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| **TO:** | **Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach** |
| **FROM:** | **Ed Farrell, CEO, Irish League of Credit Unions** |
| **DATE:** | **Submission date – 15th June 2021**<br>**Meeting date – 17th June 2021** |
| **RE:** | **Consumer Credit (Amendment) Bill 2018** |

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Chairman,

Thank you for your invitation to discuss the Consumer Credit (Amendment) Bill 2018. I wish to restate clearly the support of the Irish League of Credit Unions for the principle of the Bill. Putting a cap on the interest rates of money lenders is the right thing to do. I welcome the opportunity to contribute the ILCU view, and will briefly by way of conclusion put our position on this issue in the broader context of credit union policy.

On moneylending, the ILCU believes it is vital that Government ensures that extortionate interest rates are not charged. Credit unions know first-hand how they trap families and individuals in a lifetime of debt. Everyone, whether employed or not, should have access to affordable credit.

We are a social movement with a financial purpose, not a financial institution with a Corporate Social Responsibility Programme. Putting that ethos into practise, credit unions have, as you know, rolled out the Personal Microcredit Scheme (PMC), otherwise known as the 'It Makes Sense' loan. The original aim was to prove that credit unions could offer a loan product that matched the convenience and ease of moneylenders' offers that addressed their exorbitant rates and was within prudential lending guidelines. In an excellent co-operative effort with a range of agencies, we have done just that.

The Bill you are considering is not simply aspirational. It exists in a context where an alternative exists, and which the ILCU is anxious to promote. It is in this context that we support the proposal for the introduction of a cap on moneylenders' interest rates.

We note that the Bill proposes that the amount of APR chargeable on loans by licenced moneylenders *"shall not exceed 36%."* In our view this is appropriate.

We understand too that there is concern that a cap may ultimately lead to a reduced supply of loans from licenced moneylenders thus abetting illegal lending.

However, the ILCU does not believe that an interest rate cap will result in increased lending by illegal moneylenders. Our rationale for this is twofold:

(a) The credit union movement as an alternative source of credit which is in place and;
(b) International experience of such interest rate caps.

To expand on the latter point I would refer the Committee to a **Report on Interest Rate Restrictions on Credit for Low-Income Borrowers by the Centre for Co-operate Studies (University College Cork)**[1] which states the following:

*"there is no empirical and undisputed evidence that interest rate restrictions result in an increase in illegal moneylending. In the UK, it was feared that the price caps on payday loans would push a large percentage of people towards illegal moneylending. However, Citizens Advice has said that the caps on payday loans has not led to an increase in illegal moneylending, with analysis of debts held by Citizens Advice clients showing that the number of loan shark debts has remained constant since the introduction of the cap".*[2]

In relation to fears of illegal moneylenders, the ILCU believes that consideration should be given to the introduction of an interest rate cap over a period of years, thus providing as fluid a transition as possible. This could be achieved by way of a stepped down approach so to speak in advance of reaching the aspired cap over a number of years. This would allow time to monitor the situation and take relevant steps if and when required.

As a social movement with a financial purpose, this issue today has been a priority for ILCU over several years. The wider policy context for credit unions and for the Committee, is delivery by government on its plans, as outlined in the Programme for Government, which is for credit unions to become the community banking sector it has the potential to become. That bigger issue is just outside the scope of today's conversation, but it is imperative if credit unions are to grow and deliver on the range of services, people want, from a people-led, community based movement. Money lending is simply one example among many of the failures of conventional banking.

Thank you.

[1] https://sff.ie/wp-content/uploads/2018/11/irr.pdf

[2] Page 81 of Report.