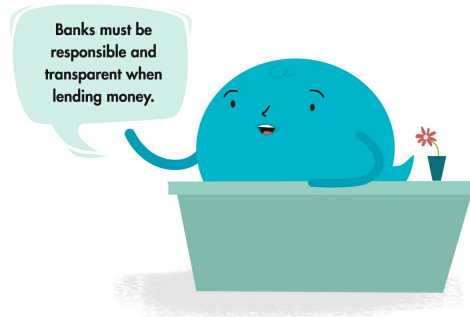


# Credit laws and banking

Responsibility and transparency are the keywords when banks offer credit to prospective borrowers.



## Banks' obligations

Consumer credit contracts legislation covers most of the lending-related complaints we investigate. A consumer credit contract will exist whenever a bank lends to a customer for personal use, such as through a mortgage, credit card, arranged overdraft or personal loan. Such contracts typically take the form of a customer agreement (such as a home loan agreement) or the standard terms and conditions of a product (such as a credit card account) to which a customer agrees to abide.

Changes to the Credit Contracts and Consumer Finance Act 2003 impose specific obligations on lenders (such as banks) and lending agents (such as repossession agents and debt collectors) to act responsibly. The changes also aim to protect vulnerable consumers.

Under the revised Act, banks must:

- comply with responsible lending principles (see the [Responsible Lending Code](#), which sets out these principles)
- ensure customer agreements, and banks' actions under those agreements, are not oppressive for customers
- disclose all of the terms and conditions of lending – including what the repayments will be, how the bank will calculate interest, and what fees or charges, if any, will apply – before borrowers sign the customer agreement
- give borrowers a five-working-day cooling-off period in which to change their mind about the agreement they have signed.
- comply with stricter rules about fees and charges they can apply
- comply with more comprehensive rules about hardship applications (see below).

The Act extends protections to those who are considering borrowing from a bank as well as to those who already

have a lending agreement with a bank.

## Responsibility principles

The Act requires banks to act with the care, diligence and skill of a responsible lender when advertising consumer credit contracts and before entering into an agreement to provide credit (and before taking a relevant guarantee). This responsibility extends to all subsequent dealings with the borrower or guarantor.

The Act's responsibility principles require banks to:

- make reasonable inquiries to be satisfied that the credit is likely to meet the borrower's requirements and be repaid without the borrower suffering substantial hardship
- help the borrower to make informed decisions about whether to enter into the agreement, and to make informed decisions in all subsequent dealings
- treat borrowers and their property reasonably and in an ethical manner, including during any repossession process
- make sure agreement terms and powers exercised by banks are not oppressive
- meet all legal duties to the borrower.

See the [legislation](#) for full details.

## Financial hardship

Customers suffering unforeseen hardship are entitled to ask their bank to vary the terms of their contract. They must have been in default for less than two months and have not missed four consecutive payments. Their application must be in writing and must explain the reasons for being unable to make repayments (such as illness, injury, loss of employment or the end of a relationship). Banks must comply with lender responsibility principles when assessing hardship applications. See our [Hardship and financial difficulty](#) quick guide for details.

## Complaints related to the Act

If you consider your bank has not complied with its responsibilities under the Act and you are unhappy with its response to your concerns, you can contact us. We can look at complaints about a bank's breach of a statutory obligation or industry code. Note, however, that we don't have power to make banks alter their policies or practices.

## More information

Our Quick Guides [Concerns about loan decisions](#) and [Guaranteeing someone's debt](#) also have information about credit contracts.

The National Building Financial Capability Charitable Trust has a [Code of Responsible Borrowing](#), which covers

such areas as affordable repayments, alternatives to borrowing, knowing what you're signing, and keeping lenders informed about life changes that affect repayments.

The Commerce Commission has detailed information covering all aspects of **consumer credit changes**.

