Society of St. Vincent de Paul

Submission to Amárach Research and the Central Bank of Ireland on Money Lending in Ireland

SVP Social Justice and Policy Team

May 2013
INTRODUCTION
The Society of St. Vincent de Paul (SVP) is the largest charity of social concern in Ireland with over 10,000 members on the Island of Ireland and over 800 visitation Conferences (parish groups) in the Republic of Ireland. Calls for assistance to the SVP have increased dramatically in recent years, as has our direct assistance expenditure. The experience of the SVP is not only increased demand but greater complexity in the cases we are dealing with. In this context, members of the SVP are becoming alarmed at the prevalence of money lenders in the communities they serve, given the high cost of credit associated with such loans.

BACKGROUND TO THIS SUBMISSION
The purpose of this submission is to further inform the review of the money lending industry being undertaken by the Central Bank of Ireland. The submission contains background information on the SVP, and feedback from our membership on money lending and SVP responses to money lending. Specifically, it includes findings and suggestions from a focus group with some SVP members which was conducted by Amárach Research in February 2013. It also contains sample quotations from members of the public who contacted SVP seeking assistance which illustrate some of the key points. It concludes with a series of recommendations for reform.

THE INCREASE IN DEMAND FOR THE SVP
In recent years, the SVP has undertaken research - to quantify the demand on its services in our four largest Regions. Calls for assistance to SVP regional offices in Dublin, Cork, Galway and the Mid-West reached 97,610 in 2012, a 104% increase since 2009. In the largest SVP regions, Dublin and Cork, the increases were 110% and 123% respectively. This rising demand is further evidenced in Table 1 below which shows the rise in SVP expenditure on direct assistance between 2008 and 2011.

<table>
<thead>
<tr>
<th>Type of Household Assistance</th>
<th>2008</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash Assistance</td>
<td>8.69 M</td>
<td>22.86 M (in 2011 cash and food spends were combined)</td>
</tr>
<tr>
<td>Food</td>
<td>6.12 M</td>
<td></td>
</tr>
<tr>
<td>Energy</td>
<td>3.79 M</td>
<td>10.37 M</td>
</tr>
<tr>
<td>Education</td>
<td>3.81 M</td>
<td>4.63 M</td>
</tr>
<tr>
<td>Other</td>
<td>4.71 M</td>
<td>4.36 M</td>
</tr>
<tr>
<td>All Direct Assistance (Total)</td>
<td>27.12 M</td>
<td>42.22 M</td>
</tr>
</tbody>
</table>

As part of the ‘calls for assistance’ research, the SVP sought to identify the main areas of need which were presented to the organisation in 2011. This data relates to what people tell our information officers over the phone when requesting assistance from the SVP. Over 25% of callers simply asked for a visit from the SVP, and gave no further explanation. Of the remaining calls, where a specific presenting problem was identified, requests mainly related to basic needs such as food and energy as well as assistance at Christmas time. As can be seen from Diagram 1 (over), debt and money-lending represented only 4% of the requests made during these telephone calls. However, the experience of our members on the ground suggests that people are very ashamed of using money lenders and are slow to admit doing so, even in the context of a visitation, and thus would be very reluctant to refer to the issue in an initial telephone call to the Society. In addition, the need
specified at the time of the initial request, for example, lack of money for food and energy bills, may be the result of low incomes being diverted to pay existing loans at a high rate of interest.

**Diagram 1: Presenting needs identified by households when contacting SVP in 2011***:

![Presenting Needs Diagram]

* Read Clockwise from Food value of 23%

**Quantifying the Extent of Money Lending in Ireland**

The reluctance of households to divulge to third parties their use of doorstep credit hinders understanding of money lending in the community. The absence of data on the number of households using regulated money lenders in Ireland significantly hampers any investigation or analysis on the extent and impact of doorstep credit in Irish society. According to the Central Bank of Ireland, there are 43 regulated money lenders operating in Ireland. It is thought that Provident Personal Credit is the largest provider of doorstep credit at present. Media sources in mid 2012 suggested that Provident Personal Credit had in the region of 100,000 customers in Ireland (http://www.irishexaminer.com/ireland/money-lending-firm-has-100000-clients-187832.html).

It is assumed that the Central Bank of Ireland has access to the information on either the number of households with loans from regulated money lenders, or, at a minimum, the number of such loans currently in existence. As households may have multiple loans, it is necessary to have both sets of figures in order to obtain greater insight into the use of the money lending industry in Ireland.

**What is Money Lending and What are the Costs of Borrowing Money from a Money Lender?**

Money lending, also known as ‘home’ or ‘doorstep credit’, features:

- Loan agreements made away from the lender’s place of business and usually at the borrower’s home
- The borrower paying a high level interest over a short period
- Repayments made to a collection agent who calls to the borrowers’ home, weekly or fortnightly.
Money lending within communities in Ireland at present mainly consists of doorstep cash credit. However, in recent times, SVP members are commenting on an increase in ‘brochure or catalogue’ type credit for the purchase of items such as furniture, electrical goods, clothes, and toys.

Some money lending companies offer both types of credit and some also provide ‘gift cards’ at the same high interest rates as cash credit. Some of the ‘brochure’ or ‘catalogue’ companies are well known and have been doing this business for many years.

All money lending companies, regardless of the type of credit they offer, charge high repayment interest rates. Typical amounts repaid are set out below, and illustrate the high cost of such credit:

| Loan of €200 over 26 weeks = €260 | (cost of credit €60) |
| Loan of €500 over 26 weeks = €650 | (cost of credit €150) |
| Loan of €500 over 52 weeks = €780 | (cost of credit €280) |
| Loan of €1400 over 52 weeks = €2184 | (cost of credit: €784) |
| Loan of €2000 over 52 weeks= €3120 | (cost of credit: €1,120) |

SVP experience suggests that borrowers are focussed on receiving the principal and do not always understand or pay due attention to the interest rate being applied. The quotation below highlights how borrowers may not consider the impact of the repayments as they seek loans during periods of stress or crisis:

_I am in a desperate situation at the moment. I recently took out a loan from [named money lender] and this is really crippling at the moment. I am finding it very hard to keep up with bills and basic groceries for my baby nappies and baby formula. I would appreciate if someone would contact me with some advice or help ... I really don’t know what to do._

In one Dublin SVP Conference, members noted:

_No one has ever either admitted or been able to tell us what the interest rate is._

**ABILITY TO PAY**

An issue of particular concern to the SVP is that vulnerable households are being offered money by doorstep credit firms without sufficient background information being sought or adequate questioning of information supplied. Members of the SVP have observed that if someone applies for a loan from a bank they are asked: ‘How much can you pay back?’ but if a person applies for a loan from a moneylender they appear to be asked: How much do you want?

_Hi, I have found myself in debt to a money lender ... I am in receipt of social welfare payments and can’t find a way to pay off this debt. Any advice would be helpful please._

Rigorous questions need to be asked of money lending companies as to the information they accept from customers regarding their ability to pay. This is particularly pertinent when money lending companies are targeting local authority housing estates and people and families dependent on social welfare. It is a contradiction in terms to offer loans with an interest rate of 157.2%–187.2% APR to a person or family on, or below, the poverty line. The work on Minimum Essential Budgets undertaken by the Vincentian Partnership for Justice (www.budgeting.ie) is pertinent in finding an answer to this question.
MULTIPLE AND ROLL-OVER LOANS
SVP is aware that individuals and/or households are receiving multiple loans, although it is hard to ascertain specific information about this issue, including whether such loans are ‘roll-over’ loans or additional loans granted for specific items of expenditure.

A SVP Conference in the West of Ireland indicated:

Roll-over loans would be common. Clients have told us that agents arrive with a tempting bundle of notes to offer more, when their previous loan is coming to an end.

SVP believes that this practice could be ended if money lenders were regulated on the number and quantity of loans they could issue to individual households. For example, 3 loans per year, with a minimum time prescribed before a new loan is entered into after conclusion of the previous loan set between the issuing of each loan.

DEALING WITH BAD PRACTICE
Money lending firms mostly use ‘agents’ and this allows them to argue that they are at a remove from bad practice on the doorstep as they can blame agents for not following company procedures. Therefore the response to a complaint can be that the agent did not apply company procedures and will no longer be employed as an agent with our company.

AVOIDING MONEY LENDING
Financial education at school and local level is crucial to people’s understanding of the cost and impact of money lending. The Cork Region of the SVP, in conjunction with MABS and local credit unions, published a brochure in 2008 entitled, ‘Doorstep Credit – No Way!’.

This publication has been replicated in other SVP regions and is used by SVP Conferences in household visitations. Information such as this, outlining the costs of borrowing, should be funded centrally, somewhat in the same way as information on tracker mortgages was provided in the past.

The human impact of money lending is illustrated in the following quotation:

I need help for x mas .... I have absolutely nothing to give my children for x mas. I’m in a lot of debt [to money lender], I wear my coat in the house until kids come home from school as I can’t afford coal. I really don’t know what to do after rent and bills I have nothing left.

Illustration 1 : Doorstep Credit – No Way – Education Publication by Cork Region of the SVP
Providing Alternatives to Money Lending

Low income is the key factor driving people to resort to ‘home’ or ‘doorstep’ money lending. But people on low incomes need low-cost solutions to their credit needs, not the exorbitant rates that characterise money lending, as evidenced by the quotation below:

Hi I’m in rented accommodation I’m really struggling with my weekly bills and shopping also I haven’t got any thing in for Xmas I would really appreciate if you’d help me in any way possible, I really don’t want to have to go to money lenders.

Amongst the concerns to the SVP is the potential reduction in the availability of small loans from credit unions to households in mortgage difficulties with other institutions. Small loans from credit unions can make a big difference to people’s circumstances, such as loans in early autumn for a half or full tank of home heating oil, loans that households can then pay back using their weekly fuel allowance.

The extent to which such loans are at the heart of credit union activity is indicated in the case of one large-sized credit union in Munster. In a five-month period from late 2012 to early 2013, one-half of its loans were for €1,000 or less and one-quarter for €3,000 or less. One-half of the total loans were for Christmas assistance and home improvements/household needs. Such loans, and loan amounts, mirror the needs of customers of money lenders, but clearly answer those needs at a much lower cost.

In theory, credit unions were well-placed to provide a locally-based affordable credit service to households, seeking amounts similar to the size of loans provided by money lenders. The reality today is, however, that many households are already in debt to credit unions. If resorting to money lenders is to be avoided, then alternative and innovative measures have to be instituted to provide short-term finance to households with low incomes. We do acknowledge, however, that the doorstep, paperwork-light service of the type provided by money lenders is financially very challenging for credit unions to provide without substantially increasing interest rates. In a number of SVP regions, and in conjunction with MABS and local credit unions, the Society has provided a loan guarantee service to households who are in need of short-term credit, but who have poor credit histories. This process has proved beneficial in many instances.

There is need, then, to find practical alternatives at local level that will obviate the need for people to turn to money lenders. The importance of such alternatives is well illustrated in the following quotation from a person who contacted SVP:

Please in any way can you help me? I am finding it hard this time to get things for my kids for xmas, pay bills, buy food. I don’t want to get a money lender again, if in any way can you help me, if not no worries cos I know there are a lot of other people that also need your help. I just thought I would ask if you could help me...thank you again for all your help.

Conclusion

On foot of the Central Bank’s review of the money lending industry, the SVP has taken this opportunity to highlight the serious problems that arise for individuals and families on low incomes who resort to this form of lending. The experience of the SVP is that people are very reluctant to admit that they have loans from money lenders, and so it is more than likely that the scale of the money lending industry is being under-estimated. SVP believes that the Central Bank has a role to play by publishing the extent of money lending loans in Ireland in order to throw light on the extent of the industry in Ireland.
SVP strongly believes that there is a contradiction in permitting high cost loans which are significantly targeted at the most financially vulnerable. Emphasis must be given to people’s ability to pay, so that loans would only be authorised on proven information. SVP argues that practical measures must be put in place to curb the phenomenon of roll-over and multiple loans.

RECOMMENDATIONS

1. SVP calls on the Central Bank of Ireland to publish baseline data on the number of loans currently provided by money lenders and the number of households with such loans in the Republic of Ireland and to update that information on a six-monthly basis.

2. The total cost of credit should be clearly outlined in loan agreements.

3. SVP calls for greater regulation regarding the amount that can be borrowed, and how often a loan may be obtained. The following might constitute part of tighter regulation:
   - No loan should be more than four times a person’s proven weekly income
   - Only one loan per adult in a household should be permitted.
   - There should be a minimum time delay between one loan and the next.
   - Top-up loans should not be permitted.

4. Money lending companies should be made responsible for the lending and payment-collection activities of their agents. Protection needs to be afforded to customers who wish to make a complaint against a money lending company. This complaints process should be independent and preferably be vested in the office of the Financial Services Ombudsman.

5. A comprehensive protocol in relation to complaint procedures should be published and made freely available. This should be written in plain English, and should outline the different stages of the process and provide relevant contact details. The protocol should be given to each customer as part of every loan transaction.

6. The Central Bank of Ireland should produce information brochures and financial education tools as a way of indicating to vulnerable consumers the advice services, planned payment methods, and savings and loan options that would help to avoid the need to resort to loans from money lenders.