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Coláiste na hOllscoile Corcaigh

Moneylending in Ireland: '€70m in interest payments annually'

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"Moneylenders licensed by the Central Bank can charge up to 188% APR on loans, rising to 288% APR including collection charges"

Analysis: there are many reasons why people continue to use moneylenders despite exorbitant interest rates

By Olive McCarthy and Noreen Byrne, UCC

In late 2018, a bill was passed to cap the rate of interest that can be charged by licensed moneylenders in Ireland at 36% APR. This came a mere two weeks after the launch of our report, funded by the Social Finance Foundation and the Central Bank of Ireland, into interest rate restrictions on high cost credit. What became known as the 'UCC Report' was debated extensively in the Dail in support of the Bill. Since then, a public consultation by the Department of Finance on the matter of an interest rate cap took place in summer 2019, the results of which are awaited, and scrutiny of the Bill is currently underway in the Oireachtas.

Moneylenders licensed by the Central Bank can charge up to 188% APR on loans, rising to 288% APR including collection charges. Most loans are small, in the region of €550. Compared to more affordable borrowing alternatives such as credit unions, who cannot legally charge more than 12.67% APR, the interest differential is difficult to justify. Why, then, do people continue to borrow from moneylenders?

Moneylending customers are often seen to be those who can least afford the high interest costs. The Central Bank published a report in 2013 profiling the typical moneylending customer which it found to be female, aged 35-54 and from a lower socio-economic grouping. A key difference in findings from the 2013 report and a similar report conducted in 2007, was an increase from 41% to 53% in the use of moneylenders by those who own their own homes outright or who have mortgages.

From RTÉ Radio 1's Morning Ireland in June 2020, Grainne McEvoy, Director of Consumer Protection with the Central Bank, on new rules for moneylenders aimed at protecting consumers

The reasons people continue to borrow from moneylenders are multi-faceted and often reduce the sensitivity of the borrower to the cost. These might include family tradition, convenience, direct marketing, poor credit history and habit.

However, credit unions and others are reporting evidence of ‘client creep’ into groups of consumers on higher incomes who are struggling to cope financially, particularly since the last financial crisis. This has become more evident following the inclusion of licensed moneylenders in the Central Credit Register in 2018 for loans in excess of €500. Research cited by the Social Finance Foundation suggests that only 12% of moneylending customers are unemployed, while 43% are in higher income brackets. An updating of the Central Bank’s 2013 report is urgently needed to understand fully how borrower profiles are changing.

A number of welcome regulatory changes to how moneylenders can operate have been made by the Central Bank, most recently those announced in June 2020. Moneylenders are required to include prominent, high cost warnings on all advertisements and must prompt consumers to consider alternatives. They must also encourage consumers to consider if a moneylending loan is their best option and, where the loan is required for basic needs, direct consumers towards MABS, the Money Advice and Budgeting Service.

From RTÉ Radio 1's Drivetime, Michelle O'Hara from Money Advice and Budgeting Service about the increase in calls to their helpline during the pandemic

The effectiveness of consumer warnings on financial products is debated because financial consumers act on the basis of ingrained financial habits and inertia and often suffer from decision regret. Ultimately, imposing a cap on the cost of credit will serve the interests of consumers best but can only be achieved through legislative change.

The main argument used against interest rate caps on high cost credit is the fear that a potential reduction in the availability of credit will fuel illegal moneylending. The reported evidence appears to be weak, particularly in a context of widely available alternatives. Citizens Advice UK reported in 2017 that the introduction of a cap on payday loans in 2014 did not result in a shift to illegal moneylenders. Recent research we have conducted with social housing residents, 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 impact of moneylending as a financial drain on communities is worth measuring. Using very limited data, which the Central Bank made available in 2017 on average loan size and most frequent loan term, we calculate conservatively that a minimum of €70 million in interest payments drain out of communities across Ireland to moneylenders annually, although we estimate that it is likely to be anywhere up to 2.4 times this amount. Thinking of community wealth depletion in this way is sobering.

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From RTÉ Archives, Tom MacSweeney reports for RTÉ News in 1990 on moneylending companies challenged in court on the grounds that they charge too much interest.

In Europe, a clear trend towards the use of interest rate restrictions as a policy tool is evident, with 21 member states now having some form of cap on high cost credit. Our report calls for the currently permitted usurious rates of interest to be prohibited.

To be effective, an interest rate restriction would have to be coupled with limits on other fees and charges and a cap on the total cost of credit. Political will to enact the legislation that will introduce a target interest rate cap for high-cost moneylending credit is growing. This cap must be implemented through a series of interim interest rate reductions, allowing time for moneylenders to adjust their business model and for consumers to transition to more affordable sources of credit. This legislative change is an essential first step to building more financially secure communities. Now is the time to act.

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