



Review of the Consumer Protection Code for Licensed Moneylenders CP 118

Submission from the Irish League of Credit Unions

Irish League of Credit Unions, June 2018

1. Introduction & Background

1.1 The Irish League of Credit Unions (“the League”) welcomes the opportunity to make a submission on the Review of the Consumer Protection Code for Licensed Moneylenders CP 118.

1.2 The League is the principal trade and representative association for credit unions in Ireland. There are 262 credit unions in the Republic of Ireland affiliated to the League, with approximately 3.1 million members.

1.4 The credit union movement in Ireland dates from the 1950’s and has had a beneficial impact socially and economically in enhancing the wellbeing of its members and in turn the wider community. The strength of the credit union movement is evidenced by the penetration rate of credit union membership. Over half of the adult population of the Republic of Ireland is a credit union member.

2. Credit Unions in Ireland

The advent of the credit union movement in Ireland was driven by the way that unemployment, poor housing, sickness, emigration and money lending was adversely affecting peoples' lives at that time. As the availability and management of money was a major difficulty for many people, the founding members sought a way to give people control of their own resources and enable them to respond to community needs. The primary focus of credit unions was on meeting the financial needs of their members through the provision of a safe place to save and access to credit at fair and reasonable rates of interest.

Credit unions have the following statutory objects:

- (a) the promotion of thrift among its members by the accumulation of their savings;
- (b) the creation of sources of credit for the mutual benefit of its members at a fair and reasonable rate of interest;
- (c) the use and control of members' savings for their mutual benefit;
- (d) the training and education of members in the wise use of money;
- (e) the education of its members in their economic, social and cultural well-being as members of the community;
- (f) the improvement of the well-being and spirit of the members' community; and
- (g) subject to *section 48*¹, the provision to its members of such additional services as are for their mutual benefit.

In addition to the statutory objects listed above, the registered rules of credit unions which are affiliated to the ILCU require that each credit union conducts its affairs in accordance with a set of Operating Principles that are used throughout the credit union movement worldwide. These principles form the basis of the credit union ethos through various provisions including open and voluntary membership, democratic control, the return of surplus to members and non-discrimination in race, politics and religion.

¹ Section 48 deals with the power to provide additional services.

In line with this ethos and the principles that underpin the credit union movement in Ireland, the issue of moneylending at usurious rates was debated at the 2010 annual general meeting of the ILCU. The following resolution was carried by an overwhelming majority of delegates present:

“That this Annual General Meeting, in accordance with Credit Union Operating Principles on Social Responsibility and our shared vision of Social Justice extending to both individual members and the larger community in which we all reside, proposes that the Irish League of Credit Unions pursues the objective of a reduced legal maximum lending rate for Moneylenders”.

The Irish credit union movement believes that a significantly reduced statutory maximum interest rate should be urgently introduced to alleviate cases where the high cost of borrowing has the potential to condemn families to a lifetime of debt.

Also in keeping with their ethos and principles credit unions are continuing to roll out the Personal Microcredit scheme (PMC). The PMC commenced as a pilot initiative in November 2015 with 30 credit unions across the Republic of Ireland. Branded the ‘It Makes Sense Loan’, the aim was to prove that credit unions could offer a loan product that matched the convenience and ease of moneylenders’ offers, addressed the exorbitant rates charged by them and yet was within prudential lending guidelines.

The pilot was a success and as a result a national roll-out was approved in the summer of 2016. The significance of the initiative is reflected in it being included in the 2016 Programme for Government “Specifically we support...the rollout and extension of the Personal Microcredit Scheme, which is providing simple microloans to members and helping to combat the use of moneylenders.” An implementation group continues the rollout of the scheme and as of June 2018 110 credit unions are now live and offering PMC loans across Ireland at over 260 credit union offices.

Consultation Paper 118

The proposed measures and aims contained within the Consultation Paper are to be welcomed and are certainly very worthwhile. If the proposed measures are introduced and enforced consumers should benefit greatly. However, while the introduction of the Consultation Paper explains why an industry-wide cap was not considered we believe that this should have been an integral part of the consultation process. Many jurisdictions across Europe have successfully implemented an interest cap and indeed credit unions are subject to an interest rate cap. It is worth commenting that the implementation of the lending rate cap has certainly not stymied the growth and development of the credit union movement in Ireland even taking into account that the movement operates on a not for profit basis.

Moneylending firms are licensed by the Central Bank under the Consumer Credit Act, 1995. Maximum legal lending rates for moneylenders are not provided for in this Act and the Central Bank does not have the power to cap interest rates on an industry wide basis. Any institution charging over 23% requires a Moneylender's license.

Almost two thirds of moneylenders on the Financial Regulator's register as at 25th June 2018 are licensed to charge an APR in excess of 100%. The Consultation Paper outlines that "by not permitting any increase to the maximum APR charged within the sector, the Central Bank has effectively capped the cost of credit in the sector". This is correct but the prevailing rates charged are still too high and we firmly believe that it would be possible to introduce an industry wide interest cap for the sector which would be lower than the existing prevailing rates and yet high enough that the adverse consequences which are of concern to the Central Bank, as outlined in the Consultation Paper, would be avoided. We therefore believe that not including consultation on the introduction of an interest rate cap represents a missed opportunity despite the worthy and worthwhile overall aims of the Consultation Paper.

5. Further Information

The League will be happy to provide additional information if required. Contact details for the purposes of this submission are:

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