

The high cost of easy cash

Are poorer Auckland communities being exploited by loan sharks?
AMANDA SNOW, KATE DRUETT and VICKY CRAWFORD investigate.

It's so tempting — easy cash, no credit checks, same day approval, and no banks to deal with. The TV pitch for easy finance works a treat. Borrowing cash, if the adverts are to be believed, is easy, wholesome, offering a welcome reprieve from all our money woes. But has borrowing money provided a solution or accelerated the cycle of debt in poor communities?

Some say the cost of easy cash is too high and families with limited options are being forced into the hands of loan sharks.

"We have named them parasites on poverty," says John Minto, spokesperson for Global Peace and Justice Auckland (GPJA).

"People end up paying extraordinary interest rates that would never be tolerated by a middle class borrower."

The group has launched a campaign to pressure the Government to put restrictions on money lenders, and to empower local communities. They are striking out against non status finance firms (commonly known as loan sharks), which they say reduces the quality of life for people on low incomes.

"Were this a crisis in the share market where the incomes of New Zealand's wealthy elite were threatened, the Government would react in the blink of an eye," says Minto.

The appeal of same day approval for cash loans without having to endure an embarrassing credit check is alluring for low income families who borrow to keep food on the table or the phone connected.

But the trade-off is high. Exorbitant interest rates, excessive administration fees and tough penalties often lie behind the façade of so called "solutions" to financial hardship. The results can be devastating.

Poor health, financial difficulty, social exclusion, and possible links to suicide are the effects of over-indebtedness outlined by the Ministry of Social Development. Some end up in overcrowded living conditions to lessen rent, some resort to crime.

"The worst affect of these crippling loans is family breakdown," says Laurel Herring, budget adviser for the Salvation Army in Henderson.

She says both the worst cases and hardest to help are those involved with loan sharks. Food, she says, is the first to be scrimped on when paying back high interest loans and people's health suffers.

"When doing the budgets I save the question of 'what do you spend on food' for last. The reply is often 'whatever's left'."

A survey by the Ministry of Consumer Affairs and Energy Safety Service outlines the magnitude of the problem.

It found "more than half (53 per cent) of all respondents had borrowed in the past 12 months. Of these, 28 per cent reported they had borrowed for essential items such as paying for household groceries or to pay the power bill".

Anecdotal evidence from budgeting services shows the number of loan sharks catering to low income families is rising.

Loan sharks typically lend money to people with poor credit ratings who would be declined by other lenders. The result is low income families paying substantially more for their loans than those who are "better off".

GPJA says it's not uncommon for families borrowing for essential living expenses to pay interest rates of 20 per cent per week. For example, a person borrowing \$100 to pay an electricity bill will often pay back \$300 to \$400 over the following two or three months.

"Typical also are cases where a person borrows \$5000 to purchase a car and ends up paying back \$14,000 over the following two years."

For 21-year-old Shane Howard the



OUTRAGED: MP Hone Harawira is against papers naming and shaming people in debt

option of borrowing his way to a new \$6600 car was too attractive to let slide.

"It was piss-easy to get approval. They only wanted to know my income and how long I had been at my address."

But the interest will compound to bring the total cost of his car to \$13,872 which will be repaid over four years.

While the interest rate was written on Howard's contract, the proud owner of the 1997 Nissan Skyline was reluctant to consider the full cost of his new vehicle.

"It sucks, but that's how they make their money."

The high cost of easy cash begs the question of why loan sharks are prevalent in communities today? And if repayments are so hefty why are loan sharks such a popular option?

"Most don't think a bank will lend them money."

"Some aren't confident to try a bank or have no bank history. Some have asked a bank and failed," says Raewyn Fox, chief executive officer of New Zealand Federation of Family Budgeting Services (NZFFBS).

She says the problem escalates when families delay seeking help until it gets really bad.

"They stop paying the basics like food, rent and power to pay the debt — then it becomes dangerous. We really worry about the disruption it causes families, damaging children's education and social network because they're moving house frequently and not eating properly," Fox says.

She adds that culture can also be an influence as many Pacific Island people are not confident with a bank structure.

While problems of household debt are prevalent across all sectors of New Zealand society, the 2001 household savings survey shows Maori and Pacific people are most likely to have hire purchase debt. Solo parents, low income households, with few assets, and renters are also high risk.

Laurel Herring from the Salvation

Army agrees that the problem is particularly prevalent in Island families.

One woman turned for help after borrowing money to send to her husband in Samoa. High interest repayments made it almost impossible for her to feed her four small children here in New Zealand.

Herring wonders how some clients sleep at night given their financial hardships.

"They come along with unopened envelopes because they think if they don't look they won't know."



Finance company Pacific Loans, which can arrange a loan in under an hour, says it can provide money to people who urgently need it and that it's unfair to label them as loan sharks.

"We try and look after people, we don't get them into trouble. The bank is really strict, they will turn you down. We give people a second chance," says Teikaua Lomi, of Pacific Loans.

A loan from his organisation is as easy as providing ID, proof of address and a current bank statement—plus something for security or collateral.

"People put up their house or car and we can loan them up to 75 per cent of its worth."

Also if transport or language is a barrier, Pacific Loans have mobile lending managers and Pacific Island staff who can talk to borrowers in their own language.

When a repayment is missed clients are given a call. Two weeks later a letter is sent, and two weeks from there Pacific Loans will re-possess.

A name-and-shame page in the local paper is another strategy used by some loan sharks to encourage repayments.

A recent full page ad in *Taimi 'o Tonga* (the Tongan Times) taken out by the Funaki Brothers, who operate a loan business in Otara, features photos and names of people who have defaulted on loan repayments. It also states the amount each person has borrowed.

"The devastation this causes in the community for the families and extended families is immense," says Minto, who has written to the editor asking him to stop publishing name-and-shame ads.

Taimi 'o Tonga editor Ulualo Pouhila says when people borrow money they sign contracts agreeing to have their photograph published in the paper if they default repayments.

Pouhila says if people did not consent to have their photographs published, he refuses to run the ad.

"I have run stories many times advising people it's better to go to banks but when people are so desperate, especially Pacific Islanders, it is the quick money they need."

However, Maori Party MP Hone Harawira argues that taking security over assets owned by people who will inevitably struggle to meet hefty loan repayments is immoral and compounds the cycle of debt.

He says loan sharks, with their aggressive advertising campaigns, are devastating poor communities.

Harawira, who sits on the Parliamentary Finance Expenditure Select Committee, says the Government should pass legislation limiting the amount of interest loan sharks can charge, thus reducing people's access to credit.

He says people should also need a recommendation from a budgeting service before seeking easy finance.

"The Government has the ability to change it tomorrow. The number of poor is increasing in our country—the number of loan sharks are a symptom of a society that allows greed to be a priority in people's lives."

His advice to anyone considering "easy" finance is to see a budgeting advisor first and emphasises the importance of actually taking the advice.

It's a sentiment shared by GPJA. Recommendations made to Government under its "Parasites on Poverty" campaign outlines necessary steps to limit the impact of loan sharks.

Strategies would make it a legal requirement to have "simple English" loan forms that include the total amount to be repaid, the finance rate, and the number, frequency and amounts of repayments.

It would set a cap on finance and penalty rates, which would be related to the rate of inflation.

All commercial money lenders and loan documents would have to be registered — failure to do so would remove any legal redress for a lender.

The message to loan sharks from Minto is to shut up shop and to "get off the backs" of local communities.

"They know what they're doing is immoral and wrong — it's like kicking people when they're down," he says.

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