

Lender Seminar Affordability and Record keeping November 2024
Lezanne's talk on what financial mentors are seeing re affordability assessments

Good morning everyone. I am Lezanne Gibbs, Senior Adviser for Community Engagement in the Credit Branch. My role at the Commission is working with community groups and consumer advocates such as financial mentors.

Many of you that joined us for the previous webinar on hardship will have heard about our community engagement work and what we do with the information we receive.

I won't go into detail about that this time but for those that are joining us for the first time, just to let you know about the purpose of our community work, we proactively seek to understand the issues affecting borrowers, and to educate consumer advocates about lenders' obligations and borrowers' rights. And we predominantly work with financial mentors because of their role as representatives and advocates for borrowers, especially vulnerable borrowers.

My talk today will be about what we are hearing from them in relation to affordability assessments and records keeping.

Chris will later give you some specific examples from our complaints data, but tying into that is the underlying flow of information from the financial mentoring sector that is gathered in a variety of ways.

Whilst the affordability regulations have recently been revoked meaning lenders now have greater flexibility in how they conduct affordability assessments, the most common issues mentors tell us about regarding affordability assessments are about loans that were approved when their client was in a cashflow deficit. The reasons typically fall into three categories:

- **Overestimated income** – usually resulting from extrapolating income from borrower pay slips in a way that potentially overestimates their income. For example, taking an average from pay slips that show income that is variable, such as a large proportion of overtime or seasonal work, without making an adjustment.
- Another common issue regarding income that mentors tell us about is using income from a boarder without asking questions or adjusting the amount to account for any likelihood of change over the life of the loan.
- **Omitted outgoings** – common examples we hear about are lenders not asking enough questions of borrower to capture all the expenses that a borrower has. We are hearing that it is often the same types of expenses that are not being captured. Financial mentors report to us that this often leads to borrowers not being able to meet payments under their loans without substantial hardship.
- Financial mentors have reported the following are often overlooked expenses:
 - Expenses associated with spending on dependents;
 - Gambling;

- Existing debt repayments, particularly to Work and Income where the borrower is a beneficiary; and
 - a common omission with Pasifika borrowers is for tithing and giving for cultural obligations.
- **The third area is underestimated outgoings** – the most common example we hear from financial mentors regarding underestimated outgoings is with food, especially when the borrower has a large family to support. Other expenses that financial mentors find are typically underestimated are transport such as fuel costs and

Other issues financial mentors have identified are:

- Some lenders not providing the records of their affordability assessment within the statutory time frame of 20 working days;
- Loan repayments for beneficiary borrowers that are being paid by a benefit redirection where the borrower is not able to pay for necessities; and
- Providing top up loans when the borrower was defaulting on the existing loan and having difficulty meeting regular outgoings.

In wrapping up, I'd like to finish with some of the good things we also hear about – it's not all about what's going wrong, we also ask the sector about what is going right – some of the things financial mentors have told us about are:

- **Lenders providing information much quicker than the statutory time frames dictate.** Mentors tell us this is greatly appreciated as it enables solutions to be arrived at without delay.
- We've heard about lenders **proactively reaching out to help borrowers in hardship** to help them understand what their options are.
- We have also heard about **lenders making the hardship application process easier to access** by going beyond the statutory limitations and mentors tell us this has been hugely helpful especially when they are helping clients that are in a family violence situation.

I hope that has given you some useful insights into our work with financial mentors and if you have any questions, please put them in the chat, and there will also be some time after Luke's talk to answer live questions.

Thank you