DÁIL ÉIREANN

AN COMHCHOISTE UM AIRGEADAS, CAITEACHAS POIBLÍ AGUS ATHCHÓIRIÚ, AGUS AN TAOISEACH

JOINT COMMITTEE ON FINANCE, PUBLIC EXPENDITURE AND REFORM, AND TAOISEACH

Dé Máirt, 16 Feabhra 2021

Tuesday, 16 February 2021

Tháinig an Comhchoiste le chéile ag 10 a.m.

The Joint Committee met at 10 a.m.

Comhaltaí a bhí i láthair / Members present:

Teachtaí Dála / Deputies	Seanadóirí / Senators
Mick Barry,	Pat Casey,
Pearse Doherty,	Aidan Davitt,
Bernard J. Durkan,	Alice-Mary Higgins,
Mairéad Farrell,	Marie Sherlock.
Steven Matthews,	
Jim O'Callaghan,	
Neale Richmond,	
Peadar Tóibín.	

Teachta / Deputy John McGuinness sa Chathaoir / in the Chair.

Consumer Credit (Amendment) Bill 2018: Discussion

Deputy Bernard J. Durkan took the Chair.

Vice Chairman: I ask contributors to remove their face coverings when speaking to ensure their contributions can be recorded adequately, before replacing their face coverings. I welcome members and viewers who may be watching proceedings on Oireachtas TV to the public session of the Oireachtas Joint Committee on Finance, Public Expenditure and Reform, and Taoiseach. We are joined by Mr. Brendan Whelan and Ms Lorraine Corcoran from the Social Finance Foundation and Dr. Noreen Byrne and Dr. Olive McCarthy from University College Cork, UCC.

I wish to explain some of the limitations to parliamentary privilege and the practice of the Houses with regard to reference that witnesses may make to other persons in their evidence. The evidence of witnesses physically present or who give evidence from within the parliamentary precincts is protected by absolute privilege, pursuant to both the Constitution and statute. If, however, they are giving evidence remotely from a place outside the parliamentary precincts, as such they may not benefit from the same level of immunity from legal proceedings that a witness physically present would. They are reminded of the long-standing parliamentary practice that they should not criticise or make charges against any person or entity by name or in such a way as to make him, her or it identifiable, or otherwise engage in speech that might be regarded as damaging to the good name of the person or entity. Therefore, if their statements are potentially defamatory to an identifiable person or entity, witnesses will be directed to discontinue their remarks. It is imperative that they comply with any such direction.

Members are reminded of the long-standing parliamentary practice to the effect that they should not comment on, criticise or make charges against a person outside the Houses or an official either by name or in such a way as to make him or her identifiable. I remind them of the constitutional requirements that they must be physically present within the confines of the places in which Parliament has chosen to sit, namely, Leinster House and the Convention Centre Dublin, in order to participate in public proceedings. I will not permit a member to participate where he or she is not adhering to this constitutional requirement. Therefore, any member who attempts to participate from outside the precincts will be asked to leave the meeting.

I invite Mr. Whelan to make his opening statement.

Mr. Brendan Whelan: I thank the committee for giving us the opportunity to appear before it and to make the case for addressing what is, in our view, a morally unjust reality for many Irish people. I might start by posing a question. Would any Government today consider bringing a Bill to Dáil Éireann that would allow 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 an uprising if banks or credit unions were to charge such rates, but that is what is happening today with home collection moneylenders. If it is deemed wrong to introduce a Bill that would allow these rates to be charged, it is just as wrong to permit such rates to continue to be charged. Our ask of the committee is for it to address this issue by introducing legislation that would impose a maximum interest rate for small personal loans by licensed home collection moneylending 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 that borrowers can have access to small personal loans at a reasonable cost.

I will now explain what very high interest rates mean for home collection moneylending borrowers. A typical loan is €500 and a typical period is six months. In the course of a year, a borrower could take out two six-month loans of €500 each, which would cost €300 in interest. That is €300 to have €500 made available to the borrower over 12 months. The equivalent interest cost from a credit union would be €30. Comparing €300 with €30, it is a multiplier of ten.

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 moneylenders operate or, in other words, how they conduct their business. Repayments are weekly and are collected by agents at or often in the borrower's home. This is an intrusive, public and, importantly, a very expensive way of collecting repayments. For the business to be profitable, it requires extremely high interest rates to generate sufficient income to offset the very high labour costs. In spite of the very high cost and the dependency it creates, it is recognised that the model generates high satisfaction rates due to its convenience and reasonably assured credit.

Why is such a business model still operating in 2021? I am old enough to remember my mother making cash payments in a working class area of Dublin on Friday evenings to the insurance agent, the milkman and the bread man. Now that it is 2021 and we are living in an era of electronic payments, it is anachronistic that this method of repayment still exists. Of course, it is a mechanism that works to the advantage of the moneylenders. They have few marketing costs and get to know their borrowers intimately. They often perpetuate their presence through each generation in the family. It is important to note that they have no incentive to take a less costly approach to repayment collection or to manage credit risk differently so long as they are allowed to charge very high interest rates.

If a cap on interest rates were introduced, the moneylenders would 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 borrowers' homes. The written submission we provided to the committee does not suggest the level at which the interest rate cap should be set. The territory of interest rates can be very complex, with annual percentage rate, APR, simple interest, compound interest, amortisation, etc. It is important that any cap can be easily understood and facilitate comparability. Some EU countries have adopted a cap based on a multiple of a market rate. This concept, which is based on a simple interest calculation, could give a sound basis for a cap and would be easily understood. The key question then would be the size of the multiplier, a number which, in my view, should be significantly less than the multiplier of ten I to which I referred 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 step-down basis over several years. This will provide the time for all those impacted, and borrowers in particular, to adjust. It will also provide time to manage the known implementation risks and any additional issues which inevitably arise in a change such as this. In conclusion, we strongly believe that the Government owes it to some of its most vulnerable people to address this matter.

Dr. Olive McCarthy: I thank the committee for the invitation to present on the Bill. This opening statement was prepared by Dr. Noreen Byrne, who is also participating in the meeting, and I. 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 4 February, the Central Bank registry shows that there are 36 moneylenders currently

licensed in Ireland. Most of these are doorstep lenders who traditionally collect payments in person from borrowers at their homes 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 does not 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 multifaceted and often reduce the sensitivity of the borrower to the cost of the loan. These may include family tradition, convenience, direct marketing, poor credit history and habit. The Money Advice & Budgeting Service, 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 previous financial crisis.

In Europe, there has been a clear trend towards the use of interest rate restrictions as a policy tool, with 21 EU 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. In our recommendations, we 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.

The amendment to section 9 of the Consumer Credit Act seeks to impose a maximum APR of 36% chargeable on loans issued by licensed moneylenders. 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, which is 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 take place to allow for a phasing out of high interest rates over an agreed period. This will facilitate the adjustment of all parties, the implementation of other supportive policy or legislative measures and fine-tuning 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 in order to develop momentum. If that is not done, the *status quo* will remain. It is envisaged that this first interim rate restriction will prompt a re-examination of the moneylending business model.

Other considerations may include a 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 may also act to disincentivise an increasing loan duration or a larger loan which might go beyond the capacity of the borrower.

Consideration should be given to the introduction of a requirement for consumers who wish to continue to avail of repayment collections in person to opt-in for this service. This would enable 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.

Finally, there should be 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 or moderate incomes. A financial contribution from the banking sector could be used to resource a widespread preventative debt or systematic financial education service in addition to the curative debt advice service offered by MABS.

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.

Deputy Pearse Doherty: We are having technical difficulties with the camera for the witnesses. It does not appear to be on, and I am not sure that it can be resolved-----

Vice Chairman: It is improving.

Deputy Pearse Doherty: -----for the benefit of anybody who is watching the proceedings. I welcome Mr. Whelan and Ms Corcoran from the Social Finance Foundation and Dr. McCarthy and Dr. Byrne. As the sponsor of this legislation, I thank my colleagues in the committee. They have prioritised this legislative measure despite the many pressing matters we must deal with and the restricted amount of time the committee has. Obviously, that follows up on the unanimous support the measure received on Second Stage in the Dáil. It is also my intention to make a submission as part of the pre-legislative scrutiny, if that is permitted, because it is something that probably chimes with our witnesses. I believe we need to consider a more nuanced approach in terms of a tiered stepping down of the interest rate. There are other issues I wish to address as well on foot of the engagement I have had with different sectors since I introduced the Bill in 2018.

With regard to the moral question of high interest rates, we know that what is permitted at this point in time is 187%. Indeed, that could increase if the Central Bank wishes because there is no restriction on it in terms of the allowing of additional costs. However, when the collection charges are included, it can increase to 288% for moneylenders that are currently operating in the Irish market. In its opening statement, Social Finance Foundation says that it is a moral issue, first and foremost, and the question posed was how we would respond if the Government produced legislation that allowed a bank to charge these rates. It is obvious that we would not accept legislation of that nature and, therefore, we should not accept the current practice. Will the witnesses illustrate the financial implications of these high rates for borrowers and families? Is it the case that these are predominantly families who have low incomes and that the borrowers are predominantly female?

Mr. Brendan Whelan: Does Ms Corcoran wish to respond?

Ms Lorraine Corcoran: Absolutely. I thank the committee for the opportunity to attend the meeting today. Regarding the implications of this, let us take the very simple level of a €500 loan. If it is a credit union loan over a six-month period, the interest a credit union would charge, even at the highest rate, would be around €16. For a typical moneylender rate of 187% APR on a €500 loan, the interest is €150. A person pays back €650. We are looking at a differential of ten times, as Mr. Whelan mentioned in his opening statement. That is a massive amount of interest. A person is paying €150 for the availability of €500. Typically, when we speak to borrowers from moneylenders we see people who would borrow €500 perhaps twice in a single year. That means somebody is paying €300 for the availability of €500 over a 12-month period. That is a large amount of money.

Over the years, in terms of how we have looked at this and working with credit unions to introduce the "It Makes Sense" loan and the personal micro credit initiative in broader terms, we have run a number of focus groups and surveys. Yes, one would typically see a female, often with children and usually in rented accommodation. That would be the typical profile, but also, and Dr. McCarthy mentioned it in her opening statement, we are seeing this creep into other areas and other sections of society. In more recent completed surveys we have seen that not only does one see moneylender borrowers in the C, D and E socioeconomic category, one also sees them in the A, B and C1 category. This is not something that is only prevalent in certain areas. It is far more widespread. We often find that where we would have thought initially that perhaps the proportion of people on social welfare would be far higher, it is not. From what we can see, the disproportionate number of people who borrow from moneylenders are employed and working, so this is not only in one section of society.

Deputy Pearse Doherty: I thank Ms Corcoran. I have a question for either Dr. McCarthy or Dr. Byrne. The report they published in 2018 was excellent. I understand it was commissioned and funded by the Central Bank and the Social Finance Foundation. One of the recommendations in the report is that the Government adopt a policy that prohibits ultra-high rates of interest, in the interests of fairness and the most vulnerable in society, through the introduction of a restriction on interest rates and charges. That was in 2018. Do they describe the current levels of interest that are permitted to be charged by moneylenders as ultra high? Do they believe they are? Second, what has been the response of the Department of Finance since the publication of that report? Has there been any engagement with Dr. McCarthy or Dr. Byrne in respect of adopting the recommendations in the report?

Dr. Olive McCarthy: I am happy to respond, and I thank the Deputy for his questions. I will answer the second question first. In July 2019, the Department of Finance issued a public consultation on interest rates for high-cost credit. We responded to that consultation document. There has been discussion on one of the recommendations of the report which would have originally also arisen from the credit union advisory committee. I should state that I am a current member of that committee. This arose from the 2016 report of the credit union advisory committee, which was before my time on that committee. That looked to support credit unions in increasing the maximum rate of interest they could charge to 2% per month on the reducing balance, as opposed to the current 1% per month on the reducing balance. I understand that received approval at Cabinet level at some point, but I am not sure where it is in the process at present. However, things have been slow. We are still awaiting a report from the public consultation that was completed in July 2019. I understand that a draft report is available or is currently being examined.

As regards the rates, according to the registry in the Central Bank we still have moneylenders here that are charging the maximum rate at 187%. Compare that with the alternatives to which most of the rest of us in this room have access. This morning, I saw that my local credit union is offering a special rate of 4.99% APR. There is just no comparison between that and 187%; it is a huge contrast. It seems grossly unfair that anybody in my community would have to pay 187% when the local credit union is available at 4.99%.

Deputy Pearse Doherty: I agree. That is the subject of this legislation. To follow up on that, Dr. McCarthy and Dr. Byrne wrote in their report that global interest rate restrictions have become more prevalent in both developed and developing countries in recent years. They state that in Europe there has been a clear trend towards the use of interest rate restrictions as a policy tool to control the high cost of credit. The report goes on to say that, to date, 21 out of 28 EU member states now have some form of interest rate cap on credit. It says that Ireland is now in the minority of countries in Europe that has no formalised interest rate restriction on high-cost credit and points out that the only cap we have is on credit unions at 12%. I agree with the report's recommendation and I will appeal to the Minister for Finance to use this legislation to do both, that is, reduce the interest rates that can be charged by moneylenders while, at the same time, marginally increasing the cap for credit unions.

According to the report, other countries introduced a cap because they saw ultra-high interest rates as unjust. Germany says they lack moral legitimacy and Spain deemed them excessive. Finland reported it as unconscionable. However, in Ireland it appears to be fair game. With interest rate caps elsewhere in Europe being legislated for or dealt with, what has been the international experience as a result? I am conscious that there might not be the same type of strong credit union network in those countries such as we have in this jurisdiction. Have the witnesses looked at the international experience of what happens when there is a cap on interest rates for high-cost credit?

Dr. Olive McCarthy: We have Deputy, although it is sometimes difficult to access information on the impacts in that regard. If we look at the example in the UK, however, the Financial Conduct Authority, FCA, has been extremely active in this area. It introduced this cap on payday lending and not so much on home collection credit, and in the area of payday lending we are looking at interest rates in the thousands of per cent. The FCA has undertaken that initiative while also having a systematic approach to measuring the impacts and also reviewing the impact of the restriction every two to three years.

The website of the FCA is a really useful one for anyone listening today to look to get detailed information. The FCA also has a very proactive approach to measuring the impacts experienced, as well as conducting the aforementioned systematic and ongoing review of that interest rate restriction. There is a very interesting report on the FCA website from 2017, which surveyed high-interest rate customers. It looked at about 1,500 such customers who had been using such high-cost credit, and asked those people what they did now without access to such loans. Of the respondents, only two had turned to illegal moneylenders. The report found therefore that the rate at which people turned to illegal moneylending as a result of interest rate restrictions to be quite low in the UK.

I reiterate what I said in my opening statement concerning the argument about people turning to illegal moneylending avenues being seen as an unintended consequence of an interest rate restriction. To my mind, that argument has caused a bit of paralysis in the Irish context. We keep going back to that argument and using it as a reason to not make any changes and to just stick with the *status quo* here. The provision of legal high-cost lending is seen here as the

lesser of two evils *vis-à-vis* illegal moneylending. We have often just decided that it is better to leave the *status quo* as it and to not do any damage in this area.

Of course, that perspective is complicated by what the definition of "illegal moneylending" is, and it could be anything from a friend or a neighbour giving someone a loan of some money, right up to a scene from Hollywood movies involving with illegal moneylenders and people coming to front doors with baseball bats. What is also interesting from our perspective, however, is that we did some research with social housing residents in 2020. What was really noticeable was that we cannot just assume that because people have reduced or no access to legal moneylending that their default action will be to go to illegal moneylenders. People on low to moderate incomes are enormously resilient and can find all sorts of ways to meet their needs when necessary.

I am on the board of the Money Advice & Budgeting Service, MABS, and that organisation would also say that people are extraordinarily resilient and will find alternative ways of dealing with their situations. In a way, therefore, I think we should try to move on from this argument about illegal moneylending. It is important, however, if we do introduce an interest rate restriction here that we also put in place a method of systematically reviewing the impacts of any such measure, as has been done in the UK by the FCA. Perhaps such a review could be undertaken every year or two to ensure that any unintended consequences can be managed.

Deputy Pearse Doherty: I thank Dr. McCarthy. I welcome that research, especially the research which was done in Ireland. It is interesting following the two debates, while there were different restrictions in respect of payday lending, that the same types of argument were put forward regarding illegal moneylending. I refer to the scare factor, and the impact that it might have had in the debate in the UK, but it did not play out that way ultimately. Although people have access to credit union lending, we know that what is important in this context is ease of access, such as in situations where someone calls to people's doors to offer a loan or the ability to roll over an existing loan. It is that ease of access that then causes people to use these channels and end up paying €300 for a €500 loan over 12 months, compared to €30 for the same loan amount in the credit union.

On that point, and I direct this question to Mr. Whelan or Ms Corcoran, and regarding the changes taking place within moneylending operations as a result of the lockdown, what are we seeing as a result of moneylenders not being able to call to people's doors to collect money? I refer to the online payment methods now being facilitated in this context. The argument that used to be made concerning the reason for the high cost of such credit centred on the labour cost involved, and that was why costs needed to be that high. Are we now seeing any changes happening in this regard, in Ireland or Britain, or in both, as a result of this current situation? Does this situation now create an opportunity for us to begin a reduction of that first tier of the interest rates charged? In the witnesses' view, should we announce the ultimate point to which we believe the interest rates being charged should be brought down and then step that change to the desired level over several years?

Mr. Brendan Whelan: I will take that question. I am conscious that my video may not working, but there is nothing I can do on this side because I do have it switched on. I will keep going anyway. From informal discussions and soundings we have taken, we understand that during the periods of lockdown the moneylenders have contacted their customers. As Ms Corcoran said earlier, the majority of those people concerned have bank accounts. They have made their payments to the agents by quoting their bank account numbers, and those agents would then have a process where they could raise a debit on the bank accounts concerned. We

have also heard that meetings are taking place in locations other than homes, and in other cases we presume that the money owed may be being stored up until such time as the lockdown ends.

What is probably even more relevant in this regard, though, is the business of Provident Financial Group, PFG, in the UK. It is a public limited company, PLC, listed on the FTSE100. In its third quarter trading statement, the company reported that the proportion of collections in respect of home credit via remote methods was over 80%. Back in 2019, Provident had announced that it was moving from manual collection of repayments via agents knocking on doors to electronic payments instead. In a year or two, therefore, it looks like that company has managed to get 80% of its customers to pay electronically. Provident also reported that the benefit to the company from that changeover was a reduction in costs of €13 million. The concept of moving to electronic operations and managing the credit risks that arise from not knocking on doors therefore looks to be something that the moneylenders have done successfully in the UK, and I see no reason it cannot be done here.

Deputy Jim O'Callaghan: I thank the witnesses from the Social Finance Foundation and UCC for appearing before us. I found their submissions very helpful. I also commend Deputy Doherty on introducing this important legislation, and I hope we can enact it promptly. That is of course the responsibility of the Oireachtas and of the Government. The area of financial services is one that requires vigorous regulation, and it is surprising that we as a country have allowed a situation to develop where people can be subject to an annual percentage rate, APR, of interest as high as 187%. What makes this situation particularly concerning, as the witnesses have indicated to us, is that to a great extent it is low-income borrowers who are impacted in this context.

I have a question that perhaps Dr. McCarthy and Dr. Byrne may be able to help me with. There are obviously reasons low-income borrowers go to moneylenders rather than the credit unions. Mr. Whelan gave us the example whereby if people borrowed from a credit union they would only be paying an interest amount of €30, but would have to pay up to €300 for the same amount of borrowing if they go to a moneylender. What is the reason for that happening? What can we do to encourage people to go to credit unions as opposed to moneylenders? Is it simply a question of ease of access? What recommendations could the witnesses make to credit unions in order to make their approach more attractive to borrowers than what appears to be the attractive approach being presented by moneylenders? Dr. McCarthy or Dr. Byrne might be able to answer that question.

Dr. Noreen Byrne: One of the primary reasons that moneylenders are an attractive option, as Deputy Doherty said, is ease of access and convenience. Another point is that there is a tradition of using them. People's parents would have used a moneylender in the past and now the next generation is doing the same. Another aspect that makes it difficult to drive a change is that people have good relationships with the moneylenders. It is usually not, as Dr. McCarthy pointed out, a baseball bat scenario. The moneylenders are almost seen as family friends. In addition, there is an aspect of keeping the agent in employment. There is a bit of that going on as well. These people are sitting in the borrower's sitting room or kitchen and the borrower knows them very well.

In regard to costs, including labour costs, one of the things on which the moneylender does not have a cost is marketing. Moneylenders are in the family context and can prompt people and so on. Marketing their services is a cost they do not have. There are lots of issues involved. Research we did some time ago involved talking to a credit union manager who had put a lot of work into getting people to switch to the credit union. His building was across the road from a

housing estate and he could see the moneylender heading back in there. The moneylender had been moved out of the estate by the credit union offering services but people ended up, where they had funeral costs or whatever, going back to the moneylender and back into that relationship. If we can change the context, as Ms Corcoran and Mr. Whelan noted in their submissions, then the model will change somewhat and it will be possible to transition people to a different way of operating.

Another important point is that the focus in terms of moneylending has always been on the individual. Instead, the focus needs to be on the household and the community and looking at the where the drain of wealth out of a community is happening. When the focus is only on the individual, we get into a scenario of people saying they are satisfied and it is a convenient service and all of that. We end up in a place where we may ask who we are to tell someone from whom they should borrow. If we can encourage individuals to think in a community context and to consider that moneylending leads to a massive drain of wealth out of the community, that can shift the conversation somewhat. There may not be enough research done on this particular aspect. We have done a few small bits but only on a geographical basis. We tried to do that in the context of the social housing research we talked about earlier.

It is a difficult issue to tackle. The transition idea is useful in terms of encouraging people to operate in a different way. It is very convenient that somebody comes to the borrower's house and that person can buy a washing machine and things like that for the borrower. That is the other point in terms of a drain of wealth. If the moneylender is providing a washing machine, for example, it is probably purchased elsewhere, which means none of the money is staying locally. It is all drained out of the community and there is no savings elements either. Things need to shift towards a community wealth-building kind of conversation and space. That encourages individuals to think differently and it encourages policymakers and everybody else to think differently as well.

Ms Lorraine Corcoran: We have been running the It Makes Sense loan product scheme locally with credit unions since late 2015. We have found that to make it attractive and to move people from a very ingrained moneylending model is very difficult. For that particular loan product, we organised a repayment method through the household budget scheme, which made the repayments very attractive, allowed for savings and allowed the credit unions to work with people who might have a default history or just were not used to dealing with the credit union. Those people had the support to come into the local credit union, build up that track record and move on to standard lending. We have some amazing examples of how that has worked really well.

However, we also found as part of this initiative that it was not enough. That is why we called for the cap on moneylending rates. It is not enough to have a really good and attractive option. That looks fine on paper and makes sense for some people but, for others, it does not. It is not necessarily intuitive that somebody would go to a credit union even if the loan it is offering is at a lower rate than that offered by a moneylender. We have also found over the years that the people who typically borrow from home-collection moneylenders deal with finances on a week-to-week basis. It is not a case of their standing back and saying that a loan is costing them X amount more per year. It is a question of asking whether they can afford something in a particular week. It might be an extra fiver and they will make a decision there and then as to whether it is worth it to know they have that line of credit and that they can repay it. Those are the things we are trying to break down as part of this effort.

Deputy Jim O'Callaghan: It sounds from what the witnesses are saying that moneylend-

ers appear to be very attuned to the needs of certain people in communities and to know when they may need money. Is there anything that credit unions or other community figures can do to replicate what Ms Corcoran's organisation has done with the It Makes Sense loans in order to make people more aware of sources of income other than moneylenders?

Ms Lorraine Corcoran: That has happened with the It Makes Sense loans. We find that credit unions report to us when they offer those loans that sometimes people will come in and find they qualify for standard lending. Sometimes a different initiative is not needed. Credit unions that are not participating in the It Makes Sense initiative run a lot of local schemes. There are sometimes referral systems, either through the Money Advice & Budgeting Service, MABS, or the Society of St. Vincent de Paul, which is a huge player in this regard and would have an awful lot to add to this debate in terms of what it sees locally. The society often works closely with credit unions to move people towards them.

An important point in all of this is that there are a lot of stakeholders who need to come together to make sure that we offer alternatives to people and enable them to avail of what is there. In addition, if community welfare officers, through the Department of Social Protection, are more attuned to what is available and how we can help, that is another way of moving people on from moneylenders. However, it is a very ingrained model and we really need to look at it from the point of view of that people are dealing with a service that is available in their own home. We are trying to reverse from there.

Deputy Jim O'Callaghan: Do we have figures on the levels of default among people who borrow from moneylenders? What is the extent to which they repay those borrowings?

Ms Lorraine Corcoran: We do not have precise figures on that. However, having had conversations with some moneylending agents and organisations, they would say to us that when there are doorstep collections, their default rates are in the region of 1% to 2%.

Deputy Jim O'Callaghan: The money is being repaid.

Ms Lorraine Corcoran: Yes. It is a very successful repayment method to have somebody turning up at a borrower's home.

Deputy Jim O'Callaghan: It might not be possible to get an answer today to the final question I wish to raise. The purpose of Deputy Doherty's Bill is to amend section 9 of the 1995 Act by inserting a new subsection (4). Section 9 of the Act provides for a method of calculation of the annual percentage rate, APR, which is set out in the fourth Schedule to the Act. It is a very complicated mathematical method of calculation. When we get to Committee Stage, I wonder whether the Schedule may also need to be amended or if it is satisfactory just to include the new subsection (4). We may not be able to come to a conclusion on that question today but it is something we might have to look at when we get to the next legislative Stage.

I thank the Vice Chairman for accommodating my questions and the witnesses for answering them.

Deputy Mairéad Farrell: This is a very interesting and important conversation to have. From dealing with these issues in my own area, I am aware of the high numbers of people who are going to moneylenders. It is key to our understanding of why people use this service that there is a community context to it and that the moneylenders know families well. That is why it is difficult to change things. The situation is different at the moment with the Covid crisis but the reality is that these moneylenders are sitting in people's kitchen and they know everything

that is going on in people's lives.

MABS said recently that there is now a tsunami of household debt. I know from people who contact me that they are increasingly going to moneylenders. This is in order to pay for different items and as a result of Covid they have seen costs increase or have a smaller income. Have the witnesses seen an increase with people moving towards moneylenders? It was put very well earlier that the major cost associated with moneylenders really traps people in debt. Is there a direct correlation between being trapped in debt and an impact on mental health?

Mr. Brendan Whelan: We do not have any information at all on the impact on mental health arising from paying very high interest rates etc. so it would be very difficult to give an opinion on it. From much of the research we have done with borrowers who use moneylenders, it seems a dependency on the moneylender tends to develop, and this is used very well by moneylenders lining up the next loan and so forth. They tend to work in cycles. In the first half of the year it is probably about communion and summer holidays whereas in the latter part of the year it is more about Christmas.

Although we are loath to generalise, the research on borrowers also tends to indicate that many have a weekly focus on expenditure. When we say that during the course of a year they spend €300 on interest and this could have been reduced significantly if the loan was with the credit union, they do not tend to see it that way. They tend to see the expense as being €5 per week extra and they say that is nothing or they can live with it. If the requirement was for €500 and they ended up paying €300 in interest, it is clear that it is wrong that people are not fully aware that this could make a big difference to their borrowing requirements. Does that help to answer the question?

Dr. Olive McCarthy: I alluded to indebtedness in the opening statement and Dr. Byrne briefly mentioned it earlier. When repaying a credit union loan, for example, part of the repayment includes a contribution to savings so the borrower is building up resilience. When the loan is repaid, there would be a lump sum in savings that would support the borrower in not having to borrow again or slow down the rate of borrowing. With the moneylending model there are no savings built in so at the end of repaying the moneylending loan, the borrower is not in a better position because he or she has not engaged in any savings through the repayment. It is an important characteristic difference between more conventional finance and moneylending.

Of course, if a borrower is paying above the odds for a moneylending loan, this reduces a person's capacity to save anyway. That is how a person can end up getting trapped in a cycle because the reduced capacity to save means there is no opportunity to build up any kind of resilience over the course of the loan to ensure the borrower does not have to borrow again as quickly or at all. That is where the indebtedness element is relevant.

Ms Lorraine Corcoran: The Deputy asked about volumes but we do not have direct figures for volume of lending on the ground. I am chair of the Credit Union Advisory Committee and I am familiar with how credit unions are performing. Lending volumes have had an impact from Covid, and this was seen throughout all lending organisations over the course of last year and up to now. We suspect that moneylending organisations probably experienced the same effect of a decrease in lending when restrictions took place as the ability to purchase goods declined or the likes of communions or holidays did not happen. However, that volume has kicked back up again. Provident's public statements indicate that although lending was down last year, it is beginning to tick up again. We assume that pattern is being followed.

Deputy Mairéad Farrell: I am interested in credit unions and there were some very interesting contributions on the area. It is a stark visual when the witnesses say the moneylender is going back into the community despite all the different work done being done to try to get people to move towards credit unions. It is clear this is not just about regulation but people's thinking or outlook. Are there any kinds of regulatory changes that may be needed to promote credit unions or should the focus be simply on the psychology element?

Dr. Noreen Byrne: The cap is an important aspect as it changes the model of how moneylending is delivered, including the credit nature. That will change things. The Money Advice and Budgeting Service has performed a very good function with curative debt advice but there is a need for a parallel system for preventative advice. That should be at a local level and networked like a MABS arrangement. MABS looked at this a number of years ago and it is an important function. There is a big gap where we can help people build capability. That could play an important role, particularly with respect to Ms Corcoran's comment about bringing all the different players together, including housing associations and community groups. Everybody is plugging in at different points to help in this scenario.

Ms Lorraine Corcoran: On the regulation side, the "It Makes Sense" loan is a really niche product aimed particularly at cash social welfare recipients. We worked very closely with the regulator, the credit union representative bodies and individual credit unions to see what policy changes needed to be put in place. We also worked with the regulator to ensure regulations were adhered to. For example, a person with a default history can avail of an "It Makes Sense" loan. Such things must be considered and those conversations are happening, which is great. If they need to be wider, we have the right people around the table. That is the important aspect of introducing a cap, declaring what is the ultimate cap and bringing it in on a stepped basis. We can then work with all the stakeholders to ensure these different pieces are put together and work for potential borrowers.

Vice Chairman: I might throw in my tuppence as well. All Members of the Oireachtas over the years have had to deal with cases of overlending or overborrowing. If a person falls into difficulty with repayments, regardless of the borrowing source, the resolution should not entail recapitalisation of the loan. That always leads to increased repayments. If a person gets into difficulty in the first place with a certain level of repayments, he or she will not be in a much better position with an increased level of repayment. They will be in a worse position. When interest rates were higher, it was not possible to get out of that level of debt and there was no solution.

It is important to have structures, repayments and levels of interest determined by an outside body rather than lenders. The lenders still have too much influence in putting up a proposal for resolution that would not be a resolution at all. It would be a resolution to their advantage and the disadvantage of the borrower. If nobody wishes to comment on that, we will proceed to hear Deputy Doherty.

Deputy Pearse Doherty: I have one question before we finish. Both groups of witnesses are supportive of a cap and a tiered approach to that cap. When introducing this legislation, we made it clear to Government that we chose the 36% rate because that was the law before it was abolished many years ago. This is all up for discussion and I, as the sponsor of the Bill, am open to engaging with Government about what the appropriate rate should be. Part of this pre-legislative scrutiny is trying to determine that. What do the witnesses believe the ultimate cap should be? It is not the tiered, first, second, third or fourth step but where we should end up. Should it be between 30% and 40%, should it be higher or should it be lower?

Mr. Brendan Whelan: In our opening statement, we said that we felt that the multiple of a reference market rate should be no greater than three. The question then is what the reference market rate is. If the average market rate is about 8%, then one is talking about a rate of no more than 24%. If it is 10%, then it would be no more than 30%. The 36% APR in the proposed Bill should, in our view, be the upper limit, and it may well need to be lower. It needs to be a multiple of the market rate to cater for the higher credit risk that exists with those customers, but we would have thought that a multiple of three would be the maximum ultimate rate.

Deputy Pearse Doherty: Do Dr. McCarthy or Dr. Byrne have any opinion of where it should be?

Dr. Olive McCarthy: I thank Deputy Doherty for the question. The question of what the interest rate should be is probably the hardest asked today. If we knew the answer, we would be selling it here today. We are not experts in setting interest rates. Mr. Whelan and Ms Corcoran have done substantial work in comparing it with other rates, looking at multiples of rates and so on. It is tempting to say that anything lower than what is currently charged is surely a step in the right direction, but that would not be enough and it is important to set an ultimate rate. In our submission to the public consultation conducted by the Department of Finance, we suggested an interim rate of approximately 42%. We looked at the credit union sector in the UK, which is now allowed to charge up to 42% to cater for that market, but the situation in the UK is different from here. We are certainly looking at a much lower rate than is currently in place, and 36% or lower would be appropriate. What is currently charged is extremely high. My local credit union offers 4.99%. The rate has to be much closer to that. I am answering but not answering at the same time. It is a difficult question and there are people better positioned than us to work out what those rates should be, with more information, since we are working with imperfect information.

Mr. Brendan Whelan: We have a task force in operation for the personal microcredit initiative, which involves the Department of Finance, the Department of Social Protection, the Central Bank, the representative bodies of the credit unions, the Citizens Information Board and us. It is a constructive body. Its job is to address the availability of credit in Ireland. We have built up a good working relationship with the Department of Finance, which has accountability in this area. We would be happy to work with our colleagues in the Department to tease that question out, not just what the ultimate rate would be but how the base rate, a multiple and so on would be constructed. We would be happy to work with John Palmer and his colleagues in the Department of Finance on that topic.

Deputy Pearse Doherty: I appreciate the witnesses' statements, the written submissions we got late last year and the work both sets of witnesses have put into this issue. It has been instrumental. I believe there is an appetite to change the law by introducing a cap. It is across the board. This legislation was not opposed by anybody on Second Stage. I welcome the comments from committee members too. It is to be hoped as we progress through pre-legislative scrutiny that we can continue to shape this legislation in the way that has been suggested. I agree with the tiered approach and at looking at areas not covered in the legislation, including costs, collection charges and so on. I thank the witnesses for their submissions and their support for the concept and aims of the Bill. I am sure their submissions will be instrumental when our committee publishes its pre-legislative scrutiny report about this legislation.

Vice Chairman: I thank Deputy Doherty for tabling the Bill and focusing public attention on an alternative to deal with a difficult social situation, especially in these straitened times. I thank our expert witnesses for their submissions and the detail with which they addressed the

issues. I thank them for attending. I thank all other stakeholders who responded with written submissions for their work, input and the detail they put in their responses. That concludes our scrutiny of the Bill. I thank everybody. Do not celebrate too much because there is nothing to celebrate at the moment. We all look forward to better times ahead in a society where Covid is less prominent.

The joint committee adjourned at 11.08 a.m. until 4 p.m. on Tuesday, 23 February 2021.