

MABS National Development CLG, presentation to Joint Oireachtas Committee
on Finance, Public Expenditure and Reform, and Taoiseach

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MABS welcomes this opportunity to appear before the Committee.

Recognising achievement

Firstly, the work that has been done inside the credit union movement over the last number of years as evidenced in the CUAC Report is to be commended and, in MABS view, must now pay a social dividend for members and their communities.

MABS has worked very closely with the credit union movement since its foundation and this joint-work remains very important to MABS and to its clients.

Much of the subject matter covered in the CUAC report falls outside the scope of MABS immediate remit. Notwithstanding this, we have a number of related observations which may be relevant to the Committee's work.

We have made a submission and I will summarise the key points below:

Section 35

1. Credit unions are a route to social and economic progression for individuals, households and communities; enabling progression between significant stages of life. Short-term lending does not always support that key objective and we concur with the view expressed by credit unions that there should be a review of Section 35¹. We are living longer and working longer and this should be reflected also in the product offering of credit unions. We note further that consideration is being given by some credit unions to entering the mortgage market and we believe that mutuality, combined with appropriate regulation and strong corporate governance, offers a potential solution to some of the difficulties in the mortgage market and is worthy of further consideration.

Financial Inclusion

2. When we last appeared before the Committee in relation to developments in the Credit Union in 2012, our main concerns related to financial inclusion and social inclusion. We note that there is very little reference in the CUAC report to the issue of financial inclusion and wonder therefore what progress has been made in advancing this agenda over and above the reference to the Personal Micro Credit Pilot Scheme, which developed the 'It Makes Sense Loan' which I will refer to later.
3. A credit union *exists only to serve its members – not to profit from their needs*². In MABS we are seeing decision-making about credit becoming more and more removed from the people and communities concerned. Likewise, while there is merit in using 'big data' to inform lending decisions, there is also a risk that data analytics will come to replace, rather than

¹ It is noted at footnote 4 in the CUAC Report that, 'Stakeholder's in their discussion with CUAC invariably referred to Section 35 in discussing lending limits', this reference point is retained here also.

² <https://www.creditunion.ie/whoweare/whatis/>

reinforce, the relationships of measured mutual trust that are a cornerstone of good lending.

4. In 2012 MABS highlighted the need for a robust process of assessment to underpin lending decisions and the new credit register, which we welcome, should assist this.
5. In MABS experience it is borrowers in their mid-years (with heavy commitments to mortgages, children and so on) who most often find themselves in financial difficulty. However, if a member and their credit union can re-engage on a pragmatic basis during an arrears difficulty there is often scope for successful and potentially profitable engagement for years into the future. We have a concern that the outsourcing of collections and the sale of loan books to third parties could cause a permanent severing of those important relationships between member and credit union and could have an adverse impact on credit unions.
6. With respect to transaction costs, we note that remuneration of voluntary board members has been mooted by some respondents in the CUAC research, we would be concerned if this added to costs or served to displace the contribution that is currently made by volunteers free of charge.

Lending

7. There is a need for balance in making good lending decisions based on robust assessment of a borrower's capacity to repay, yet not being so risk-averse that regulatory systems and processes serve to prevent credit unions from granting loans to people who desperately need credit.
8. The continued prevalence of licenced money lending in Ireland is symptomatic, in MABS view, of a failure to provide attractive, affordable and life-enhancing products and services to low income borrowers. That potential exists and needs to be urgently fulfilled.
9. In the Irish context, the '*It Makes Sense Loan*'³ which is currently being rolled-out by just over 100 credit unions with the support of a range of stakeholders is an excellent first step and we are getting positive feedback, but it needs to make a much larger and deeper imprint on Irish society to become a visible and viable alternative to high-cost door-step credit and other forms of money lending. An important feature of the success of the '*It Makes Sense Loan*' is growth of brand-recognition so that borrowers become aware that there is a lower cost substitute to the door-step lender /money lender available from the credit union. We think there is a need for credit unions to roll-out a core suite of easily recognisable and strongly branded products such as the '*It Makes Sense Loan*' to attract greater market share.
10. In practice, the use of the door-step lender/money lender is a type of high-cost overdraft which is relied on by low-income borrowers on an ongoing basis. MABS view is that a similar low-cost alternative should be available via the credit union, with borrowers having access to revolving 'pre-approved' credit to a certain limit at an affordable cost.
11. On a related point, if we are serious about financial inclusion, loans that are successfully repaid to a licensed money lender should be recorded in the new credit register and thereby provide a stepping-stone for low –income borrowers to mainstream provision and the credit union can provide that.

³ <http://itmakessenseloan.ie/>

Mortgage Arrears

12. Since mid-2015, MABS has a new service; Dedicated Mortgage Arrears Advice MABS (DMA MABS), and has already helped over 3,000 borrowers who are in late-stage mortgage arrears and at risk of repossession. Twenty *per cent* of these borrowers also owe debts to the credit union. This casework is often characterised by family tragedy, relationship breakdown, chronic illness and mental health difficulties. Because of the risks these clients must prioritise the payment of their home mortgage and make every effort to prevent their case from moving towards repossession. MABS also recognise that there needs to be an appropriate balance achieved here between the legitimate interests of all creditors and this should be happening at a far earlier point in the arrears process and well before the point at which the borrower (member) is at risk of losing their home.

Insolvency

13. It is a fact that some loans will never be repaid in full and insolvency is a tool which enables everyone to move on. There must be recognition of personal insolvency as part of a member's pathway back to financial self-reliance and economic productivity.
14. MABS has a particular interest in Debt Relief Notices or DRN's. The throughput to this solution and, as a consequence, the write-down of unsecured debt has been far lower than originally anticipated. Many eligible clients don't proceed because of their allegiance to their credit union and its members; others are discouraged, because they don't wish to damage their future prospects of borrowing from a credit union. They know that they will need credit into the future and they know too that the alternative may well be the licenced money lender and the associated spiralling costs.

Younger members

15. We have a specific concern about younger people because of the sometimes fragile nature of their employment. Against this background it is both vital to save but also difficult at times to establish a routine saving habit or, indeed, to service debt on a predictable basis. The emphasis in much of the 'outreach' by credit unions to younger people seems to be on accessibility, digital platforms and social media. However, in MABS view, there is a more fundamental requirement to develop products that are tailored to the needs and income patterns of a younger generation.

Financial capability

16. Credit unions have a very important role in increasing members' understanding of credit union products, the opportunities they present and also the risks. However, information is not enough. It needs to be combined with 'know-how' and the skill to conduct a cost/benefit analysis on major purchases and the supporting cost of credit.
17. This is a problem that MABS is experiencing in many other markets (utilities, insurance, savings, and mortgage markets) as competition increases. Additionally, over the last number of years we have witnessed the widespread sale of impaired loan books to funds with scarce local presence and no discernible ethos other than achieving a return to the fund.

18. These wider socio-economic developments underscore the important role of the credit union and the lasting relationships it forges with individual members and within communities.
19. In this regard we have a final concern in our reading of the CUAC report which is reflected at page 59, which is that there remains considerable ambiguity about business model development within the sector.

Vision

20. An element of stasis seems to have set in with regard to a vision for the credit union movement, yet at the same time we are witnessing a proliferation of new entrants to the Irish credit market who appear, (from the outside at least), to face fewer impediments with regard to their service offering or their entry to new markets.
21. In conclusion, we need a strong, capable credit union sector with a recognisable and accessible service-offering that is designed around the needs of its membership, including those on a low income.

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