Centre for Co-operative Studies, University College Cork

Opening statement to the Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach's detailed scrutiny of the Consumer Credit (Amendment) Bill 2018

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University College Cork, Ireland
Coláiste na hOllscoile Corcaigh

Introduction

Thank-you for the invitation to present today on the Consumer Credit (Amendment) Bill 2018. This opening statement has been jointly prepared by Drs. Olive McCarthy and Noreen Byrne.

Our report on interest rate restrictions included a range of recommendations, one of which calls for the introduction of a restriction on interest rates and charges for moneylending loans. As of 4th February 2021, the Central Bank registry shows that there are 36 moneylenders licensed in Ireland at present. Most of these are doorstep lenders, who traditionally collect payments in person from borrowers at their home or other locations. Since the beginning of the Covid-19 pandemic and its associated restrictions, there is evidence to suggest that this model has changed somewhat, allowing repayments to be made by phone or online rather than in person. The highest rate currently being charged by licensed moneylenders is 187% APR. This doesn't include collection charges which can raise the APR to 287%.

The typical moneylending customers are seen to be those who can least afford the high interest costs relative to available borrowing alternatives. The reasons people continue to borrow from moneylenders are multi-faceted and often reduce the sensitivity of the borrower to the cost of the loan. These might include family tradition, convenience, direct marketing, poor credit history and habit. MABS, credit unions and others are reporting 'client creep' into groups of consumers on higher incomes who are struggling to cope financially, particularly since the last financial crisis.

The UCC report

In Europe, there has been a clear trend towards the use of interest rate restrictions as a policy tool, with 21 of the member states now having some form of interest rate cap on high cost credit.

The recommendations in our report call on the government, in the interests of fairness to the most vulnerable in Irish society, to prohibit the currently allowed usurious rates of interest which licensed moneylenders are permitted to charge. To be effective, an interest rate restriction would have to be coupled with restrictions on other fees and charges and a limit on the total cost of credit. Our recommendations also advocate a redoubling of efforts to promote financial inclusion and education initiatives to support consumers in making better financial choices, especially where household resources are limited.

Amendment of Section 9 of the Consumer Credit Act 1995

The amendment of Section 9 of the Consumer Credit Act intends to impose a maximum APR chargeable on loans issued by licensed moneylenders of 36 per cent. We agree with the need to impose an interest rate cap, supporting fair and reasonably priced credit for all, subject to the implementation of accompanying measures already outlined.

The main argument that is often put forward against the imposition of an interest rate cap for licensed moneylenders is the fear that a reduction in the availability of credit will fuel illegal moneylending. The reported evidence for this appears to be weak. Recent research we have conducted with social housing residents, due to be launched later this year, demonstrates that those on low incomes employ a wide range of coping strategies when they run out of money. The New Economics Foundation in the UK has pointed out that a focus on reducing debt dependency is needed. This can be achieved by reducing the cost of credit. Every €1 subsequently not paid in loan interest can then be used to build household savings and, in turn, household resilience, while reducing the need for future credit.

We recommend that, following agreement on the ultimate target cap, an incremental introduction of interest rate restrictions takes place to allow for a phasing out of high interest rates over an agreed period of time. This will facilitate the adjustment of all parties, the implementation of other supportive policy/legislative measures and finetuning in light of developments on the ground, until the final target is reached. It is important that the first move be the introduction of an interim rate, to develop momentum. Otherwise, the status quo remains. It is envisaged that this first interim rate restriction will prompt a re-examination of the moneylending business model.

Other considerations might include:

- A potential tiered approach, allowing for somewhat higher rates on smaller loans over a shorter duration. This recognises the costs associated with the administration of smaller loans and might serve to mitigate against any fears that consumers would move to illegal moneylenders in the absence of a tailored and widespread alternative in the shorter term or until such time as reliable alternatives are fully enabled, widely available and highly accessible. It might also act to disincentivise an increasing loan duration or a larger loan which might go beyond the capacity of the borrower.
- A requirement for those consumers who wish to continue to avail of repayment collections in person to opt-in for this service, enabling consumers to make more informed and conscious decisions about the cost of a loan that is collected in person versus a loan not collected in person.
- Reflection on the potential of the US community reinvestment approach, which requires financial institutions to make a financial contribution in the geographical area in which they operate and to demonstrate that they meet the credit needs of those on low and moderate incomes. A financial contribution from the banking sector could be used to resource a widespread preventative debt/systematic financial education service in addition to the curative debt advice service offered by MABS.

In conclusion, steps need to be taken now to develop a phased implementation plan with a final target in mind, and to demonstrate the will to finally change this unfair system that depletes the wealth of our most vulnerable communities and keeps many trapped in persistent indebtedness.

We will be happy to engage in a process that seeks to move this forward.

Thank-you.