most community papers where such advertisements are found towards the back of the paper, in the Tongan and Samoan papers such advertisements are large and are placed towards the front of the paper.
- *Commonality:* advertisements use people of the same ethnicity of the target market, and often use the 'common touch' with first names of agents and use of words such as 'friendly' and 'family'.
- *Incentives and disincentives*: to encourage consumers to borrow from them, lenders offer incentives likely to appeal to the target market. As a disincentive to defaulting on loans two Tongan-owned lending companies print photos and names of defaulters in *Taimi o Tongan.*
- *Simplicity, Flexibility, Affordability:* all fringe lender advertisements emphasise the ease and swiftness with which money can be borrowed, the range of amounts that can be borrowed, and the wide variety of reasons for borrowing; the fact that almost anyone can secure a loan no matter their credit history, lack of security or employment status; and how low weekly repayments can be. [11]

Another section of the report of interest to this study is that which lists the characteristics of fringe lenders and their services, namely:

- Generally small and often owner-operated, specialising in immediate personal cash loans for relatively small amounts, at high interest rates, to be repaid over a short time period;
- Targeted at specific communities – ethnic communities, beneficiaries, those with low income and poor credit ratings;
- Large administration fees, out of proportion to the size of loan, and limited documentation;

---

[10] Ibid, 21.
[11] Ibid, 23-25.

- Loans secured against personal property items (cars, houses, appliances) which are often worth a lot more than the loan.[12]

Low Income Groups and Consumer Credit

A literature review providing a theoretical/conceptual frame broadly useful for locating some key issues for the study reported here comes from researchers at RMIT University in Australia.[13] These researchers work from the basic tenet of credit being not just an economic phenomenon; that decisions about credit are also influenced by social, cultural and psychological factors and that money shapes and is shaped by social relations and cultural values. They maintain that these non-economic factors have not sufficiently influenced consumer protection [legislation] and consumer education. Their more sociological approach views financial decision making as socially and culturally shaped.

The questions they address through a wider study resonate with the purpose and objectives of this study and provide an interesting framing for the analysis of the research findings:

- What are the psychological and socio-cultural factors influencing decisions about personal debt?

- What is the relationship between disclosure, information and decision-making?[14]

Of interest is the reference they make to Aboriginal communities' perceptions of money as something to be shared within an extended family or kinship group and of saving as selfish. Another useful point made is that for non-English background people with low financial literacy, use of electronic money and banks can be a problem.

With regard to legislation and education, these authors are critical of the view of 'the perfectly informed consumer' – the notion that people make rational decisions which

---

[12] Ibid, 14.
[13] Singh et al. *Literature Review on Personal Credit and Debt. Families at Risk Deciding on Personal Debt.* RMIT University, May, 2005.
[14] Ibid, 4, 8.

take into account all the relevant information. An associated expectation is that the decisions of informed consumers will lead to a competitive credit market. This, they assert, is the view that underpins laws aimed at protecting consumers through strengthened disclosure polices and credit codes. They argue against the idea of information as a physical commodity that can be transmitted. They argue instead for a focus on how information is received and how people make sense of that information. The timing, format and language of the information provided are identified as important factors in the communicating and understanding of information. In addition, they argue that while information is a necessary condition for consumers' to make beneficial decisions, it is not sufficient; despite information being provided the consumer can feel helpless in translating it into beneficial decisions and actions.[15]

Further points relevant to this research study relate to the assumption that information is sought by those who recognise a gap in their knowledge. The writers refer to the fact that in social life much information is incidentally received and, importantly, that information 'could be sought but is not, because the questions have been silenced by trust or power'.[16]

Finally, the authors refer to Caplovitz' classic 1963 publication, *The Poor Pay More: Consumer Practices of Low-income Families.* In exploring the connection between credit and low income, Caplovitz found that for poor families it was the purchase of goods that was central to the decision-making rather than the terms of the credit enabling the purchase. Low income consumers ended up paying more both because of the practices of providers and because they did not shop around for the best price. Neither did they seek redress when cheated. It was reported that Caplovitz did not see the provision of information as the answer so much as teaching people how to shop better and making them aware of mechanisms for redress.[17]

---

15 Ibid, 6-7.
16 Ibid, 7.
17 Ibid, 11.

1.5 Report Outline

This introductory chapter (Chapter One) has provided an overview of the rationale for the research, its purpose and objectives, methodological considerations and participant selection. It then surveyed briefly some documents and other sources that inform and establish the context for the research study.

The research findings are now presented in two parts.

Part A: Key Persons provides the findings of the key informant interviews on their dealings with Pacific consumers. It comprises two chapters (Chapters Two and Three): the first explores their perceptions of particular problems – with contracts, information and socio-cultural issues - their Pacific consumers meet; and the second explores the implications of these for the development of strategies which could lead to solutions to the problems. Each chapter finishes with a case study narrative.

Part B: Pacific Voices*,* presents the information shared in focus and individual interviews with general Pacific consumers and those who have borrowed from fringe lenders and had both positive and negative experiences of this. It includes three chapters (Chapters Four, Five and Six) each of them concerned with one of the three key themes coming through the data: the first is concerned with Pacific consumers' behaviour on the fringe credit market; the second with Pacific consumers' knowledge of the credit market and their experiences of fringe lenders; and the third with the socio-cultural and psychological factors which shape and are impacted by Pacific consumers' decisions regarding personal debt. Each chapter finishes with a case study narrative selected because of the extent to which it illuminates many of the issues discussed in the chapter concerned. Verbatim participant comments are used liberally throughout the chapters as a means of ensuring participant voices are heard. Each focus group verbatim is attributed by focus group number (e.g. FG9). Individual interviewee participant comments are frequently introduced with basic demographic information (including some or all of sex, ethnicity, age-group, occupation). Part B finishes with a section entitled *'Moving forward: from borrowing to saving and/or borrowing better'.*

Chapter Seven draws out some general conclusions from the study that highlight the key themes and issues arising from the research.

PART A: KEY PERSONS' VIEWS

Introduction

Part A of the report considers the views of a range of key informants who offer services, programmes and strategies for assisting and supporting Pacific consumers in South Auckland. The focus is on identifying the perceived contractual, informational and socio-cultural issues experienced by Pacific consumers, their negative experiences with credit providers/fringe lenders in South Auckland, and on locating positive experiences and successful strategies which signal potential for change in this area.

This section is introduced with a note on methods. It then presents an overview of services provided to Pacific consumers, and some general service provider perceptions of Pacific peoples' experiences of the South Auckland fringe credit market. It ends with a list of characteristics gleaned from the information provided by the Key Persons (KPs) that together provide a profile of a typical Pacific consumer who seeks help from these agencies.

The body of Part A is then divided into two chapters. These two chapters present an analysis of data under the three major themes - contractual, informational and socio-cultural issues. Chapter Two considers those themes identified by the respondents as problems. Chapter Three considers the solutions. While it is acknowledged that many of these themes overlap and intersect, this process of separation has been selected to facilitate clarity and to do justice to the complexity of the themes. Each chapter ends with a case study narrative, selected because of the extent to which each is illustrative of the issues highlighted in the chapter concerned.

Method

Twelve key persons (KPs) were interviewed from nine agencies identified by staff from the Ministry of Consumer Affairs' Manukau Office. They comprised three Community Law Centres, one Community Budget Advisory Service, two Citizens' Advice Bureaux, one Pacific Health Care Centre, a South Auckland MP's Electorate office and one Church Minister whose parish included Mangere, Otara, Manukau and Otahuhu. Each interview lasted for one-two hours. All interview data were recorded, transcribed and analysed using conventional qualitative data analysis. Confidentiality of respondents and their institutions has been protected as required by the University of Auckland Human Subjects Ethics Committee. Verbatim comments are attributed to one of two sub-groups into which the key persons were divided, by the use of abbreviations – LR for Legal Respondent and CR for Community Respondent. KPs' area of coverage included Mangere, Otara, Manukau and Otahuhu.

Overview of service provider perspectives

All respondents were able to identify strategies or vision statements which articulated some commitment to addressing the problems presented to them by Pacific consumers experiencing financial difficulties. Frequent mention was made of the impact of lending and credit practices in the 'fringe credit' market-place insofar as they lead to consumer detriment for Pacific peoples in South Auckland. Frequent mention was made also of the workings, since their introduction in April, 2005, of the CCCFA's consumer protection mechanisms for their Pacific clients. There was some variation in the perceptions of the impact of the CCCFA. For some, this document was crucial to the successful negotiation by a few of their clients of a 'better deal' in their lending and credit experiences. For most, however, this document was seen as ineffective and confusing and of doing nothing to curtail a situation in which "unscrupulous traders prey upon of the innocent and the weak". Indeed, some KPs saw the CCCFA as having contributed to an environment in which fringe lenders flourish. This they attribute to the fact that key provisions of the CCCFA are disconnected from the reality of many Pacific peoples' experiences of the credit market.

Respondents discussed the extent to which Pacific consumers approached the various services in their efforts to seek help. Budget Advisory Services were identified as less formal sources of advice. By far the most frequently utilised were the Community Law Centres and Citizens' Advice Bureaux, which indicates that the point of entry of Pacific consumers for these services was at the legal action stage, often referred to as the 'almost too late', or 'last minute' stage. The process of seeking advice was for a few

Pacific clients, limited, patchy or ritualised, but for most it was an integral part of the process of working through their problems.

Although some positive stories are highlighted by these agencies - specifically those which demonstrate a shift from Pacific consumer as 'passive victim' to active agent in the development of strategies for dealing with lending and credit practices - much of the discussion around the CCCFA and Pacific consumers' ongoing experiences of the credit market in South Auckland was informed by their first-hand experience of negative outcomes and experiences for many Pacific consumers. Hence their responses were infused with concerns about the manipulations of the situation by 'unscrupulous' fringe lenders. There was a strongly held and unanimous view that legislative, advisory and educative changes were needed immediately to stop the "indiscriminate practices" of many fringe lenders. Also urged was a closer scrutiny of outcomes of the CCCFA for Pacific and other vulnerable communities, by those charged with its monitoring.

General points made by KPs about the Pacific people using their services included the following:

- Pacific clients are deliberately targeted because they find difficulty in securing finance elsewhere.

- Clients [to legal services] are both from off the streets and referred by WINZ, Citizen Advice Bureau, Budgeting Services

  "Some consumers are of the belief that WINZ has an endless pool of money to help them with their debts..."

- Most of their clients are Pacific Islanders with a few Maori. Of the Pacific clients, most are Samoans and the second-largest group are Tongans.

- Whereas both NZ born and island-born (including recent arrivals as well as those who have lived in NZ for relatively longer periods) present themselves at all agencies. NZ born and Island-born who have lived in NZ for a long time are more likely to present at formal legal and budgeting agencies, while older island-born people who are recent arrivals present themselves at informal church and community agencies.

- Recent arrivals have no credit rating and therefore see fringe lender loans as the only option for things they need and want.

  "Recent arrivals have a false impression of New Zealand...Hop off the plane and get a loan."

- Clients' ages range from 20 to 60 plus, with many in the 30-40 yrs age group - older clients are affected more by door to door sales than the younger cohort

  "... one old lady in a pensioner flat, who was Tongan, got sucked into buying a seven thousand dollar vacuum cleaner and her whole place was as only as big as this room."

- Pacific people are introduced to finance companies mainly through car dealers or door-to-door sales people. In most cases Pacific clients rely on the integrity of a salesperson. Many end up having negative experiences because of Pacific people who front car dealers and finance companies.

  "…innocent of all crimes are the ones who sign, relying on the integrity of those selling because they come from the same place.".

- For those in trouble their loans are mainly for cars (80%), with many for computers and household goods. A relatively smaller number are for weddings, funerals, and other cultural purposes.

  "They want to use it [the computer] for their children to help them at school etc."

- For the smaller percentage of those who borrow for cultural purposes there is the cultural pressure of maintaining family image and keeping up status and/or sending money back to family/church.

  "You see people folding in front of finance companies because of their embarrassment, the need to keep up with the church side of life…"

- Traditionally mostly women sought help but now many more men are presenting and asking for help.

  "…[men] are a bit shy to ask for help, they are a bit reluctant to come forward to ask for help…because it's shameful..."

- Many Pacific clients are "multi-borrowers". Several examples of clients who have accrued several loans with several different lenders were cited. Also cases exist where one Pacific consumer is guarantor for several other Pacific clients.

  " …a client who had seven loans with seven different finance companies…and some start to repay in 2010 …our people are just getting sucked in … over-commit themselves....some are gambling..."

- Amount of loans vary from 50 dollars to thousands of dollars

- Most Pacific clients do not shop around for finance

- Pacific clients tend to think of the present as opposed to future ramifications of borrowing.

“We fail to think about tomorrow or the day after…the usual pattern is that I want that and I’ll go and get that…”

- Pacific clients lack a ‘saving’ mentality.

- Pacific consumers need protection from themselves as well as from fringe lenders.

  “In the two year period [since the CCCFA] only one person [coming for help has] sought help with her contract prior to signing...and only one finance company insisted that a client seek advice prior to signing after the new contracts act was actioned”. (CR)

Profile of Pacific consumers in need of assistance

According to the KP respondents, all Pacific consumers who seek support through their services – at both formal and informal agencies – are characterised by at least some of the following:

- Are victims of the unscrupulous practices of fringe lenders

- Have failed to meet loan payments then incur default penalties plus administration fees

- Arrive in a desperate state often too late for help – finance company has already taken them to court

- Are deeply indebted because finance companies have delayed court proceedings in order for higher debt to be incurred

- Have a history of compounding debt which may lead to bankruptcy and/or a pay back scheme over many years/decades

- Are low-income earners, frequently beneficiaries and/or solo parents.

CHAPTER TWO
THE PROBLEMS AS PERCEIVED BY KEY PERSONS

2.1. Lack of Protection for Pacific Consumers

"*The Credit Contracts & Consumer Finance Act does not protect Pacific consumers from fringe lenders or from themselves*" (LR).

The statement above encapsulates a view shared by all respondents. Despite the knowledge that the Act's purpose was to allow consumers free choice to make their own decisions about taking out loans, most respondents did not wish to enter the philosophical debate about Pacific peoples' capacity to manage their own financial affairs in a relatively deregulated market. However, there is overall consensus that Pacific consumers have little or no knowledge of the protections provided by the Act and usually have not read, let alone understood, the contract document they have signed. Respondents see this as often because of language difficulties for older Pacific people/recent arrivals; some not even bothering to read the contract but just signing on the dotted line and not seeking advice before they sign. However, most Pacific clients who sign contracts are well aware of, and choose to ignore, the inflated interest rates they sign up to "because tomorrow never comes and that's the attitude..." (CR), or through a sense of complacency, preferring to know only "how much I have to pay every week/month, and for how long...."

The fringe lenders on the other hand know and understand the CCCFA very well, "they know how the system works and how the system can be used" (LR). This is compounded by some finance companies and fringe lenders often operating under certain names, closing down and reopening under different company names, then re-engaging with consumers. Often letters are never received by the consumers which compounds the problem of delayed action.

The area where most Pacific consumers are being 'trapped' is loans to buy vehicles. Over 80% of clients who present at legal services are being prosecuted for non-payment of car purchase loans to finance companies. There was unanimous agreement by respondents that problems with borrowing for cultural purposes by Pacific clients are much less than loans for vehicles and other goods and services. In fact many respondents state that Pacific consumers who borrow for cultural reasons ‘are better off’ because they have the actual benefit of the use of the cash they have borrowed, and it cannot be repossessed, whereas often consumers who borrow for goods and vehicles end up with ”no car, no goods, just the debt” (CR). One respondent eloquently states:

> *“They do read them [contracts] … and they do know ‘If you don’t pay, we’ll take the car back’. They say...’fine, you take the car back’. That’s where they come from and they understand that concept, if you don’t pay you’re going to lose it. They can understand that but nobody tells them ‘we’re going to take the car back and we’re going to sell it for two thousand and not only are you going to lose it mate, but we’re going to sue you for the difference, we’re going to stand back, because we can, we’re going to wait four years and we’re going to let that little counter click over thirty five percent before we file the suit and when we do, we’re going to go and we’re going to lock on to your welfare so there’s no way you’re not going to pay us and we’re going to sue you till you pay. Their [fringe lender’s] recovery rate is very low but over the next twenty years, they will recover, you know, so long as these people (Pacific clients) breathe and so long as these people are on welfare and stay in New Zealand, they will get their money, because the court does what it’s meant to do because they do have judgement against them, there is an order against them, it’s all legal and the finance companies will get their twenty five dollars a week.”* (LR)

Contractual issues

Most Pacific clients present at legal services and Citizen Advice Bureaux when they are in financial difficulties and need legal advice. They either come under their own steam or are referred by other lawyers or service agencies. More often than not the pattern is that clients have purchased goods, cannot make further repayments, and the goods are repossessed by the finance company. In most cases cited, the finance companies “are right on the button” in terms of process. The pre-repossession, post-repossession notices are issued, the sale arranged, and advice is given to clients that the goods have been resold.

The problem is the time delay between these stages during which default interest charges accumulate. With default interest rates as high as thirty-five percent a loan, originally a small amount, can escalate disproportionately, especially when goods are resold at a minimal rate. For example, one respondent points out that a car could be repossessed yesterday and sold for about two thousand dollars today, through a process whereby car dealers on-sell vehicles between themselves at a reduced rate – in some cases five times within a week. The consumer is then left with a shortfall on the money borrowed plus 35% interest to pay. It is common practice that a consumer will have lost the car and four years later may be in debt to the tune of many thousands more. What is there for the client's defence? A client has redress only if s/he can prove that something hasn't been disclosed to them as per the original contract. That is, the finance company can be sued for non-disclosure if something wasn't disclosed, or wasn't in the original contract, or there is something that happened by default. But more often than not clients end up with attachment orders placed on their income/benefit to repay the debt.

> *"You end up in a situation where these people that might be forty years old or thirty....they're paying twenty dollars a week for the rest of their life."* (LR)

A few respondents focussed on some of the hidden costs inherent in loan contracts. There is a huge variety of costs that some contracts carry or do not carry, and lack of clarity in what actual products/services are being charged for when consumers sign their contracts. They indicate that often Pacific consumers sign up for things they may not need. For example, expensive insurance – insurance to cover loss, and/or insurance on the service or maintenance contract:

> *"For example, a two hundred dollar appliance may also in financing carry a two hundred dollar service contract upon breach of two years of the guarantee or whatever and often people are signing themselves up for a whole heap of things that they really shouldn't buy, to be very honest. After the two years of the guarantee, they throw it away and it would be cheaper to go and buy something than carry on the contract of service, form of maintenance contract for another two years, that's just ludicrous, especially at the age of technological advance where each appliance that we buy is cheaper or got more value ... for the same price two years down the track we all know that. But these poor people including Pasifika are signing up for many years paying for a very small item worth only a fraction of the original loan [because of] all the add-ons."* (LR)

Furthermore, Pacific consumers are compelled to sign up for other 'iniquitous' fees such as administration fees, handling fees, contract fees, etc. as part of the contract which allows them to gain a capital item, all of which attracts interest. In effect, consumers are being charged additional fees which expand the size of the loan and add to the amount of interest to be paid, often way beyond what the consumer wants or needs. One respondent complains that the in-house nature of all this makes a mockery out of the CCCFA:

> *"The lender drives up the fees and doesn't allow the borrower to go and make independent enquiries from independent finance and insurance companies where somebody else is around. So instead of ...[doing]...what most people would do...in buying a car from one company and going direct to the insurance company, they find themselves dealing with an insurance company which is hooked up with the finance company and they buy huge credit, financing a huge credit that they don't need. So it's just insult to injury to have a high interest rate to start and then they're borrowing more than they need to borrow and having to pay the high interest rates on that again."* (LR)

According to respondents, many fringe lenders offer unsecured loans so that they can charge penalty interest rates rather than low interest rates. There is also a general consensus that Pacific consumers accept higher interest rates because of their unwillingness to go through banks, despite the lower interest rates that banks offer. Some reasons why banks are not seen as 'Pacific-user friendly' include the time delays incurred, not having a credit track record, and the often personal nature of the purpose of the loan. It was noted, however, that many Pacific consumers accept, especially when purchasing houses, that a mortgage from a reputable bank will be the cheapest and best way of achieving their goal. Those who were able to successfully consolidate a number of separate loans by refinancing through banks, were also referred to. Notwithstanding these cases, Pacific consumers in general prefer to take out personal loans with fringe lenders.

From the majority of cases cited, what becomes clear is that clients do not have a clear understanding of the concept, the requirement and/or the practice of 'disclosure'.

> *"For example the door to door contracts sales issue, where the vendor has to state their address and all these kinds of details, a number of contracts that I've seen from people who have come in, the door to door sales vendor has not even put down their address for the rights of cancellation....so even if they [the clients] wanted to cancel they couldn't have cancelled."* (CR)

Another tactic used to commit potential borrowers for car loans is encouraging them to take the car home for a 'test drive'. Under the CCCFA a client has up to three days to cancel the contract and it allows the client to pass that on to the car dealer or the agent of the car firm. But under the Act, clients who accept the offer of the 'test drive' are deemed to have taken possession of the vehicle, so even if they wish to cancel the contract, the three day clause no longer applies; the contract cannot be cancelled. Legal respondents claim that many Pacific clients are duped/taken advantage of when the car dealer says "Take the car home for the weekend .... show the wife and kids...", because by driving the car off the lot, they have actually 'taken possession' of the car.

In some cases clients have changed their mind about purchasing the car in the three-day time period allowed. However, often the car dealer has already claimed loan monies from the finance company, and the client, even after returning the car and cancelling the credit contract, is still liable for the cash price of the vehicle. It then becomes a matter of legal contention as to who owes the finance company – the car dealer or the client. The matter is exacerbated in the many instances cited where the car dealer then goes into liquidation or 'disappears' and the finance company seeks recovery from the client.

The bottom line is that the system is being worked to advantage those who are familiar with the CCCFA and who stand to gain a sizeable profit from unsuspecting Pacific consumers,

> *"...a little Mitsubishi RVR out there probably costing six thousand and I had a client who bought one for twelve thousand plus interest rates you know and they've ended up with...[if] that person had paid for the vehicle in the allocated time it's going to cost them over twenty thousand dollars with finance charges. That vehicle was probably brought in Japan for three thousand so you know [the finance companies] are making extraordinary...humungous profits on the sales of these cars and I think that has been the case for the past three years."* (LR)

Respondents also questioned the extent to which dealers meet the requirement to get the 'best possible market price' for repossessed vehicles and the implications for the consumer:

> *"But you see what happens is you go through the process and you come in and you buy your car and you might be able to maintain payments for six months, the car is repossessed, your twelve thousand dollar car. Then, under the act, they've got to get the best possible market price for that vehicle and it's very seldom challenged because they will put down that the car was sold for two and a half thousand... you'll find that that car was sold in theory to another car dealer who subsequently two days later sold it back again for twelve thousand dollars. Now how can you say that that's a fair and reasonable price for that car dealer to pay two and a half thousand when you can sell it two days later for twelve thousand? … That's the thing and they say 'Well it's a fire sale'...but do they actually put that*

out into the market place, do they put it through Turners? Do they actually put it out into the market place to get a reasonable price because how can a car get revalued by so much in such a short space of time. And of course you as the buyer are liable for that shortfall. Even if you take away all the finance charges, if you buy a twelve thousand dollar car and say maybe you pay off four thousand so you still owe eight thousand. I sell that car for two thousand, you are still liable for six thousand, that shortfall, and this is what catches them [consumers]. So not only are they paying thirty five percent interest, they're paying the shortfall between what they've paid and the value of what the car is sold for." (LR)

The legal respondents are quick to point out that where the finance companies benefit most is, "… on people who are paying back their $20-25 a week". In some cases finance companies cannot retrieve payments from low-income consumers, but with many Pacific consumers on welfare the finance companies go to the courts and get attachment orders of something like twenty-five dollars a week to be paid out of their benefits. Thus, finance companies have no interest in ensuring that the beneficiary consumer will be able to meet the loan payments according to the contracted conditions, because the borrower's income is guaranteed; in effect, WINZ are paying the finance company directly.

While motor vehicle loans are said to make up approximately 80% of Pacific consumer lending, respondents point out other loans taken out are for refinancing mortgages, rent-to-buy housing schemes, building garages on properties to accommodate large/growing families or to rent out to provide additional income, alarm systems, household appliances, computers for children and lesser amounts for cultural/personal commitments.

One respondent describes how often consumers take out mortgages on their properties for the construction of garages. The mortgage money is paid direct to the contractor with no contract in writing between himself and the consumer. The contractor disappears with the money, and the consumer ends up with no garage but with an extended mortgage on their property and the possibility of a mortgagee sale if the increased repayments are not met.

It was also pointed out that installation of house alarm systems is another major pitfall for Pacific consumers. Although some alarm systems go into private dwellings, they are often installed in Housing Corporation rental housing. "Consumers who are transient people move from one flat to another, but the alarm system stays in the house in which it was installed" (CR). These consumers, three houses down the track, often do not realise they are still liable for payments on an alarm system in a house they used to live in and end up in default with mounting administration and default interest costs on top of what remains on the original amount borrowed. So, for an alarm system which may have cost $5000, the consumer may now owe $16,000 - for an item which is in a property the consumer can't get access to in order to remove it.

There are also many cases involving the purchase of computers. The consumer defaults and the computer is repossessed. A five thousand dollar loan for a computer that might only be worth fifteen hundred dollars, is then resold for five hundred dollars. Many computer companies trade for two or three years through door to door sales, then go out of business, in which case consumers have no opportunity to seek redress. "But consumers still have this second contract with the finance company, this debt for many thousands, for a computer which is probably a 386 running Windows 98" (LR).

Finding a lawyer

One legal respondent states that often Pacific consumers are 'too poor' to afford normal services and therefore present at Neighbourhood/Community Law Offices who take them on board and assess their legal needs. Those who do not qualify for legal aid are advised to see private lawyers. Because of the likelihood of considerable fees, these clients are often advised to get a quote which the service will explain in basic terms so that it is understood: "Some people can afford to go and see a lawyer, then some people can't. We just take it case by case, whether they are in [real] trouble or not..." (LR).

Pacific consumers on low incomes need legal aid in order to gain redress for 'oppressive' lender conduct as provided for under the CCCFA. However, because legal aid is payable only if the matter goes to court, and proceedings are filed in court, lawyers who manage to get clients off before it gets to court cannot then claim under legal aid, despite having spent hours/days on a case. Respondents talk about cases where finance companies have withdrawn proceedings - good for the clients but not for lawyers who miss out on legal aid payments. Thus, many lawyers will not take on cases where there may be no payment for them at the end.

> *"If you don't go to court, you don't get paid and if you go to court, you're on legal aid and I can completely understand why lawyers don't do legal aid..."* (LR)

There are also other hidden costs such as obtaining the services of Pacific interpreters for some clients who have difficulties with English:

> *"The day before the court case I was told I needed a Niuean interpreter for a witness the other side were bringing in and I had to pay the cost of that....Yeah under civil court, the court doesn't provide interpreters and if you're the plaintiff, you've got to pay for the interpreter, I put in my application for legal aid, legal aid refused it because it was too late for me to fit in some eight hundred dollars for a Niuean interpreter. This is why lawyers don't do legal aid."* (LR)

The legal defence process is described as starting with a notice of proceedings stating a claim from the finance company to the client. If the client does not file a defence within thirty days of being served with that notice, then a judgement by default is filed with the courts by the finance company. When the judgement by default is stamped by the court, the finance company can apply for an order for examination. This involves the finance company filling out a form and sending out a bailiff, who serves the client with a notice ordering the client's court appearance, during which the client's ability to repay the debt is examined. If the client does not appear, the client can be arrested for contempt of court. If the client attends court, the Registrar determines affordable weekly repayments to be paid to the finance company. Payment is arranged by an attachment order on the client's benefit, if s/he is a beneficiary. If the debt is not repaid or arrangements not made via attachment order, then the client can be arrested for contempt of court for not obeying the court order.

One legal respondent describes how many of their clients faced with this prospect "feel like criminals...and this [infuriates] them because they're facing arrest on a civil matter..." Another respondent who has a working relationship with some of the bailiffs states:

> *"...some...bailiffs...ring me and say 'We've got this person and we've got to arrest him, is there something you can do to help this person?' And I'll often talk to these people and say 'Go with it, go through it and I'll represent you and we'll sort it out' because some of these guys get really angry - some guy has turned up on their doorstep to arrest them for a civil matter for a car which they bought four years ago, which they had for three months and now they've got a twenty thousand dollar debt and some guy's going to arrest him."*

A debt is a debt...

Legal respondents feel powerless in such cases. Notwithstanding clients getting into trouble due to naivety, being preyed upon by fringe lenders or ignoring the situation 'hoping it will go away', some of the stories they recount about actual cases are very telling.

> *"I went in for a review of an attachment order and this judge said to me 'Well she owes this nineteen thousand' ....What happened was this woman went down by herself and was cross examined by the lawyer acting for the finance company as per her income which is what happens. The lawyer was very aggressive...and nasty...my client included an extra income on the declaration of income that didn't exist and...this woman was in absolute tears when she came to us … I went back down before the judge and said this form was altered after she signed the statute of limitation by the solicitor - the credited solicitor made me stop and said ' Oh it was a mistake, shouldn't have happened, I didn't mean to do it' and the judge said 'Okay fine I can see obviously you made a mistake and it shouldn't have happened. But you know, this woman owes nineteen thousand dollars - she cannot just walk away and not pay this debt' and I went up there and said ' Your honour, this just isn't a case of this woman buying nineteen thousand dollars and not paying for it' It was so naive, this is a case of a woman paying seven thousand dollars for a three thousand dollar car which she had for two months which was subsequently repossessed and the balance of that is made up of finance charges and extra charges and I said ' She has a nineteen thousand dollar debt for a car that she no longer has and she only had the use of for two months."* (LR)

In this case the woman apparently received an order for twenty dollars per week for the rest of her life in order to pay off the nineteen thousand dollar debt. She had paid seven thousand dollars for a car which was valued at three thousand dollars. She needed a car to take the children to school as she and her husband had separated and her husband had taken their car. Her only 'crime' was that she could not afford the repayments.

2.2 The Availability of Information and its use by Pacific Consumers.

Shopping around

Most respondents despair of the fact that Pacific consumers do not tend to shop around for the best deal. Most consumers are unable to distinguish between frontline, second line or third line borrowing/lending and most do not go 'shopping' either. There is a definite preference amongst many Pacific consumers for fringe lenders, as many do not have a good credit rating with banks, and cannot purchase credit from these frontline lending institutions. One respondent states that many Pacific consumers just tend to 'drift into things' because when asked if they had checked out or talked to any other lenders, the response is usually negative. What is very clear though is that fringe lenders, whether as a first or last resort lender, provide a niche credit market for those consumers who either would not be eligible for, or would not find it easy to access loans from frontline lending institutions.

Respondents point out that the ramifications of debt incurred through the fringe credit market include family violence and other social problems. They call for urgent remedies to this escalating problem.

In these respondents' experience most Pacific consumers source of introduction to fringe lenders is through car dealers and rather than shop around for the cheapest/best deal when purchasing a car, they tended to use known networks, family and friends

> *"…their siblings, their family or relatives is working at the car dealer and they talk to them about the car…"* (CR)

However, many respondents shared the view that some consumers, especially beneficiaries, have benefited from the loan schemes as they have been able to purchase essential goods (e.g. cars) that would never have been approved for finance from banks etc. and that there are many cases where Pacific consumers successfully negotiate their way through fringe lending deals.

Marketing to Pacific people: Pacific 'brokers'

Despite these 'good news' stories, all respondents talk about the blatant and aggressive advertising and marketing of fringe credit in South Auckland and how Pacific consumers are openly targeted. There is unanimous agreement that one of the most blatant strategies for this aggressive advertising/marketing is the use of Pacific people fronting car sales yards and mainstream finance companies. "And these so-called brokers charge fees but are not legally entitled to call themselves brokers – just someone working for a finance company or selling cars" (CR). Allied to this is the growing number of Pacific-owned fringe lender companies. Many commented on 'the alluring and seductive flag and banner flying' carried by Pacific radio stations, newspapers, and magazines to advertise fringe lenders, and that this exacerbates the situation for many Pacific consumers.

> *"You know I see these advertisements. 'Uncle Sam's Car Sales' advertising on television last night, you know bad credit, borrow, you know no limit, come and see us and I thought ' Yeah you buggers, I'm sure you'll love it' You'd love it, you'd love that guy to buy a car and go past his three days, default within two weeks, boy, he's your best customer..."* (LR)

Respondents describe how these sales people lay "heavy guilt trips … on people… the way to get to the heart of Pacific people…is you talk about the kids" (CR).

> *"…they are really good at putting the fishing line out and reeling them in…I don't know if they have actually bothered to go through the conditions, the fine print."* (CR)

> *"Generally the salesman is the same ethnic background…they've relied on that person's advice and purchased the vehicle on that basis because they know them and trust them…and later down the track a whole lot of things go wrong... They should take the time to explain to their clients properly to make sure that they understand what they are signing, there should be some obligation that they understand what they sign…"* (CR)

> *"I've seen car dealers who are Pacific Islanders absolutely stitch other Pacific Islanders up...And I've had people who have come to see me and they'll say they've come to see me because I'm a 'white guy'. Maori and Pacific Islanders come and see me because at the end of the day, they believe that, it might sound silly, but they believe that they can actually trust me, because I'm not going to stitch them up. You know I've had situations where a guy's from another village on the same island you know … So this guy from one village on the island is stitching this guy up from another village on the island."* (LR)

While there are positive aspects with the 'for Pacific, by Pacific' approach, in which honest and sincere Pacific people fronting car dealers, finance companies etc. do their best to explain contractual obligations to their Pacific clients, there is a serious imbalance between these positive instances and the overwhelmingly negative outcomes which dominate respondents' experiences with Pacific consumers. Many cases were cited regarding loans for cars signed up to with the help of a salesman known to the borrower; such cases as an $8000 car ending up costing $32,000, "our people ripping off their own" (CR).

'Normalising' credit

Many respondents recognise the spiralling, overpowering influence of the culture of credit and the associated attitudes that are gaining momentum amongst Pacific peoples - that while New Zealand is no longer seen as 'the land of milk and money' as in earlier times, it is increasingly the land where you 'hop off the plane and get a loan'; a place where you can get easy access to cash through credit. There is consensus amongst all respondents that "people don't save up for anything anymore", that Pacific consumers tend to just go out and buy goods and services on credit. Bolstered by influential advertising and aggressive marketing to Pacific consumers, and the availability of 'instant cash, no questions asked', these respondents perceive that the culture of easy credit and consumption has taken a stranglehold on all tiers of Pacific society. This desire for instant cash to provide instant gratification, seems to cross-cut young/old, NZ/island-born, unemployed /beneficiary/professional, male/female, young/old divisions. While acknowledging that to an extent this is an inevitable part of life in an advanced economy in the 21st century, especially given that the New Zealand population generally is highly consumerist with many living well beyond their means, what is concerning is the lack of thought about possible ramifications despite the very obvious negative outcomes for so many Pacific people.

> *"I find the attitude with credit is so easy that it's too easy … it's so easy to sign up, but you are signing half of your life away."* (CR)
>
> *"….they think tomorrow is never coming, finally it happens and they realise that they still got a debt to pay and no goods"* (CR).

Saving rather than borrowing

According to respondents, their Pacific clients appear to view the old fashioned notion of 'saving' as just that – an outmoded and dated way of thinking about obtaining consumer goods and services that are desired today and now. Most respondents pointed out that their clients had presented because they hadn't saved and had instead taken out loans and ended up in trouble. Some added that, despite their invidious circumstances, these Pacific clients never indicated even wanting to save in the future. Moreover, that Pacific consumers are loathe to seek budgeting advice at all, let alone prior to signing a loan document.

2.3 Socio-cultural issues

Cultural obligations and expectations

Many respondents referred to the cultural pressure placed on Pacific consumers who present at their services. One respondent recognises the cultural pressure, especially amongst Samoans, to portray the 'look of financial success' to other Samoans, the Church and the outside world. Immense pressure therefore is brought to bear through the ‘keeping up with the Jones’s’ mentality for the family, in that, when purchasing a car it is not just any car but a four-wheel drive SUV despite an often limited income to repay the loan.

> *“Yeah, pressure on the family that comes in different ways. That’s the younger ones asking the older ones to help them out with loans by way of ‘you know I’ll pay you back’ but it’s also the aiga wanting a say in Samoan terms, ‘Well we’re successful here in New Zealand...but we want to show that to the outside world’. So they feel this pressure on them to justify themselves in their own Pacific community.”* (LR)

Respondents recognise that this mentality is borne of family pride but in many cases these people are already impoverished and this is exacerbated by additional pressures to meet other cultural obligations and commitments such as remittances to their families in other towns, cities and countries, and in their homelands. These cultural obligations and commitments are in addition to making payments for the car and other loans and meeting other financial obligations, and consequently family budgets are strained.

Additional pressures are exerted by church obligations in terms of tithes and donations which strain family budgets even further. Cases are cited where families have folded in front of finance companies because of their embarrassment, the need to keep up with the church side of their lives and the need to keep up with outward appearances. Thus they simply default on payments when the pressure becomes too great and they cannot find the money. One respondents states that some Church ministers play a leading role in accompanying usually older Pacific clients to agencies which can assist the family with their financial problems.

Another respondent notes a further reason why Pacific consumers are exploited by fringe lenders, in addition to the obvious language difficulties, is that many of the older Pacific consumers and recent arrivals are too polite and compliant:

> *“People need protection, Pacific people in particular because of cultural shyness and standing up too proudly....They don’t argue with people.....They are very polite and don’t like to be rude...”* (LR)

The same respondent notes that it is not always a different case with younger NZ-born professionals:

> *"… right through to the sophisticated New Zealand-born educated, twenty-something Pasifika students, or Pasifika person. We're talking about people with a good education, good jobs who should know better in their late twenties but because they've been holed up on the latest Subaru Legacy or whatever, want that set of wheels and are willing to pay ten, twenty thousand."*

Another community respondent comments that the cultural obligations of being a matai for one of her clients was the reason behind his getting into financial difficulties:

> *"…it's tied in with cultural issues…weddings, funerals…fine mats and everything. But they do not often come to our attention …because those are embarrassing things if it's tied in with family honour and their ability to fulfil their cultural obligations."*

Parents and children and the 'va: "No car...no food...no shoes..."

Another issue raised by respondents in terms of cultural obligations is contained in the va[18] - situations where the parent has exerted pressure on the children for obtaining a loan to meet the parent's perceived needs thus causing financial pressure for the children.

> *"…the relationship that children and parents have in the islands...and it is a respect thing. Oh if mum and dad want something you give it to them."* (CR)

A related scenario is where adult children have forced their aging parents to be guarantors for a loan taken out on the children's behalf, usually where the parents own their own property, which is either freehold or has a relatively small mortgage owing on it.

Many respondents give several examples of clients who had accrued several loans with several different lenders. One community respondent referred to,

> *" …a client who had seven loans with seven different finance companies…and some do not start to repay until 2010 …our people are just getting sucked in."* (CR)

Also cases exist where one Pacific consumer is guarantor for several other Pacific clients. A different community respondent cited the case of one client who "has three different finance companies on his back trying to get a total of $42,000 out of him" (CR).

[18] The social and sacred positioning of two people in relation to each other; as separate yet closely entwined.

The client had signed up as a guarantor for three separate car loans from three different family members, all of whom had had the cars they purchased repossessed for non-payment. Although he was working at the time, he is now unemployed. The view was that many Pacific consumers over-commit themselves because of their felt need to say 'yes' to various demands for financial contributions or other forms of support within the extended family and church community, or for acquiring the goods that would uphold their status within the cultural group.

Case Study Narrative 1

ADVISING INDEBTED CLIENTS

Many [of my clients] are New Zealand-born, they're normally in their forties or fifties, the really older ones. So the profile would be forty five through to sixty and that would be the profile of the ones I've seen and…that's probably because they're the ones that are more, more keen to come down to see a lawyer. I have seen some of the young 'brigands' if you like, and they are just very angry because they know they have been ripped off and there's nothing they can do. You've got some pretty angry young men out there because they have seen what has happened and...they know they've been ripped off but they don't really seek legal advice. It's the older ones who will see what can be done to resolve the situation. The younger ones I've seen...I'd say there's a lot more out there of them and they are angry ...This guy, he's a nice young guy - he's married with three children but honestly, the best thing for the guy, I went through it with him, he had a computer, same scenario, he had a car, same scenario, he was really angry and I just had to talk him through and I said ' This is, this is how it is. .. you know, this is it, you've been done, and you've been done well and truly' He had a good job and ultimately the thing I advised him to do was to go bankrupt because he was sixty thousand dollars in debt and he had nothing to show for it. He had bought a computer, he had bought a car, the wife had had a car, they had gotten behind on their payments, he had three young children. He was a nice guy but he was really angry. I went through it with him and I said 'At the end of the day, you're going to be paying this debt off until you're fifty. You're never going to earn your right, you're never going to get ahead because they're going to hit you on your wages' - because they can attach an order to their [the client's] wages so they [the clients] will never see the money, they will never be given the option of paying, it's going to be locked on to their wages - 'you are going to be paying this debt until you're in your forties or fifties for these computers and cars you don't even own. You haven't even got them, they're gone. Your option now is to basically go bankrupt' and that's what I advised the guy to do. It's not something you do lightly because it's not as easy as people think but he accepted it, he said that was what he had to do. [So] in three years time, he can come out and start again and move on. But if he doesn't go bankrupt, he and his wife are going to be paying about sixty, seventy dollars a week out of their income...for a very long time.

CHAPTER THREE

SYNOPSIS OF ISSUES RAISED BY KEY PERSONS

> *"... the consumer needs to be protected from the unscrupulous … It's people being put in an unfair position of the traders getting it over the customer, over the client...and that's what we have consumer protection for. "*

> *"So that's like an accident of finance waiting to happen. The Pasifika people being driven by their own particular circumstances, and the interesting thing is ... where the responsibility lies … there is one simple solution to this whole mess. "*

> *"We need in this country to change peoples' ideas towards finance...."*

This chapter consolidates the views obtained from the interviews with Key Persons. It provides a brief overview of the issues experienced by Pacific consumers as seen by the representatives of community organisations that provide assistance to Pacific consumers. The chapter will also provide a brief overview of the strategies and remedies that the Key Persons have identified in supporting Pacific consumers in credit markets.

3.1 Summary of Issues

The problems identified by Key Persons, as detailed in the previous chapter, may be summarised as follows:

In the area of trader practices

The key problems raised by Key Persons are:

- An urgent need for Pacific consumer protection.
- 'Oppressive credit contracts' and their hidden costs.
- Inadequately focused monitoring and enforcement of credit provider practices in areas such as disclosure.
- No definition of what is "reasonable" in terms of interest rates and administration and other charges and what amounts to "oppressive" conduct.
- Aggressive marketing of fringe credit and the targeting of Pacific peoples in lower socio-economic areas such as South Auckland.

- Lending practices in relation to motor vehicles which lead to exploitation of Pacific consumers.

In the area of consumer behaviour/knowledge

The key issues raised by Key Persons are:

- The availability of, and easy access to, cash loans through fringe lenders in South Auckland.
- An environment in which consumers can take on loans with unaffordable repayments and deferred payment/interest schemes.
- The encouragement of Pacific consumers to 'shop around' in credit markets.
- A need for alternative systems of credit provision in recognition of the fact that most personal cash loans to Pacific consumers are for relatively small amounts.
- More and effective community education programmes which inform Pacific consumers about the culture of credit, consumer responsibilities and obligations, and recourse strategies.
- The socio-cultural context of borrowing by Pacific consumers.

3.2 Strategies

Using the law

All respondents talked about the 'successes' they had experienced in their work with Pacific consumers. Legal respondents working for clients who found themselves in dire straits freely expressed their elation at 'getting some off' for non-disclosure, or outcomes where finance companies have withdrawn proceedings, or where they have managed to negotiate their clients' repayments to a more affordable amount. The next best result spoken about was getting a reduction on clients' liability. That is, although clients still needed to pay something to somebody, the amounts were reduced. Legal respondents were quick to point out that they dealt "with finance companies using the law and clients sitting on a result" (LR):

> *"... we can use the law in some ways to stop people [being in] crisis, but we can't eliminate the debt all the time … but we can educate them more. I like the feeling when you don't just solve the problem but when you show them the long term - what to do for themselves and their families and we hope...that it actually sticks*

and they stay out of trouble and teach their family and other people to stay out of trouble."

Negotiating with lenders

Community respondents on the other hand noted the increased up-take of their services, and applauded the fact that their services were,

> *"…slowly eating away at that number of people, lessening the number of people that get ripped off and encouraging empowerment amongst the Pacific people…"* (CR)

One budgeting service stated that they had had approximately three hundred clients and that as every client had achieved an improved situation they had a hundred percent success rate. When quizzed further about how that was so, the response was that in all cases the service had managed to "...help them to negotiate the bank/finance company to bring the loans down.... our success is to negotiate affordable payments" (CR).

There was a sense that as soon as fringe lenders/car dealers/finance institutions found out that the client had accessed formal and informal services, that there was an obvious process of 'working things out' for the benefit of the client that would have been absent if the client was on his/her own. Other community services indicated that their success was to offer good budgeting services catering specifically for ethnic groups. The same service noted that more Pacific consumers, especially NZ-borns were "shopping around":

> *" .. the ones (NZ-born)…who are more articulate, they will say 'I need help, where do I go?' Then you have the next layer down who have no idea…"* (CR)

Community education

An overarching strategy employed by community service agencies was community education programmes:

> *"To attempt to educate clients about hire purchase agreements especially close to the Christmas period…"* (CR)

From community budgeting services to citizens' advice bureaux, Pacific healthcare services, MP electorate offices and Pacific churches, respondents stress the importance of community education programmes. These provide opportunities for Pacific communities to engage with staff from the Ministry of Consumer Affairs and other legal and community service providers to address issues around fringe lending. The effectiveness of these programmes, however, appears to be somewhat uneven. Some respondents state that these meetings are well attended, others regret the 'empty chairs' and poor turnout, or 'the same faces' who present every month. But overall there is an optimism that more Pacific consumers are hearing about these programmes, especially as the word gets around, as it does in Pacific communities. News spreads of the effective help they provide and their positive outcomes for an increasing number of Pacific consumers who are on the path to recovery from their negative financial experiences and have become empowered through the process spreads.

3.3 Solutions

Respondents agree unanimously that the solution to this 'lending frenzy' lies in focusing on consumer protection in terms of changes to present legislation and more regulation of fringe lenders. Many talk about the need for a register of fringe lender companies with certain requirements which must be met to enable them to practice; a register and website of car values available to consumers; and the need for more focused community education.

3.3.1 Contracts

Tackle interest rates

Respondents agree that fringe market interest rates are far too high and that introducing some control over inflated interest rates would help the situation for Pacific consumers. It was pointed out by some that there would always be 'ways around the law' but that if interest rates were limited by legislation, then market traders would be forced to behave in a fairer and more equitable manner and repayments would be more affordable for Pacific consumers. It was recognised that the present fringe lender situation attracted many Pacific consumers not because their terms were competitive but because many were unable to borrow from frontline and second-line lenders:

> *"…so that's like an accident of finance waiting to happen. The Pasifika people being driven by their own particular circumstances and the interesting thing is ... where the responsibility lies."* (LR)

Extend the cancellation period: '... from three days to thirty days or something in-between'

Legal respondents point to a general feeling of 'hopelessness' with the current situation, in that they are getting cases where their Pacific clients have tried to "get out" but fail because 'it's too late.' Most respondents think that the three day cancellation period is unrealistic and want it extended long enough to allow consumers to work out their budgets, with assistance if necessary, to see if they can realistically meet their commitments under the contract.

Make contracts easier to understand and their conditions transparent

> *"Make it [the contract] easy to understand and explain… [for lenders] to be accountable to explain to them how much interest they will be paying…they need to know people's financial situation…"* (LR)

A lot of discussion from respondents centred around the need to make lenders accountable for ensuring consumers have the ability to meet payments, the oppressive nature of the actual contract document in terms of (non)disclosure issues, hidden costs, default interest rates and the level to which lack of understanding of the contract and the ramifications for non-compliance were rife amongst their Pacific clients. Some solutions discussed were:

- Some means of obliging lenders, especially those involved in selling and providing finance for cars, to ensure that the consumer both understands what the contract means and has the means to meet it.
- Need to ensure that copies of the contracts are actually handed out. Often when asked clients would state that they had not received their copy. *"You need to source contract when they are in trouble – some dealers are not issuing contracts ..."*(LR)
- Clients need to be encouraged to have documents checked by support services before they sign them.
- Translation of contracts into Pacific languages. Many nominated this as necessary for the smaller, older cohort of Pacific consumers. However some respondents did not see this as the solution stating that in many cases Pacific consumers "signed blindly" regardless of not understanding things because of their rush to access instant cash, and this was unlikely to change with a contract written in their own language.

"…most of our people don't read things they just sign where they are asked to sign and at the end of the day they don't realise that their signature holds them to certain obligations." (CR)

More control over repossession of goods, the timeframe within which legal action must be taken and the period of delay causing default interest

Legal respondents were adamant that controls and changes in legislation were necessary in order to curb the insidious practice by some fringe lenders, especially car dealers/finance companies, in delaying legal proceedings in order to accrue copious amounts of default interest from Pacific clients. Another area for changes in legislation was that there needed to be more controls in place enforcing equity in the repossession of goods and on-selling of said goods nearer the purchase value/price that clients bought goods for.

"Yeah I think there needs to be some kind of control over repossession of goods and then taking on the legal action straight away so that these ridiculous years of default penalty interest rates don't accumulate because that's what's happening with the car market." (LR)

One respondent suggested that as with the disputes tribunal and the motor vehicle regulation service, some sort of Repossession Court should be set up to deal with these issues in a fair and equitable manner. In this way the Court could determine what is fairly owned, how the repossession should go through and to allow consumers to know what they owe, how they've defaulted and what the process and outcome is going to be. Then settlement could happen on the spot or suitable arrangements made.

Deferred payments and interest rates

Schemes such as these were regarded by respondents as misleading, dangerous and 'scary' for Pacific consumers. Such schemes were identified as 'preying on people' because there was a long delay in commencing loan repayments, and that there was a real possibility that consumers would forget about the loan in that payments are future-projected.

"People say 'Oh I don't have a job [but] I'll be able to afford it in four years time' and they get into it thinking like I don't have to pay during this year, I'll be earning twice as much in a year and I'll be able to pay it off no problem. So they're (fringe lenders are) actually … gambling off people, projecting their own instance,

> *projecting a better time … that maybe ....the economy may be better.... So that's a problem we are going to have to eliminate by law."* (LR)

Limit the number of and amount of loans any individual or household can take on

As we were told by all key persons, a significant number of Pacific people who get into serious trouble have taken out loan after loan for cars, furniture, household appliances, personal possessions such as clothes etc, and continue to take them out even after they have had items repossessed because of non-payment on previous loans. One beneficiary client was cited as having racked up $150,000 in loans (the total owing with default interest and administrations fees added) with no real security (CR). Also noted by a different community respondent was that the "more complex a multiple loan arrangement the more likely that the borrower will meet many or most of the common denominators of 'high risk' borrowers – low income, beneficiary, record of poor management of money, limited control of English…" (CR)

Turning the clock back to the 1960s – no credit!

One legal respondent was so upset by the status quo and how damaging the situation was for Pacific consumers that he wanted to turn the clock back to lending policies of the 1960s.

> *"Quite simple, you just go back to where this country was in the nineteen sixties....No credit, it's as simple as that, no credit..."*

He calls for the return of the former hire purchase legislation where one could only be eligible for loans if outgoings on mortgages/loans etc did not exceed thirty percent of income, and that one had to save for a deposit. It was a time he recalls when people had no choice but to borrow from front-line banks even for personal loans.

He rues the fact that "New Zealand has gone into a culture of liberalising the finance laws and valuing a culture of debt," which in his view has given rise to the financial problems low income earners, especially Pacific consumers, are facing today.

> *"So we've got those problems to deal with but I keep saying it's so easy to solve this whole problem. Go back to where we used to be forty years ago. Stop people financing any more than a small fraction of whatever they earn…"*

He denies this is a paternalistic attitude and calls for protection for consumers, especially Pacific consumers on a needs basis "It's not saying Pacific people per se, it's saying those that need protection should have protection."

3.3.2 Information

Suggestions for broadening and improving the availability and accessibility of information included:

- a register of fringe lending companies outlining qualifications, market experience and criteria for lending;
- a public website to ascertain car values, a useful means by which consumers could access information about the current value/cash price of cars according to type, age of vehicle, mileage, how many previous owners etc. so that they can then make an informed decision about whether to buy, or what is a realistic sale-price for their vehicle;
- regulation of those finance companies aggressively employing Pacific staff to target Pacific clients;
- an 'unethical bodies' register. Some community respondents thought this a useful resource and a deterrent for unethical practices by fringe lenders and other agencies.

Advertising

Both community and legal respondents call for the banning of fringe lender advertising and more targeted awareness advertising funded by government:

> *"they probably couldn't continue if they didn't have their advertising … but we don't accept tobacco companies advertising anymore…"* (CR)
>
> *"Government needs to take a similar stance to that of cigarette smoking where the most negative things are highlighted - the interest rate, the penalty rate…"* (LR)

3.3.3 Socio-cultural Issues

As expected the overwhelming need to promote positive change in Pacific consumer behaviours and to increase their knowledge about credit markets was acknowledged by all respondents. More assertive community education, by formal and community service providers/agencies, church leaders, and Pacific communities and Pacific families themselves was strongly supported. It was also acknowledged that the desired changes could only happen in tandem with proposed changes in legislation and trader practices outlined above.

Shifting the 'buying on credit' culture.

A strong media campaign to promote saving rather than borrowing was proposed. This was seen as requiring strong advocates and strong messages to Pacific communities in order to change attitudes and practices. It was also suggested that the message of such a campaign should focus on the need to achieve 'a long-term lifestyle' rather than a dependency on short-term finance.

Other suggestions for changing the prevalent culture of borrowing included:

- Increase/raise public awareness about legal and budgeting services; use of catchy slogans e.g. 'See the law before you sign it!'
- Establishment of more support agencies and organisations.
- Development of a Pacific-user friendly NCEA course on 'Managing Money'.
- Active and focused involvement of Pacific church and other community leaders.

Some respondents recognised that most Pacific consumers, especially the older cohort, attend Church and that if the Church minister is able to say, 'Don't use fringe lenders', then perhaps this could be a start. "Education is important … we need to try to educate the ministers [who can then] educate the congregation" (CR).

Some churches are already providing this service:

> *"We have them [information sessions] monthly to teach the congregation… but more proactive attention must be forthcoming in this area. Education through the church and education in own language and language that is understood is important....Educate our people about what fringe lenders are and how they operate and I believe the more information we pass onto our people, some of the issues will get recognised …"* (CR)

The va and the guarantor system

The guarantor system needs to be thoroughly understood to ensure that parents are not exploited by their adult children and vice versa. The elderly need to be protected by having an appropriate person explain and highlight what they are signing and what their obligations as guarantor will be, in culturally appropriate ways. In the same way children must also be appropriately advised and provided access to advice and guidance before signing contracts. This could be carried out both in family and/or individual contexts as appropriate.

Educational seminars and consumer clinics

Community respondents highlight these as successful strategies. Often consumers bring in Hire Purchase Agreements to be checked. Brochures in English are preferred by some clients as some Pacific families do not want to admit that they don't understand English so will not take brochures in Pacific languages. Therefore facilitators need to ensure that all consumer needs are met regarding appropriate access and understanding of resources available. Clinics need to be conducted in English and/or Pacific languages as required.

The following case study harks back to earlier times, when Pacific islands migrants found employment quite readily and were able to establish economic security, while still meeting cultural obligations by drawing on both family resources and mainstream lending institutions within a regulated credit industry.

Case Study Narrative 2

USING MAINSTREAM LENDING INSTITUTIONS

We stayed in a state house in Papakura when first arrived here…two of the older boys started working and I was also working fulltime so we had three incomes which was very useful. The children always obey us the parents and at the time when pay packages came in envelopes the boys' pay packages were opened at home by my wife and myself, we opened the envelopes and we were very careful to ensure our sons' wages were properly looked after. We looked after the boys' lunches and their wages were apportioned so that about $50 each of their incomes were banked into their personal bank accounts, the rest my wife and I kept in a family account with the vision to eventually buy a family house. Whenever the boys wanted some money to buy clothes we always gave them what they asked for….We also talked about the need for us as a family to eventually buy a home once we could afford it.

As years went by and our family savings grew, we thought perhaps it was time we were to look for a house…we walked past this house and my wife said this was a good and ideal home for us and we started to talk seriously with the seller. The four bedroom house was $95, 000 so we deposited $13,000 from our family savings. We needed to borrow $75,000 and a few years later borrowed another $10,000 in order to make improvements to the home. We also saved enough money to pay for a garage worth $9,000.

The Real Estate Developer gave us a selection of houses in our price range and offered to recommend a bank to us from where to get a loan for the house. So we were able to gain access to the bank manager and we were asked about how much our household income was and what we wanted for our house. During our discussion I asked about the different packages if we were able to provide a range of deposits towards the house. The package which required a $13,000 deposit suited my need with regards to our ability to service the loan and the amount of the loan repayments. The bank manager, after we paid up our deposit, then explained what I had to pay each month and all the other expenses. There was also a fee of $750 that was needed to pay to open a mortgage account although the money was still part of your account. The mortgage account for our house was under my and my two older boys' names and I was told that the mortgage account needed to go in all our names because we were the joint income earners in our household. Both the boys and I had life insurances and the bank explained that should one of the three of us died, that the mortgage would be paid off. For house and content insurance we were advised to go to another company. The mortgage repayment was $405 monthly but I knew that at that time me and my sons were earning more than adequate wages a week. I was advised that making fortnightly payments would reduce the mortgage over the years and I agreed to that arrangement and we are still paying fortnightly. The bank people explained the conditions of interest rates available and the different types of mortgage terms which were all in the Loan Agreement and I understood that if the terms were on floating rates your interest rate would be dependent on the finance rates here if you were on a fixed rate, you would only change when you reach the end of the term in which your mortgage had been fixed for even if the interest rates increased. Later I met with the Insurance people and they explained the different types of insurance policies which we required including life insurance and the house and content insurance cover. There were also explanations about penalties if we weren't able to meet the repayments.

Both my sons and I needed to sign the Loan Agreement and through our lawyer we were able to ensure that further down the line when my sons get older and have their own families that they wouldn't be disadvantaged from having the opportunity to withdraw their commitment to our family home. Subsequently, my sons' names were withdrawn from the family mortgage and I was left as the sole benefactor of the home. Later I made a Will which benefits my wife and my seven children should something happen to me and that's the current situation.

The boys later wanted to have their own families and we were happy to fund their weddings because they had given us much support as we were saving for a family home and we wanted the best for our children. As well as funding their weddings we also handed over the individual savings that we had put aside in their names during their working days as young boys living with us. My practice with my children over the years regarding their finances is that I have always kept their bank account cards until they got married and had their own families. The reason for this practice is that I don't want my children to spend their money unnecessarily; whenever they want to buy things we don't stop them although my wife and I make sure the reason for spending their money is appropriate.

Most Samoans have to attend to the fa'alavelave whether they want to or not. My own practice of having a separate family savings account from my sons' savings account was not only to save up for a deposit for a home but also to ensure that we will have the resources to meet our obligation to family fa'alavelave. The first instance where we needed to draw on our family savings account after we came to New Zealand was when we heard my father was sick and I had to go to Samoa. Later when my father passed away I discussed it with my wife and children and other family members who all contributed to the funeral. We raised $12,000 for that particular fa'alavelave and we didn't spend all of that because during those days things weren't so expensive and so we didn't even have to use any of my immediate family's savings account. Because my family members and I had raised enough money for the funeral, I didn't need to borrow money from the bank nor any other lenders. But later when the older four children got married I envisioned that because my wife's mother was still alive we needed to start saving specifically for that particular purpose when the inevitable happens to her. That was before the year 2000 and every week each couple paid $20 towards that project which netted $100 a week between me and my wife and the four children who were married. Sometimes one couple may be behind with the weekly contribution but I always remind them to pay up the arrears to be fair to the others. Since then, one of my daughters got married and my wife and I withdrew $15,000 for her wedding leaving $12,000 in the project account. To date we are still contributing $20 a week per couple towards this account. When my wife's mother passed away we had $17,000 in the account so we withdrew $15,000 for the funeral leaving $2000 in the bank.

Since then we have continued this practice and that is how I am able to fund my fa'alavelave instead of going to the [fringe] lenders. Just last week, I withdrew $2000 and divided it among the couples so they can spend money on their own children.

My own practice where me and my wife and the married children contribute $20 a week towards a family fund has been a successful strategy which isn't a heavy burden but can grow to a significant amount of money which we have utilized to fund several expensive family fa'alavelave. For some of our people, their command of the English language isn't very good but that shouldn't become a barrier in our dealings with Finance Companies and any other people when we need to understand things related to borrowing money. English is our second language and we should ensure that our interests are respected and our needs are not compromised because of our English language limitations.

PART B: PACIFIC VOICES

Pacific Consumers' Experiences and Perceptions of the South Auckland Fringe-lending Marketplace

Introduction

The following qualitative research processes were undertaken in order to explore the extent to which, and reasons why, Pacific peoples use credit, and the impact of fringe-lender practices on Pacific consumers:

- Ten focus group interviews, each lasting two-three hours and involving a total of 94 general Pacific consumers. The focus group participants included a range of ages, from people in their twenties to those in their seventies, and both men and women. One Tongan focus group consisted of men only and two groups included elders only, both male and female. Five of these groups were undertaken in Samoan and five in Tongan language.

- Fifty face-to-face interviews, each between one and a half and two hours, with individual participants (some of whom were interviewed with their partners). The 50 participants recruited were divided equally between men and women, covered the full range of adult age groups, included both island and New Zealand born, and were drawn from a wide range of paid and unpaid occupation groups. Although more inclusive of other Pacific Nations than the focus groups, these participants also were largely Tongan and Samoan.

In each of the above groupings, the common areas of concern incorporated into the thematic analyses are:

- Decisions regarding money and spending/borrowing framed by personal and family circumstances;
- Decisions regarding money and spending/borrowing framed by socio-cultural factors;
- Knowledge about the credit market and experiences of credit providers; and
- Lessons learned and ways forward.

This part of the report presents the information shared in focus and individual interviews with general Pacific consumers and those who have borrowed from fringe lenders and had both/either positive and/or negative experiences of this. It includes three chapters each of them concerned with one of the three key themes coming through the data: the first is concerned with Pacific consumers' behaviour on the fringe credit market; the second with Pacific consumers' knowledge of the fringe credit market and their experiences of borrowing from fringe lenders; and the third with the socio-cultural and psychological factors which shape and are impacted by Pacific consumers' decisions regarding personal debt. It is acknowledged that many of the issues within these themes overlap and intersect; this process of separation has been selected to facilitate clarity and to do justice to the complexity of the themes.

Each chapter finishes with a case study narrative selected because of the extent to which it illuminates many of the issues discussed in the chapter concerned. Verbatim participant comments also are used liberally through the chapters as a means of ensuring participant voices are heard. Part B finishes with a section entitled *'Moving forward: from borrowing to saving and/or borrowing better'.* This section summarises Pacific consumer participants' suggestions for ensuring Pacific peoples are more informed financial managers and that the unreasonable and oppressive practices of fringe lenders are curbed.

Commonalities and diversities in this sample of South Auckland Pacific credit consumers

Before proceeding, a list of characteristics gleaned from the demographic information provided by our participants, and from the focus group and individual interviews, is provided here as a means of orienting the reader to the considerable amount of data – the stories and the issues they raise – coming through these chapters:

- Although participants included in the sample cover a range of paid and unpaid occupations, the overall proportion reporting household incomes of up to only $15,000 is very high (41.9%). The next income group ($16 -30,000) includes 22.6% of the sample. Only 11.3% report incomes of higher than $45,000.

- Less than half the sample (43.5%) was in paid employment. Over 40% were either beneficiaries, superannuitants or recipients of student support.

- All 124 of the South Auckland-based research participants reported a high level of awareness of fringe lenders: who they are, where they are located and what they offer. Many also commented on the fact that they continue to proliferate and on the extent to which they impinge on their and their families' lives.

- A significant number are multi-borrowers with several concurrent and/or consecutive loans usually for small amounts from fifty dollars to two thousand dollars. It is reported that as soon as a loan has been repaid the lender makes quite aggressive approaches offering more loans to a 'valued customer'.

- There is much diversity in levels of financial literacy. Those with considerable knowledge of the credit market and legislation were more often found in the individual interview sample and were usually those deliberately recruited to provide the desired cross-section of income and employment groups. Those recruited because of being 'in trouble' demonstrated minimal financial literacy.

- Some Pacific consumers will read a contract thoroughly before signing. Others blindly sign and are only concerned with how much to pay, when to pay, and when the loan will be fully repaid

- Especially for the very low income group, loans are often used to pay everyday living expenses and to get out of difficulties (rent arrears, power reconnections) because of an insufficient household budget.

- Married/partnered Pacific women who look after household bills were frequent fringe lender borrowers because of their need to source money; they express much shame in doing so. Sole parenting women, who were often in 'desperate' circumstances, also express shame and hopelessness about their situations.

- Goods/services purchased with loans vary from house mortgages/refinancing, household appliances, personal items, cultural obligations, with the most common single reason being motor vehicle purchases.

- Young NZ-born or NZ-raised Pacific consumers who didn't finish secondary school and who worked in low to semi-skilled jobs, felt comfortable going to fringe lenders. Better educated young Pacific consumers still used them but warily. Both groups use them in order to purchase personal and "non-essential" items.

- Pacific consumers who worked in low to semi skilled jobs who applied at banks and were refused because their wages were too low to service the loan, sought out 'fringe-lenders' because "they looked at other things...not just wages.."

- Pacific men borrow for family things – for cars, for mortgages to buy a house, church donations and cultural obligations, and some personal things like gambling and sports.

- Some borrow to preserve good marital/partnered relations. As one Tongan man said "men borrow to keep their wives happy" and a Tongan woman in same group said ”women borrow to make their husbands look good.” At this level borrowing appears to be more about ’wants‘ than ’needs.’

- A large proportion of the participants, despite their negative experiences and consciousness of having been exploited by the fringe lenders, expressed strongly their need for a credit provider through which they can continue to access small cash loans.

CHAPTER FOUR
PACIFIC PEOPLES' BEHAVIOURS AS CREDIT CONSUMERS

The focus groups and individual interviews were most revealing in determining the rationale behind fringe lending use within Pacific Island communities in South Auckland. In terms of the theory informing the CCCFA, the credit industry pitches its services to the needs and wants of the community and prices its products to its costs of delivery and the risks attached to the customer. From the customer perspective, it makes sense to obtain financial services from the cheapest source available, and as evidenced by the case study narrative at the end of the previous chapter (p.44) and by quite a number of our older interviewees, some Pacific consumers do respond to market signals in the expected way. There was a general consensus in the data that, for those who owned their own home, mortgage facilities were primarily taken up through a conventional bank or the Housing Corporation and the bank is still used by some participants to fund other major purchases. One participant, who was not able to access a bank loan due to a lack of assets, mentioned taking on a home ownership package offered by a property developer.

However, higher cost options such as fringe lenders are 'preferred' by many Pacific consumers because of the perceived tangible or intangible benefits that they offer, and frequently because they do not have access to the cheaper credit options. This often leads customers to place less emphasis on the cost of alternative financial services and more on other factors, such as ease of access, instant financial reward and non-judgmental attitudes. While borrowing under these circumstances can result in short term financial relief, it can also lead borrowers into high stress and/or spiralling debt situations.

4.1 Why do Pacific people borrow money from fringe lenders?

Easy Access to Money

The most popular reason given for using fringe lenders was the ease of obtaining the goods or cash from these sources.

> *"The numerous number of Finance Companies and the easy access and availability of finances in New Zealand is quite a new concept for me since we arrived from Samoa about 3 years ago. Even though I was a senior economist employed in financial institutions in Samoa for many years I must say the easy accessibility of finances and the instant availability of funds to the public from all types of lenders is quite a revelation and an interesting experience for me."*

Many participants speak about their preference to borrow from fringe lenders because they meet a perceived need for instant cash, and that it is much easier to get a loan from them than at banks and other institutions. Moreover, if they are good payers they will become valued customers with more offers of loans from the finance company:

> *"[The Finance Company] lends money when you need it urgently – say if you need $200 or $300 – then they will give you that money and you have to pay the loan off within a month. Recently when we were on holiday and money ran out, we....borrowed $300 from this lender and we used that money to buy the children things during the Christmas and New Year break and we paid that off within a month at $93 a week. Now the girl is ringing us and saying we can come back and borrow some more money because we have paid off the loan on time. That's the same situation with [another fringe ender] because we have borrowed from [this fringe lender] several times before because so long as you pay the loan regularly they will always be able to lend us money. The repayments for our loans with [Finance Company] are deducted automatically from my wages so payments are on time and regular. Sometimes we may owe them $3000 or $4000 at any time but when we have a fa'alavelave and we need to have access to money we would normally go to [Finance Company] and they would normally top up our loan with them. We have been with [Finance Company] for many years and while the interest rates are very high they are always very helpful when we need to borrow money."*

In many participant accounts it is obvious that their decisions as to whom to borrow from are based primarily on the need for quick no-questions-asked cash. The circumstances and contexts vary but it is clear that often desperate circumstances warrant desperate measures and the deciding factor is whether participants can have the cash immediately. Making finance accessible to the unemployed, beneficiaries, people on low earnings or those with poor or no credit ratings is also a strong incentive for borrowing money from fringe lenders. In terms of providing collateral in these cases, one elderly Tongan woman explained,

> *"You know you will come home with some money from a lender… if you have no money you can use your car for security…"*

From the data, however, it is also clear that people understand and would prefer to borrow under the lower interest rates offered by the banks, but the following statement from a focus group member echoes the sentiments of many participants, "We would have preferred the Bank but it would have been just so much harder" (FG2).

As explained by a young Niuean man:

> *"I couldn't borrow from the bank because my application wasn't good enough … so off I went to the fringe lender. [first] I went to get money for fixing my car … I borrow mainly personal use, I want to buy personal things. I took one out also when I bought a new car. I don't borrow for any cultural things."*

Similarly, a middle-aged Samoan mechanic explained, there is "too much hassle in the banks' processes and their procedures are too strict and disallows many Pacific people to gain access to bank loans". Being able to walk into the shop with a financial need and walk out with the money was seen as a powerful incentive to use fringe lenders. The speed at which loans can be arranged; the lenders' understanding of Pacific approaches to life and non-judgmental attitude; and their easier collateral requirements, were all cited as reasons to follow this borrowing route. As one focus group participant put it:

> *"These lenders understand when we have a funeral here or in the islands we need to have money straight away but banks you have to go and get a lot of information, and can take a week or two and by then the funeral is over."*

The extent to which easy access to instant cash has encouraged a situation where 'going to the fringe lender' has become normalised for South Auckland Pacific communities, despite perceived problems such as high costs, is clear in the following comment from an older Tongan housewife:

> *"I borrow from them because I have no money in the bank and therefore won't lend me anything...They're the only ones to lend me money...it's fast, you sit*

there and only 30 minutes later you get the money… PI people like things easy that's what I see...But I don't like them because interest rates are SO HIGH…'I almost faint when I see the total amount - but where can I go?'...Tongan women pay the bills in the house and then go to the lender if no money. That's why I always see PI women at the lenders…they hold family together. I think borrowing at the fringe lender is now a PI way of life because that's the only people you see there and they have no money in the bank like me so we have no other option…so it's our way of life now."

A more comfortable environment

Several participants mentioned that they felt more comfortable in the more relaxed environment of the lenders' premises compared to entering a bank. In one focus group it was mentioned that,

> *"At the banks, I want to have access to the manager but most of the times the junior staff at reception don't look at people like myself favourably so that's another disincentive for me to go to the banks."* (FG4)

This sentiment was further supported in the following comment from a different focus group:

> *"Another reason some of our people don't go to the banks for loans is that bank staff are always formally dressed up in suits so people see them as very important people and their status is perceived as higher as those of potential borrowers, that is another disincentive and reason why some Pacific people wouldn't approach banks for loans."* (FG5)

Interestingly along these lines, another participant had noted a shift in attitude at some banks:

> *"Staff of Finance Companies often dress more casually so our people probably relate better to them than to bank staff whose dress code is more formal, but I have seen changes in bank staff attire and that's probably come about because more and more people including our Pacific people have established relationships with Finance Companies and are utilizing those fringe lender institutions more."*

Language was another incentive for some to visit local lenders over banks. It was noted that even palangi lenders often had Tongan or Samoan speakers on their staff to ease the language barrier. However, some borrowers said they wouldn't go to certain Pacific (especially Tongan) lenders as they were put off by their tendency to publish photographs and other details of loan defaulters in the newspaper. Being able to converse with other islanders in their own language was considered important for some borrowers,

> *"…so [people] go to the Tongan and Samoan lenders as this is faster because they speak our language and understand of course why we need the money."* (FG 7)

Overall, the participants who used fringe lenders enjoyed the feeling of being able to borrow money instantly, easily and without the need for lengthy (invasive) credit checks.

> *"Most of the time when I borrow from the fringe lender it's because my earnings don't cover what I want … The bank process is always about seven days and then they want lots of information from me...when you are preparing for a funeral you don't want to go around finding this information and you can't wait for seven days...The fringe lender is faster to give you money for unexpected things. I know the interest is high but the fringe lender serves the purpose at that time. In my case it got me to my dad's funeral... I read the contract and signed it, I don't think I mahino [understand it] so that's why I borrow with Tongan lenders so they explain to me. It takes too long to take it somewhere for a lawyer to read it with you...I know all about insurance, administration costs and penalties. I got a penalty of $30 more when I was late with my payment once...The kava group helps me to cope with expected things..."*

4.2 What do they borrow for?

Many participants revealed going to fringe lenders when there was an immediate need for money. In general, the data revealed that people borrow money from fringe lenders for three main reasons:

- To support the family budget and pay household bills;
- To fund large household/personal items such as cars, household appliances and furniture;
- To fulfil family, cultural or church commitments.

A further three reasons frequently mentioned but of lesser significance were:

- To fund lifestyle / habits / 'now' items;
- For unforeseen emergencies or crises;
- To consolidate bills under one loan.

Reasons for borrowing varied greatly across the different generations but in both individual and focus group interviews the first two reasons were more compelling than for meeting cultural obligations and commitments. Despite careful budgeting in many cases, some people on low incomes (low wage earners, beneficiaries or pensioners) often found it hard to meet the monthly household bills and therefore had to resort to borrowing to make ends meet. "Sometimes our money is small and we are behind with our rent, power and phone so we borrow." In this respect, the women in the focus groups agreed that it was mostly they who borrowed the money because they looked after the household and therefore knew more about paying bills, and had to source places to find money to help with family/household bills.

Personal/household items

Borrowing to buy cars and larger household items is common and often immediate need instigates a purchase as explained by this young professional woman:

> *"The old car… overheats on the road. That is why I needed a car desperately the weekend before tertiary studies started. So I went to the first car dealer that we came across at Otahuhu on Saturday. I suspected we may end up losing a lot of money but I said to my husband we were desperate to get a better car so I could drive to school the following Monday."*

In fact the most common single item financed through fringe lenders was for the purchase of motor vehicles, especially for the older cohort and especially for the male participants. The liberalised and apparently unrestricted access to motor vehicle finance provided by fringe lenders 'make it so easy' to get a car, that this is reflected in not only being the principle reason for borrowing but also provides the main duress that Pacific consumers are experiencing when they fall behind in car loan payments

While a young Samoan recent immigrant commented that he needed a car because it was too cold in the mornings to catch the bus, another older Samoan participant believes that:

> *"Car finances have become a major problem that has affected our people because most families need transport and car dealers are very good at targeting our people with their advertising campaigns."*

Social pressure was also mentioned as a reason for buying new cars. One male interviewee described a "mentality that if one family has an expensive car that other families should also aspire to get a car that is as flash". He went on to recount an instance in which a member of his wife's family had been forced into buying a flash expensive car. In this case the boy's,

> *"…father, who was president of the malaga [visiting party from Samoa], saw his son arrive in an 'old bomb' and the father commented to his son that all other families who had come to bring things for their relative arrived in very flash cars. And here he is, the son of the president of the visiting party arriving in an 'old*

bomb …the next day the son arrived in a $15,000 car which he had bought under finance the very next day…so that his father can feel proud among his peers that his son was able to acquire such an expensive car."

One mother explained her need to buy a computer for her high school level children and, through credit arranged by the retailer, she agreed to the terms of $25 a week for three years. Even though this was a steep price to pay, she was happy with this arrangement and was assured that if she was able to pay the loan off earlier she would not be penalised and would receive a refund.

Cultural/ Family/Church obligations[19]

Many Samoan participants reported being under pressure to find money for fa'alavelave, whether in New Zealand or back in Samoa, and often borrow money from finance companies to facilitate this need because "the chances are that you would be able to get finance right there and then.".

Many older participants talked about borrowing for travel back to the islands when representing their family here in New Zealand, in person as well as financially, becomes a necessity:

> *"I have a title and it's important I go back to Samoa to my village to be there to help make a decision on some important issues, it's not about the money, it's about being there so they can see I will help them with decisions."* (FG3)

As parents, many of the older cohort talked about having to meet expected costs of life cycle celebrations such as major birthdays, christenings/baptisms, twenty-firsts, weddings and funerals. An older Cook Islands woman commented:

> *"We just have enough to live every day and when something unexpected happens like funerals….we borrow 'to go back to the islands for my mum's funeral."*

While one young woman commented "…that's what my parents borrow for, it's what the older PI generation do," evidence showed that it affected a cross section of Pacific consumers. As one focus group participant lamented, "Being an islander in New Zealand

[19] This is more fully explored in Chapter Six.

you think you would leave the fa'alavelaves in Samoa but no, you take it with you wherever" (FG10). However, as indicated in a number of comments, for many this is an important part of their lives; for example: "For me personally, I would rather borrow to give money to my family fa'alavelave than to buy a car" (FG1).

In general the amount borrowed for fa'alavelave etc is relatively small ($100 to $500), but sometimes loans can become considerable. One woman reported that she "…recently borrowed $5000 to buy things for my relatives in Samoa and also to pay for some of my church expenses and commitment," while another of similar age recounted that she had refinanced her house in New Zealand to build a house for her mother and family in Samoa. "We Samoans give priority to our parents needs while they are alive…the house in Samoa cost nearly 40,000 tala to build, it is a significant investment."

On the whole, Tongans participants reported minimal borrowing for misinale (October - November) as this, like Christmas, is an expected event and is budgeted for over the year. Borrowing for 'church commitments' was, however, mentioned by several participants, although the exact nature of these 'commitments' was vague and some thought that the loan was, in fact, used for other things:

> *"Some people borrow so they can go and play the 'pokie' machines and do a variety of things that are quite unrelated to church so when our people go to finance companies and give church donations as the reason why they borrow money, Palagis then look at the Pacific people and think yes, it is the church that has got Pacific people into debt when in fact it may not be true at all."*

An elderly Samoan contradicted this approach when he recounted the time when he,

> *"…witnessed a Samoan family's home was put up for mortgagee sale, yet while I was there talking with the father, the mother returned with her children from delivering their yearly contribution (taulaga) to the church. So how can you explain a family whose home was up for a mortgagee sale and still contributing their resources to the church, which to me is a little puzzling especially considering that families still need a roof over their heads."*

Several Tongan interviewees cited the need to contribute money to the family, hosting visitors from Tonga, and contributing to kavenga (by paying school fees to children of family members in Tonga) as reasons to borrow money. As one man put it: "…it's hard but it's my duty…unfortunately the option is with a high interest."

As summarised by this middle-aged Tongan tradesman:

> *"I borrow for personal thing like car, casino, cigarettes, but mainly for family things and church donations. I use my wages most of the time to pay bills but if something extra comes up and I haven't got the money to pay I'll borrow the money from fringe lenders. I only go to Tongan lenders..."*

Life-style/habits/'now items'

The majority of the 'younger' cohort, both in individual and focus group interviews stated that borrowing from fringe lenders was mainly for personal lifestyle reasons rather than for essential costs or cultural reasons. This is not surprising, given that many of them were single and/or unmarried and thus had fewer financial obligations than their older counterparts. Another tendency was to focus on 'themselves' and their own personal needs rather than for the collective family and their responsibilities as heads of households etc. Some of their loans were therefore for items such as mobile phones, cars, and travel.

What is salient here is that for some of the younger NZ-born participants there is 'less pressure' on them to borrow from fringe lenders in the same way that some of their older counterparts do. It thus becomes more of a 'choice' for younger consumers to borrow. A few island-born but NZ-raised participants who practised fakatonga or fa'asamoa, talked about how they usually borrowed from fringe lenders for their own personal items but that if the family needed help with funeral or misinale they would contribute what was left over.

A significant number of participants referred to the 'now' mentality among their people; one Samoan focus group participant described Samoans in the following statement:

> *"We don't have the attitude of waiting; we don't have the investing attitude. Islanders are 'now people'. We're not investing and waiting. As soon as we want it we do it. We're always now people. I think that's the big thing."*

The discussion continued,

> *"My dad is a 'now person'. He'll always be a 'now person', whereas us we used to be but now because we've wised up to it and understand it a little bit more, we*

can wait, plan and save ahead now. Whereas I would've been a now person too." (FG3)

This attitude was further illustrated by a young NZ-born female interviewee who explained that she borrowed money because "I saw my friend with one [a cell phone] and I just wanted one like that and just had to have it so I went to borrow money and now I got one!"

Although there was clear understanding for the need/desire to save up for items and unexpected events, it was evident among the respondents that there was an underlying tension which was iterated by a focus group participant:

> *"We can't save. You know I think us islanders just don't save money at all and that's the reason we go to those finance companies, because there's no saving what so ever."*

Unforeseen events/crises

Although there was some mention of the need to borrow for such emergencies as sudden hospitalisation of a family member necessitating the purchase of a car, the nature of unforeseen events was more often tied up with family/cultural obligations as seen in the following:

> *"I borrow mainly for family things, unexpected things like funeral….I can't budget for this but when it happens in your family you have to go to Tonga or contribute money to your family. … I have to host community groups, fundraising groups coming from Tonga. I need to provide food and shelter for this group... [also] family visits – like when my sister came to visit me. All these things makes it hard for me to save and pay my mortgage...especially when some of the interest rates [mean] I pay back 300% on some small borrowings. Tongans like me have small wages which barely covers day to day things, and when you get unexpected things or kavenga (educating kids in Tonga) obligations then you have no option but to borrow."*

Loan consolidation

Based on the data available it seems that, for some credit consumers, fringe lending loans tend to be drawn on occasionally and repayments are incorporated into a cycle of payments. Some, however, reported taking out several loans in one year.

Notwithstanding this, instances were reported in which loans were used to consolidate a series of scattered payments and also used to repay other outstanding loans. A full-time Samoan mother provides an example:

> *"The reason why I approached them … we were in a situation - we needed to consolidate all our bills under one. All these little bills that were just hanging around, like I said we couldn't approach the bank at that time, and at that time --- Finance was able to help us, that's why we went along with [this Finance Company]."*

A young professional Tongan couple also explained:

> *"We need the money to pay all the bills and school needs for the kids. I needed another loan to finance, reduce all my loans. Before that, I wanted to reduce it, I went to the bank and they didn't agree for that. Only [this Finance Company] did."*

Similarly, an elderly Samoan businessman explained that:

> *"We used our vehicles to guarantee those small loans …. But I was determined that even though it was difficult to juggle the repayments of the mortgage and other small loans from other smaller lenders, we wanted to continue our good record of paying loans on time and we were able to do that. After we cleared those small debts with fringe lenders we then stopped borrowing and focused instead on paying our mortgage with the bank."*

4.3 Who borrows money?

It was clear from the difficulties of trying to recruit potential participants from South Auckland's Pacific communities who had not used fringe lenders but could reasonably be expected to, that people across age groups, genders and occupation groups all borrow from fringe lenders. Although the interview and focus group data did not provide definitive details of exactly who borrows and how much is borrowed, it was possible to identify certain trends within the data.

As mentioned above, women were considered to be the most likely to borrow for household needs as they are generally in charge of the family budget and look after the household bills. School costs, "just making sure the family survive", getting up with the rent, rates, phone etc., and finding money for fa'alavelave, funerals etc were all cited as reasons that women borrowed from fringe lenders. It was noted, however, that for married couples, both men and women borrow as both have to sign the contract.

It was felt that men, in particular, borrowed for themselves more than for the family "like a car which they said would be for the family but used it more than their wives [lot of laughter at this point]", although, as pointed out above, many men supported family loans that were taken out. Some younger men mentioned they borrowed for personal things, such as cars, but also to buy a home (although this type of lending usually took place through a bank). Some of the single men said their families back in the islands asked them for money because they know they do not yet have children. One young man in particular recounted that:

> *"I lost my job and it took me a long time to find another one and so I borrowed to send money to them to help them out…they think we are better off in NZ even when we're not working…Our families back home don't pay rent like us…but we do it, it's our duty."*

Responding to the question of why borrow, one male participant replied: "men borrow to keep their wives happy" to which a female retorted: "women borrow to make their husbands look good".

It is not generally considered usual to see younger people (in their 20s) in the high street loan shops although that is not to say younger people did not borrow money through fringe lenders. However, the younger people who did borrow through these means were generally perceived by the participants to have poor job prospects, having probably not completed their secondary education, and to be borrowing to supplement their poor earnings rather than for cultural reasons. One young New Zealand- born participant explained that it was likely that youth born in the Pacific were probably less likely to borrow for immediate wants as they were probably happy to be in NZ and content with second-hand stuff, "but once they get the NZ experience they will end up doing it for most of their lives".

Alternatively it was suggested by a young NZ-born Niuean woman (a tertiary student) that:

> *"…. Island-born borrow … because NZ-born are more aware and aware of repercussions because they don't want to pay back too much. A lot of uni students actually save as they don't like to borrow … they have been taught … and they have knowledge about loans and consequences."*

A 60 year old Tongan also saw 'who borrows from fringe lenders' as a matter of education and level of employment:

> *"I haven't borrowed from them but all my family borrows from them...especially my son. I think that young Tongan men or young PI men like my son, drop outs...not well educated, don't have good jobs and would like nice things often find themselves borrowing from fringe lenders. Then they fall behind in payments because they use their money for other things. They have no priorities and they live above their means. These are the young PI who get themselves in debt and if they don't do anything about it will continue like this all their lives...my daughter who completed school has a good job she never goes to the fringe lender because when you are educated you have many options. She always goes to the bank where theirs is low interest rates. She went to the bank and got a loan to buy a car because she's got good credit and a good job...My son has got no options, just fringe lender, as his schooling was not good. All his friends are like him too."*

The overall feeling was that it was most common to see 30-50 year olds borrowing - those participants in this age group agreed - and that both male and female borrow equally.

How much money is borrowed?

The amount borrowed depends on the organisation that is offering the loan. While bank loans for home mortgages tend to be significant, other credit organisations tend to lend only relatively small amounts of money. It was reported, for example, that Finance Company A will only lend up to $2000, while others, such as the Finance Company B will lend individuals as much as $20,000.

In general the majority of participants who borrowed money said they borrowed from fringe lenders for "smaller loans from $100 - $2000" and although it could be more, it was generally agreed to be less than $10,000, one reason being that they didn't have much to guarantee their loans, only cars and household contents. A view expressed by a young Tongan mother indicates the perceived wisdom of keeping loans small:

> *"I borrow for the wedding, funeral and misinale… but only small amounts like $500. I think that some Tongans borrow too much for these things and get in debt...not worth it. It's easier to get money from the fringe lender than banks 'cause not much forms to fill out and they also give money straight away… this is what I like...but I don't like the big interest and it makes me worry a lot as I have a young child to support."*

How they hear about Fringe Lenders?

Participants find out about fringe lenders in varying ways as explained by this middle-aged Niuean woman:

> *"They come to us, knock on the door and introduce themselves to us ….They're out there making themselves known, through adverts in the paper and even here in the markets. There's quite a few lenders in our local shopping centre."*

Apart from a few participants seeing television advertisements and visibly seeing 'money shops' around their local shopping areas, or signs and billboards for them in their local shopping centre, most of the older cohort talk about finding out from the radio and newspapers such as Samoan and Tongan radio stations, 531 PI and Pacific newspapers e.g. Tongan Taimi, Kronikale, and local papers such as the Manukau Courier. A few mention "pictures of people in the Tongan paper for not paying their loan." Other participants state that they found out from other family members, church members, or friends:

> *"...a Tongan car sales man helped me to get finance when I bought my car, that's how I know them."* (FG 7)

Others recounted that when buying an item such as a car or a household appliance, it was common for the salesperson to offer financing services directly or to offer to assist the customer in financing the purchase, "…a Tongan car salesman helped me to get finance when I bought my car, that's how I know them."

The frequency of the adverts on the radio and in the newspaper was commonly mentioned along with the enticements they offered, "you can't get away from them". No deposit, cash-back, buy-now-pay-later and meat pack deals were the most persuasive sales pitches that were mentioned in relation to car and household appliance purchases. Comments included: "all these promotions are a strategy to entice people to get things on credit" and,

> *"I believe that offering these enticements are a very seductive way of tricking our people to borrow money to buy vehicles which then trap some of our people into making commitments to Finance Companies to borrow."* (FG8)

These tactics were also seen to entice new arrivals with little local knowledge of New Zealand to borrow.

One elderly Samoan gentleman mentioned that although he first saw lenders advertised on the TV, since he has borrowed he receives lots of lots of letters from potential lenders in his mailbox asking him to consider their services. Another mentioned that you can't hide,

> *"…because finance companies are very clever to entice people to come back for more loans as soon as they have paid back the other loans."*

For younger participants' personal (cash) borrowing, knowledge and reputation of local fringe lenders is generally passed between family, friends and church members. Comments to this effect include: "Yeah my friend got one and I went to the same one too", and,

> *"[My] family used them for different things and I heard a bit what they say….so used it too…it seemed OK for my parents so I guessed it was OK for me."*

However, younger family members learning about fringe lenders from their elders is not always something parents want to be passed on:

> *"I learnt to borrow from fringe lenders from my family...especially my parents who borrow from them a lot. A family friend works for a fringe lender and helps to get my parents loans...But mum and dad have told me and my sisters that they don't want us to be like them and tell us to use the bank because of the lower interest rates....I can't seem to help myself being in an environment where everyone uses fringe lenders, so I've borrowed a few times. Usually I only borrow for personal things for myself like a cell phone and things like that."*

The proliferation of fringe lenders condensed in one area is noted by many of the younger participants, who point out that "…they're on just about every street corner…even next to the local doctor", or located conveniently alongside food outlets/stores and "they know Pacific Island people use them so that's why so many are here in South Side…"

In some cases being asked to act as a guarantor for a friend or family member was their first introduction to fringe lenders: "I only heard about it when my uncle asked me to be a guarantor," and one older Cook Islands woman remarked:

"…we never borrowed this way [when we first came to New Zealand]. But I think my daughter and son-in-law borrow from fringe lenders. They ask me to be guarantor, and then I got a loan also for myself…"

Several participants mentioned that certain lenders regularly publish photographs and details of bad debtors in the newspaper. This was particularly distressing for the older people and several said that they wouldn't go to particular lenders for fear of appearing in the paper themselves.

4.4 To what extent do they 'shop around'?

Many participants are loathe to 'shop around' because they prefer to deal with people they know or who they already have dealings with. Otherwise they will accept the recommendation from family members and/or friends about which finance company to borrow from. Even though many participants understand that there are first and second-tier lenders with lower interest rates and better terms on the market, the responses overwhelmingly confirm that the deciding factors for fringe lending are easy access to cash and the speed at which the participant can access the cash. That is, the need for instant cash with no questions asked.

"Yes, it is a very good question. I get familiar with them, when I borrow money I just go back to them because you need the money quickly because something's happening next week. That's why I go there. When you go to borrow money from the lenders [e.g. banks], it's time-consuming. They ask information about weekly wages and how much you spend for bills and hire purchases."

Some participants did not shop around because they felt that all the fringe lenders interest rates were the same. However many participants were very aware of which fringe lenders only loaned very small amounts, and those from whom they could borrow very large amounts.

Others, however, said that they did consider cost and flexibility when selecting a fringe lender; and others said that the 'no deposit', 'interest free terms', or other incentives offered by some finance companies for buying a car or other items were persuasive mechanisms to make them choose a particular finance company or retail shop. As one 46 year old Fijian man explained:

"Finance companies charge much higher interests than banks but people don't need to borrow on high interest because sometimes retailers have special sales

which are interest-free for certain big items, and when those sales offer interest-free terms that's when I get in and buy things on credit."

However, sometimes these offers catch people out, as the man went on to warn,

"… I [once] bought things on a 3 year interest-free term, but when I got the monthly statement I was required to pay interest on a minimum payment I was supposed to make towards the credit purchase. When I followed them up to ask why the had charged me a small fee for a deal that was supposed to be 3-year interest free, they told me that there was a minimum amount I had to pay each month for the first 6 months which I wasn't aware of."

Borrowers requiring cash tended to either stick with the lender they knew, go to one recommended by family or friends, or accept the terms of the first lender who is prepared to offer them the cash, as one young Samoan woman confirmed:

"…never checked any lender although [I] had advice from cousins of which lenders [I] should use….but [I] went with the first lender who gave [me] money as they gave [me] money straightaway…"

For one Samoan meat-packer and mother, having the facility to borrow money when she needs it urgently and paying it off quickly is a valued option which she is happy to maintain. Due to her good repayment record the lender is keen to continue the relationship and regularly offers to top up her facility whenever necessary,

"Now the girl is ringing us and saying we can come back and borrow some more money because we have paid off the loan on time."

A middle aged Tongan man explained his reluctance to change lenders, despite knowing that other lenders might offer better terms:

"…if I go to a new one, I'll end up paying them and paying [Finance Company]. Why should I pay twice, because then I'll end up paying two separate money lenders a week…I go back to them because you need the money quickly because something's happening next week.. When you go to borrow money from [another] lender, it's time-consuming."

The experience of a Samoan welder has led him to understand that:

"[Finance Company] is the cheapest and it is flexible and gives opportunities to the borrower in terms of the amount the borrower has to repay. Other finance companies are quite inflexible with the amounts you have to pay towards the loans and that's one of the things you have to consider when you are planning to borrow money from finance companies."

Case Study Narrative 4

The shaping of borrower behaviour on the fringe credit market

I borrow from Tongan lenders and Palangi lenders. I like to go to the Tongan lenders because if I have something 'Tongan' to do like misinale they know what that is. They are in the Tongan newspaper and on Tonga radio and sometimes they ring up and offer money to lend and ask if you know other Tongans who need money. I say having Tongan lenders is good as [they] didn't check my credit like they do at [Finance Company]. The only thing with Tongan lenders -.if you don't pay them back they go and put your picture in the Tongan paper so everyone in New Zealand and Tonga knows you've got bad debt and bad credit. I prefer the palangi lender to talk to when there's something wrong with the contract…:it's easier to talk to them because you just say what you want to say and they are really happy to hear what is wrong. But the Tongan one, it's hard to ask questions because you might be related to them or something and I'm shy to talk to them.

The reason I borrow is for family and church things. Like school things for the children…I went to Tonga for my dad's funeral a few years ago. He died unexpectedly and I borrowed to go. I also borrow for misinale, church donations…I find it shameful to have to go and ask for money, and I don't like it when my husband makes me go and get more for misinale. I don't mind [borrowing] for things for the house and to go back to Tonga, and funerals, but not for things outside the family. Tongans have many cultural things to do like donations for church but… Tongans might like to show off but that money came from the fringe lender…not worth it I say.

People should only borrow small to be able to afford it - that's why for me $500 is okay, but you are still paying more than $1000 for that so I never borrow $1000...
One time I didn't have a good experience with fringe lenders. I thought I understood the conditions of the contract - the fees, the interest rates - but one time I got late with one of my payments [and] even after I had let them know I would be late I got a letter which I had to pay for...

Most Pacific island people do this...people in low income jobs like 'Pak n Save' packers don't get much money and I see them at fringe lenders. I never see many palangis when I go to borrow even at the palangi lenders.

I always feel shame going to the fringe lender. I know it's a very bad experience getting a loan from fringe lender…you feel stress…Sometimes I tell my husband 'You go yourself...'

I am trying to start to save now as too much money is wasted on interest. If I save five dollars...that's better than the interest..."

CHAPTER FIVE

PACIFIC CONSUMERS' KNOWLEDGE OF CREDIT CONTRACTS & SUSCEPTIBILITY TO FRINGE LENDER PRACTICES

The CCCFA is premised on the notion that if information about the credit market-place is available it will be sought by those who need to increase their knowledge and will be used to inform their decisions about taking on personal debt. However, the findings from our data reveal much that questions these assumptions. The participants in this study display a considerable diversity in levels of financial literacy. There were those, such as the Pacific consumer who provided our second case study narrative, who demonstrate considerable knowledge of the credit market and are able to utilise bank services advantageously; and others who demonstrated minimal levels of knowledge and understanding of financial management, and were either misinformed about or misunderstood the role of even such a mainstream institution as the Bank. For example, one young participant saw banks as places to save, not places to provide credit, and was not aware that they offered loans with lower interest rates. Similarly, a middle aged man remarked: "[until] just lately I didn't realise you could borrow from the bank." Another young woman had the perception that banks are for professional people and saw people like herself [semi-skilled] as 'fringe lender people.'

For all the reasons identified in previous chapters, fringe lenders appear to be the credit provider of first resort for most Pacific consumers. While some, such as the woman who provided the third case study narrative, indicate understanding of their responsibilities and obligations as consumers, and were very aware of the costs involved in what they were going into, often this did not translate into beneficial decisions and actions. Moreover, the data reveal that some customers' lack of quite basic financial literacy, coupled with the fringe industry's aggressive advertising campaigns and the manner in which they present complex contractual details, leads to situations that greatly disadvantage Pacific consumers financially and which often result in high levels of personal and family stress and hardship. An older Tongan woman who demonstrated good knowledge born of experience explains:

> *"I first learned about contracts earlier, when I first come to NZ with hire purchase for fridge, lounge suite, furniture, so I know what to expect...Most of my Tongan friends have poor English so they don't talk up, are too shy to ask if they don't*

understand the contract so they keep quiet even when they have a problem, and just sign the contract. The new Tongans - they walk into a debt and I think they see that is what you do in NZ.. I see many families lose their things [they] get repossessed and I worry about the children not getting any food."

5.1 Understanding Contractual Obligations

Many interviewees tried to gloss over the lack of detailed knowledge of their contracts, but the extent to which they could not confidently state how much their loans were for and how much they were actually going to end up paying (with interest and administration costs), was revealing. What was even more telling was that actual repayment figures seemed to be seen as irrelevant knowledge in many cases. What was seen as more important knowledge was "how much to pay, when to pay, and when will the loan be paid off" (FG9).

Similarly, the lack of knowledge of a wide range of participants regarding other factors such as insurance costs, credit ratings and borrowing under the 'guarantor system' was also concerning. Some younger participants were adamant that they did know about the significance of a good credit rating and cited instances where they paid their loans off quicker by "working in jobs I hate..." just to pay it off on time (FG7).

Despite many participants, especially the older Island-born people, knowing the importance of reading and understanding the loan contracts before signing them, the majority either didn't read or didn't understand their contract and just signed it to get the money, as demonstrated in the following:

> *"You know us … we are from the islands, poor, our English is no good and we hate to go and get money from these people so we quickly sign it to get the money….because we need it for our funeral or…..whatever."* (FG 6)

The data revealed that this was the most prevalent theme concerning contracts. As a Fijian male participant noted:

> *"If you spend a Saturday morning at some of the big retailers and watch how people just buy things on credit and sign contracts without reading them, it is no wonder that the people get caught out when they have difficulties repaying the debts."*

Even for the experienced and informed the extent of technical language can make understanding difficult and clarification unforthcoming:

"About the contracts, I should understand it all – the technicalities because I used to work as a mortgage broker at one time so I am aware of interests, fees, admin, insurance, penalties, cancellation etc .... But sometimes, even if the person is explaining the contract in Tongan you can still not understand the contract….it's complicated and technical. And sometimes I have asked questions and the lenders say 'sorry I can't help you'."

Younger NZ-born (Tongan, Samoan, Niuean) participants were more aware of the need to carefully read and understand their contracts before signing them. They knew about penalty rates and debt collectors, and other consequences of bad debt. They all mentioned that being born in New Zealand meant that they had a broader understanding of New Zealand 'know how' than their island-born cousins. Many NZ-born participants expressed how they worked hard to pay their loan back far quicker because they understood high interest rates. On the other hand, they also commented on being embarrassed about going to fringe lenders as they perceived that only island-born consumers frequented this niche and that they as NZ-borns 'should know better' because banks lend at lower interest rates.

Lender's presentation of contract documents and contract details

Although participants were accepting of their own responsibility for ensuring they had read and understood their contracts, and many owned up to being seriously remiss in doing so, some participants felt that some loan companies exploit the fact that borrowers are often in a hurry to vacate the premises so don't read or understand the contract, and use customers' discomfort to cover up some contractual details. Poor confidence in English and long incomprehensible contracts, often presented in very small print, together with putting people under pressure to sign straight away, were seen to be some of the tactics utilised, as one young Tongan participant remarked:

"… a contract, it's in small print font where it's hard for you to understand, where they use complicated words. For a student they put it in a place where you really don't understand what you're signing. Yeah I think some money lenders rush you, like they say okay the money's here. All you need to do is sign it. It's easy money…" (FG 7)

A young Samoan factory worker had similar experiences:

"Some finance companies take time to explain to customers the terms and conditions of loans while others are too busy and staff often rush these things through, especially when they know that the clients are their regular customers

> *… sometimes you [only] find out about certain conditions when … you follow up on a default payment, that's when [we] want to know why such and such …penalties have been imposed."*

In comparison to bank loan contracts, it was felt that loan agreements from fringe lenders are generally not very clear or well explained, and that banks offered more repayment options.

There was much mention of the fact that loan contracts tended to be written in English and that this was a major obstacle for many, especially older, Pacific people. A few participants mentioned having signed a contract written in Tongan, although this did not necessarily mean it was better explained; and others mentioned that Palagi lenders sometimes had Pacific speakers on staff to help with translations and explanations. Providing borrowers with access to contracts in Pacific languages was seen as a necessary priority for the industry. However, as a middle aged Samoan white collar worker predicts:

> *"Even if the Loan Contracts were translated and printed into our Pacific languages I don't think that will make too much difference to our people's attitudes towards those things. [When] most of us, including myself, go looking for loans you don't have time to read, all you want to know is whether the finance company accepts or declines your loan application, if yes then you feel very happy …and some people just pick up the Contract and put it in the glove box in the car."*

In one case a woman actually borrowed from Samoan 'brokers' who had, it seems, borrowed the money themselves from [Finance Company], "which means I paid those people who borrowed the money from [Finance Company] *and* paid the car dealer as well…"

The data also revealed that borrowers, in general, were reluctant to complain about their loan contracts for fear of embarrassment about not reading the small print, for not understanding the details of contact at the time of signature, for their lack of English or for the embarrassment at their financial predicament. Reluctance to complain was also fuelled by a lack of access to legal resources. Comments to this effect include: "I don't go back, I'm grateful to get the money", and more fully,

> *"I think it's our island way of not going back… Sometimes you're angry but you don't go to the lender - we don't want to get into any trouble or let it out (of you) so it's better to stay at home; they might take your money back."* (FG7)

One borrower explained that even though they had test driven a particular car over a weekend, when they came to sign the documents:

> *"We weren't aware that the paper work that had been prepared… was not for the car that we had test driven…we found out later that the papers were for another car…one of the palagi staff rushed us to sign the documents…. We didn't want to sign the contract … and left…they rang us several times… finally we didn't want to return home without the people mover so we agreed and signed the Loan Agreement and took the vehicle."*

The role of the broker

Some participants have obtained the services of a broker to search for potential lenders to provide finance for them. A middle-aged Niuean participant speaks positively of her broker "doing all the leg-work and liaising with us from day one –she said we had to be comfortable with which lender we went with – we went with the one offering more".

However, it seems that all the broker does is complete the application form. Sometimes the application isn't even signed in front of the broker, as the applicant may be contacted directly by the finance company for signature, and the first the broker knows that the loan is approved is when he/she is contacted by the lender. Thus, employing the services of a broker does not mean that contracts will be any more clearly understood by the client.

This view was reiterated by a Pacific broker, one of the older participants. He was of the view that, despite many people believing that access to fringe lender loans is much quicker if done through a broker, his involvement (as a broker) does not necessarily result in the client having a clear understanding of all contractual matters.

Contract cancellation rights

Although some participants said that they understood the contents of their contract, including the cancellation period "Yes you can cancel the contract you have within three days", others were not aware that they might be able to cancel a contract within a particular time limit, or that, in some circumstances, they could cancel a signed Agreement "[I] thought once signed that's it, we were stuck with it" (FG8).

Being a guarantor

The legal commitment to the role of the guarantor was one area in particular that was not well understood by the participants. The general attitude was summed up by a 40 year old Samoan office worker:

> *"Our people also use friends and relatives to be guarantors for their loans and once the loans are granted many borrowers default on their loans and that's when the lenders go after those who had guaranteed the loans because the guarantors have the same obligation to the lenders as …the borrower and that has happened to some of our own people who had felt obliged for whatever reason to help relatives or friends in need."*

Sadly, some of these guarantors have suffered as a result, as one focus group participant explained:

> *"Once your name's on the Contract, you're liable for every cent of that Contract. People don't understand that. They think, I'll just use my name for my dad to get his car, but if he doesn't pay they chase you. Again our people have this perception where they don't understand the reality."*

Again, a sense of self-blame comes through, "they felt it was their fault for not reading the contract as guarantors and they ended up with something of theirs being repossessed," as well as disbelief as they "didn't think their own relatives would let them down - but we use our names as guarantors thinking that we're not responsible for it" (FG8). One young Niuean man had learnt from the experience of an older brother,

> *"… my brother was guarantor to a relative for $2000 and my relative took off and my brother had to take out a loan to cover it … he kept all the receipts and stuff and if he catches up with him he can take him to court."*

5.2 Interest rates and overall costs

Participants were all aware that borrowing from fringe lenders was more expensive than borrowing from the bank. In the words of a 45 year old Fijian man, "they [finance companies] charge 24% interest rates while the banks only charge less than 10%," although the majority of fringe borrowers reported paying even higher rates of interest.

Moreover, many did not realise that credit card lending rates offered by banks are higher than other bank lending rates In relation to credit cards, it was pointed out by one participant (Fijian man, middle-aged) that many people don't understand that although they pay the minimum monthly payment required by the credit card company/ bank, they are still being charged interest on the outstanding money,

> *"…and the bank doesn't mind that because the amount starts to accumulate, and before people realise it, the interest rates they pay start to double up, and many people are caught in the trap."*

A fringe lender interest rate of 38% was the most commonly mentioned during the interviews and focus groups, and a number of interviewees (both young and old) claimed to have understood fully the interest rates and final amounts they had signed up to. However, after a financial check several were shocked to discover that the total amount of their contract was far more than they had anticipated. In one example, a man had borrowed $9000 to buy a car and thought that, including the interest, he would repay a total of $11,000. When his loan was correctly calculated, however, he was dismayed to discover that he would be paying back a total of $21,000 (FG 6).

Others understood more accurately, as a middle-aged Samoan participant explained,

> *"The car was $10,000, but by the time we had signed the contract and all the paper work the total amount we have to pay is $25,000 and that was a lot of money, but we have persevered…"*

Another interviewee concurred with this: "When you get a car on finance it'll cost you nearly three times more and the value of the car depreciates very quickly." Another interviewee, a young woman teacher, admitted she was taken in by the friendly salesman who told her the car would cost about $13,000, but in the end the car, (which was only really worth about $5000) would cost her nearly $29,000.

Insurance obligations

The data revealed a general lack of knowledge regarding the mechanisms and types of insurance available and their relevance to the fringe lenders. While some customers felt that they have insurance in place, such as house or life insurance, some have discovered that the insurance cover demanded by the lender is:

> *"mainly to cover themselves [the lender] should the borrower default on the Agreement, so the borrower normally ends up paying far too much for insurance cover that provides little benefit to themselves."*

Another participant understood that although the insurance cover offered by the lender is optional,

> *"...it is necessary from my point of view to take out the insurance. You don't know what's going to happen. You just want to be on the safe side, account for that just in case. For a lot of us Pacific Islanders … we think we know about it when they do explain to us, but we don't want to know about the insurance side of things. We just want the loan part."*

Borrowers categorised as 'high-risk', i.e. those who have little collateral or who are not earning a regular wage, "attract very high interest rates and costs" (Samoan insurance consultant) and often find themselves with high insurance premiums because of the need to cover the risk to the lender.

Several participants mentioned that although they knew they had insurance written into their loan agreements, they didn't know what it covered. One woman discovered that one component of the insurance premium she was paying covered the possibility of her not being able to meet the repayments, while another component paid towards the third party cover. Conversely, one young man had no idea that he was covered for non-payment of his loan; he thought the insurance premium he paid was only for the car's third party.

Another participant suffered in a different way: when he wrote off the car he had taken out finance to buy, he didn't realise that the insurance he paid only covered the actual value of the car - not the total value of the loan he had taken out to buy it. He was therefore left with no car but still a large loan.

Administration costs

High administration costs were common and considered by some to be unreasonable, for example a focus group participant commented that,

> *"…every time they send a letter out or when they ring… you're paying for their phone call. They're supposed to serve the customer, but yet you're paying for what they do and they're constantly ringing you…"* (FG 1)

Another borrower complained:

> *"…they don't tell you that every time they ring, and in my experience they ring you constantly, there's always money on top of everything. Like with the letters and everything that they send you which is pretty much a hidden curriculum that they don't really talk to you about, before so. With their services even if they rang and they left me a message on the phone that's like nearly $20 for a phone call or something… I'm not with that certain money lending company anymore but the experience was quite challenging. But I'll never go back."* (FG 1)

Others recounted stories about how they had called the lender and made arrangements in advance to cover an impending late payment. However, despite prior approval being sought one borrower reported being charge over $125 for a letter. They felt this was "soooo unfair".

Yet another story from a young Niuean woman relates to the cost of a letter:

> *"We didn't know we will get charged for letters if we were late with payments. We had one late payment and we rang and told them we'd be late but they still sent us a letter. The letter was an admin cost."*

Payment default penalties

Many participants reported being caught out by late payment fees and the high administration costs associated with them (see above). Not informing the company of a change of address is a common way in which borrowers fall prey to default payments as reminder letters do not reach them. Interest is also charged on top of late payment fees making "all these things add up and makes it more difficult to keep up with the repayments…" (FG 3).

One story, told by a middle aged Samoan office worker, describes another aspect of lenders' default penalties:

“A few years ago there was a time when we needed a small loan from [Finance Company] and our house was used as security for the loan. It was OK at the start until things became desperate - we had lots of family fa’alavelave and there were also church commitments … and we started to miss repayments of the small loan from [Finance Company]. When we missed the repayment twice they wrote and gave us a warning that if we didn’t make up the missed repayments in a week, they would sell our house …I went and spoke to the man and ask how they could justify selling our house in order to clear the remaining loan. The man said I had defaulted with the repayments and I had to decide whether I will make up the missed repayments or they would sell the house.”

Fortunately for this participant, although the ‘small’ loan had by then grown much larger due to default interest and administration costs, with the assistance of budgeting support they were able to pay it back without losing their house. As one focus group participant remarked, “the contracts are in very complicated small print but the payment default letter is very clear!” (FG2).

Many of those who can demonstrate the knowledge they need to avoid pitfalls, have learned the hard way. A middle-aged Tongan man recounts how another hard lesson produced necessary learning, thus improving his knowledge of credit:

“Once I had a few problems with lenders when I was buying our house. I had bought my house through a work scheme. I had two loans, one with the work scheme and the other with a loan company. But I fell behind in payments and paid heavy penalties. I fell behind payments mainly because I used the money for church donations so there was no money in my account when the automatic payment was [due]. I was shocked how high the penalties were....This was the first time I really knew what penalty means and I didn’t like it. Since then I have never fallen behind with payments. Now I don’t borrow from fringe lenders…”

Some finance companies give consumers a second chance to meet repayments before repossessing security items, as this example describes,

“A man…came here with all the paper work and said to me, ‘okay this is your last opportunity, if you can’t afford to pay it back, we will come and repossess the vehicle’. I was given a form to sign and when I read it, this was my last chance, and they had given me a form for automatic payments. We set up the automatic payments.”

But the terms of the new contract were not explained and the participant, a young mother, did not seek advice from facilities such as the Citizen’s Advice Bureau, despite the lender saying that he would refinance the loan in six weeks and in doing so increase the charges.

> *"I thought to myself maybe they are trying to rip me off but I have nothing on my hands. For me, I have no one to talk about it to."*

Another young professional woman explained how once her finance company had amalgamated with another, her weekly repayments, including a default penalty, increased from $113 to $147 a week. Interestingly, she says, this is despite the fact "there have been no changes to the Contract and Loan Agreement."

One older woman recalled the time she discovered that her house had been used as collateral on a loan to buy a 1985 Ford Cortina:

> *"We only found that out when ---- wrote to advise us that they were closing down and that we were to go to another office to pick up the deeds off our mortgage. That was the first time we knew that the mortgage deeds were used to guarantee the loan to buy the car… [it was a] surprise to me and my husband …we remember the ---- people asking us whether we had a house mortgage, but I definitely didn't know (and I am not sure if my husband knew) that the mortgage on the house was used to guarantee the car loan… all I remember was that we were happy to get the loan to buy the car and that we were keen to sign the Contract without really understanding that our house was used as security for that loan."*

Early pay back and other penalties

Another area that did not seem to be fully understood was the time-span or term of the loan.

> *"We like to take the minimum payment requirement, without realising that with the minimum it's over a longer period of time, so it will cost you more. Sometimes we don't know that."*

The Samoan insurance consultant interviewee explained that penalties such as those covering early settlement are all included in Loan Contracts and that people didn't necessarily understand that they would be penalized if they paid the loans off early. Often, different companies have different ways of calculating those penalties and people aren't necessarily aware of those extra costs. In some cases however rebates are offered if the debts are paid off earlier, although he asserted "these aren't offered by some smaller fringe lenders", even with the change in law to allow for it.

Other cases were reported where the borrower has benefited from, and takes pride in, paying a loan of more quickly than stipulated in the agreement, but with a twist as in this case recounted by a young Tongan professional:

> *"I needed a large amount of money for my van. They know my history and they said OK, done …. the van was $13,000 and they agreed I would end up paying $17,000. I was supposed to pay $150 a week but if I pay $180 it would take a short amount of time to pay off … they offered me another loan and so I borrowed $5000 and I moved up to paying $200 a week."*

Pay week advances

A relatively new lending scheme, reported as being widely promoted through the One Scheme is the Pay Week loan. One participant talks about her experience after hearing on radio of a small finance company that provided short-term loans where money was borrowed and repaid the following week on pay day.

> *"At the time I was working part-time and got paid fortnightly so on this particular week when my husband's wages wasn't enough to pay the rent and all the bills and we didn't have enough money for the groceries...That's when we went to this finance company and explained our situation and when I rang them they said they could lend us more money [than we asked for] because the borrowings were in relation to a person's wages which means if your wages are high you could borrow more. But we didn't want to borrow more than we needed and also we wanted to borrow only what we could afford to pay the following week which was $100. For that amount we had to pay interest of $16 and an administration fee of $22 including a credit check which meant we had to pay $138 to clear that the following week and that's what we did."*

A number of similar cases were reported, also with excessive levels of cost attached.

5.3 Fringe Lender practices and their consequences

Much has already been reported, in previous sections of this chapter and in preceding chapters, about the impact of various fringe lender practices for Pacific consumers. This section of the chapter highlights the increasingly common situation of Pacific people either starting their own fringe lending companies or fronting/working as car dealers or salespeople for fringe lenders. It then explores some of the consequences for Pacific consumers unable or unwilling to meet their commitments.

Pacific people as fringe lenders or fronting for them

Participants shared many stories about dealing with Pacific people who front finance companies, and/or work as car dealers and salespeople. They report how some finance companies are so keen to lend money to Pacific people, even when they know some may have bad credit histories, they do whatever they can to ensure people come back and borrow, including having Pacific people to promote their companies and services. There are positive aspects to this, as commented by a middle-aged man working for a finance company:

> *"What we are finding very useful at our small company is that I am able to provide interpretation assistance and that is very useful because our people need to understand what they are getting themselves into in terms of finance and with regards the legal jargon that can be quite foreign to most of our people."*

Most, however, do not perceive it so positively and some demonstrate a very critical understanding of the situation. Participants cite how Pacific people, usually Samoans or Tongans, have been selected to work as car salespeople because many of the car dealerships target Pacific people as a lucrative market. Pacific staff are able to provide inside knowledge about their peoples' particular wants and needs –such things as Pacific families needing larger vehicles (such as vans and people mover vehicles), and the need for vehicles within a particular price range. They point out that Pacific families also want flexibility in terms and conditions; they want cheaper repayments and while this means the loan will take longer to pay off (thus enabling the charging of more interest and administration fees), it also means that by the time the vehicle has been paid off, the family will be ready to finance another car under the same conditions.

On the one hand, dealing with a Pacific person in such unfamiliar territory would ideally promote comfort and self-confidence in the borrowing process for the Pacific consumer. However, participants often lay the blame for their problems firmly at the feet of the Pacific sales-person because their hands are tied in terms of the binding nature of legal contracts, or because some Pacific lenders have no sympathy for the plight of the borrower.

Two Tongan participants, both middle-aged men, outline similar issues and concerns regarding Tongan fringe lenders and car salesmen:

"One thing the Tongan lenders do is they lend you the money, and they use the tapa cloth as a bond for borrowing the money. The amount for selling the tapa is $1200, but the value they give you for borrowing the money and using the tapa as the bond is $500. If you don't pay the money back they sell the tapa to get their $500....and the reason is that they are looking for profit. I doubt it very much whether they sit down and talk about the contract and the interest and all that."

And:

"For collateral I use tapa and mats. These are kept by the lender until I pay his loan off. I read the contract and thought I understood it. But when I realised just how much I am paying back...that I am going to be paying back $21,000 for a $9,000 loan, I feel really angry - but what can I do? My family wanted the car.... I think the Tongan lender just wanted to make a commission. Also this Tongan lender knew I had bad credit so he said when you can't get money any other way, you should be happy because you have no other option...I didn't cancel the contract because I had signed it and I thought that's that! Anyway I thought it was important to keep the car so I could take my son to the Polynesian festival."

Some car dealers also offer very tempting deals, incentives which many Pacific people can't resist, as described by a middle-aged Samoan woman:

"If you look at it from a pessimistic point of view, it's like one Samoan beating up another Samoan because they are saying they can give you $3000 cash back if you buy a vehicle from them, so which business can afford to give away that kind of money if that cash back wasn't added to the price of the car? Yet many Samoan people are doing exactly that, they are promoting the dealerships' vehicles because they get commissions for every car sold through their promotions to our own people."

Another view offered by a middle-aged sales manager, although not entirely comfortable with the situation, is that this is an economically rational and inevitable response to a market demand:

"Sometimes some of our people have to have access to things whether they can afford them or not, it is something about the Samoan person's mentality that whether it's a wedding or funeral or whatever, when a Samoan person wants something he/she will get it regardless of the consequences. Not surprisingly, some businesses have capitalized on this by getting other Samoans to promote their products and services because Samoans understand how Samoans think and their practices when it comes to fa'alavelave. That's why many car dealers have Samoans working for them. Similarly, many finance companies now employ Pacific staff because they not only understand the Pacific languages but they also understand the psyche of the other person and how they can provide a service or product that meets their expectations...In a way I am in two minds about this strategy which some companies use, because while companies may

be exploiting our people in terms of unfair pricing and oppressive conditions in relation to their lending policies, it is also generally accepted that these companies are catering for many of our people's financial needs."

Repossession

Graphic incidents are recalled in the participant stories about the embarrassing and depressing details of getting into difficulties, the attempts to catch up with payments, repossessions and legal proceedings, and the stressful effects on children, parents, partners and family. For some it has meant furniture and other items being taken because they were unable to repay the loans for which the furniture and other goods was used as collateral. For others it has meant trying to refinance and dealing with burdensome increased repayment amounts. A Samoan office worker whose car was repossessed reports:

"...the repossession notices and agents' fees are also added to the outstanding car loans and the cars are then sold to cover the finance company's costs. But even when the cars are repossessed and resold by the finance companies the people are still obligated to pay off any loan balance that may still be outstanding and many of our people do not understand....My own family situation was similar where our second car was repossessed because my wife was very good at gassing up the car but not paying the loan so we got repossession letters and I told her to go and face the lenders because she was responsible for the repayment of that vehicle so the repossession agents came and took the car. They resold the car but we're still paying for the amount of the loan that is still outstanding. It was sad … quite embarrassing to watch the repossession agent take the car away but there wasn't anything we could do because we couldn't possibly afford to service the loan on top of our mortgage and other loans and household expenses."

The ramifications of a bad credit rating

'Bay corp' was a term used by many participants when expressing their regrets for past loan defaults or for fears of not being able to meet current and future credit commitments. While some of those who already had bad credit ratings acted in ways that disregarded what they knew to be the likely consequences, many attributed their problems to not knowing/understanding crucial information about their responsibilities and obligations under their contracts. This was often laid at the door of the lenders themselves, as explained by this young Tongan man:

"I had a really bad experience with a loan from a fringe lender. I wanted to combine my loans (car and mortgage) so I found a lending agency to help me

and they told me to stop paying for the car and they would pay it - but they started paying my loan off much later and I didn't know…..and in that time Bay Corp come after me. Now I've got a bad credit and it's not my fault. I was sooo angry! I went to the lender to get a letter so I could take it to Bay Corp. I took the letter but Bay Corp said there was nothing they could do. They said my name will go off the list in maybe five years….I just don't understand...."

Although many borrowers realised the ramifications of gaining a bad credit rating due to a poor repayment record, getting into this situation was particularly irksome to guarantors who felt that they had played no active part in being assigned a poor credit rating.

An elderly woman explained how hard it is to get rid of a bad credit rating:

"One of my relatives bought a car through a car dealer and … it needed some repairs before the 3-year warranty ended. [Unfortunately] the company had gone broke and he couldn't get any help from the finance company …[in the end] they repossessed the car and my relative's name was referred to Baycorp and that was nearly 5 years ago. Years later when he went to borrow money from another Finance Company his old debt was still with Baycorp and he had a bad credit record so he can't borrow any money or buy another car".

The following experience of a young female Samoan professional illustrates a number of the difficulties experienced by Pacific consumers as a result of both their insufficient knowledge and fringe lenders' dubious practices:

Case Study Narrative 4

FINANCING A CAR THROUGH THE FRINGE CREDIT MARKET

I was about to start tertiary studies…after being a fulltime mother to my five children, my old car started to give much problems and the mechanic said it needed a new engine. Just before university started, I still hadn't had the old car fixed and the car overheats on the road. That is why I needed a car desperately the weekend before tertiary studies started. So I went to the first car dealer that we came across at Otahuhu on Saturday. I suspected we may end up losing a lot of money but I said to my husband we were desperate to get a better car so I could drive to school the following Monday. The Samoan car salesman was friendly and greeted us cheerfully. He said they were happy to help and he would make things very easy for us to find a car. He pointed out a car that was $12,995 but by the end of the deal it was $29,000.

I didn't know that this car would end up costing us $29,000 because when they brought the papers for us to sign hurriedly because they were about to close - and my eyesight isn't the best and didn't have my reading glasses with me - I thought I would just sign and then take the papers and read them properly at home. But I didn't read the paper work straight away that day, in fact it was much later, over a month, that I finally read through and I realised that

I would end up paying $29,000 which I thought was quite outrageous…I thought what can I do now that I had already signed the papers?

Of course I was very happy when I first got the car because I was able to drive to university and I didn't have to put up with my smoky and over-heated old car. But later, when I saw the $29,000 price that I would have to pay for the car I felt so sad….I thought the Samoan salesman at the car dealer may have at least advised that the price I would end up paying for the car was too much…But he was very tactful and friendly and was determined to make a sale because he knew I was in a desperate situation to get a car before Monday the following week.

Not long afterwards, that car dealer disappeared in fact I heard it went bankrupt and I thought I was dead meat along with the car dealer that sold me the car. I asked around about that car dealer only to be told it had gone broke. I knew this would be the last car I would buy in those rushed and desperate circumstances.

I didn't go to the bank because as I had indicated earlier…I started a family and had my 5 children so I didn't have any records of income. So other than tertiary packages that allowed a $500 overdraft, the bank wasn't able to fund a vehicle for me. While I knew the fringe lenders would charge higher interests, I wanted very much to get a car. These days since I started working, the bank sees that my salary is going into the bank regularly and now the bank is very happy to lend me money at around 10% interest rate compared to the over 26% that the car dealer charged for financing my car.

When I bought the car I was under stress and much pressure from the car dealer…At the time there was a group of Samoan businesses that established a Finance Company that actually financed my vehicle. But when I re-read the Loan Agreement, these people actually didn't have any money, they got the finance from [Finance Company]…Which means I paid those people who borrowed the money from [Finance Company] and paid the car dealer as well. So those Samoan business people were brokers. They did not say they were brokers they said they financed the vehicles themselves. In fact I thought because they finance the cars themselves that I would end up paying less interest but when I saw that [Finance Company] was in the Loan Agreement I thought there are so many middle players involved.

Since I signed the Loan Agreement [three years ago] I haven't missed one payment even though I am paying $175 a week for this car. I am trying very hard to pay this off by August next year. I have rung them about my car insurance…I have my own Insurance company, State Insurance but when I re-read the Loan Agreement there was also Lumley Insurance that appeared in it and I asked what Lumley Insurance was doing in this Contract. So I rang Lumley Insurance and was given the run around…After several attempts they did try to explain that the premium was towards the possibility that I wasn't able to meet the repayment. Another component of the insurance policy I was paying was towards the engine and some other things. I asked them to refund my insurance but they said they wouldn't be able to refund the premium to me directly but they would request [Finance Company] to deduct the amount of over $1000 from the balance owing on my car.

Our people are paying a lot of high interests and penalties to these fringe lenders' Loan Agreements and most of us do not have time to read the Agreements until it is too late and we have made the commitment. The car dealer I bought the car from employed a Samoan woman and she just showed me where to sign without much explanation. When I asked why [Finance Company] was on the form she said [Finance Company] lent money to the group of Samoan businessmen who then brokered deals for people who used their services. My husband said those guys don't have any money, they too were borrowing money from finance companies and then making those finances available to the public.

I am angry with myself because I was remiss and should have known better at the time I purchased the car. I was so determined to get a car that Saturday in order to drive to university on Monday that I was not thinking correctly. Previously, we (my husband and I) would save the money before we buy a car. So following my unfortunate experience, I wanted to share my experience with unsuspecting people so others may not fall victim to some of our own people who are out there preying on their own people. I have made a promise to myself that I will never again buy a car on credit from finance companies. I will always go to the bank and borrow the money because it is a lot cheaper. I have learnt heaps from this experience….

CHAPTER SIX

SOCIO-CULTURAL AND PSYCHOLOGICAL FACTORS INFLUENCING PACIFIC CONSUMER DECISIONS ABOUT PERSONAL DEBT

As stated in an earlier section the necessity to engage in first, second and third priority borrowing has produced an environment of continuing pressure and stress in the lives of Pacific consumers. The realities for many are that they and their families are struggling to survive, not only physically but also mentally, emotionally and spiritually; financial decisions about incurring personal debt are often framed in this context.

Littered throughout the participant stories are themes of hardship, confusion, anger, stress, frustration, helplessness and often bitterness about 'why things are as they are'. Exacerbating the situation are the changing contours of families/aiga, where traditional extended family structures are being eroded by separation, divorce, violence, geographical movements and shifting boundaries. Relationships between couples, parents and children and vice versa, become strained and sorely tested as financial problems arising from difficulties in finding money to provide for everyday necessities and the need to meet cultural obligations and commitments become the focal point of their lived realities.

Despite all this there are also stories of celebration, resistance, compromise, joy and pride where Pacific consumers have negotiated their way through a quagmire of debt and have developed strategies, support mechanisms and mindsets focused on being comfortable in the alien environment of the credit market. These consumers actively use their life experiences and emergent knowledge about the what, how and why of borrowing to improve their lives and the lives of their children and wider families. Their stories are shaped by the acknowledgement that despite the apparent possibilities of exploitation for Pacific peoples seeking credit, they are active agents in the construction and control of their life situations and focus on resolving to meet their financial and cultural obligations.

This chapter discusses these broad issues within the following major themes: cultural factors for borrowing; youth and generational issues; NZ-born perspectives, and socio-cultural and psychological considerations. It includes some suggestions for tempering ‘culture’ in ways that may assist Pacific consumers to cope better with their life realities, and ends with participant strategies for new ways of thinking about personal and family debt that will help them gain more control over their lives and deal with the stresses and strains most are experiencing on an everyday basis.

6.1 Cultural factors in borrowing

Cultural factors for borrowing amongst Pacific participants generally, and Samoan participants in particular, overwhelmingly point first to the need to support their own families and to meet their obligations to extended families both in New Zealand and abroad, and secondly, for those who are Church goers, to meet their obligations to their Church.

Fa’alavelave

Fa’alavelave commitments take the form of many things, but participants talk about having to donate financially and often in terms of time and service to events such as funerals, birthdays, weddings, gifts to visiting family members, travel to Island homes etc. and donations and taulaga - gifts to the work of the Church and Minister.

> *“Fa’asamoa whether it is practiced in Samoa or in other countries demands contribution from those who practice it whether towards the extended family, village or district, but fa’asamoa also provides reciprocal support from other members whether they be family members, church groups or friends and members of village people’s social networks. Most of the times, fa’alavelave happen frequently and unexpectedly and people often borrow money from banks and other Finance Companies to be able to finance fa’alavelave. Often people get in debt, especially when the fa’alavelave may be a funeral or wedding or saofai [matai title bestowal]. Some people have fa’alavelave regularly and for some, including some of my own village people they have to go to Finance Companies to borrow money because the banks may not accept their loan applications, as many of them live in rental properties and do not have assets that the banks require as collateral .... Like many Samoans I have borrowed specifically for fa’alavelave and some of my own relatives and also other people from our village association have borrowed from Finance Companies and are still doing now to pay for some of the fa’alavelave over the years. We have had to host some of the fundraising trips from our village in Samoa and that’s one of the main purposes of forming our village association here in Auckland, it provides the opportunity for our village people to come together and network and provide support for our village projects in Samoa.”*

A plethora of comments offer both positive and negative opinions on fa’alavelave with the stress, anxiety and angst caused by the financial pressure to give are expressed by both individual and focus group participants. Participants report that in order to meet their financial commitments, more often than not they are forced to seek cash from fringe lenders rather than from their own resources or from banks for reasons outlined elsewhere. Extreme difficulties are faced by participants who are prosecuted and penalised for default, either as a result of oppressive fringe lender contracts or their own diminished financial circumstances as this elderly couple reports:

> *"There were times when demands on household income for family fa'alavelave....when there was need for money we did borrow from [Finance Company]. We were aware of high interest rates but that was a convenient means of getting access to money to fund those cultural obligations. But there were times when demands for fa'alavelave outweighed our household income … sometimes other family members shared in funding the fa'alavelave at certain times and those who weren't able to contribute would not contribute..."*

Nevertheless most participants stress that their need to meet fa'alavelave obligations is their priority and that they will do everything in their power, including (multi) borrowing from fringe lenders, to meet their fa'alavelave requirements. Others, whose only option is to access money through fringe lenders, are so wary about the pressures on them to continually give that they have devised strategies to protect themselves such as "only giving what I can afford and when I can afford it."

The salient point that becomes apparent in these stories is the "unexpectedness" of the fa'alavelave request. This is interesting given that most participants know what fa'alavelave entail but still, in the main, are not thinking pro-actively about trying to save for these unexpected demands. In effect what we have is a predictable 'unexpectedness' which participants are presently meeting by borrowing from fringe lenders rather than by saving up for fa'alavelave. This is, of course, exacerbated both by having insufficient family finances for any savings, and the aggressive marketing and advertising of fringe lenders in the marketplace. What is very apparent is the reality for many of the participants that fringe lenders are meeting their needs, by filling a niche market for immediate cash loans to low-income earners, single/solo parents, beneficiaries and superannuitants.

On the other hand, some participants have devised strategies for dealing with the endless fa'alavelave requests without having to borrow from fringe lenders. Some talk about monthly non-fa'alavelave family gatherings where food is shared and working members contribute regular small amounts to a family fund for the head of household to use appropriately on behalf of the family for fa'alavelave. While this is a positive strategy, it can only be successful where Pacific families are still viable, in that the aiga is still a stable functioning unit. For some participants, who were single-income families, solo parents and/or beneficiaries they had no means to participate in such strategies. Their only recourse, if they are to continue to contribute to fa'alavelave, is to borrow from fringe lenders.

Youth (generational) issues - the 'va' with children: social and sacred relational arrangements

Many older participants when interviewed either individually or in focus groups continually talk about their children. Whether it is in the contexts of raising and caring for them, celebrating their birthdays or their weddings, there is a pervasive theme of their parental expectations and experiences regarding their relationships with their children in the context of family obligations and contributing (or not) to these.

Some of these participants also describe how they have relegated all their financial dealings with banks and financial institutions to their NZ-born children who take on the 'mediator mantle' on behalf of their parents. This illustrates the extent of the love and trust that parents are placing on their children and in turn the willingness of the children to take on this very important and crucial responsibility for their parents.

Also coming through strongly from older participants' stories is that the welfare and wellbeing of their children is their top priority. For example, some tell how they opened bank accounts for their children and encouraged them to save so they would become responsible adults with regard to their financial decisions:

> *"The wellbeing and welfare of the family in terms of the children's health, their educational needs should be the most important aspect of parents' responsibility. Family fa'alavelave and church commitment should not come before the immediate family's needs and that is how we have approached our own way of life. It doesn't mean you shouldn't contribute to family fa'alavelave and church but I believe the needs of children, the repayment of the family home mortgage as well as elderly parents' needs should be our primary responsibility."*

The same astute businessman has firm ideas about how Samoan people should be more proactive in moving from a borrowing on credit mentality to a savings one:

> *"Borrowing can be interpreted as 'aisi or begging …Pacific people should reconsider the mentality of relying on finance companies for fa'alavelave, rather we should work harder and save..."*

6.2 *NZ-born perspectives*

On borrowing

While most NZ-born participants were more 'onto it' in terms of ensuring that they understood the contracts and sought advice where and if warranted, some NZ-borns during both individual and focus groups interviews expressed complacency towards 'what they were getting themselves into' when borrowing from fringe lenders. Often as long as they were able to afford weekly repayments, they really did not bother about how much they were actually going to repay, insurances, the hidden costs, high interest/default payments, or the penalties which would ensue if they fell behind on payments. Contracts were just signed without seeking advice, legal or otherwise:

> *"Yes I just wanted the vehicle. I didn't really look at how much it's going to cost me at the end. I just looked at how much its going to cost me a week and that's what I think we're worried about - how much it's going to cost us a week not knowing how much it's going to cost us three years later. So again it came down to if it's going to cost me a hundred dollars a week, well I earn three hundred a week so that's alright but not understanding what you're getting yourself into. It maybe just ten thousand dollars times over fifty two weeks but you don't think of things like that, you just want to sign it and get the car and go …I never looked at the fine lines and asked questions [about things] I didn't know, like protection insurance ..."*

Another NZ-born, a young Samoan mother, describes how in the rush to meet their cultural obligations many participants just do not bother to understand what they are signing, what the real implications of the contract are etc. What is evident in many of these stories too is their consistency with the older cohort in the extent to which participants 'sign first and read later".

> *"Finance Companies meet a need especially when Pacific people require financial assistance urgently in terms of fa'alavelave and church commitment. When Pacific people especially Samoans and Tongans have to fulfil obligations especially to family and church they forget about the high cost of finance such as higher interest rates and penalty costs and all they want in those circumstances*

is to get access to finances to meet their requirements. They only address and reconsider the high costs of finances after they have spent the money and face the reality of having to pay for what they have borrowed."

On fa'alavelave and the 'va'

For a three-generation extended family, identifying where best to allocate scarce resources can give rise to decisions requiring careful handling if inter-generational tensions are to be avoided, as this story from a NZ-raised mother indicates:

"Recently, my mother visited from Samoa and stayed for a few months and before she left she wanted us to buy a new TV for her to take to Samoa. But I knew we couldn't afford that because we were planning to buy a computer for the children so I told her we can't afford to buy a TV for her to take and that's what we did. But I didn't want to buy the computer while she was here because she would have been disappointed had we bought a computer for the children when we had told her we couldn't afford to buy a new TV for her.... Since she left we have bought a computer for the children on credit and we are very happy that this has happened because we believe it is an investment on our children and our own immediate family. The children really like the computer and now we see the importance of making a hard decision to get the computer rather than buy a TV for my mother to take to Samoa ... I don't feel bad about getting the computer for the children instead of buying a TV for my mother because sometimes we Samoans are very good at funding fa'alavelave and church commitment but not too good at attending to what are important things for the development of the children....While we have borrowed from a finance company to pay for the children's computer at least we know it is a very important investment which will enhance our children's education and will be very useful for their future job prospects."

Many participants describe how their understandings of fa'asamoa mean that 'we have to contribute to fa'alavelave' and most accounts describe both the positive and negative aspects of fa'alavelave and the va between themselves and their parents. On the one hand they are very aware that as 'good children' they will have to contribute. However on the other hand they realise that sometimes their circumstances are such that they just cannot afford to contribute to particular fa'alavelave. In the latter circumstances many NZ-born children feel sad and frustrated because they respect and love their parents so much, but feel they are unable to reflect that when they are unable to contribute to family fa'alavelave.

"I know from a daughter's point of view that my dad was not so much disappointed but disheartened because it was a need and I couldn't meet that need. In saying that sometimes it can play on you at that instant, even on my conscience as well. If I had the money I would've helped him. When any parents ask your intentions is to help them and if I did have the money and if it was spare

I would've helped him. In saying that dad knows - he understands that if I did have the money I'll help him but if I didn't I just can't. …if I did I'd explain to him, dad I've got the money spare here, I'll give to you and it's only because I love you …because you asked and you're my dad I'll help out. That would be the only reason why I'd give him the money because I love my dad. Whatever fa'alavelave that he's using the money for that's his business, but like I said if I have the money, it's every child's intention to help out the parents."

The same 'daughter' talks about how she as a mother is trying to instil into her own children their Samoan identity by showing them the importance of fa'asamoa and fa'alavelave and the 'va'.

"Sometimes we don't go into the full detail but we explain to them that there's a need, that their grandparents have a fa'alavelave and they ask 'why'? And we just say sometimes we don't know why but we are willing to help out where we can and they understand that very well. We try to be open with the boys with everything, especially when it comes to the fa'alavelaves 'cause it's a part of them too and their identity. So they all understand as well when it comes to these fa'alavelaves ... there are times when we sit down and once again there's a fa'alavelave and we [say] sorry we can't do this, we can't pay this because we need the money for whatever and they understand that. So when it comes to those things we try to be open with our boys, so they know and understand as well. There are certain things we don't tell them because sometimes they don't need to know, not yet, just the basic things really."

Most NZ-born views on fa'alavelave and the 'va', however, focus on the negative pressures on NZ-borns to contribute to fa'alavelave when they cannot afford to. There are many reasons for this, whether because of status, pride, arrogance, or wanting to be 'good Samoan children'. But the overarching theme which pervades their narratives is the need to be 'savvy' about prioritising fa'alavelave and developing strategies to avoid unnecessary fringe lending to meet these commitments, as this young man demonstrates:.

"We do have a lot of fa'alavelaves regarding funerals, weddings and fa'asamoa. I do support our culture - I love fa'asamoa and…want our people to keep that, but they've got to understand where to draw the line regarding finance…because of big financial lending. We're becoming more dependent on lenders and that's a threat. So it is a big concern for me personally because they go back, every week, every month, every year to get money 'cause they know it's easy. It's very accessible for them. They know it costs them a lot of money but it's the easiest way to get money. But when you become dependent on it it's a cause of concern for their own futures becoming debt free. So the consumers are creating more debts for themselves as well. Legitimate fa'alavelave for me is a funeral, that's it. I don't believe to give that much money for weddings because these days weddings don't last as long as they used to."

A NZ-born Finance Company employee states:

> *"I think New Zealand Pacific islanders have gone too far with their culture because back in the days at home we didn't do that. But because of the want of being known as a rich family [although] you know personally that you've got nothing. That is a threat you always try and advise them otherwise but again as a lender you can't you can only inform them that it's not in their best interest but you can't go too far because it's what they want and its their right and we're there to sell the money as well."* (FG 3)

Major decisions are faced by NZ-borns as they consider these issues. Caught between wanting to contribute to fa'alavelave and not wanting to be 'jumping from loan to loan' some of them simply take a stand and, as difficult as it is, refuse to contribute. This of course puts the 'va' between parents and their children under strain, but there is a strong mutual understanding that this is not an easy decision to make.

Many younger participants express the difficulties in not only being able to financially give money to their parents for fa'alavelave, but also to advise them at times that they just do not have the extra cash to contribute. Many couples have devised arrangements about who to pay and how much, but pervading their stories is the sense of familial obligation and the need to honour their parent's request as a reciprocal act for all that their parents have done for them. Adult children deal with the demands in a variety of ways as indicated by these young male respondents:

> *"Actually, that's where me and my partner are different, she's made the decision about giving money with her family, but with me it's different with my family. I'd give my family a certain amount, like when it's time to give I give what I can give. But its good with a lot of brothers and sisters, we can work out together how we can give and contribute to whatever fa'alavelave. But for me I would always give, I always look at it in a way of repaying back my parents for raising me and taking care of me, and how they supported me and my siblings growing up"* (FG 1)

And:

> *"In saying that, I'm not saying that I'm not grateful to our Samoan heritage. Even to this point now, me and my dad we still have a close relationship, but it's only when it comes to the fa'alavelaves he's pretty disappointed that there's nobody walking in the footsteps, as in the traditional ways. Maybe because I've been raised here for most of my life, even though I was born in Samoa and I've grown up with the custom in saying that I would give if I can but when it comes to people that I don't know or something that's not significant to me, I think that sounds a bit selfish but I just won't give."*

In the same way, older participants who talk about the ‘va’ with their children state that as parents, they do not wish to force their children to comply, although there are parents that do just that. Most express how they are continually trying to think of alternative strategies and suggestions to assist their children with feeling better about contributing to fa’alavelave. Parents realise that their children are just not financially in a position to contribute due to mortgage/rent commitments, their own family needs etc., and the children hope that they may be able to contribute at some future date so that the ‘va’ broken in this instance can be restored in another, as was the case with this middle-aged professional woman:

> *“...because they [our own children] are our priorities and if they [our parents] didn’t know that we’ve made them aware of it. That we're in a situation - sometimes you don’t need to explain to them, they see it and they know it. Sometimes you do have to remind them that you’ve got your own kids to consider as well. In most cases we didn’t have to tell them that we’ve got a family, they know it. It doesn’t stop them from asking though. It’s the value of the family and in some cases of course you don’t hesitate to say no. You would help out coz it’s a family affair, it’s all a part of being a family. That’s what I love about our culture as well. Families would go and help families, when it comes to things like weddings and funerals. We will be there to help out and support however way we can. You don’t think twice when it comes to family, you just do it because its family and that’s important. That’s why I love our culture as well. We embrace family, that’s how strong it is, the unity within the family. In saying that, we have also taken it to the extreme...I think it’s our mind set - there has to be a money value thing when it comes to family, that’s what the burden is. That’s why we’ve become oppressed, it’s our own way of thinking and how we’ve been brought up. We have to remember we are in a different country. We try to adapt the culture in a foreign country, we need to embrace different cultures as well but we’ve got to remember that we’re just in a different environment and vast. There’s a lot of choice out there, and we just don’t know how to approach and we seemed to be so closed-minded about it. We don’t know how to think outside the square.”*

On the Church

Some NZ-borns are scathingly critical about the demands of the Church on adherents. They talk about the insidious practice of ‘reading out names and contributions in front of the whole church’ which puts immense pressures on participants to ‘keep up with the Joneses’ and to ‘save face’ when it comes to these things. Comments such as the one below reflect that high percentage of the participant sample who attend non-mainstream churches:

"I don't go to that church and the big reason is they're still using the old concept the fa'asamoa concept instead of using the biblical principles which are tithing that is not announced because announcing it shames the people. God's offering is a heart offer, biblically 10% is your tithing and that's all God wants from your wages and that's it, he doesn't want anymore. That's the biblical principle and we don't follow that unfortunately and that causes a lot of concern for me and for a lot of communities as well because our people get forced into getting a lot of money just to get their names read with a lot of money. It becomes a competition and therefore it creates a lot of problems back at home with their own families. So when their names have been read out they go back home and fight. Things like that, they would rather have a flash car than food on the table and I have seen it. It's a very sad day when you see things like that. When you hear families broken up because of finances but all they needed to do was just to wise up and understand that the family and the kids come first before they actually look after the others...Yes the church should be lending to the communities, not the finance lenders. The church should be the biggest lenders or financial support for the communities, that's what they're for. Biblically they are the ones that supported the church, we support the church the church supports us. Not us support the church then go out and borrow money to keep supporting the church, biblically that's wrong...Even the big openings the fa'aulufalega they get into heavy debt.That's a big concern and I don't want to see our people fall further behind. These are wonderful things to do but again we end up putting up these massive buildings then all of a sudden we can't afford to pay for it and then we end up selling it and the whole congregation falls apart. We have seen many of those churches who have done that in the last ten years. So we go to church for the wrong reasons not for the right reasons. Like the old man said, Samoans are church people but they're not Christians."

Other NZ-borns focus on the positive aspects of Church stating that the Church does not force people to give, but that many NZ-borns and other adherents give willingly to support the church because it is a very important aspect of their lives. In saying this though, it is frequently pointed out that people should give what they can afford to give to the church and not because they feel obligated to do so. Some mentioned the fact that some Ministers and church leaders encourage church members to attend to the needs of their household first, pay the bills and feed the children, and whatever may be left over from those commitment could be contributed to the church.

"But of course not all our church leaders are the same and church leaders have different agenda and strategies towards tithing and giving to the church so the church can't be blamed for people's own choices whether to give generously or not give at all, that's an individual's choice and right to determine what and when to give to the church... But some church denominations, especially the EFKS have particular strategies to raise funds for the church but the choice has to be the people's choice whether to give or not to give."

6.3 Socio-cultural and psychological considerations

> *"For me, I have grown old in the job and am continuing to work as long as I'm healthy and on fulltime employment so the bank will continue to look at us favourably when there's a need to borrow money for fa'alavelave and other things we may need - which has been quite helpful because it makes it easy to contribute to family fa'alavelave when we have to. Church commitment and contribution to family fa'alavelave is a practical way of expressing our love to God and to our people and that is the best thing for me as a person. A Samoan person always seeks opportunities to fulfil that love of God and family and some have used banks, others fringe lenders to ensure they are able to do those things while at the same time developing their families through financing the children's education and providing family homes for our families."* (FG 1)

Conflicting desires/demands

The above statement from a focus group participant demonstrates an integrated understanding of the social, cultural and psychological factors that influence his financial decisions as a Samoan. Other participants also indicate the feeling that borrowing, whether from mainline banks or from any other finance companies including fringe lenders, is not only affecting their economic situations but is having psychological effects also, and these are not always as positive as asserted above.

One older participant talks about, how having arrived in New Zealand, he wanted to be part of his extended family network. He knew immediately after the first fa'alavelave that the level of obligation to fulfil those expectations was so much that he had to beat a hasty retreat. This was because of his perception that the Samoan 'mentality' is such that Samoans are unwilling and afraid to say "no", especially in the face of the expectation that one's status as a matai titleholder should be reflected in what is contributed to fa'alavelave.

However, most older Samoan participants describe how they are committed when it comes to the practice of their fa'asamoa, and that the same attitude has been transferred to their service of the Christian church in which most of them are active adherents. Time and time again participants reiterate that whether or not they have money, when a fa'alavelave comes up, they will find a way to come up with the money to fund those fa'alavelave. Participants take pride in the fact that they feel they are very resourceful and part of that resourcefulness has been the resort of many of them to constant use of fringe lenders as a means of accessing funds – many express the view that fringe lenders understand the need of Samoan people to access loans instantly, and that is what they need.

One older professional Samoan participant explores the conflicts inherent in the cultural/psychological forces at work in shaping financial decisions and fa'asamoa practices in migrant communities:

> *"Fa'asamoa has many important and admirable values which we all hold dearly. The concept of alofa (love) and lotoalofa (kind-heartedness) are some of those values that many Samoans espouse and practice. And it is great that people have retained those values in migrant communities so long as they prioritise their needs and obligations to ensure that the expression of love and kindness does not impact negatively on the welfare and wellbeing of those they are primarily responsible for…Children should not miss out on the necessities of life because parents have contributed the household resources towards fa'alaveave, whether of family or those of the church...Not many Samoan people have the courage to practice our fa'asamoa according to our ability to give only what we can afford to our fa'alavelave. The spirit of humility and giving only out of true love and kindness and not because one wants to be seen to be giving the most above all others has to be enhanced. Too often, some churches have become the venue for Samoan people to compete and many have been caught up in competitive giving to the extent that it has become the cause of some people's indebtedness as they resort to borrowing from fringe lenders in order to meet the obligations and expectations of fa'asamoa and the church."*

Many participants refer to the psychological effects of being turned away from mainstream lenders and refused loans because of poor credit ratings and/or insufficient repayment capacity. Because it seems any Pacific consumer will be able to find a fringe lender who will provide a loan to them, some participants seem to take an adverse pride in being labelled as 'high risk borrowers', willing to accept the hefty penalty rates and high interest rates that these fringe lenders impose on them:

> *"...we still come back and borrow money because that's what we are like, we want to fulfil our obligations and most of us will not run away but will continue to slave in order to pay our debts."*

Multi-borrowing as a reflection of constant demands

Bearing in mind that seeking loans for cultural factors is third-priority borrowing, and that borrowing for every-day economic survival and personal reasons far outweighs this, many participants with large families still recount how the need to contribute to family requests for financial help in terms of fa'alavelave is constant and never-ending:

> *"It is really tough, I suppose that's why a lot of Pacific island people they tend to go to money lenders because of the pressures. I have a large family and constantly - it's like every week - you'll be getting a phone call about helping out with certain things or somebody has passed away, or [it's] somebody's wedding or birthday. But the pressure is sort of there is need to borrow money it's sort of in the back of your mind. Just how easy it is and it's availability. So easy to sign a piece of paper and get it."* (FG 4)

Learning to say, "sorry, but no…"

Some participants, especially NZ-borns, talk about the difficulty in learning to say no to requests for help from family members in New Zealand and abroad. Although these decisions are not lightly made and there are sometimes feelings of shame, they state that they are now bringing in choice to help them deal with financial demands from extended family. For these participants, if they have the cash they will give, but if they have not they will say they are unable to contribute. They often express that they have 'learnt the hard way' in earlier practices of intense fringe borrowing and now prioritise their financial decisions based on affordability factors.

6.4 "Tempering 'culture' in order to cope"

Many Samoan participants describe ways in which through their own negative experiences of fringe lending for first, second and third tier borrowing, coupled with their drive to meet their cultural obligations, they have devised coping mechanisms to deal with their realities as Pacific consumers living in South Auckland as a way of preserving their 'sanity'. For many this involves changing, experimenting, and rethinking received perceptions of their own cultural worldviews and lifestyles, and trying to act on them. Suggested coping strategies include:

- Using all/any means possible to 'teu le va'; that is, maintaining and looking after the social/sacred relationships and relatedness between parents and children, with other members of the family, and in the church community;

- Appreciate the difficulties the younger NZ-borns and/or NZ-raised young people are experiencing;

  "Pacific youth are struggling with the constant demands of cultural obligations and if their issues and grievances are not heard we may find that in the future the younger generations of family members may distance themselves from their networks and that would be tragic for our people and our fa'asamoa".

- Try to clear all their debts and then budget for future fa'alavelave – "you won't go to prison if you don't give to fa'alavelave";

- Work with (or in spite of) church ministers in changing attitudes regarding donations and tithing from "you must give x amount to giving what you can afford";

- Be more pro-active in the world of finances by seeking support and advice before any contracts are signed;

- Be more discerning when signing contracts. Make sure contracts, hidden costs, disclosure etc. are explained and understood, and, importantly, able to be afforded.

A significant number of participants recommended that parents and decision makers, including church leaders, should have mechanisms in place to reassess Pacific people's priorities with regards to cultural obligations and the way they allocate resources. Then obligations to extended family or church and other organisations can be practiced in a manner that eases the pressures of expectations on people:

- Supporting efforts of some church groups' programmes which support needy individuals/families with rent money and food donations;

- Shifting the emphasis on giving to fa'alavelave and church, and focusing on immediate household needs.

Churches have a big responsibility to the children and their welfare and community leaders should ensure that cultural expectations and church obligations shouldn't take priority over the immediate household needs:

- Reassessing priorities so that fringe lending is much reduced or not necessary and thus hardship for families is lessened.

Many Pacific peoples have aspirations to do well in New Zealand and to provide the best opportunities for their children, which is the main reason why many came here, making the sacrifice to leave the homeland and start a new life for their children in New Zealand. Yet some families just can't get ahead and are trapped into indebtedness because of the pressures from family and community expectations and obligations to church and other community organisations:

- Changing attitudes in order for people to ‘live within their means’;
- Developing strategies such as saving rather than borrowing;
- Regular family non-fa’alavelave meetings where working members contribute to a savings fund for fa’alavelave;
- Prioritise extent and importance of fa’alavelave.

Many participants talk about car dealers using Pacific people to promote their businesses; many feel that it is irresponsible of them to keep on promoting car deals when they know very well that some of those advertisements may be suspect and unethical. Bigger finance companies also have Polynesian staff who are in the front desks dealing with Pacific people, but once people come in and they go through those companies’ approval processes our people often find the ’friendly Polynesian faces‘ aren’t always the best people to get help from and are then referred to others who may not necessarily have Pacific language skills to provide interpretation assistance for our people.

- Do not assume a Pacific lender/salesperson will necessarily provide a better deal.

The commitment to “guts it out...”

Despite the negative experiences of many of the participants, others pointed out the positive aspects of borrowing, being able to enjoy something they could not have otherwise afforded and feeling good when that “final payment was made” - having been able to “guts it out …”. However, being chased by finance companies to take out more and more loans because “we are good payers”’ is described by some as “being hassled”; they have become sceptical of these offers as many do not want to borrow for the sake of borrowing.

From lending mentality to saving: “Being irresponsible is not on...”

Many participants with both negative and positive experiences with fringe lenders talk about the need to be more responsible with their borrowing in future. They express a determination to consolidate their loans, to sort out their debts and borrow from the bank in future because “it’s cheaper”. Some participants also realise that Pacific people need to realise that saving up for your own house is better than renting. All agree that saving is not easy, but that it is only through hard work and perseverance that some of the stress and strains around borrowing to meet physical, mental, spiritual and cultural needs will lead to the achievement of wellbeing.

"New ways to think about borrowing"

Other important factors to be taken into consideration that participants talked about as preserving their wellbeing and sanity was their ability to pay off loans on time and devising strategies and thinking around trying to make things better for themselves and their families. In this way, many felt that they would be more in control of their lives - this was reflected in their more positive reflections around borrowing, even when many of their borrowing experiences had been negative. The following section deals with their identification of wants and needs and differentiating between these, some positive strategies, and the shift in many participants' attitudes from a 'lending to saving' mentality.

Many Pacific participants agree that their families get into debt because they want things that they don't necessarily need. Some families owe money to several Finance Companies to the extent that they can no longer service those loans. Some suggestions offered by participants young and old on how to prioritise their borrowing were to try and focus on buying economically, that is, sensible spending rather than expensive spending; explaining to recent arrivals about the realities of life in NZ and the financial pitfalls that await them, the ease with which they will be able to access credit and encouraging them to buy cheaper goods - not 'flash' ones; to save up for family holidays or travel to the homelands by checking out budget 'specials'; and encouraging one's children to save.

Several participants commented that those Pacific people on the dole should get a job as many of them were perpetuating the borrowing culture by going to fringe lenders. Many realised the detrimental effects of the debt cycle in that the 'rich were getting richer and the poor, poorer'.

6.5 Moving forward: from borrowing to saving and/or borrowing better

This final section of the chapter summarises Pacific consumer participants' suggestions for ensuring Pacific peoples are more informed financial managers and that the unreasonable and oppressive practices of fringe lenders are curbed.

Suggestions for Pacific community action

An encouraging number of participants shared information on how their particular family/community groups have devised financial strategies for helping themselves deal with the wants and needs of borrowing in a pro-active way.

- Older participants (Tongans), men groups (kava group) or mixture of men and women who are friends or family belong to groups which meet regularly to put in money they get from selling something (tapa cloth or food) and at the end of the year get money back and use it for Christmas;

- Young NZ-born professionals mentioned they want to get good jobs so they might go and study so they can become 'professionals' and able to go to the bank rather than fringe lenders.

Suggestions for Government/community agency action

A middle-aged Tongan participant expressed a very clear opinion on the government's role:

> *"If banks and fringe lenders don't take necessary steps to protect people from getting into financial difficulties by way of getting loans, then the Ministry of Consumer Affairs should step in and ensure that some regulations are set in place to discourage people who can't afford to borrow from getting into debts. Criteria for borrowing should be made harder so people can't get easy access to loans some of which they don't really have a need for."*

An older Samoan focus group participant also had much to say about the legislation here as compared to what he knew of the Australian situation:

> *"I think New Zealand laws are very weak. It always comes down to the government, how they monitor things. In Australia these [finance] companies would never be alright…I really, truly blame the government. It's just gone out of control."* (FG 2)

As summarised below, many others also had firm views on what external agencies could and should do to ensure their protection from the detrimental effects of the fringe credit market:

- Both older and younger participants wanted the Government to advertise services offering financial help and advice and to make such services available throughout "South Side …to match the number of fringe lenders"; "…if it's in your face as much as the fringe lenders you're more likely to go there first to seek help from them rather than borrow,";

.

- Some participants wanted the Government to set up a bank for low income earners…so low income earners could take advantage of low interest rates, instead of their being forced to go to fringe lenders because they have no other options;

- Many older participants stressed that there needed to be more 'buy in' into the current community education programmes, and that perhaps there needed to be more such programmes;

- A large number thought all credit providers, fringe lenders and banks, should be made responsible and accountable to consumers;

- The Ministry of Consumer Affairs should ensure that lenders' processes and procedures are not oppressive and that members of the public, particularly Pacific people and recent immigrants to New Zealand who have limited English language skills, are not disadvantaged by signing contracts that they may not understand;

- Make credit harder to get - lenders should be required to ensure that credit is less accessible especially to people in the community who can't afford to service those loans;

- Finance Companies should provide pertinent and appropriate advice for people especially those who use their services repeatedly;

- Language issues – English language assistance should be provided also to unpack the legal/technical language of contracts as appropriate; where possible contracts should be in Pacific ethnic languages.

To complete this chapter, the following narrative from a middle-aged Samoan tradesman cautions against the overriding negative perception of cultural obligations which can become the focus of discussions about money management in Pacific migrant communities. He suggests that such discussions can overshadow the beauty and benefits the fa'asamoa can offer families and family members in terms of the 'va'. While not discounting the burdensome nature of the demands of fa'alavelave, he offers strategies which he as a matai has devised for meeting fa'alavelave demands in the New Zealand context.

Case Study Narrative

Managing cultural obligations:
"It's all about being wise and being educated and understanding …."

Fa'asamoa and the way it has been practiced by some people has become a burden for many which in a sense has benefited many Finance Companies. Responding to our fa'alavelaves, for example, and how we fund these things are dependent on how family leaders such as matai and those who have leadership roles…understand the demands of these fa'alavelave on their members and they try and cope with fa'alavelave within the capabilities of family members...My own practice is that when something comes up where I have to get our family members together to discuss these things, I would propose certain strategies and usually ask that individual households contribute what I may determine would be an appropriate amount of money from each household including myself and my wife in order for our family to contribute to what fa'alavelave has come up...each fa'alavelave is different and should be considered on its own merits and in a particular context according to how close the people involved are to the members of my family and whether it needed a large or small contribution.

God gave us the intelligence to review and reconsider the practice of our culture and since we have made New Zealand our home away from home, I think it is up to the community leaders to ensure the practice of our cultures and our approach to keep our culture and values alive in consideration of the social, economic and environmental changes and the milieu in which we live in whether its here in New Zealand or back in the homeland.

I believe that many of the fa'alavelave that Samoan people contribute to have been taken out of context in terms of their relevance to the real spirit of Samoan cultural values and the real meaning of generosity and reciprocity within our fa'asamoa. My own strategy is that as the matai I also have to be considerate and take into account the welfare and wellbeing of my family members so that when I discuss these things with my brothers and sisters and my cousins and nephews and nieces who make up my extended family network, I should always listen to their grievances and stories because if I hear that they are struggling and I keep on piling up the obligations and expectations to contribute to our fa'alavelave, that isn't the way you as the matai are going to generate healthy relationships and good fellowship among my extended family members. I always try and be flexible in my decisions to the extent that when some households indicate they may be struggling with household expenses at a particular time when we all have to contribute towards a fa'alavelave, I would advise those households to attend to their immediate needs first and I would ask other households to fork out for that particular fa'alavelave. It provides breathing space for members of family to pay their bills first and then contribute to our family things when they are in a better economic position to do so. Fa'asamoa and our fa'alavelave are always going to require our family members to contribute to fulfil those obligations.

I always advise my family members that when the demands of our family fa'alavelave are too much of an imposition on their households signal in advance and let me know so that I know what they are going through so that I can rally other family members to provide support. I also know that the younger members of the family, particularly those who have been born and raised here in New Zealand are struggling with the constant demands of our cultural obligations and if we don't listen to their issues and grievances we may find that in the future the younger generations of our family members may distance themselves from our networks and that would be tragic for our people and our fa'asamoa....my experience growing up as a young untitled man in my village in Samoa where I witnessed the matai of my family and their own practices doing fa’alavelave and the way they conducted themselves in relationship to members of their families.

Samoans have a saying: “E tumau fa’avae ae fesuisuia’i ona faiga”…which means while the foundation of fa’asamoa and its underpinning values will endure, the practices and their implementation will evolve. This dictum has become a basis of my own practices within my own family and also with other organisations such as village organisations and church organisations in which I am involved and have a role in their leadership.

CHAPTER SEVEN: CONCLUSIONS

Four broad conclusions can be drawn from this research study:

- The evidence provided by this research, as to what Pacific credit consumers in South Auckland borrow for, supports the findings of a previous study commissioned by the Ministry of Consumer Affairs (see pp. 6-9) which found that 'at risk' borrowers' most common reason for borrowing was for essential items. The participants in this study, consistent with their positioning as low income groups, reported borrowing to meet the needs of everyday household expenses as the most common reason for using the services of fringe lenders. Purchasing large items, especially cars, was the second most common, and the research data highlight the alarming extent of exploitative (yet probably legal under the CCCFA) lender practice in this area. Borrowing to meet social and cultural obligations is the third, and like the first, an area often requiring access to 'instant cash', for which low income people cannot easily plan, thereby increasing their susceptibility to unreasonable and oppressive credit provider practices. Pacific peoples' ability to meet certain cultural obligations is important to them as a means of practicing the reciprocity that is central to Pacific cultures and thereby strengthening their social capital. The research tells some very positive stories about how Pacific people manage their finances across these three areas and it appears that most loans are repaid. However, the overall picture is that Pacific people's quite legitimate need for easily accessed cash loans or for cars and other items without which families cannot function efficiently, and their inability to access cheaper credit options, leaves them increasingly exposed to high cost and exploitative credit contracts.

- The findings of this research challenge the notion that if certain information is available consumers will use it to make the decisions that will shape the development of a healthily competitive credit market. Even those Pacific consumers with reasonably high levels of financial literacy and awareness of the high costs involved in the fringe credit market felt they had limited choice about the conditions under which they accepted the credit they sought. The ways in which information is provided (small print, technical language etc), and by whom, can preclude the consumer arriving at the understandings needed for truly informed decision-making. For the majority with low levels of financial literacy, their concern about getting the money they wanted to meet an identified need was more important than the terms of the credit; the vital information from their perspective was the size of a weekly repayment rather than the total cost. Other aspects worth noting here were the frequently expressed fear that questioning or complaining about the conditions would prevent the consumer being able to borrow at all, and the degree to which questions were not asked because of the trust placed in the credit provider, especially when a member of the same community. The need for more, better and earlier consumer education is strongly indicated, as is the need for Pacific community leaders to work closely with the various community and legal agencies in developing and disseminating Pacific-friendly information. But information, no matter how Pacific-friendly, will not be a sufficient means of addressing the very real problems uncovered by this research.

- The socio-cultural and psychological context of borrowing from fringe lenders raises bitter-sweet issues for Pacific communities in New Zealand. Undoubtedly access to credit is vital for many Pacific families. However, the necessity to engage in first, second and third priority borrowing has produced an environment of continuing pressure and stress in the lives of Pacific consumers. The realities for many are that they and their families are struggling to survive, not only physically but also mentally, emotionally, culturally and spiritually. The complexities surrounding Pacific cultural and financial competencies tear at the already fragile intergenerational/intra-ethnic/gender roles and responsibilities of Pacific consumers in a way that jeopardises the well-being of many Pacific individuals, families and communities of South Auckland. While this research unequivocally shows that coping strategies such as the need for 'tempering culture' have been developed, and that there is a growing awareness of financial literacy amongst some Pacific consumers, it is also clearly evident that many Pacific consumers are not coping at all well, and are not in control of their socio-cultural realities, resulting in negative outcomes at personal, familial and community levels. Many Pacific consumers in this study are of the view that there is a need for non-mainstream credit providers, and they are keen to meet their financial obligations. However, the confusion and stress caused by hidden high costs and exploitative credit contracts exacerbates their already vulnerable positioning, with negative and dire consequences in many cases.

- The Credit Contracts and Consumer Finance Act may work as intended for consumers borrowing from ‘mainstream’ financial institutions. There is clear evidence, however, that the Act does not provide sufficient protection to credit consumers dependent on ‘fringe’ lenders. While the detrimental effects of fringe lenders apply to all who use them, the impact on Pacific communities is greater because they are disproportionately represented in the low income communities in which fringe lenders operate. There can be no doubt that fringe lenders have flourished in South Auckland in the period since the CCCFA became effective, and that they deliberately and aggressively target Pacific communities. Furthermore, this research makes clear that Pacific consumers continue to be extremely vulnerable to fringe lenders’ often ‘unreasonable’ charges and ‘oppressive’ practices, and that the forms of redress available under the Act are neither understood nor accessed easily by Pacific consumers. There is a strong case for New Zealand credit legislation to be tightened and/or more strongly enforced in order to better control the operations of the fringe credit market-place, even if this means credit, beyond small cash loans, is harder to get. Many wise suggestions for how this might happen are made by both the Key Persons and the Pacific Participants whose knowledge and experiences inform this report.

APPENDIX 1: DEMOGRAPHIC INFORMATION

1.1 *Total Sample (Focus group and individual interviews):*
N = 124

Sex
Male: **48** Female: **71** Non-response**: 5**

Ethnicity
Samoan: **48**; Tongan **54**; Niuean: **4**; Cook Islands Maori: **2**; Tuvaluan: **1;** Fijian: **1**; Indo Fijian: **1**; NZer: **3;** NZ-Born Samoan: **6**; NZ-Born Tongan **5**; NZ-Born Niuean**: 2**; NZ-Born CIM: **2.**[20]

Place of birth
Samoa: **50**; Tonga **51;** Niue: **2**; Cook Islands: **1**; Fiji: **2**; New Zealand: **17**.
Non-response: **1.**

Age Groups
20-29: **13**; 30-39: **26**; 40-49: **22**; 50-59: **27**; 60-69: **25**; 70+: **8;**
Non-response: **3**

Occupation
Retired: **16**; Beneficiary: **33**; Homemaker: **27**; Tertiary Student: **3**; Unskilled employment: **16;** Semi-skilled: **9**; Trades: **7**; Professional: **8**; Business: **2;** Non-response **3.**

Extent of Paid Employment
Fulltime: **39;** Part-time: **15**

Household Income level
$0-15k: **52**; $16-30k: **28**; $31-45k: **26**; $46-60: **9**; $60-75k: **2**; $76-90: **2**;
$91+:**1**; Non-response: **4.**

Education qualification
None: **37;** Secondary: **52;** Trade: **10;** Undergrad Dip/Cert: **11;** Bachelors: **9;** Post-graduate:**1;** Non-response: **4**

Relationship status
Single: **14;** Married: **79**; Widowed: **18**; Separated/Divorced: **4**. Defacto: **2;** Non-response: **6**

Church Allegiance
Mainstream churches: **89;** Non-mainstream: **34:** None: **1**

---

[20] The total number exceeds the sample size because some participants identified more than one ethnicity.

1.2 *Individual Interviews*:

N = 50

Sex
Male **25** Female **25**

Ethnicity
Samoan: **22**; Tongan: **20**; Niuean: **2**; Cook Islands Maori: **2**; Fijian: **1**; Indo Fijian: **1**; NZBorn Samoan: **4**; NZBorn Tongan **5**; NZBorn Niuean**:** **2**; NZBorn CIM: **1**.

Place of birth
Samoa: **18**; Tonga: **16;** Niue: **1**; Cook Islands: **1**; Fiji: **2**; New Zealand: **12**.

Ages
20-29: **11**; 30-39: **10**; 40-49: **12**; 50-59: **10**; 60-69: **6**; 70+: **1**.

Occupation
Retired: **5**; Beneficiary: **7**; Homemaker: **6**; Tertiary Student: **2**; Unskilled employment: **7;** Semi-skilled: **8**; Trades: **5**; Professional: **8**; Business: **2.**

Extent of Paid Employment
Fulltime: **26;** Part-time: **6**

Household Income level
$0-15k: **7**; $16-30k: **16**; $31-45k: **12**; $46-60: **7**; $60-75k: **2**; $76-90: **1**; $91+:**1**; non-response: **4**.

Education qualification
None: **10;** Secondary: **22;** Trade: **4;** Undergrad Dip/Cert: **7;** Bachelors: **6;** Post-graduate:**1**

Relationship status
Single: **8;** Married: **36**; Widowed: **4**; Separated/Divorced: **2**.