Opening Statement by Mr Ed Farrell, CEO,

Irish league of Credit Unions (ILCU)

Good morning Chairman and member of the Committee. On behalf of the Irish League of Credit Unions (ILCU), I want to thank you for the opportunity to address the Committee today on *School Costs and related matters*.

For the benefit of the Committee members, the ILCU is the largest credit union representative body on the island of Ireland. Founded in 1960 to provide representation, leadership, co-operation, support and development for credit unions in both Northern Ireland and the Republic of Ireland, the ILCU today has an affiliated membership of 355 credit unions – 262 in the Republic and 93 in the North. Membership of the ILCU is open to every credit union in Ireland.

Our submission to the Committee is based on the results of our annual Back to School Survey, which is conducted on our behalf by ireach. 1,000 people were randomly selected for the 2018 survey, 383 of which were parents of school going children. Of this group of parents, 328 parents responded to the survey.

The results of the 2018 survey indicate a rise in the number of parents in debt due to back-to-school related costs. Well over a third (36%) of parents in Ireland say they are getting into debt to cover back-to-school costs. This is a noticeable increase on the 29% who reported being in debt last year. Parents of primary school children are, on average, in debt of €367 – up from €345 in 2017. For secondary school parents, the average debt reported is €443 – compared with €415 last year.

67% of parents say back-to-school costs are a financial burden. Almost half (46%) say that costs are their biggest back-to-school related worry, well ahead of concern that children won't settle or make friends (15%). Four in ten say they are under pressure to buy branded goods and other items for their children. This figure was higher for parents of secondary-school children with over half (54%) feeling the pressure, compared with 39% of parents of primary school children.

Those admitting they will be forced to deny their children certain school items has also increased, rising from 25% in 2017 to almost one third (31%) this year. Of this group, four in ten say they cannot afford new school shoes for their children, while seven in ten say extracurricular activities will be cut from the budget.

In general, just over a third of parents say they will have to sacrifice spending on certain items to meet school costs. 22% say they will have to cut spending on household bills and 15% say spending on food will have to suffer.

The study found however, that overall, costs have fallen somewhat since last year. Parents say they are spending €999 per primary-school child, a €49 decrease on 2017. For secondary school-children, parents say the cost per child has fallen €22 to €1,379. In general, the decrease was due mainly to falls in the prices for extracurricular activities, transport and after-school care.

According to parents, the biggest spend for primary school children is again extra-curricular activities at €153 per child, followed by school lunches at €142 and after-school care at €140. For secondary-school, parents say the most expensive item is again books at €200, followed by uniforms at €179 and school lunches and transport both costing €175 each.

Almost seven in ten parents (69%) say that Irish schools are not doing enough to keep costs down. This has dropped, however, from 76% last year. When asked how schools could do more to help parents, 32% said reducing the price of books or introducing a book rental scheme. 22% said the option of generic uniforms or even free uniforms would help.

Of concern is the finding that of those parents in debt, more than a quarter (27%) say they have turned to a moneylender in an effort to cope with back-to-school costs. This is up from 20% last year. Of this group in debt, three in ten said they have borrowed between €400 and €500– while more than a quarter said they had borrowed over €800.

When asked why their preferred option was a moneylender, 46% of this group said they felt they would be guaranteed the money and that the approval processes in banks and credit unions would be more difficult. 42% said they felt they had no other option because they had a bad credit history. Of concern also is the fact that a significant number of this group (77%) said they will use a moneylender again this year to cover the back-to-school spend.

ILCU Recommendations

Educational Costs

The ILCU strongly recommends that the Department of Education & Skills continues to urge schools to address the issue of back to school costs. Suggested areas for cost savings are:

- The introduction of non-badged generic uniforms (including gym gear)
- The introduction of book rental schemes or the distribution of second-hand books
- A reduction in voluntary contributions sought by schools
- A reduction in the costs of extra-curricular activities
- The abolition or reduction of expensive school trips so as to reduce pressure on parents

Moneylenders Interest Cap

The ILCU recommends that a significantly reduced statutory maximum interest rate for licenced moneylenders should be urgently introduced to alleviate cases where the high cost of borrowing has the potential to condemn families to a lifetime of debt.

Many jurisdictions across Europe have successfully implemented an interest cap and indeed credit unions are subject to an interest rate cap. It is worth commenting that the implementation of the lending rate cap has certainly not stymied the growth and development of the credit union movement in Ireland even taking into account that the movement operates on a not for profit basis.

Moneylending firms are licensed by the Central Bank under the Consumer Credit Act, 1995. Any institution charging over 23% requires a Moneylender's licence. Maximum legal lending rates for moneylenders are not provided for in this Act, and while the licence of an individual money lender includes the interest rate that money lender can charge, the Central Bank does not have the legislative power to cap interest rates on an industry wide basis.

Almost two thirds of moneylenders on the Financial Regulator's register as at 25th June 2018 are licensed to charge an APR in excess of 100%. However, the prevailing rates charged are still too high and the ILCU firmly believe that it would be possible to introduce an industry wide interest cap for the sector which would be lower than the existing prevailing rates and yet high enough that the adverse consequences which are of concern to the Central Bank would be avoided. This will require a change in legislation.

In keeping with their ethos and principles credit unions are continuing to roll out the Personal Microcredit scheme (PMC). The PMC commenced as a pilot initiative in November 2015 with 30 credit unions across the Republic of Ireland. Branded the 'It Makes Sense Loan', the aim was to prove that credit unions could offer a loan product that matched the convenience and ease of moneylenders' offers, addressed the exorbitant rates charged by them and yet was within prudential lending guidelines.

The pilot was a success and as a result a national roll-out was approved in the summer of 2016. The significance of the initiative is reflected in it being included in the 2016 Programme for Government - "Specifically we support…the rollout and extension of the Personal Microcredit Scheme, which is providing simple microloans to members and helping to combat the use of moneylenders." An implementation group continues the rollout of the scheme and, as of 17th August 2018, 111 credit unions are now live and offering PMC loans across Ireland at over 262 credit union offices. There are currently in excess of 6,200 live PMC loans across all active sites.

The ILCU recommends continued Government support for the extension of the Personal Microcredit Scheme to every credit union in Ireland.

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