Social Finance Foundation

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Thank you for this opportunity to appear here today to make the case for addressing what is in our view a morally unjust reality for many Irish people.

Let me start by posing a question. Would any Government today consider bringing a bill to Dail Eireann allowing lending organisations to charge rates of 187% APR on small loans to often vulnerable people?

Of course not.

It would be ethically and morally wrong for such rates to be charged to a borrower by any lending organisation. There would be a societal uprising if Banks or Credit Unions were to charge such rates.

But that is what is happening today with home collection money lenders. If it is deemed wrong to introduce a bill to charge these rates, then it is just as wrong to permit such rates to continue to be charged.

Our ask of the committee is to address this issue by introducing legislation imposing a maximum interest rate for small personal loans by licensed money lending organisations and a prohibition on fees and charges.

We must stress that our goal is not to put moneylending organisations out of business. Rather it is to ensure borrowers can have access to small personal loans at a reasonable cost.

Let me show you what very high interest rates mean for home collection moneylending borrowers. A typical loan is €500 and a typical period is 6 months. In the course of a year, a borrower could take out two 6-month loans of €500 which would cost €300 in interest. €300 interest to have €500 made available to them over 12 months ! The equivalent interest cost from a credit union would be €30 – so €300 vs €30 – a multiple of 10.

Why are these organisations issued with a licence each year with permission to charge these very high rates?

It is because of the business model that the Home Collection Money Lenders operate. In other words, how they conduct their business.

Repayments are made weekly and are collected by agents at, and often in, the borrower's home. This is an intrusive, public, and importantly, a very expensive way of collecting repayments. To have a profitable business requires very high interest rates to generate sufficient income to offset high labour costs. Despite the very high cost and the dependency it creates, it is a model that generates high satisfaction rates, due to its convenience and reasonably assured credit.

But why in the era of electronic payments is such a business model still operating. I am old enough to remember in a working- class area of Dublin, my mother making cash payments on a Friday evening to the insurance agent, the milkman, and the bread man.

It is anachronistic that this method of repayment collection still exists. But of course, it is a mechanism that works to the moneylenders' advantage. They have little marketing costs; they get to know their borrowers intimately and often perpetuate their presence through each generation in the family.

Importantly, they have no incentive to have a less costly approach to repayment collection and to manage credit risk differently for as long as they are allowed charge very high interest rates.

With the introduction of a cap on interest rates, the moneylenders will have to change their business model to remain viable. Intriguingly, they have had to do this already in 2020 and 2021 during the three lockdown periods when they could not collect from the borrower's home.

Our written submission did not suggest what the interest cap should be set at. The territory of interest rates can be very complex with APRs, simple interest, compound interest, amortisation etc... It is important that any cap can be easily understood and can facilitate comparability. Some EU countries have adopted a cap based on a multiple of a (composite) market rate. This concept, based on a simple interest calculation, could give a sound basis for a cap, and be easily understood. The key question then would be the size of the multiple, a number which should be significantly less than the 10 quoted earlier.

As already stated, we are not seeking to eliminate this source of credit. We propose that the ultimate cap should be publicly declared and then introduced on a stepped-down basis over a number of years. This will provide the time for all those impacted to adjust, in particular the borrowers. It will also provide the time to manage the known implementation risks and any additional issues which inevitably arise with a change such as this.

In conclusion, we strongly believe that the Government of Ireland owes it to some of its most vulnerable people to address this matter.

Brendan Whelan

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