Amendments to the Moneylending Control Act and Installment Sales Act have positive impact

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Speedread

According to a recent report published by the Japan Credit Information Reference Centre Corp, recent amendments to the Moneylending Control Act and Instalment Sales Act appear to be having a positive impact on the levels of personal debt in Japan. This article provides detail on the amendments made to both Acts to protect individuals from over-borrowing.

Recent amendments to the Moneylending Control Act (which became fully effective on 18 June 2010) and to the Instalment Sales Act (which became fully effective on 17 December 2010), according to a recent report published by the Japan Credit Information Reference Centre Corp. (JCIRCC), appear to be having a positive impact on the levels of personal debt in Japan. The amendments to both pieces of legislation were made to protect individuals from over-borrowing.

The main amendments to the Moneylending Control Act were:

- To require moneylenders (except for banks and other institutions that are controlled by other acts, the "Moneylenders") to investigate each customer's ability to repay through a credit information bureau designated by the prime minister (each a Designated Credit Information Bureau) and Moneylenders are prohibited from lending an amount exceeding the amount the customer is able to repay (for example, an amount which causes the outstanding debt of the customer to be over one-third of annual income of the customer).

- Prohibition of charging "grey zone interest rates" (interest rates between 15%-20%, depending on the loan amount), and 29.2% which though unenforceable was not penalised.

The main amendment to the Instalment Sales Act was to require intermediary traders for credit sales (for example, credit card companies, the Credit Sales Intermediaries) to investigate the limit that each customer can pay (the Credit Limit Amount) based on annual income, living costs and outstanding debt through a Designated Credit Information Bureau and such Credit Sales Intermediaries are prohibited from offering credit to customers over the Credit Limit Amount (for individual credit), or 90% of the Credit Limit Amount (for credit lines made available to customers).

According to the data published by JCIRCC, between April 2010 and December 2010:

- The number of persons having outstanding debt decreased from 15,190,000 to 14,800,000.

- The number of cases of outstanding debt decreased from 31,550,000 to 28,480,000.

The total outstanding amount of debt decreased from JPY 13,434 billion to JPY 11,624 billion.

While the levels of personal debt appear to be declining, there is a concern that the reduced levels could mean that Moneylenders are declining to provide credit at the lower legally-imposed rates and that this could, in turn, lead to borrowers seeking other sources of funds (for example; illegal moneylenders). This would, for obvious reasons, not be a desirable consequence. In this regard, it is interesting to note that in June 2010, about 50% of people who borrowed from Moneylenders borrowed in excess of one-third of their annual income. It is unlikely that such persons will be able to make additional borrowings under the new regulations which could put them into a tougher situation.

According to a survey conducted by Japan Financial Services Association, 76% of individuals who could not borrow due to the new regulations said that they need to borrow in order to maintain their daily life and 56% of sole proprietors who could not borrow due to the new regulations said that they need to borrow working capital. Now the issue is how to protect such people from resorting to illegal Moneylenders and/or falling into more serious problems.

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