Financial Regulator
Rialtóir Airgeadais

A Report on the Licensed Moneylending Industry

March 2007

BACKGROUND TO THE LICENSED MONEYLENDING INDUSTRY

When conducting this study there were 47 licensed moneylenders operating in the Republic of Ireland. These range from sole traders operating locally with a few dozen customers to large companies operating nationally with thousands of customers. Moneylenders are currently licensed to operate in one or more of the 23 District Court Districts:

No. of Moneylenders	
8	**Operate in all 23 District Court Districts**
20	**Operate in only 1 District Court District**
27	**Operate in more than 1 District Court District**
34	**Operate in District Court District number 11 (which includes Dublin City)**

Licensed moneylenders are covered by a range of provisions under the Consumer Credit Act, 1995 which include the following:

- An annual application process;
- Requirements relating to the content of moneylending agreements and repayment books which include information relating to the Annual Percentage Rate ("APR"), cost of credit and collection charges;
- Requirements regarding matters that arise during the currency of the agreements e.g. certain collection times, ban on top up loans, prohibition on charges for expenses on loans by moneylenders, prohibition on selling goods while making an advancement to consumers, on increased charges for credit on default etc.; and
- Requirements regarding matters arising on default and termination, e.g. the consumer is entitled to a reduction in cost of credit if they redeem their loan early.

Licensed moneylenders are also subject to an **Interim Code of Practice**, which sets out a number of general principles that must be complied with such as acting fairly, with due skill and care, with appropriate resources and making adequate disclosure of all relevant information. In 2005, licensed moneylenders had approximately 300,000 customers[1]. This represents approximately 10% of the population of the Republic of Ireland in 2005 over the age of 20 years[2].

The moneylending industry is evolving and the traditional view of a moneylender collecting repayments door-to-door on a weekly basis, although still significant, is not the only type of moneylender currently operating in the State. New entrants to the Irish market include large firms operating nationally and specialist firms lending for specific items and services such as hearing aids or club subscriptions. Almost two thirds of the 47 licensed moneylenders engage in no commercial activity other than moneylending. The principal activities of the remaining one third may be, for example, the provision of goods (the selling and renting of electrical goods, furniture, hardware and carpets) or a service (diagnosis of hearing loss and the supply of hearing instruments and ancillary products). The provision of credit is an additional feature offered to finance the purchase of the good or service.

16 moneylenders employ agents to issue new loans and to collect existing loans. There are over 400 agents operating in the State. As well as charging interest on amounts lent, 28 moneylenders also charge a collection fee. This can range from €0.03 to €0.11 for each euro lent.

[1] Determined from the application forms submitted by moneylenders as part of the annual licensing round in 2005.
[2] According to the census conducted in April 2006, the population count in the Republic of Ireland over 20 years was 2.98 million in April 2005.

OBJECTIVES OF THE REVIEW

To gain a greater understanding of the licensed moneylending industry and to determine whether it is appropriate, necessary and reasonable to change current regulatory policies.

APPROACH

In conducting the review the following research was carried out in 2006 (the quantitative research was carried out between May and September 2006 and the qualitative research between March and September 2006):

Quantitative

Structured telephone interviews of 333 customers of moneylenders[3].
Postal survey of all 47 licensed moneylenders (45 replies received).
Email survey of all 62 Money Advice and Budgeting Service (MABS) offices nationwide (17 replies received).

Qualitative

A roundtable discussion with representatives of MABS.
A roundtable discussion with the Consumer Credit Association and Provident Financial Plc.

[3] Telephone interviews conducted by Research and Evaluation Services Limited. Amárach Consulting in association with O'Donovan Associates produced a report for the Financial Regulator based on these telephone interviews.

MAIN FINDINGS FROM THE SURVEY OF CUSTOMERS OF MONEYLENDERS

Profile of the 333 Respondents to our Survey

- Female (72% of respondents)
- Under 40 years of age (55% of respondents)
- Live in Dublin City/County or Leinster (60% of respondents)
- Work full-time or part-time (60% of respondents)

41% of respondents have their own home, 34% live in local authority rented accommodation and 14% in privately rented accommodation.

For the remainder of this section, the term 'customer' refers to the 333 customers who responded to the survey.

Borrowing Patterns

- **Customers are likely to remain as customers of moneylenders.**
- **Customers are likely to become aware of the services of a moneylender as a result of a recommendation.**
- **Customers are likely to borrow for family events or personal items.**
- **Customers mainly borrow from a moneylender because it is convenient, available, out of tradition or because of an established relationship with the moneylender.**

How long have customers dealt with moneylenders?

30% have been customers for less than a year, whereas 33% have been customers for five or more years. In addition, approximately 50% of those surveyed have borrowed more than four separate loans, goods, or vouchers etc. from one specific moneylender.

How likely are customers to continue using licensed moneylenders?

83% are either very likely or quite likely to continue using the service. Of those unlikely to use the service, 16% say the interest rate is too high or too expensive and 11% refer to poor customer service and 7% would be unable to keep up the repayments.

How were customers introduced to moneylenders?

Approximately 60% of those surveyed were introduced based on a recommendation of a friend or family member. 22% saw an advert or received a leaflet through the door, mainly for goods.

What are the reasons for borrowing money or purchasing goods?

33% Family events (Christmas, Weddings, School expense, Communions etc.)

30% To buy goods, clothes and household items

17% To pay bills (12%) or pay off debts (5%)

10% Travel or holidays

10% House decoration/DIY

Why do customers use licensed moneylenders as opposed to other lenders?

30% Convenience of home collection

16% Family tradition/recommendation

14% Immediate availability of credit

14% Existing relationship

6% Refused credit elsewhere/had no other credit source/not aware of other companies

5% Interest was good or cheaper

15% Other reasons: privacy, customer service, preference etc.

Repayment Experience

- **A significant majority of customers do not have difficulties making repayments to their moneylender.**
- **Home collection is the most common method of payment.**

Do customers encounter difficulties making repayments?

84% have no difficulties making repayments. However, of those that expressed a difficulty, 70% say very few payments are a struggle. The main reason for struggling with repayments is a drop in income due to work, benefit changes or personal circumstances.

How do customers make repayments?

60% Payment made at the customer's residence

16% Direct debit

12% At the moneylender's premises

12% Post, cheque or credit card

Interest Rates

- **A significant majority of customers do not compare the interest rates being charged by moneylenders with other credit providers.**
- **A significant majority of customers are not aware of the interest rate they are being charged but were very likely to know how much they have to pay every week to a moneylender.**

80% did not compare interest rates between lenders when taking out their current or most recent loan.

Do customers shop around before taking out credit?

36% of customers shop around before deciding on a lender. This falls to 16% of customers who make repayments at their home.

Do customers know the rate of interest they are being charged?

When customers were asked in respect of "*your last/current loan, what rate of interest are/were you charged?*", 71% said that they did not know the rate being charged. However, a large majority of customers (over 90%) stated that they knew the amount of their weekly repayment.

Awareness of Illegal Moneylenders

- **A significant percentage of customers are influenced by the fact that the moneylender is licensed by the Financial Regulator.**
- **In general customers of licensed moneylenders are not aware of illegal moneylenders operating in their area.**

Does the fact that a moneylender is licensed encourage customers to use them?

74% stated the fact that the moneylender is licensed positively influenced their decision to use the company (the Financial Regulator requires an agent or person acting on behalf of a licensed moneylender to produce identification confirming that they are licensed. In addition all moneylending agreements, repayment books and advertising must state that the moneylender is regulated by the Financial Regulator).

Are customers aware of illegal moneylenders operating in their communities?

11% of respondents are aware of illegal moneylenders.

Attitudes towards Credit and the Availability of Credit

- **Nearly a quarter of customers are making mortgage repayments.**
- **Just over a quarter of customers are servicing personal loans from another credit provider.**
- **The majority of customers do not worry about their debt obligations.**
- **The majority of customers are of the opinion that they have access to other sources of credit and are not reliant on a moneylender as the only source of credit.**

How many customers are currently making repayments to other lenders?

22% of those surveyed indicate they are making mortgage repayments.

26% of those surveyed have borrowings (other than a mortgage) with other lenders (65% of this group have loans with a bank/building society, 45% with a credit union, 17% with a finance/hire purchase company, and 11% with another licensed moneylender).

Do customers worry about using credit?

61% of respondents are happy they can clear their debts. However, 23% indicated that they feel trapped by their use of credit.

If their moneylender were to cease operating, where would customers seek credit?

23% would go to a credit union, 20% to a bank and 6% to another licensed moneylender. 22% state they would not need further credit. Only two respondents would use an illegal moneylender. 23% do not know where they would go.

How available is credit elsewhere?

50% believe it is easier to get a bank or building society loan than it used to be. For example, 62% state their application for a credit card would be accepted if they wanted one.

Do customers believe they have options when deciding on a lender?

71% believe they have more options than ever before when deciding on a lender.

Customer Satisfaction

► **Overall, customers of licensed moneylenders have a positive impression of their moneylender.**

How satisfied are customers with the service they receive?

Overall, moneylenders have a weighted average customer satisfaction rating of 89%. 2% rate the service as poor. Respondents were asked to score the service that they receive from their moneylender on a scale of 1 to 10. 3% of all respondents gave their moneylending organisation a score of 3 or less; 17% gave a score of 4 to 7, and the balance (80%) gave a score of 8 or higher out of 10. Exactly half of respondents (50%) gave their moneylender a score of 10 out of 10.

What are customers' reasons for a favourable satisfaction rating?

The main factors are:

1. Efficiency and reliability
2. Good customer service
3. No complaints or problems
4. Friendliness/convenience
5. Because of the collector
6. Good value for money

What are the main sources of customer dissatisfaction?

Based on the survey results, the main causes of customer dissatisfaction are high interest rates/expensive form of credit (5%), poor or slow service (4%) and a range of other factors including failing to keep in touch and not always having the goods required.

What is the customer's relationship with the collector?

Respondents viewed their relationship with their moneylender in a positive light. Of those that answered the question, 72% agree with the statement that *"you think of the collector as a friend"*. Similarly, of those that answered these questions, almost 9 out of 10 (88%) agree with the statement that *"you trust the collector to give you good advice about borrowing money"*.

CONCLUSIONS

- Customers are likely to borrow for family events or personal items.
- Customers mainly borrow from a moneylender because it is convenient, available, out of tradition or because of an established relationship with the moneylender.
- The significant majority of customers do not have difficulties making repayments to their moneylender.
- The majority of customers are of the opinion that they have access to other sources of credit and are not reliant on a moneylender as the only source of credit. Despite having access to other cheaper sources of credit, many customers do not utilise these options. However, not all customers have easy access to other sources of credit:
  - 29% of customers did not agree that it was easier to get a bank or building society loan than it used to be;
  - 19% of customers were of the opinion that an application for a credit card would be rejected; and
  - If a moneylender were to cease operating in a particular area, 23% of consumers would not know where to go for credit.
- Customers of licensed moneylenders generally have a positive impression of their moneylender.
- Some customers are of the opinion that they would not be able to keep up repayments in the future (7%). It has also emerged that:
  - 17% of respondents borrow to pay bills and other debts;
  - 30% do not seem able to get ahead and clear their debts;
  - 16% have difficulty making debt repayments;
  - 13% are unemployed and seeking work; and
  - 23% feel trapped by credit.
- The majority of customers do not compare the interest rates being charged by moneylenders with other credit providers.
- The majority of customers are not aware of the interest rate they are being charged but are likely to know how much they have to pay every week to a moneylender.

MAIN FINDINGS FROM THE SURVEY OF MONEYLENDERS

As discussed, although the industry is evolving, the traditional moneylender (i.e. lending money and collecting payments door-to-door on a weekly basis) is still a very common feature, with 67% of those surveyed advancing credit in the form of money only (not providing credit in the form of goods or vouchers). 82% of those surveyed collect door-to-door and 69% offer only one repayment method which is predominantly door step collection.

In what form is credit advanced to customers?

% of moneylenders:	Form
67%	Money only
12%	Goods only
21%	Combination of money, goods, vouchers

Number of payment methods available

% of moneylenders:	
69%	Offer only one repayment method, mainly door step collection
9%	Offer two repayment methods
22%	Offer three or more repayment methods

Repayment methods available to customers

% of moneylenders:	
82%	Will collect at your door
33%	Allow the customer to repay at the office
24%	Allow the customer to repay via Direct Debit/Standing Order
20%	Allow the customer to repay by post

Factors that have changed in the industry in the last 10 years and expectations for the years ahead

According to our survey results, moneylenders are generally of the view that the following factors have impacted the industry in the last 10 years:

1. Increased regulation and legislation which is generally seen positively but can also be a burden.
2. Competition from other credit providers and the greater availability of credit.
3. Better economic conditions that encourage customers to borrow more and makes it easier for customers to repay.
4. Rising costs of doing business.

When we asked the licensed moneylenders to consider the factors that will impact on their businesses in the next 5 years, the overwhelming response was an increase in competition from banks, credit unions and other licensed moneylenders. The growing population was also seen as an opportunity to expand the customer base. However, a significant number of firms (46% of those surveyed) expected their business to stay constant. The remaining 54% is evenly split between those expecting business to expand and those expecting business to contract.

Interestingly, only 15% of the more traditional moneylenders that advance credit and make door step collections expect their business to expand while the figure is 64% for other types of moneylenders (e.g. operating nationally, the mail order catalogue companies, the specialist moneylenders and those that accept payment by Direct Debit). Moneylenders generally tend to rely on word of mouth, recommendations and referrals from existing customers. 98% of licensed moneylenders do not offer incentives to their agents to reach certain sales targets.

MAIN FINDINGS FROM THE SURVEY OF MABS

The Money Advice and Budgeting Service (MABS) is a free and confidential service for people in Ireland with debt and money management problems. At the time of this report, there were 62 MABS offices in Ireland.

According to the information submitted by MABS as part of this review, it has dealt with more than 10,500 new clients in 2006. The total amount owed by these clients, based on the debt they had when they first came to MABS during the course of 2006, amounted to more than €67.6 million. Of this figure:

53%	was owed to banks/financial institutions
22%	was owed to Credit Unions
4%	was owed to utility providers
2.5%	**was owed to moneylenders**
2%	was owed to debt collectors

According to MABS, moneylending loans are for 'very small amounts' and the number of clients approaching it who are moneylending customers is falling.

Based on its encounters with clients of licensed moneylenders, the organisation's overall impressions of these firms are:

- Moneylenders generally respond positively to MABS and cooperate and show flexibility when resolving consumer disputes;
- MABS view positively the regulatory regime applicable to moneylenders as it offers protection to the consumer;
- It is concerned that changes in this regime should not encourage moneylenders to operate without a licence;
- MABS acknowledge the role for moneylenders as a niche credit provider as they are a convenient and flexible source of credit and are valued by their customers;
- Some moneylenders are too willing to provide credit and do not give due regard of the client's ability to repay;
- For these clients, moneylenders may be their only source of credit which creates an over dependency on a relatively expensive source of credit for MABS clients, most of whom are in receipt of social welfare payments or on low to middle incomes; and
- The cost of credit charged by moneylenders is too high making repayments difficult.

According to MABS, it is impossible to estimate how many illegal moneylenders are operating, how much credit is advanced on an annual basis or the number of people that are indebted to an illegal moneylender. However, according to our surveys we can say that approximately one third of licensed moneylenders are aware of people acting as illegal moneylenders. In addition, 11% of respondents to our customer survey were aware of illegal moneylenders operating in their communities. According to MABS, customers who find themselves excluded from credit channels due to a poor credit history, an inability to manage finances or because their income is too low to provide reassurance, may resort to illegal moneylenders. There would appear to be a class of borrower whose risk of default is so high that they have no access to regulated sources of credit. As a policy, MABS does not deal with illegal moneylenders but has dealt with some clients who borrowed from these entities. Furthermore, its policy with regard to illegal moneylending is guided by the fact that illegal moneylending is a criminal matter and is a matter for the Gardaí in the first instance.

The Annual Percentage Rate charged by Licensed Moneylenders

The objective of this review is to gain a greater understanding of the moneylending industry to determine whether it is appropriate, necessary and reasonable to change the current regulatory policies. In this context, the APR charged by licensed moneylenders is often the subject of debate. Regardless of loan size or length, compared to other credit providers such as the banks or credit unions, the APRs charged by licensed moneylenders are high (these can range from 10.2% to 188.5%). The APR is derived from a combination of the original amount of credit advanced, the total amount that has to be repaid and the duration of the loan.

Given that 80% of customers did not compare interest rates between lenders when taking out their current or most recent moneylender loan and 71% claim not to know the rate being charged, it is possible to conclude that customers consider factors other than the APR when they consider a loan from a moneylender. Based on our customer survey, these factors may be:

- The convenience and availability of the loan (relatively small size loans for short periods) and the fact that repayments can be collected at the door;
- Family tradition and an existing relationship with the moneylender; and
- The purpose of the loan. Our surveys indicate that the main reasons consumers borrow are for family events and to purchase goods, clothes and household items. It also indicates that a typical amount lent by moneylenders that collect repayments door-to-door is approximately €600. Given that the loans can be relatively small, consumers are more likely to be concerned with the weekly repayment amount and its affordability rather than the APR being charged.

It is difficult to describe a typical moneylender loan in terms of the APR charged, size or duration. However, based on the Financial Regulator's experience of regulating licensed moneylenders since May 2003, the following points can be made about the APR charged:

- APRs range from 10.2% to 188.5%;
- Generally, moneylenders that engage in home collection charge higher rates;
- According to the survey of licensed moneylenders, typical loan sizes can range from €100 to €4,000;
- The larger the loan, the longer the length of time over which the loan is repaid;
- Based on the survey of licensed moneylenders, even where a loan is for a similar amount and duration, the APRs charged by different moneylenders can vary significantly. There appears to be little conformity between moneylenders as to what the market determined APR is for a certain size loan over a certain period. In a competitive market for a straightforward product such as a loan, one would expect to see this development. Given the relatively high rates when compared to other credit providers, one would expect, in a competitively functioning market open to new entrants and numerous providers of credit, that the APR would be reduced. In the context of the APR charged by moneylenders, competitive forces appear to be breaking down and are failing to drive down the rates charged. The following are *possible* reasons:
    - Consumers could more actively shop around for the best deals on credit (according to our survey, 80% do not compare interest rates and the majority of consumers have access to other sources);

- It would appear from our consumer survey that consumers are more concerned about the weekly affordability of loan repayments rather than the overall cost of credit. Perhaps for relatively small loans over short periods of time, the benefits of these loans (appropriate to the consumer's needs, convenient, available and flexible) outweigh the cost of credit as measured by the APR. Furthermore, the APR of a loan may not be a meaningful measure of affordability, especially for the typical loans available from moneylenders;
- Moneylenders have a traditional market who use them as a source of finance;
- Consumers are attracted by the convenient features of a loan from a moneylender such as weekly door-to-door collections; and
- As seen from our consumer survey, some consumers may have difficulty (either real or perceived) accessing other sources of credit and may rely on this expensive source of credit. Our survey found that:
    - 29% of customers did not agree that it was easier to get a bank or building society loan than it used to be;
    - 19% of customers were of the opinion that an application for a credit card would be rejected; and
    - If a moneylender were to cease operating in a particular area, 23% of consumers would not know where to go for credit.

Based on our survey findings and additional information, it is possible to conclude that many customers of moneylenders can get credit cheaper if they choose as:

- The majority of customers of moneylenders have access to other forms of credit;
- The majority of customers do not compare interest rates in order to seek the cheapest forms of credit and are more concerned with the weekly affordability of a loan; and
- A credit union, for example, can offer similar loans at 12.6% to members (according to the Irish League of Credit Union's Annual Report for 2005, 45% of loans granted by credit unions are for less than €1,000).

APR and Short-Term Loans

The APR charged by licensed moneylenders has been the subject of debate. The following examples (taken from the responses received from moneylenders as part of our industry survey) highlight the problems of using the APR as a measure of the cost of credit for short-term loans. They also illustrate why the introduction of an interest rate ceiling for moneylenders may not achieve the objectives of lowering the cost of credit for consumers.

	Amount	Length of time over which it is repaid	Weekly Repayment	APR (approx.)	Total Repaid	Total Cost of Credit
Loan A	€100	20 weeks	€5.38	44%	€107.60	€7.60
Loan B	€500	26 weeks	€24.42	160%	€634.92	€134.92
Loan C	€500	48 weeks	€14.50	110%	€696	€196

As can be seen from the table above:

- The APRs associated with relatively small, short-term loans are high;
- A high APR is not necessarily indicative of an extortionate or high-cost loan. Despite the 44% APR associated with Loan A, the total cost of credit associated with small loans over short periods can be reasonable (€7.60). Weekly affordability may be a more important factor for a consumer. Furthermore, in the case of relatively small loans for short periods such as €100 repayable over 20 weeks, it may be difficult to envisage any provider offering such a service for less; and
- As can be seen by comparing Loan B to Loan C, any attempt to restrict the APR charged by licensed moneylenders might **not** reduce the *total cost of credit* if the licensed moneylender chose instead to extend the duration of the loan. Despite a reduction in the weekly repayment, in a worst-case scenario, the total cost of credit may actually increase to compensate the moneylender for extending the duration of the loan. Such a restriction may also result in moneylenders being unwilling to provide loans for short periods which might suit the customer's budget better.

Conclusions

- Loans offered by moneylenders are relatively expensive.
- Consumers appear to choose moneylenders as a source of credit despite the interest rates being charged. However, although very aware of the weekly amount due to a moneylender, consumers are less aware of the rates being charged and the potential financial savings from shopping around. We will review the current Interim Code of Practice for licensed moneylenders, with a specific emphasis on increasing transparency, helping consumers make informed decisions and enhancing the consumer protection framework.
- Overall, consumers that use licensed moneylenders as a source of finance are happy with the service provided despite the fact that it is a relatively expensive form of credit.
- The introduction of an interest rate ceiling for moneylenders may not achieve the objectives of lowering the cost of credit for consumers.
- Not all consumers have access to other sources of credit. The Combat Poverty Agency has recently completed research on the area of financial inclusion and the Financial Regulator is considering the policy implications on foot of that research. We are also working with relevant agencies and Government departments to seek to foster access to financial services.

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