Society of St Vincent de Paul

CAPPING THE COST OF LICENSED MONEYLENDERS AND OTHER REGULATORY MATTERS

Submission to the Department of Finance

SVP Social Justice and Policy team

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Introduction and background

The Society of St Vincent de Paul (SVP) is the largest charity of social concern and action in Ireland, with a variety of supports and services being provided by our 11,000 voluntary members on an all-Ireland basis. Home visitation is the main work of the organisation where we provide support and friendship to individuals and families in need. SVP has continually expressed concern about the prevalence of high cost borrowing from licensed moneylenders among the people we assist, many of whom are vulnerable and who are trying to cope on a limited weekly income.

According to recent research commissioned by the Social Finance Foundation, there are an estimated 330,000 customers of moneylenders in Ireland, with an average loan size of €566. The majority of customers are female, in the lower socio-economic group and between 35 and 54 years of age. Most commonly loans are offered over 9 months at an APR of 125%. Loans are usually taken out to purchase household goods and clothing, and to cover the cost of family events. The convenience of home collection, immediate availability of credit and tradition are among the reasons why customers choose moneylenders and customer satisfaction with moneylenders is generally high. However, there is a high price to be paid for the use of moneylenders and many users of home credit services believe that using this form of credit has trapped them in a cycle of debt and borrowing[1]. Research carried out by the Vincentian Partnership for Social Justice on behalf of SVP found that many families who have an inadequate income would prefer to avoid borrowing if at all possible, due to a fear that getting into debt would only worsen their situation in the longer term[2].

SVP experience and concerns

In 2018 SVP received over 160,000 requests for assistance. Low income is the key factor driving people to resort to doorstep moneylending. But people on low incomes need low-cost solutions to their credit needs, not the exorbitant rates that characterise moneylending.

Low income households are often subject to a poverty premium when accessing services, including financial services. Living on a low income and having a poor credit rating limits the options for people who are trying to access credit. Moneylenders are meeting a need for access to credit but often at a cost which people who are better off and who have other options would baulk at. Repaying a high cost loan is a very heavy burden for households that are struggling.

SVP members regularly report inappropriate lending to very vulnerable households who do not have the capacity to repay the loan. It is a contradiction in terms to offer loans with an interest rate of up to 187% and an APR of up to 287% (including charges) to an individual or family who is living below the poverty line. SVP members are concerned at the amount of interest being paid to moneylenders by households on very low incomes, who often have to sacrifice other needs including food, fuel and education in order to meet loan repayments.

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[1]Faherty, M., McCarthy, O., & Byrne, N. (2017) on behalf of the Social Finance Foundation: Interest Rate Restrictions on Credit for Low Income Borrowers. https://sff.ie/wp-content/uploads/2018/11/irr.pdf.
[2] Vincentian Partnership for Social Justice (2018) *Stories of Struggle.* www.svp.ie/storiesofstruggle

It is our experience that people who use moneylenders may be worried about cutting themselves off from this source of credit by reporting abuses within the sector. Strong enforcement of the Consumer Protection Code for Moneylenders and more regulation of advertising are necessary in order to protect vulnerable customers.

Section 1: Interest rates

Q1.1 Should a statutory interest rate cap be introduced in Ireland? Please provide the rationale for your answer

Q 1.2 If you feel a cap should be introduced, should it be introduced as soon as possible or should its introduction be linked to the availability of reliable alternative sources of credit, as recommended in the UCC report?

The Society of St Vincent de Paul believes that there should be a statutory maximum cost of credit which can be charged by a moneylender and that consumers should have better access to sources of low cost credit. This could be achieved through the introduction of a statutory interest rate cap. This should be done at the same time and in conjunction with the introduction and strengthening of other measures to protect vulnerable customers of moneylenders.

Access to affordable credit is essential for individuals on a low income, whether in or out of work. For the most part, people who take out high cost loans are aware of the cost but borrow the money out of necessity. Research[3] carried out by the Vincentian Partnership for Social Justice found that borrowing is one of the coping strategies employed by families who cannot afford a Minimum Essential Standard of Living, which is a standard of living which meets the minimum needs of the household and enable an acceptable standard of living. Research participants described a perceived hierarchy of different types of credit, with moneylenders being the least desirable due to their high interest rates and the pressure some felt to repay the loan.

"It was in the past, but I'm still paying [licensed moneylender]. The interest is very high but I had to go somewhere"

We acknowledge that when considering an interest rate restriction, a key concern of the Central Bank is how to balance the high cost of credit versus access to and availability of appropriate amounts of micro credit to low income or disadvantaged groups. We also note the concern that an interest rate restriction could reduce the service provided by licensed moneylenders and push low income households towards illegal moneylenders. However, the recently published report from the Social Finance Foundation found that there is limited evidence to suggest that resorting to illegal moneylenders would be the default option for customers of moneylenders in the event of a reduction in the offering of licensed moneylenders[4]. In fact, it may be the case that if licensed moneylenders reduce their offerings to customers, this could prompt customers to seek out alternatives such as the It Makes Sense loan and other products from mainstream lenders.

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[3] Vincentian Partnership for Social Justice (2018) *Stories of Struggle*. www.svp.ie/storiesofstruggle

[4] Faherty, M., McCarthy, O., & Byrne, N. (2017) on behalf of the Social Finance Foundation: Interest Rate Restrictions on Credit for Low Income Borrowers. https://sff.ie/wp-content/uploads/2018/11/irr.pdf

SVP is asking that the Central Bank bring Ireland in line with other European countries by introducing an interest rate restriction that reduces the total cost of credit for low income and vulnerable customers as soon as possible. At the same time, measures which will reduce information asymmetries and improve the availability of low-cost social lending and mainstream banking services for people on low incomes should be introduced. By adopting this holistic approach, it is possible to mitigate against displacing lending from licensed moneylenders to illegal moneylenders.

Section 2: Charges and Fees

Q2.1 Should the prohibition on charges other than collection charges continue?

Yes the prohibition on charges other than collection charges should continue. It would be very difficult for customers to meet additional charges, for example, late payment fees, early repayment charges etc on such a high cost loan. Additionally, the Social Finance Foundation suggests that, in the event of the introduction of an interest rate restriction, there is a high likelihood of no reduction in the cost of credit, as moneylenders introduce other fees and charges to fill the gap. It is important therefore that the prohibition on charges other than collection charges continues.

Q2.2 Should a statutory maximum home collection charge be introduced?

The aim of additional restrictions on the activities of moneylenders should be to reduce the cost of credit to low income households. The home collection element of the moneylender service is reported by many as an appealing part of the service. If an interest rate cap is introduced, it may be the case that moneylenders seek to recoup any loss of revenue by other means and therefore a statutory maximum home collection charge would need to be introduced. We recommend the following points are taken into consideration in relation to the issue of home collection charges:

- The interaction between an interest rate cap and a maximum home collection charge
- The actual cost of operating a home collection service
- The alternative options for repayments which are offered to customers including the option of electronic repayments for which there should be no charge
- The current charges imposed by moneylenders, the benefits in terms of home collection as a sales channel and in minimising bad debts, the benefit to the consumer in terms of convenience and the extent to which collection charges impose an undue additional cost burden on low income households
- The likelihood of increased collection charges in the event of the introduction of an interest rate cap or restriction

Q2.5 Should specific repayment options be required to be included for consumers – such as Post Office repayment, standing order, direct debit, online transfer?

SVP would support the inclusion of specific repayment options for customers of moneylenders, to include the above as well as the option of making repayments at the moneylenders' office. Customers should also be made aware that banks may charge fees for some transactions, however these charges are much lower than the home collection charge.

Section 3: Maximum Repayment Amounts

Q3.1 Do you have any comment on this?

The main considerations for SVP and the people we assist are the total cost of credit, including charges; how manageable the repayments are; the alternatives available; the provision of clear information which will allow customers to make informed decisions about taking out moneylender loans and the introduction, strengthening and monitoring of measures to protect customers of moneylenders. There is a balance to be struck between keeping the repayments at a manageable level and the length of time over which an individual is repaying a loan. For a low income household, repaying a loan can often mean that there is inadequate income remaining to meet the needs of the household, and dealing with this situation over a long period of time can result in high levels of stress and hopelessness.

"I only wish I had not been so stupid, every day the debt hangs around my neck. I'm always worrying about how I'm going to get money and how am I going to pay back the loans and look after the girls. When will I be free?"

Section 4: Home collection practices

Q4.1 Given the changes that have taken place in lifestyles since 1995, do you think that these contact provisions require changing and if so, how should they be changed?

It is important that moneylender customers are not contacted with unnecessary frequency and that the prohibition on contacting customers on Sundays, public holidays, early morning or late evening is continued. It may be necessary to stipulate that, as well as a telephone call or house visit, contact includes text messaging and contact via email and social media.

Section 5: Digitalisation

Q5.1 In light of technology advances, should the option be made available to consumers to receive a digital record of their transactions instead of a hard copy?

Yes, the option should be made available in addition to the option of retaining a paper based "repayment book". The priority should be to ensure that the borrower has a record of their transactions which can be accessed and updated easily, with provisions to track any additions or alterations made to the record. For some customers, a digital record will be more convenient. However, issues around internet access and digital literacy must be taken into account.

Section 7: Advertising

Q7.1 In your opinion should there be further requirements or restrictions on advertising by moneylenders?

SVP members have continually expressed concern about the promotion and advertising of regulated moneylending loans to vulnerable customers who have limited capacity to repay.

"We scrape by, doing without. When I'm desperate, I'll phone my mother who'll send a postal order, or sometimes I get into arrears with payments…I'm scared of moneylenders, digging yourself into a bigger hole"

The warning statement **"Warning: This is a high cost loan"** should be included in all advertising related to licensed moneylending. It is astounding that this is not currently a requirement. Alternatives to the high cost loan offering should be listed as part of the warning statement and the warning statement and alternatives should adhere to the National Adult Literacy Agency plain English guidelines.

Greater regulation of the use of leaflet drops, radio advertising and online advertising by moneylenders is necessary. In our experience leaflet drops tend to take place at "peak time" for low income and vulnerable households seeking to access credit, for example, Christmas, back to school, Communion and Confirmation. Given the relationship that can exist with an agent calling to a home on a weekly basis there is also a need to ensure that agents do not promote new loans when customers are nearing their final repayments.

SVP would also support the use of social marketing methods to increase the financial capability of individuals and households across Ireland, in particular those who are vulnerable, as outlined in the Social Finance Foundation report. This type of marketing could be a useful counterbalance to the prevalence of advertising by moneylenders and inform the general public about the true costs of moneylending and alternatives available, in time effecting positive behavioural change.

Q7.2 If you feel it is appropriate for moneylenders to advertise, please suggest a model of your own choice for use in the advertisement to illustrate the repayment which may be applicable.

The text below is a suggested model for use in advertisements. Any required text should adhere to the National Adult Literacy Agency guidelines on Plain English.

Warning: this is a high cost loan. For example a €500 loan repaid over XX weeks will cost XX. Consider alternative options before applying for this loan, including cheaper alternatives from other lenders regulated by the Central Bank of Ireland.

Check your options before you borrow:

- You may be eligible for a Personal Micro Credit loan with a maximum APR of 12.68%. This means a €500 loan repaid over XX weeks will cost XX. Check with your local credit union or www.itmakessenseloan.ie
- For information about other options for managing bills and debts, contact the Money Advice and Budgeting Service (MABS) on XX to talk to a free and independent financial advisor
- Talk to your electricity and/or gas provider to see if you can work out a repayment plan. A MABS advisor can help you with this process
- If you are in receipt of social welfare, contact your local Intreo office to see if you qualify for an Urgent or Exceptional Needs Payment

Section 8: Terminology

Q8.1 Should consideration be given to renaming licensed moneylenders on a legislative basis – for example as "high cost credit providers" to more effectively differentiate them from illegal operators?

It is our experience that many of the people we assist who access credit from moneylenders experience shame and stigma and the term itself may have negative connotations for some, as set out in the consultation document. Many of the people we assist are aware of the high cost nature of the loan, but due to a lack of accessible alternatives and inadequate income they feel it is necessary to borrow from a moneylender. SVP does not have a strong view on whether licensed moneylenders should be renamed. We would propose that any new term would be tested with focus groups with people of mixed socio-economic backgrounds to prevent any increase in the sense of stigma or shame that some people feel around their use of moneylenders. We look forward to the research on illegal moneylending, as it will be interesting to see the overlap, if any, between those using licensed and unlicensed moneylenders. In the event of the renaming of licensed moneylenders, it is important to realise that many people will continue to refer to them as moneylenders, which could cause some confusion and could imply that a person is using an unlicensed moneylender even when this is not the case. For example, SVP members would still hear people refer to the Relieving Officer or the Community Welfare Officer in reference to the Department of Employment Affairs and Social Protection representatives.

Section 9: Additional Comments

Q9 Do you have any additional comments or observations that you wish to add to your submission?

Over-indebtedness

Protecting customers of all financial services, including moneylending, from becoming over-indebted should be a concern for the Central Bank and the Department of Finance. The National Economic and Social Council notes that there is a strong correlation between low income and over-indebtedness, with those who are parenting alone, those who are unemployed, and those who are ill or disabled more likely to become over-indebted due to a persistent lack of resources[5]. SVP recommends that the Law Reform Commission of household over-indebtedness is used in considering these issues, as follows:

"A household whose existing and foreseeable resources are insufficient to meet its financial commitments without lowering its living standards, which has both social and policy implications if this means reducing them below what is regarded as the minimum acceptable in the country concerned"

Measures in addition to Interest Rate Restrictions/Caps are necessary

A 2013 report on interest rate restrictions in EU countries notes that restrictions on interest rates are often ineffective in the absence of other measures aimed at reducing information asymmetries, the

[5] Society of St Vincent de Paul and OCS Consulting (2013) *"It's the hardest job in the world" An exploratory research study with one parent families being assisted by the Society of St Vincent de Paul.* https://www.svp.ie/getattachment/0dfc3b0e-9165-4792-946e-43f84199eb57/It-s-The-Hardest-Job-in-The-World.aspx

availability of low cost social lending alternatives and other banking regulation in particular the inclusiveness of mainstream banking services. [6]

Regulatory frameworks, interest rate restrictions which limit the total cost of credit, measures aimed at reducing information asymmetries, for example social marketing, the introduction of cooling off periods for customers applying for high cost credit online or on their doorstep, the availability of low cost social lending alternatives, the inclusiveness of mainstream banking services and other banking regulation should be strengthened in order to protect vulnerable and low income customers from having to access high cost credit.

"I hate having that debt hanging around. It's impossible to plan for the future with it but it's so hard to see beyond it"

[6] Reifer et. al. 2010 Study on interest rate restrictions in the EU
http://ec.europa.eu/internal_market/finservices-retail/docs/credit/irr_report_en.pdf