housing rights service

POLICY RESPONSE

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A Response to Credit Unions and Industrial Provident Societies Bill – Policy Consultation

By the Department of Trade and Investment

September 2013

Organisational background and context

Housing Rights Service (HRS) was established in 1964 and is the leading provider of independent housing advice services in Northern Ireland (NI). We work to achieve positive change by promoting and protecting the rights of people in housing need in NI.

HRS has been involved in the provision of housing debt advice since the early 1990s. However today significantly more of our clients are experiencing debt, arrears and home possession. In the last 5 years we have witnessed an overwhelming increase in demand. Clients who have fallen behind with their mortgage or rent payments come from different socio-economic backgrounds, but often experience similar difficulties trying to access credit at a reasonable rate of interest.

Social rented sector tenants (Housing Executive and housing association) can be particularly disadvantaged. As a higher proportion of social housing tenants have low incomes, they are less likely to have money set aside for emergencies, for example, to replace essential household items or to cope with an income shock. For these families affordable credit is a matter of necessity, not luxury. With few available options, more people are resorting to higher interest products from alternative credit lenders such as doorstep lenders, pay day loans and loan sharks.

HRS is increasingly aware of the large extent of expensive lending in NI and of the disproportionate effects this can have on the financial stability households. Repeated use of these forms of credit can lead to vicious cycles of over-indebtedness. This can result in clients failing to repay priority debts of rent, mortgage and rates, leaving many vulnerable to homelessness.

When considering the alternatives, we have looked towards the not for profit financial sector. NI is very fortunate to have a strong, well established credit union movement committed to supporting local communities. HRS believes there is scope for credit unions, working alongside other stakeholders, to play an enhanced role in serving low-income and financially excluded groups within these communities. We recently commissioned research into the expansion of credit union financial services for the low income market. The report "Towards Financial Inclusion" was published in May 2013.[1]

Towards Financial Inclusion research

The research study explored how credit unions serve low-income communities in Northern Ireland. It analysed the potential for product and service development in response to the needs of people who are marginalised from mainstream financial services. The study was commissioned out of a concern for the detriment to the financial stability of low-income households caused by increasing levels of high-cost, sub-prime lending. Conducted by Liverpool John Moore's University, it engaged 43 of the 176 NI credit unions in research discussions, and had the support of both the Irish League and the Ulster Federation of Credit Unions.

The study highlighted the strong commitment of credit unions to local communities. The emphasis on serving the entire community has resulted in an inclusive approach to product and service delivery.

[1] http://www.housingrights.org.uk/sites/default/files/policydocs/Towards%20Financial%20Inclusion.pdf

Most NI credit unions are embedded within low-income communities and have experience in providing financial services to people excluded from mainstream providers. Over 50 per cent of credit union survey respondents regarded high-cost, sub-prime credit providers as their main competitors. 13 per cent said these were illegal lenders/loan sharks.

Credit unions serve around 34 per cent of the NI population in comparison to just 2 per cent of the population in Britain. However, despite the wide reach of credit unions into local communities, the study found evidence to suggest that certain sections of NI society are not being reached by credit unions. For example, only 4 per cent of Housing Executive tenants are credit union members.

Response to consultation questions

HRS welcomes the publication of this policy consultation. For many credit unions (particularly the largest) the greatest barrier to the development of financial services for people on low incomes is legislative constraints. Throughout the research study there was support expressed by credit union participants, and other stakeholders, for credit union legislative change in NI. It was strongly felt that NI legislation should at least be brought into line with that implemented in Britain through legislative reform in 2012.[2]

We have focused our response on the areas which are most relevant to our work and to the research which we commissioned. We have therefore restricted our comments to the following questions raised in the consultation document.

5. Do you think that the current definition of common bond as prescribed by the 1985 Order should be retained or should the provisions be amended to reflect those in GB as prescribed by the LRO?

The majority of credit unions are defined by a common bond, usually by geographic area. Sometimes, placing restrictions on membership can act as a potential barrier to some people joining a credit union. HRS therefore believes that this restriction should be lifted. In other words, credit unions should not have to show that all of the people able to join the credit union have something in common. In doing so, this would allow credit unions to widen access to membership through adopting a more open and flexible approach. Credit unions could, for example, define multiple common bonds and be able to provide services to different groups of people within the one credit union. Credit unions, for example, could add a field of membership to serve all tenants of a particular social housing landlord.

6. Do you think it is appropriate to remove the current 10% limit on non qualifying members from the 1985 Order to reflect the position in GB as prescribed in new provisions within the LRO?

The application of the 10% limit appears to be harsh and unnecessary. We agree that this limit should be removed to promote continuation of credit union membership, even when circumstances change.

[2] Towards Financial Inclusion: para 9.1, May 2013

13. Do you think that the maximum interest rate credit unions can apply to loans should be increased to 3% per month or should the current 1% limit be retained?

HRS supports increasing the interest rate cap to allow credit unions to charge up to 3% per month maximum.

The research "*Towards Financial Inclusion"* showed that most participating credit unions in NI were strongly resistant to the idea of raising interest rates on loans to cover the costs of operating in the low income market. There was a common commitment to cross-subsidising low-value loans within the current low-cost business model. In the survey, 60% of respondents were opposed to the raising of the interest rate from the current one per cent per month on all loans.

However, despite the commitment to ensure service delivery according to the traditional low-cost model, the study found little evidence of "any rigorous analysis" of the costs involved in product and service delivery in the low income market. There was an appreciation of the higher costs, but what these were exactly was unknown.

The study concluded that:

> *"Perhaps one of the greatest challenges for Northern Ireland credit unions is to think of the serving of low-income and financially excluded households within a strategic business perspective, rather than as an element of a social mission that remains a continual cost to the credit union. A marked expansion of services for financially excluded households will be a significant expense to the credit union, which perhaps should not be entirely borne by the rest of the membership. It would be advantageous for credit unions to reconsider approaches to pricing for risk and cost. This would ensure that further outreach into financially excluded communities is cost effective, even if this means charging higher interest rates on lower-value loans and fees for certain member services."*

HRS fully appreciates the concerns which many credit unions have about raising the interest rate cap beyond 1% per month. In fact we do not advocate raising interest rates unnecessarily. However if, by doing so, this would enable higher numbers of financially marginalised households to access credit at a reasonable rate of interest[3], then we would be supportive of such a measure. Currently, the alternatives for many are extremely expensive interest products from doorstep lenders, pay day loans and loan sharks.

HRS believes that increasing the interest rate cap would allow credit unions flexibility while not compelling them to do so.

16. Do you think that there should be a relaxation of the current 3% dividend requirement for the application of surplus for social, cultural and charitable purposes?

HRS welcomes any such measures which would allow greater investment of credit union surplus funds to help achieve the objective of community development.

[3] A rise from 1% to 2% per month on a £400 loan results in a weekly payment increase for the borrower of 50 pence.

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