An Roinn Airgeadais
Department of Finance

Opening Statement by the Minister for Finance Mr. Paschal Donohoe T.D. Assistant, to the Oireachtas Committee on Finance, Public Expenditure and Reform, and Taoiseach

6th of May 2021

I welcome this opportunity to briefly highlight my views and the views of my Department on Deputy Doherty's Private Members Bill.

As the Committee will be aware, the Department of Finance provided a detailed submission during the original scrutiny of the Bill. The Department also provided an updated submission last November.

I do not support the Bill for a number of reasons. First of all, an interest rate cap based only on APR is not considered the best approach, particularly for loans with a duration of one year or less.

The APR represents the annual cost of a loan over the full loan term. It includes fees and additional costs that are not captured in the simple interest rate. While APR has benefits in the wider lending market as a comparison tool between loans offered by lenders for the same term, it has significant limitations when used in the short term credit market. APR it is significantly affected by the term of the loan if the term is less than one year and may appear to be extremely high on shorter term loans when in fact the actual cost of credit increases the longer a loan term is.

Another key concern with the Bill is the impact the proposal to reduce the APR to 36% may have on the future provision of credit to people with a need for small amounts of accessible credit - in particular people on low or irregular incomes and/or impaired credit records and who may not be provided credit by mainstream lenders.

The proposed cap of 36% APR in this Bill would mean that the chargeable interest on a typical €500 loan for 6 months would be reduced from €150 to just under €41, a revenue reduction of about 74% . In APR terms, the change would be from 187.2% APR to 36% APR. In simple interest terms, 30% would reduce to about 8.2%. While completely agreeing that the current interest rates are too high, a sudden revenue shock of this magnitude would be extremely difficult in any industry and sector and could lead to exits.

The Social Finance Foundation, a key stakeholder in this area, has stated on several occasions that the only thing worse than high cost credit is no credit.

Any changes in this area must be gradual as we must be careful that any actions we take to protect customers of moneylenders will not have unintended and very negative consequences for those customers who depend on a legitimate, functioning moneylending market in their day-to-day lives. I acknowledge that Deputy Doherty is open to a tiered approach for the reduction of interest rates and this is welcome.

If supply were reduced significantly, then customers in the home collect sector would have to either do without credit or seek it elsewhere including from family and friends. A small proportion may turn to illegal moneylenders. Research on this latter point is scant. One of the only indicators we have is a projection in research quoted by the Financial Conduct Authority in the UK several years ago that 6% of home collection customers may turn to illegal moneylenders. While this sounds small, when you apply

it to the circa 120,000 home collection customers in 2018 or the c.150,000 home collection customers in 2017, you are talking about approximately 7 – 9,000 people.

My Department carried out a public consultation in 2019 and has identified, in conjunction with various stakeholders and the regulator, a number of policy proposals which will not only address the issue of interest rates in the moneylending industry but will help modernise and enhance consumer protections in the industry.

The events of last year have had an impact on the timetable for this work, however, these proposals are now at an advanced stage and I intend to bring them to Government shortly.

So I agree that there should be an interest rate cap on moneylenders and this will feature in the proposals I will be bringing to Government.

However, I am not in a position to share the details of the proposals I will be bringing to Government today because I have to first circulate the proposals in a draft Memorandum to my Government colleagues for their views and input. That should be the context in which my colleagues in Government learn of these proposals. However, in general terms, I will be proposing the introduction of interest rate caps.

Given the potential risks, I am proposing that the introduction of caps is to be done gradually and responsibly. In that context I intend to propose that the Minister for Finance will have the power to vary the interest rate caps in the future by regulation, taking account of appropriate factors and impacts including:

- the viability of the moneylender sector;
- the potential impact on supply of a change;

- the evolution of average interest rates; and
- the potential impact on financial exclusion.

It is intended that these regulations will be made by the Minister for Finance, after consideration of a report prepared by the Central Bank that evaluates the potential impact of a reduction in the caps taking account of the factors outlined above

An interest rate cap at the recommended limit will give the moneylending industry time to review their business practices and identify areas in which operational efficiencies can be achieved. It would also allow time for the Central Bank to monitor the impact of the cap, to check that loan terms and amounts are not being manipulated in order for caps to be met and advise the Department of Finance of its findings.

Deputies will also be aware that the Department of Finance's public consultation in 2019 also sought views in relation to digitalisation, updating the licensing regime and whether the term "moneylender" should be changed.

My proposals will address these issues as well.

As I am nearly at the point of bringing forward comprehensive proposals in this area, I do not support the Bill being discussed here today.