

**GE FINANCE AND INSURANCE
TRADING AS GE MONEY**

AND

COMMERCE COMMISSION

SETTLEMENT AGREEMENT

DATED *19 December* **2011**

AGREEMENT DATED 19th day of December 2011

PARTIES

GE FINANCE AND INSURANCE TRADING AS GE MONEY (GE)

and

COMMERCE COMMISSION (*the Commission*) a statutory body established under section 8 of the Commerce Act 1986

PURPOSE OF AGREEMENT

1. The Commission is of the view that an advertising campaign run by GE in October 2011 for debt consolidation loans breached the Fair Trading Act 1986 (*FTA*).
2. GE admits that the advertising breached section 11 of the FTA.
3. GE has co-operated fully with the Commission's investigation, and the Parties have resolved to settle the matter by this Settlement Agreement (*Agreement*).
4. By this Agreement the Commission agrees to waive its right to issue legal proceedings in respect of GE's conduct on the basis that GE acknowledges it has breached the FTA and agrees to the remedy set out below.

BACKGROUND

5. Between 3 and 12 October 2011 GE ran an advertising campaign promoting its debt consolidation loan product (the "Advertising Campaign").
6. The Advertising Campaign comprised three advertisements:
 - 6.1 a direct mail advertisement shaped like a wallet
 - 6.2 an advertisement to be run in local newspapers
 - 6.3 a radio advertisement.
7. Approximately 110,000 of the direct mail advertisements were delivered on 3 October. These were delivered to households in areas including most south Auckland suburbs and Kelston, Massey, Glen Innes (Auckland), Porirua East, Stokes Valley, Naenae, Wainuiomata (Wellington), and Huntly, Ngaruawahia and Glenview (Waikato). Those areas were chosen on the basis of data from within GE's own records and data obtained by GE from external providers as to the most likely demand for debt consolidation products.
8. The newspaper advertisement was placed in the Hutt News, Hamilton Press, North Shore Times, Western Leader and Manukau Courier on one occasion each between 4

and 6 October. The combined circulation of these newspapers is approximately 305,000.

9. The radio advertisement was played on Auckland radio stations on average 31 times per day over about six days between 3 and 12 October. The radio stations were ZM, Tarana, Solid Gold, Breeze, Edge, Flava and Mai FM.
10. When the Commission raised concerns about the campaign with GE, on 12 October, GE immediately cancelled the remaining radio advertising scheduled. The print advertising campaign had already concluded.
11. The print advertising contained details of a real-life example of a GE customer who consolidated six loans totalling approximately \$15,000 into one new loan, which will be repaid over 60 months. It provided a comparison of monthly repayments for this customer.
12. The print advertising included representations such as:

"Have more left in it each month" (referring to a wallet)

"...you'll be better off each month"

"You'll have more certainty – and more cash left in your wallet."

"Here's what one GE Money customer saved each month."

"Customer's monthly repayment budget reduced by \$490.44"

"How one GE Money customer reduced monthly outgoings with a Debt Consolidation Loan"

13. The Commission advised GE that it considers that there are two ways of examining whether the customer was better off and had made savings:

13.1 On a monthly cashflow basis

13.2 On a total cost of interest (and fees) basis

14. The Commission's analysis of the loan details of the real-life customer used in the advertisement (which was provided to GE) showed that the consolidation loan led to:

14.1 Substantially reduced monthly payments for months 1 to 20 of the consolidation loan period, approximately the same monthly payment for months 21 to 25, and then substantially higher payments for months 26 to 60 compared with the original loans.

14.2 A higher total cost of debt. Interest on the consolidated loan was approximately \$2,100 higher than the total remaining interest payable on the individual loans.

However, the Commission acknowledges that the real-life customer had also purchased Loan Protection Insurance from GE at a cost of approximately \$2,600 and had also taken a further cash advance. Further, one of the loans repaid was less than anticipated. These factors would have had an effect on the total cost of debt.

15. GE has been unable to supply the Commission with evidence acceptable to the Commission that customers will be financially better off after taking out a debt consolidation loan (other than for the immediate cash flow savings during the initial period of the loan and, in some cases, a lower total cost of debt), and is otherwise unable to support the representations made in the advertising.
16. GE advises that the advertising had a very low response rate resulting in only a small number of loans actually made.

ADMISSIONS

17. GE admits the facts set out in paragraphs 5 to 16.
18. GE admits that, through its own inadvertence, the debt consolidation loan advertising is misleading and breached section 11 of the FTA.

REMEDY

19. GE will not re-publish the Advertising Campaign.
20. GE will make a donation of \$60,000 ("Donation") to the New Zealand Federation of Family Budgeting Services (Inc) ("FFBS"). This donation is in addition to any normal or ongoing financial assistance that GE provides FFBS.
21. GE will have all appropriate staff undertake a training programme on the FTA.
22. For the loans that as at the date of this Agreement resulted from the Advertising Campaign, GE will write to the borrowers:
 - 22.1 advising the borrowers of the settlement.
 - 22.2 clearly stating the repayment terms of the debt consolidation loan, with the objective of ensuring that borrowers understand that the loan may not result in them being "better off each month".
 - 22.3 noting that it will refund the borrower by crediting the borrower's loan account with the loan establishment fee.
 - 22.4 noting that the settlement does not bind the individual borrower, and if they wish to take their own individual action they may do so, and including the details of GE's dispute resolution service provider.
 - 22.5 advising that if the borrower needs budgeting assistance that there are organisations available to provide that service, with appropriate details.

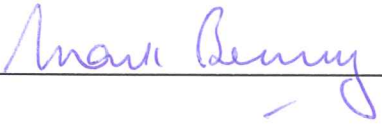
COMMISSION UNDERTAKINGS

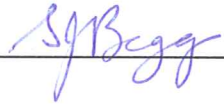
23. The Commission agrees to be bound by this Agreement. The Commission will not bring any further or other action in relation to the Advertising Campaign, subject to paragraph 26.
24. Nothing in this Agreement prevents the Commission from commencing an investigation or bringing Court proceedings in relation to any other conduct by GE not relating to the Advertising Campaign.
25. The Commission cannot bind other parties, and therefore this Agreement does not preclude any person taking his or her own action against GE in relation to the conduct outlined above.
26. If there is any material breach by GE of its obligations under paragraphs 28, 29 or 30 of this Agreement, the Commission may recommence its investigation into the Advertising Campaign and take any action it deems appropriate. This includes commencing criminal prosecution and/or taking civil proceedings under the FTA.
27. If the Commission commences any Court proceedings pursuant to paragraph 26, GE hereby waives any limitation defence that may be available to it in respect of those proceedings to the extent that the limitation arose as a result of the settlement recorded in this Agreement.

IMPLEMENTATION

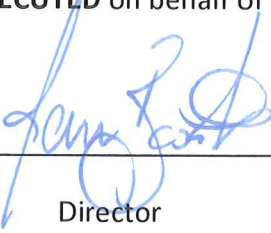
28. The parties agree to take such steps as are necessary or desirable to give full effect to the terms of this Agreement.
29. The Donation will be made by 23 December 2011. It will be made under cover of a letter from GE which explains the settlement and why the Donation is being made.
30. GE will provide the Commission:
 - 30.1 by 31 January 2012, with a copy of the receipt or acknowledgement of FFBS or if not available, other satisfactory evidence of the Donation having been made.
 - 30.2 by 31 January 2012, with its written confirmation that the letters referred to in paragraph 22 have been sent to the relevant borrowers, and that the loan establishment fees have been credited to these borrowers.
 - 30.3 by 31 March 2012, with its written confirmation that the FTA training referred to in paragraph 21 has been completed.
31. The fact that this Agreement has been entered into is not confidential. The Parties agree that none of the contents of this Agreement are confidential and that this Agreement may be published on the Commission's website and may be released to the public.

EXECUTED on behalf of the **COMMERCE COMMISSION** by:





EXECUTED on behalf of **GE FINANCE AND INSURANCE** by:



Director



Director