

ASSISTING BORROWERS FACING FINANCIAL HARDSHIP- THE MUTUAL APPROACH

Credit unions and mutual building societies recognise that the deteriorating domestic and international economic outlook will place continued financial pressure on households, as those affected find it more difficult to service housing and personal debt.

It is important that all lenders have clear and effective arrangements to manage borrowers who are facing financial hardship. In particular, lenders should have in place arrangements that assist borrowers who are experiencing temporary financial hardship.

Credit unions and mutual building societies are owned by their member borrowers and depositors. Members, as owners, have always been treated with care and respect whether or not they are experiencing financial hardship. Members in financial distress are treated on a case by case basis using a range of common remedies and options. These are outlined below and applied depending on the borrower's circumstances.

Credit unions and mutual building societies support the Government's objective of ensuring that all borrowers experiencing financial hardship are treated according to some common standards of assistance by lenders.

The approach matches the Government's agreement with the four major banks but reflects the distinguishing features of credit unions and mutual building societies, including their mutual status, smaller size, commitment to personal service and record as responsible lenders. The Principles, which apply in relation to all consumer credit contracts, establish temporary and standardised arrangements that are designed to assist borrowers that are unable to meet their contractual obligations due to unemployment or as a result of other (reasonable) causes.

Credit unions and mutual building societies will apply the following principles on a case by case basis to assist borrowers manage their way through temporary financial hardship.

In these circumstances, credit unions and mutual building societies will support their borrowers by:

1. Temporary assistance options

- Credit unions and mutual building societies will provide temporary assistance to borrowers who are experiencing financial hardship and have become unemployed or are in difficulty more generally.
- Credit unions and mutual building societies will work with borrowers to determine the most appropriate assistance option for each borrower. Options include:
 - in relation to mortgages, postponing for up to 12 months the dates on which payments are due under the contract (with interest to be capitalised into the loan);
 - extending the period of the contract and reducing the amount of each payment due under the contract;
 - reducing the limit available to customers on credit contracts;
 - short term reductions in interest rates, or repayments due under the contract;
 - offering different banking arrangements that will better suit the customer's needs;
 - temporary overdrafts on a one-off and temporary basis to suit short-term needs;

- providing interest-only repayment options on loans; and
- providing fee waivers.
- These options will be considered in circumstances where the borrower will be able to meet the new repayment terms and will be able to meet their new contractual obligations in the long-run.

2. Identification of borrowers in hardship

- Credit unions and mutual building societies will have systems in place to assist in identifying borrowers who may be experiencing financial hardship.
- Credit unions and mutual building societies will monitor borrowers and may contact borrowers who default on their contractual obligations. If contacted, credit unions and mutual building societies will explain, in detail, why an individual has been contacted and explain what assistance may be available to the individual if it is found that they are experiencing financial hardship.
- Credit unions and building societies may contact customers that exhibit other potential signs of borrower distress, which may include:
 - unusual patterns of usage of credit card products; and
 - requests for significant increases in credit card limits.

3. Staff training

- Credit unions and mutual building societies will continue to have staff trained to deal with hardship cases in a sensitive and effective manner.

4. Information on hardship processes

- Credit unions and mutual building societies will maintain the mechanisms that are in place to allow borrowers to seek information about hardship assistance.
- Access to information about hardship processes will be open to borrowers without requiring borrowers to provide evidence of their hardship.

5. Timely assistance

- Credit unions and mutual building societies will continue to deal with requests for hardship assistance in a timely manner.
- Credit unions and mutual building societies will continue to ensure that hardship applications are dealt with as quickly as possible.

6. Financial counselling services

- Credit unions and mutual building societies will provide, where appropriate and subject to availability, details about external financial counselling services.

7. Needs-based assistance

- Credit unions and mutual building societies will continue to provide temporary financial hardship assistance based on information about the borrower's individual needs.

- Borrowers who apply for temporary assistance may need to provide evidence of financial hardship. This will help credit unions and mutual building societies develop tailored solutions for individual borrowers.
- Evidence of financial hardship can be satisfied through the provision of the following documents that show a change in their personal circumstances:
 - payslips;
 - bank statements;
 - medical certificates;
 - welfare payment statements; or
 - a statement of financial position and/or income and expenditure.

8. Constructive approach

- Credit unions and mutual building societies will continue to work constructively with borrowers who experience financial hardship and will try to assist borrowers to overcome difficulties meeting their financial commitments. Credit unions and mutual building societies will do this whether or not the borrower has a right to seek a hardship variation or change under the consumer credit laws.
- Credit unions and mutual building societies will continue to consider longer term as well as short-term financial issues when they are relevant. If a member is experiencing longer term difficulties, we will try to develop an appropriate solution with the member to allow them to meet their obligations and improve their financial stability.

9. Responsible lenders

- Credit unions and mutual building societies will continue to act honestly and with integrity, and will treat borrowers fairly and reasonably, including borrowers facing financial hardship.
- Credit unions and mutual building societies will continue to act as responsible lenders. We base our lending decisions on a careful and prudent assessment of a borrower's financial position. We promote the responsible use of credit to our members.

10. Impact on wider community

- Credit unions and mutual building societies will continue to take account of the impact of their operations on staff and the communities they serve.