An Roinn Airgeadais
Department of Finance

Moneylending
Policy Proposals

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Executive Summary

This report examines the moneylending industry in Ireland and assesses the potential impacts of the introduction of an interest rate cap along with other supporting policies. It provides an overview of the current regulatory framework for licensed moneylenders, analyses the different credit options, and describes key characteristics of the existing moneylending market.

In May 2019, the Department of Finance launched a public consultation process to gather views from stakeholders on whether the Government should introduce a statutory interest rate cap on licensed moneylenders in Ireland, along with other regulatory matters.

The main focus of the consultation was the question of interest rate caps, respondents were asked if an interest rate cap were introduced, which of the following models they thought would be the most beneficial and transparent for consumers:

- fixed or relative (to a reference rate) APR caps;
- fixed or relative (to a reference rate) nominal interest rate caps;
- nominal interest rate caps that vary by the term of the loan and/or the value of the loan; or
- staggered nominal interest rate caps (for loans in the same calendar year).

The majority of the submissions received were in favour of the introduction of an interest rate cap. These submissions were primarily received from Non-Governmental Organisations and credit unions. All of the comments and submissions made through this consultation process have all been considered and taken into account, as appropriate, in formulating the proposed policy options.

The key recommendation is the introduction of interest rate caps to apply for the two product types available from moneylenders. The first is a simple interest cap that should apply at the rate of 1.0% per week with a maximum upper annual limit set at 48% to apply for cash moneylending agreements up to a term of one year. It is also recommended that the term of cash moneylending agreements should be capped at one year. The second cap will apply to the running account product offered, in the main, by catalogue companies. The proposed interest rate cap for these accounts is 2.83% per month on the outstanding balance. Given the nature of these accounts, there is no proposal to limit the term. These rate caps could be reviewed periodically with a view to prescribing, by regulation, lower limits if circumstances warrant it. In addition, it is recommending a number of regulatory refinements including:

1. the abolition of home collection charges,
2. the removal of the requirement on moneylenders to register for particular District Court areas and an increase in the licensing term to five years rather than annually, with the

possibility of further increases to be made by regulation by the Central Bank, subject to the consent of the Minister for Finance, and

3. changing the term ‘licensed moneylender’ to ‘High Cost Credit Providers’, to differentiate between licensed and unlicensed moneylenders and to remind customers that the cost of the loan is high.

1 Background

Licensed moneylenders[1] are individuals or companies whose main business is to lend money to consumers on foot of a moneylending agreement. The credit will usually take the form of a cash loan but may also involve the provision of goods on credit from a retailer or the purchase of goods on credit from a catalogue.

A little over 310,000 people borrowed almost €240 million from moneylenders in Ireland in 2018. The legislative definition of a moneylending agreement includes a requirement that the total cost of credit is in excess of 23% APR.

Recent research indicates that many customers of moneylenders are located all across the country, the majority are female, and have children. In addition, many borrowers are working, have a transactional banking relationship and there is a spread across all socio-economic groups.[2] Some customers may have poor or no credit history, which limits their access to alternative forms of finance. As a result of the risk profile of these moneylending activities, interest rates are high. There is also a danger that some customers end up in a cycle of borrowing, increased indebtedness and have an inability to pay.

Some research suggests that the staff of moneylenders are also typically incentivised to maximise earnings and may make lending decisions based on expected profitability, despite the potential risk of financial distress to some customers. This is particularly relevant in the home collection industry where agents call directly to the customer each week and, as a result, may have increased likelihood of collecting on their debt, compared to a landlord or a utility provider.[3] The Financial Conduct Authority (FCA), which is responsible for regulating the moneylending sector in the United Kingdom, also found that where credit is sold face-to-face (*e.g.* through an sales agent in the customer's home), there is expected to be greater social pressure on the individual to take out credit immediately, or in larger quantities than if there is no human interaction.[4]

While there is already a *de facto* cap on interest rates, the introduction of a statutory interest rate cap may further limit the cost of credit to these customers and enable them to better meet repayments and potentially migrate to other regulated forms of lending. However, consideration must also be given to possible negative effects on the supply of credit and a possible increase in unlicensed (or illegal)[5] moneylending or financial exclusion for the higher-risk customers of the regulated firms.

The regulation of the moneylending industry has been the subject of some discussion in recent years. In 2018, the Social Finance Foundation (SFF) published a University College Cork (UCC)

[1] For the purposes of this paper, the term "moneylender" is to be interpreted as a licensed moneylender as opposed to an unlicensed moneylender, which is an illegal activity.
[2] *Home Collection Borrower Research (2020)* – Amárach Research.
[3] *Meeting the Credit Needs of Low-Income Groups: Credit Unions versus Moneylenders* (2005) – Byrne et al.
[4] *Preventing financial distress by predicting unaffordable consumer credit agreements: An applied framework*. July 2017 Occasional Paper 28, The Financial Conduct Authority.
[5] Unlicensed or Illegal moneylending is the lending of money without a licence issued under the *Consumer Credit Act 1995*. For the purposes of this paper the term "unlicensed" is used as opposed to "illegal".

report on interest rate restrictions for low income borrowers,[6] which proposed the introduction of a cap on interest rates and Sinn Féin introduced the *Consumer Credit (Amendment) Bill 2018*[7] which proposed a maximum statutory cap of 36% APR on the interest rate that moneylenders can charge.

[6] *Interest Rate Restrictions on Credit for Low-Income Borrowers* (2017) – Faherty et al.
[7] The text of the Bill is available at: https://www.oireachtas.ie/en/bills/bill/2018/135/.

2 Review of the Regulatory Framework and the Moneylending Industry

2.1 Regulatory Framework

2.1.1 LICENSING AND AUTHORISATION OF MONEYLENDERS

Moneylenders in Ireland are licensed to operate by the Central Bank under the *Consumer Credit Act 1995* (the CCA). There are currently 35 licensed entities authorised by the Central Bank. Licences must be sought from the Central Bank annually and a range of factors are considered by the Central Bank before granting a licence, including the firm's trading background and the interest rates and fees the firm intends to charge on their loans. It is an offence to commence the provision of moneylending activities until authorisation as a moneylender has been obtained.

Under the CCA, the Central Bank may refuse to grant a licence to a moneylender if, in its opinion, the cost of credit to be charged is excessive or the terms and conditions of loans are unfair. As the CCA does not define "excessive", the Central Bank (which took over responsibility for moneylenders in 2003) has continued to licence moneylenders at the maximum rate as per their last licence issued by the Director of Consumer Affairs, which was the previous licensing authority. So, while Ireland does not have a statutory interest rate cap, it has a *de facto* cap of 188.45% APR (excluding collection charges) and 287.72% APR (including collection charges). In addition, the Central Bank has not licensed any moneylender to provide a "payday" loan service such as exists in other jurisdictions including the UK. This is most likely because the APR on a payday loan would exceed the *de facto* cap enforced by the Central Bank.

When applying for a licence, moneylenders are currently required to register for the District Court areas in which they intend to operate.

Section 2 of the CCA defines a moneylending agreement as:

> *"a credit agreement into which a moneylender enters or offers to enter, with a consumer in which one or more of the following apply:*
>
> *(a) the agreement was concluded away from the business premises of the moneylender or the business premises of the supplier of goods or services under the agreement,*
>
> *(b) any negotiations for, or in relation to the credit were conducted at a place other than the business premises of the moneylender or the business premises of the supplier of goods or services under the agreement,*
>
> *(c) repayments under the agreement will, or may, be paid by the consumer to the moneylender or his representative at any place other than the business premises of the moneylender or the business premises of the supplier of goods or services under the agreement, or*
>
> *(d) where the total cost of credit to the consumer under the agreement is in excess of an APR of 23 per cent., or such other rate as may be prescribed."*

It also outlines which bodies are not considered to be moneylenders and which activities are not encompassed by the definition of a moneylending agreement:

- credit unions,
- friendly societies,
- credit institutions,
- hire purchase agreements with an APR under 23%,
- mortgage lenders.

The CCA outlines the responsibilities of moneylenders in their activities including the observation of a 10 day cooling off period and the provision of a "repayment book" to each borrower.

2.1.2 OTHER OBLIGATIONS

In addition to the legislative requirements of the Act, moneylenders have other obligations under various pieces of legislation.

Central Bank (Supervision and Enforcement) Act (Section 48) (Licenced Moneylenders) Regulations 2020

Moneylenders are required to abide by the *Central Bank (Supervision and Enforcement) Act (Section 48) (Licenced Moneylenders) Regulations 2020* (the Moneylending Regulations).[8] The Moneylending Regulations were published in June 2020 and replaces the *Consumer Protection Code for Licensed Moneylenders* (the Moneylending Code).[9] The purpose of the new Moneylending Regulations is to strengthen protections for consumers of licensed moneylending services and to enhance professional standards in the sector. These Regulations are subject to the Central Bank enforcement proceedings including the administrative sanctions procedures.

European Communities (Consumer Credit Agreements) Regulations 2010

Moneylenders must comply with the *European Communities (Consumer Credit Agreements) Regulations 2010*. These Regulations set out requirements relating to disclosure of information to the customers, the right of withdrawal from a moneylending agreement, the right to repay a loan early, the right to a reduction in the total cost of credit in the event of early repayments and an obligation on the moneylender to assess creditworthiness.

Fitness and Probity Regime under the Central Bank Reform Act 2010

Moneylenders are required to abide by the Fitness and Probity regime as outlined in sections 21 and 23 of the *Central Bank Reform Act 2010*. This requires moneylenders to satisfy themselves that individuals who carry out controlled functions must abide by the Fitness and Probity standards and they must seek Central Bank approval in relation to certain appointments.

Credit Reporting Act 2013

Moneylenders are Credit Information Providers under the *Credit Reporting Act 2013* and are required to submit monthly data on any and all credit agreements of €500 or greater to the Central Credit Register.

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[8] Full text of the regulations are available at: http://www.irishstatutebook.ie/eli/2020/si/196/made/en/pdf.

[9] *Consumer Protection Code for Licensed Moneylenders* (January 2009).

Criminal Justice (Money laundering and Terrorist Financing) Act 2010

Moneylenders must comply with the *Criminal Justice (Money laundering and Terrorist Financing) Act 2010*, as amended by the *Criminal Justice Act 2013*. These include carrying out consumer due diligence exercises, ongoing transaction monitoring and suspicious transaction reporting. In addition, moneylenders are required to have such policies and corporate governance documentation in place as set out in the Act.

Guidelines on Loan Origination and Monitoring

Moneylenders are subject to parts of the European Banking Authority's Guidelines on Loan Origination and Monitoring. The objective of the guidelines is to improve institutions' practices and associated governance arrangements, processes and mechanisms in relation to credit granting and they aim to ensure that the institutions' practices are aligned with consumer protection rules and respect fair treatment of consumers.

2.1.3 LEVIES

All financial service providers are subject to the Central Bank's Industry Funding Levy. Regulations are made by the Central Bank on an annual basis, prescribing how the levies are to be calculated. The current Regulations[10] sets out how the levy is imposed on moneylenders.

A minimum levy of € €1,818 plus a variable levy calculated as follows:

(A — B) * C

Where:

A = total of firm's turnover reported to the Bank in section 6.2 of the most recently received Renewal Application for the entity.

B = threshold level of total 'turnover' of €60,000; and

C = Variable Levy Rate of 1.118%.

The Financial Services and Pensions Ombudsman (FSPO) imposes levies on financial service providers for the purposes of funding its office. An approved moneylender is required to pay a levy, calculated on the basis of a sum no greater than 5.4% of the an industry funding levy, payable Central Bank by the approved moneylender in 2019 or the minimum levy of €375 is payable by each moneylender.[11]

The Competition and Consumer Protection Commission has the power to impose levies on financial service providers for the purposes of funding its personal finance information and education functions. Nine different categories of financial service providers are liable for the levy and the amount levied on each category is dependent on the resources required by the CCPC to perform its functions in respect of that particular category. Moneylenders are currently required to pay an annual levy of €584.[12]

[10] *Central Bank Act 1942 (Section 32D) Regulations 2020.*

[11] As set out in the *Financial Services and Pensions Ombudsman Act 2017 [Financial Services and Pensions Ombudsman Council] Financial Services Industry Levy Regulations 2021.*

[12] As set out in the *Consumer Protection Act 2007 (Competition and Consumer Protection Commission) Levy Regulations, 2021.*

2.2 Market Categories

2.2.1 MARKET CATEGORIES

Moneylender services generally fall within the following categories, with some moneylenders offering services in more than one category.

1. **Cash Loan Firms** – These firms provide cash loans where repayments can be paid remotely or collected at the consumer's home (home collection). Most firms provide the option of home collection but it should be noted that the largest operators in the market do not provide this service. The APRs charged in this category are up to 287% APR (in relation to one moneylending product with a term of 20 weeks including a collection charge) but there are several moneylending products offered at rates in excess of 190% APR, all of which include collection charges. A more usual moneylending product, those with terms of 26 weeks, are offered at rates up to 187% APR (most of these do not have collection charges). Moneylending agreements with a term greater than one year have significantly lower APRs ranging from c.26% APR to 59% APR.
2. **Catalogue Firms** – Goods are sold on credit, usually on the basis of the consumer having a running account. A running account is similar in operation to a credit card account in that borrowers have a credit limit and can charge goods up to that limit. The APRs charged by the larger firms range from just under 40% APR to 52% APR.
3. **Other** – This category comprises of:
    - premium finance firms where credit is provided to consumers to fund insurance premiums, gym membership *etc.* which are operated on the basis of a consumer having a running account;
    - firms where repayments are made directly to the firm remotely; and
    - retail firms involved in the provision of goods on credit with repayments being made by a variety of methods, (*e.g.* cash, direct debit).

    The APRs in this category vary by the products above. A typical APR for premium finance is 60% APR for a 12 month term.

2.2.2 CUSTOMER PROFILE

Amárach Research recently conducted research[13] on borrowers who avail of home collection and found that:

- borrowers are located all across the country,
- borrowers are more likely to be female,
- the majority have dependent children, and
- they are more likely to be renting accommodation.

[13] *Home Collection Borrower Research (2020)* – Amárach Research.

However, the research also found that some of the stereotypes of borrowers need to be challenged, as:

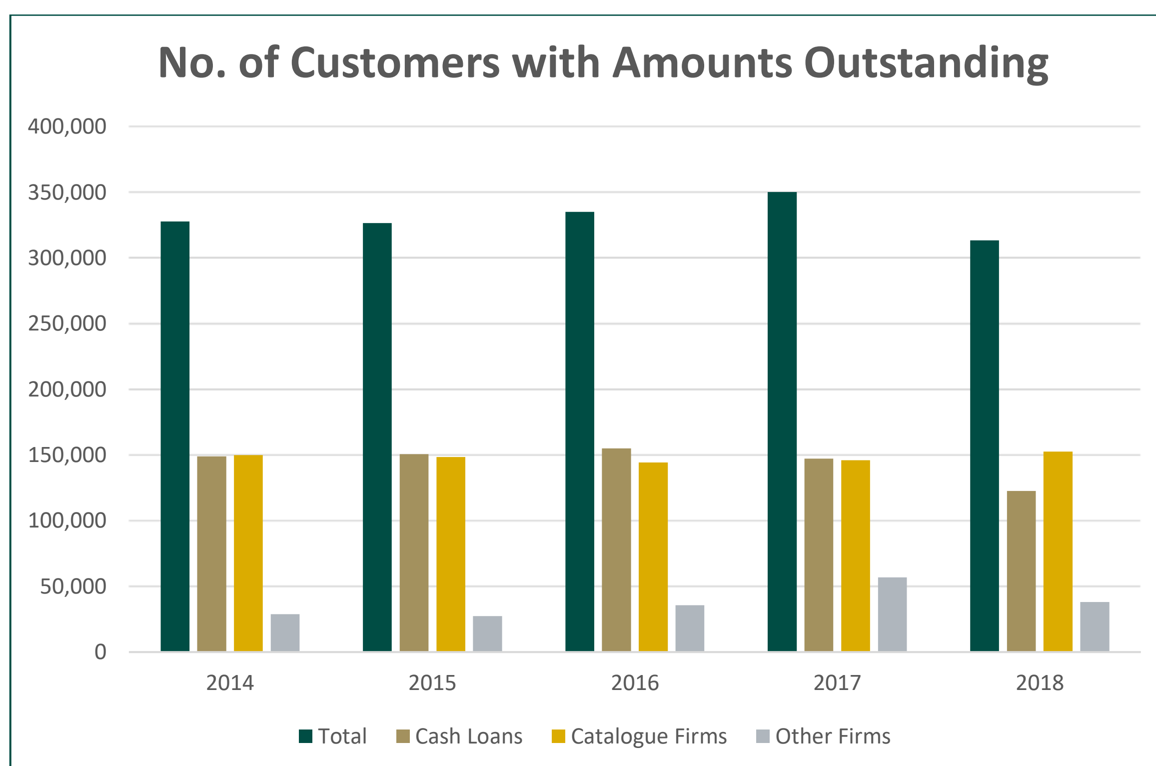
- most are working - only a minority are unemployed,
- most have banking relationships,
- there is a spread across all socio economic groups,
- most borrowers have children – and there is a stronger presence in the 35 to 54 age groups – when children rearing is at its most expensive, and
- most are married or living as married.

These findings are similar to the findings of the research programme undertaken by the Central Bank of Ireland in 2013. [14]

2.2.3 MARKET SIZE

Based on information provided by moneylenders to the Central Bank as part of their annual licence applications, the value of loans advanced in 2018 was circa €240 million (€270 million in 2014).[15]

Figure 1 – Number of Moneylending Customers with amounts outstanding 2014 – 2018



Please note that the above figures are based on information provided by licensed moneylenders as part of their annual licence applications. The figures are based on point-in-time data and dependent on each firm's financial year-end, which in some cases relates to the previous year's lending.

[14] *Report on the Licensed Moneylending Industry* (2013).

[15] Figures have been obtained from the Central Bank directly and the *Moneylending: Review of the Consumer Protection Code for Licensed Moneylenders. Consultation Paper CP118 (2018).*

The Central Bank estimates that there were 313,500 customers with balances outstanding in 2018, with 123,000 in the Cash Loan sector, 152,500 in the Catalogue Firms sector and 38,000 in the "Other" category.[16] This is a decrease from 350,000 customers in 2017, with 147,500 in the Cash Loan sector, 146,000 in the Catalogue Firms sector and 57,000 in 2017 respectively in the "Other" category.

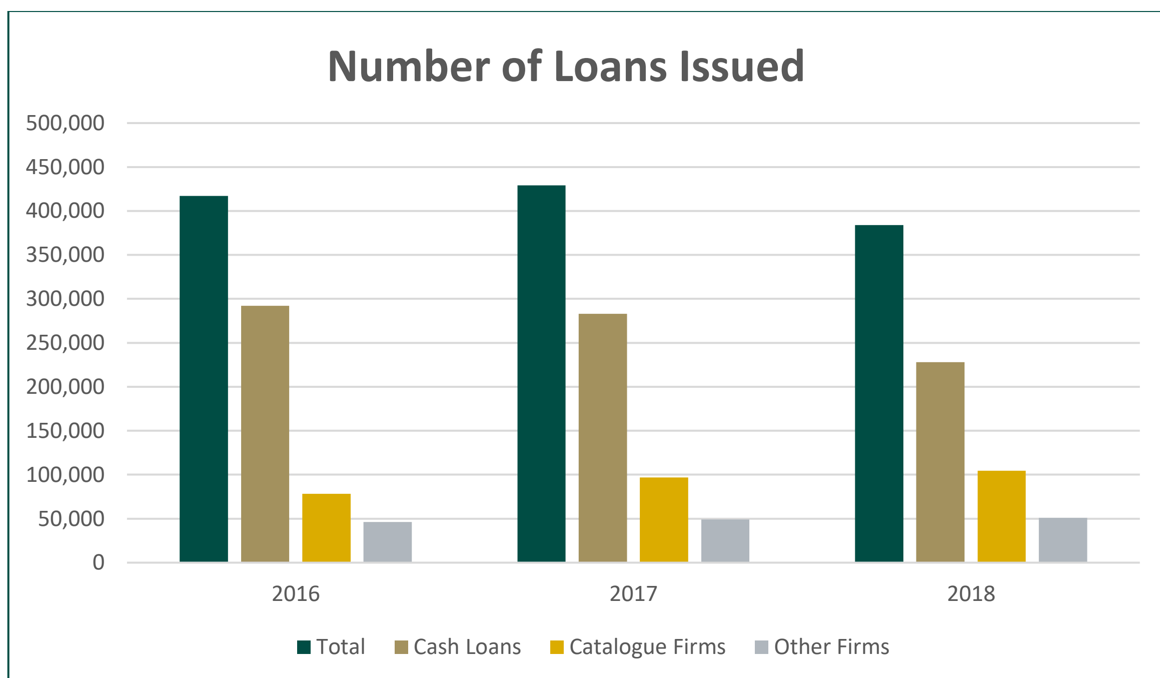
The size of the market tends to fluctuate a great deal:

- in 2005 moneylenders had approximately 300,000 customers,
- by 2013 this figure had increased to 360,000,
- these figures gradually decreased until 2017 where the number of customers increased to 350,000 customers, and
- in 2018 there was another decrease to 313,500 customers.

It should be noted that despite these fluctuations, which in some cases do correspond to general economic conditions, the number of customers has not fallen below 300,000 customers since 2005 regardless of the prevailing market conditions.[17]

While the number of customers using cash loan firms and catalogue firms is broadly similar, Figure 2 below demonstrates, the number of loans advanced in the cash loan sector is much higher.

Figure 2 – Number of Loans issued 2016 – 2018



**Collection of figures for number of loans issued in the period did not commence until the 2016 renewal year*

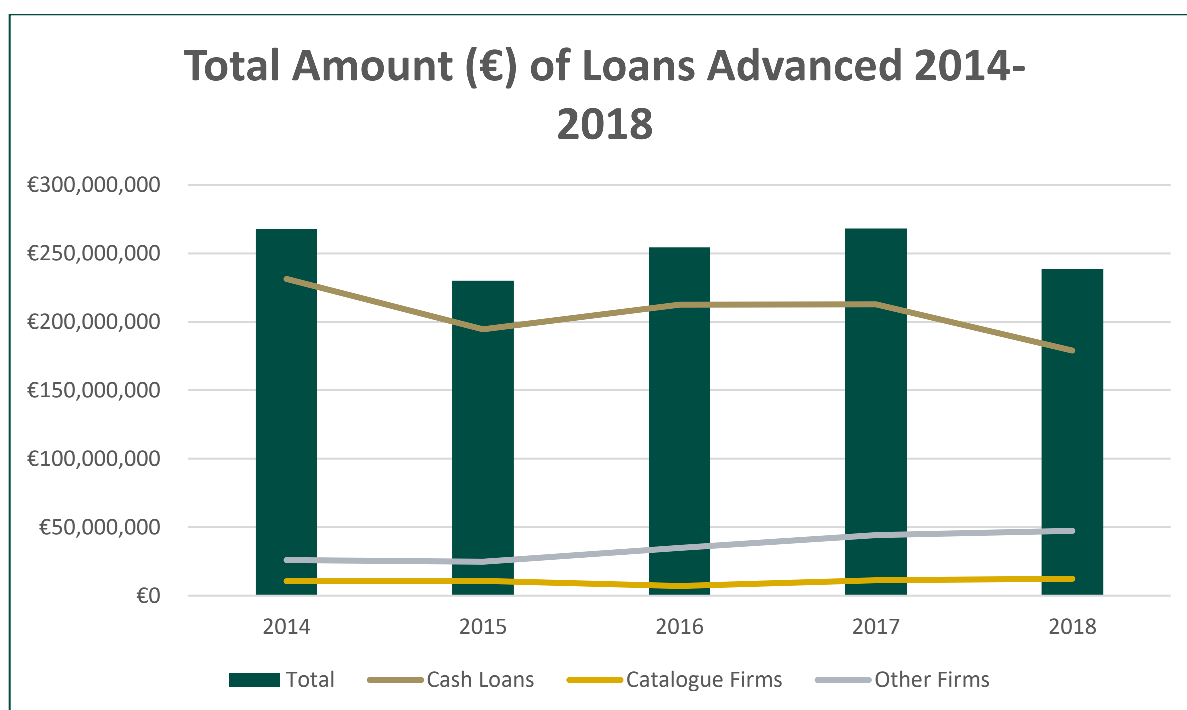
[16] Figures have been obtained from the Central Bank directly and the *Moneylending: Review of the Consumer Protection Code for Licensed Moneylenders. Consultation Paper CP118 (2018).*
[17] *A Report on the Licensed Moneylending Industry* (2007)

2.2.4 MARKET MAKE-UP

There are currently 35 moneylenders licensed by the Central Bank, of which two are licensed for payment collection only. The number of providers is gradually declining.[18] The majority of the moneylenders in the market are small operators with a small number of large providers. The total monetary amount of loans advanced in 2018 was approximately €238 million, compared to approximately €301 million in 2013. Figure 3 below shows the total monetary amount of loans advanced for each year from 2014 to 2018.

The total household stock of credit for consumer lending (excluding mortgages) by Irish resident credit institutions stood at €12.8 billion in July 2018.[19] Irish resident credit institutions comprise of licensed banks, building societies, and credit unions. By comparison, the stock of outstanding credit in the moneylending sector in 2018 would equate to just over 1.1% of that figure.

Figure 3 – Total amount of Loans advanced (in Euros) 2014 – 2018



2.2.5 AVERAGE LOAN

The most frequent loan amounts range from €200 to €500, with the average loan being €622. When the loan data is disaggregated by category, the average loan amount for cash loan sector is €785, for catalogue is €118 and for 'other' is €928 in 2018. Based on Central Bank data for 2017 the range of loan terms was between 10 weeks to 60 weeks with the most frequent loan term being 9 months.

[18] Data from the Central Bank shows that there were 52 moneylenders licensed in 2003, 47 in 2007, 51 in 2008 and 43 in 2013.
[19] *Household Credit Market Report (2018).*

3 Interest Rates and the Cost of Credit

3.1 Annual Percentage Rate (APR) Limitations

The Annual Percentage Rate (APR) is the rate that represents the annual yearly cost of a loan over the full loan term. It includes fees and additional costs that are not captured in the simple interest rate. While APR has benefits in the wider lending market as a comparison tool between loans offered by lenders for the same term, it has significant limitations when used in the short term credit market. Firstly, it is significantly affected by the term of the loan if the term is less than one year. APR may appear to be extremely high on shorter term loans when in fact the actual cost of credit increases the longer a loan term is, as demonstrated by Table 2 below.[20]

Table 1 – Sample Annual Percentage Rates (APRs) and Cost of Credit

Amount of Loan	Term	Total Cost of Credit	APR %
€100	2 week	€5.00	445%
€100	26 weeks	€30.00	187%
€100	52 weeks	€56.00	157.30%

Secondly, looking at loans with the same cost of credit can give dramatically different APR rates over different terms, and can appear particularly high the shorter the term of the loan. Table 3 below demonstrates how APR can fluctuate depending on the term of the loan and also shows if a loan is taken out over the course of 3 years, the APR is not necessarily very high.

Table 2 – Annual Percentage Rate (APR) Fluctuations Depending on the Term of the Loan

Amount of Loan	Term	Total Cost of Credit	APR %
€100	4 weeks	€25.00	11,455%
€100	13 weeks	€25.00	455%
€100	26 weeks	€25.00	144%
€100	52 weeks	€25.00	58%
€100	156 weeks (3 years)	€25.00	17%

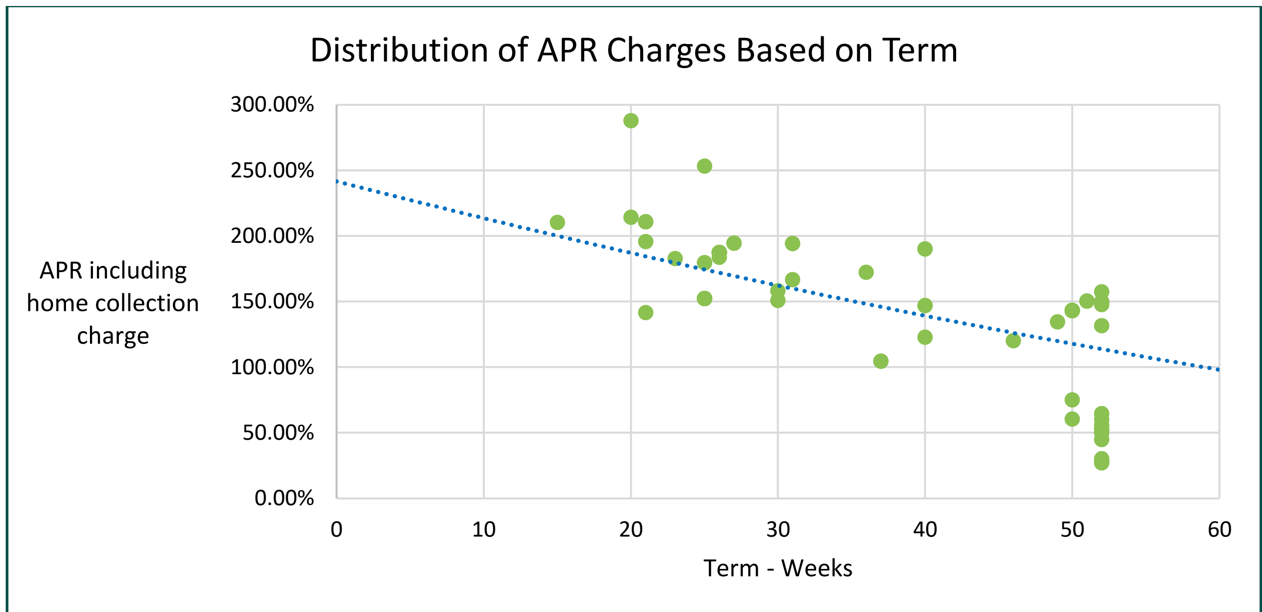
It is worth noting that APR does not include default charges, which, in any case, are not permitted for moneylenders under the CCA. Previous research by the Central Bank found that 25% of customers of moneylenders had experienced difficulty in meeting repayments and of these 79% missed at least one repayment.[21] As a result, the APR reflecting the duration for when the loan is finally repaid may be lower than that originally set out at the outset of the loan. The fluctuations

[20] It should be noted that 2 week moneylender loans or "pay day" loans do not exist in Ireland but have been included to demonstrate the difficulties with APR.

[21] *Report on the Licensed Moneylending Industry* (2013).

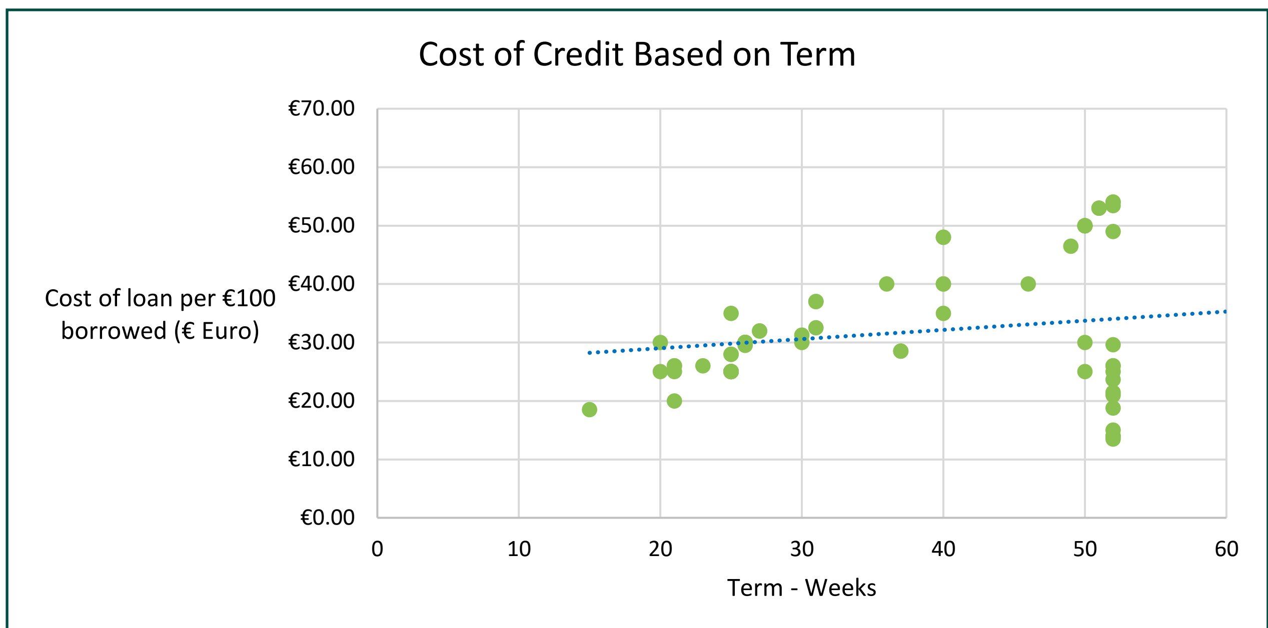
inherent in APR can mean that, if it is used in isolation, it may not be the best method for individuals to compare short-term loans.[22]

Figure 4 – Distribution of Annual Percentage Rate (APR) Charges based on Term



Green dots – Sample loans provided by moneylenders to the Central Bank as part of their annual authorisation process. The blue dotted line is a trend line.

Figure 5 – Changes in Cost of Credit based on Term



Green dots – Sample loans provided by moneylenders to the Central Bank as part of their annual authorisation process. The blue dotted line is a trend line.

[22] *Home Credit Market Investigation - Final Report* - The UK Competition Commission (November 2006).

Based on the loans available in the market (on loans of 1 year or less, per the current licences issued to moneylenders operating in Ireland), Figure 4 above demonstrates that the high levels of APR are concentrated around the shorter term loans. Therefore an APR limit can be mitigated by extending the term of the loan, as shown by the trend line.

In addition, Figure 5 above shows how the actual cost of credit increases as the term of the loan increases, which impacts on the actual affordability of the loan. As a result, introducing an interest rate limit based on APR alone could have potentially negative consequences for borrowers.

3.2 Credit Option Comparisons

3.2.1 CREDIT OPTIONS IN IRELAND

Table 4 below demonstrates the variance between APR and the cost of credit for three different types of credit available in Ireland.

Table 3 – Variances between Annual Percentage Rates (APR) and the Cost of Credit for Different Types of Credit

	Credit Union Loan	Credit Card	Moneylender
Amount	€500	€500	€500
Term	12 months	12 months	52 weeks
Repayment Schedule	Monthly	Monthly	Weekly
Repayment Amount	€44.10	€47.01	€15
APR	10.59%	22.9%	157.3%
Cost of Credit [23]	€29.14	€64.17[24]	€280

- A 10.59% APR is used in the above credit union example as this was the average rate in 2019 for a standard or personal loan.[25] The maximum interest rate which a credit union can currently charge is 12% per annum (or 12.68% APR), however there are proposals to increase this maximum rate to 24%. It should be noted that these are amortising interest rates, *i.e.* the interest is charged on the outstanding balance not the amount original borrowed. If a credit union loan of €500 was borrowed for 1 year at a rate of 24%, the cost of credit would be €67.36, with a repayment of €47.28 per month. The APR would be 26.83%.
- A significant number of credit card providers in Ireland charge 22.9% APR.[26] APR on credit cards also includes Government Stamp Duty of €30 per annum but it is not included for the purposes of the calculation of the figure Table 4.

[23] The cost of credit figures for the credit union and credit card loans are from https://tools.ccpc.ie/LoanCalculator. The cost of credit figures for the moneylender example is from a specified moneylender.
[24] This figure does not include the €30 in Government Stamp Duty that is applied to credit cards per annum.
[25] Information provided to the Department of Finance by the Irish League of Credit Unions.
[26] CCPC Credit Card Comparison Tool - https://www.ccpc.ie/consumers/financial-comparisons/credit-card-comparisons/.

- The Central Bank Moneylender's Register[27] shows that the highest APR charged on a cash loan for a 52 week period is 157.3% excluding home collection charges. In simple interest terms, the rate charged for this product is 56% of the amount borrowed.

A further issue with APR is that, while it enables comparison between different loan products for the same term and amount, it is not easy to work out the actual cost of credit for a loan if all you know is the amount borrowed and the term.

Table 5 below compares the cost of credit following missed repayments on a credit union loan, a moneylender loan and a credit card borrowing of €500 for a 12 month term. When compound interest and late fees are applied, the cost of credit can increase significantly, for instance, in this sample, a late penalty fee of €7.50 per month is applied to the credit card loan.

Moneylenders are prohibited from charging additional fees or compound interest so the cost of credit does not increase as a result of missed payments. However, the final amount payable on a moneylender loan is significantly higher than missing 21 weeks (or 5 months) of payments with either a credit union or a credit card. It should also be borne in mind if someone were to get an overdraft of €500 and breached the overdraft limit and missed repayments, that the total cost of credit would also be significantly higher.

Table 4 – Comparison between the Total Cost of Credit following Missed Repayments

	Credit Union (10.59% APR)		**Credit Card** (22.9% APR)		**Moneylender** (157.3% APR)	
	Additional Cost	**Total Cost of Credit**	**Additional Cost**	**Total Cost of Credit**	**Additional Cost**	**Total Cost of Credit**
Miss 4 weeks /	€2.55	€31.69	€13.21	€76.05	€ -	€ 280.00
Miss 9 weeks	€8.29	€37.43	€27.80	€90.64	€ -	€ 280.00
Miss 13 weeks	€12.91	€42.05	€42.91	€105.75	€ -	€ 280.00
Miss 17 weeks	€17.58	€46.72	€58.81	€121.65	€ -	€ 280.00
Miss 21 weeks	€22.29	€51.43	€75.20	€138.04	€ -	€ 280.00

Comparison of the cost of credit following missed repayments on a credit union loan, a moneylender loan and a credit card, where €500 is borrowed for a 12 month term

[27] *Register of Moneylenders,* Central Bank of Ireland - http://registers.centralbank.ie/DownloadsPage.aspx.

3.2.2 COMPARISON WITH THE UNITED KINGDOM

The home collection method of sub-prime lending is concentrated in the UK and Ireland. Other types of lending *e.g.* asset secured pawn broking are prominent in countries like Belgium, France and Germany, although they differ from Irish and UK pawnbrokers in that they are usually run by the State or municipality.[28]

Table 6 below compares the APR and the cost of credit between an Irish and a UK moneylender; both of which have a significant share of their respective markets. The example used shows that the total cost of credit for a 52 week loan is somewhat lower in Ireland than it is in the UK (56% in Ireland and 87.2% in the UK).

Table 5 – APR and Cost of Credit on Irish and UK Moneylender Loans (52 Week Term)

	Irish Moneylender	UK Moneylender
Amount	€500	£500
Term	52 Weeks	52 Weeks
Repayment Schedule	Weekly (€15)	Weekly (£18)
APR	157.3%	299.3%
Cost of Credit	€280	£436.00
Cost of Credit %	56%	87.2%

Table 7 below compares the APR and the cost of credit between an Irish and a UK moneylender for a 26 Week loan, again the total cost of credit is somewhat lower in Ireland than it is in the UK (30% in Ireland and 56% in the UK).

Table 6 – APR and Cost of Credit on Irish and UK Moneylender Loans (26 Week Term)

	Irish Moneylender	UK Moneylender
Amount	€500	£500
Term	26 Weeks	26 Weeks
Repayment Schedule	Weekly (€25)	Weekly (£30)
APR	187.2 %	535.3%
Cost of Credit	€150.00	£280.00
Cost of Credit %	30%	56%

3.3 International Approaches to Interest Rate Restrictions

The OECD recently conducted research on short-term credit in OECD Member States[29] and the table in Appendix 1 details the methods adopted in selected countries. An examination of this

[28] *Alternative Financial Credit Providers in Europe (2007) - Caroline Corr.*
[29] *Short-Term Consumer Credit: Provision, Regulatory Coverage and Policy Responses* (2019) – OECD.

report illustrates the different approaches taken in respect of the regulation and the restriction of interest rates for moneylending agreements. In some jurisdictions, efforts have been made to reduce the maximum cost of credit that can be charged. These efforts can be in the form of:

- a cap on the maximum interest rate chargeable, on the associated fees, on the APR or on the total cost of credit; or
- prescribing a particular interest rate or APR; or
- prohibiting a higher rate related to the average interest rate of comparable consumer loans.

Within the jurisdictions that report the presence of a cap on cost, interest rate caps are the most common tool. The rationale behind caps is to protect financial consumers, to prevent deceptive and abusive lending practices or to combat anti-competitive behaviour among lenders.

An examination of the interest rate caps present in OECD jurisdictions indicates that the majority of the caps are in excess of the *de facto* rates currently in operation in Ireland.[30] The OECD further concluded that caps on costs of short-term credit are only effective in reducing costs for consumers where they do not exclude the most vulnerable from the formal short-term credit market through reduced supply and/or higher underwriting standards.

Many countries have developed a specific regulatory framework for short-term high-cost credit in the last 10 to 15 years. The OECD report does not address why caps are becoming an increasingly popular policy choice but it could be as a result of the advent of payday loans, concerns about financial literacy and about protecting vulnerable consumers who have limited credit options.

[30] *Short-Term Consumer Credit: Provision, Regulatory Coverage and Policy Responses* (2019) – OECD.

4 Recent Developments in the Moneylending Area

4.1 Central Bank Consultation Paper and Regulations

4.1.1 CENTRAL BANK CONSULTATION ON THE LICENSED MONEYLENDING INDUSTRY

The Central Bank published a Consultation Paper in March 2018,[31] with the objective of strengthening the consumer protection rules in the moneylending sector. The Consultation addressed specific issues that have arisen during the Central Bank's ongoing regulatory oversight of this sector, including the annual licensing process and other supervisory activities.

This consultation resulted in the enactment of the *Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Licensed Moneylenders) Regulations 2020* (the Moneylending Regulations), and replaced the Moneylending Code in its entirety in January 2021.[32]

4.1.2 THE MONEYLENDING REGULATIONS

The Moneylending Regulations enhances the framework of protections for customers of moneylenders, whilst recognising the specific nature of the moneylending sector. It imposes new requirements designed to raise standards in the sector so that firms act in consumers' best interests when marketing and offering credit. They can be summarised as follows:

1. Moneylenders are subject to a number of new requirements and restrictions in relation to the promotion of loans. The Moneylending Regulations increases the regulation of moneylenders' initiation of loan sales particularly at certain pressure points and locations and give greater control to consumers to decide when to be contacted by a moneylender. These requirements include:

    (a) Moneylenders must ensure that their marketing strategy is fair and reasonable, taking into account the particular circumstances of consumers. For example, it is unacceptable to target low income consumers in a way which is not in their best interests;
    (b) Moneylenders are not permitted to make an unsolicited offer to apply for credit to consumers who have recently made full repayment of a moneylending agreement or are nearing full repayment;
    (c) Moneylenders are prevented from undertaking unsolicited contact with existing consumers for the purposes of sales and marketing, without specific consent. Moneylenders are also prohibited from making unsolicited contact with a prospective consumer based on a referral from an existing consumer. Furthermore, contact and communications from a moneylender must be proportionate and not excessive;

[31] *Moneylending: Review of the Consumer Protection Code for Licensed Moneylenders*. Consultation Paper CP118 (2018).
[32] *Consumer Protection Code for Licensed Moneylenders* (January 2009).

(d) Catalogue moneylenders are prevented from providing discounts predicated on availing of credit.

2. Currently, moneylenders who offer loans in excess of 23% APR are required to prominently display a warning of the high cost nature of the credit in pre-contractual information. Moneylenders are now required to include enhanced, prominent, high cost warnings in all advertisements, for such credit, and to prompt consumers to consider alternatives.

3. Moneylenders are now required to provide prescribed information that prompts consumers to consider if a moneylending loan is their best option and, where the loan is required for basic needs, such as accommodation or electricity, signpost consumers to the Money Advice and Budgeting Service (MABS).

4. To enable consumers to proceed on a more informed basis, moneylenders are now required to provide aggregated repayment information to consumers with more than one moneylending agreement with that moneylender.

5. Provisions of the *European Communities (Consumer Credit Agreements) Regulations 2010* now apply to moneylending loan amounts below €200. This will align the requirements applicable to loans under €200 to those that apply to loans above €200.

6. To enhance the professionalism of the sector and to align with existing rules in the *Central Bank's Consumer Protection Code 2012*, moneylenders are now subject to new requirements on training, policies and procedures, engagement with third parties, requirements in relation to vulnerable consumers and earlier signposting to MABS for consumers in arrears.

The Moneylending Regulations came into effect in their entirety on 1 January 2021, with the exception of the 'high-cost warning' which came into effect on 1 September 2020; this was brought forward in light of the financial difficulties people may be experiencing due to COVID-19.

4.1.3 CONSIDERATION OF A DEBT SERVICING RATIO RESTRICTION

The Consultation also proposed introducing a Debt Servicing Ratio Restriction (DSRR), which would limit the amount a moneylender could lend to a consumer, based on a maximum percentage of the consumer's income. After careful consideration, the Central Bank decided not to proceed with the DSRR. The Central Bank is of the view that while a DSRR could be a useful regulatory tool in the right circumstances, this outcome may not always be achieved, in the context of the moneylending sector, by a prescriptive, one-size fits all approach to dealing with potential over-indebtedness.[33]

Notwithstanding the decision not to progress with the DSRR at this time, the Central Bank still has concerns regarding the affordability of loans granted to financially vulnerable consumers. The

[33] *Feedback Statement: Consultation Paper 118 Moneylending Review of the Consumer Protection Code for Licensed Moneylenders* (2020).

Central Bank has set out its expectations in its Moneylending Questions and Answers,[34] in relation to the new requirement that moneylenders must have written lending policies and procedures in place and, particularly, the criteria which moneylenders should apply when considering an application for credit.

4.2 Personal Micro Credit Scheme

4.2.1 PERSONAL MICRO CREDIT SCHEME – BACKGROUND

The Personal Micro Credit (PMC) scheme began as a pilot scheme supported by the Government in November 2015, to ensure that there is access to finance for low income customers. The PMC scheme was designed to provide a credible alternative to moneylenders. The PMC scheme is currently offered in 109 credit unions and 173 sub offices across the country (282 in total).

Loans under the PMC scheme are provided by participating credit unions and are branded as "It Makes Sense" loans.[35] Loans range between €100 and €2,000 with a maximum APR of 12.68%.

In order to qualify for a loan, you must:

- either be a credit union member or join a credit union;
- be in receipt of a social welfare payment; and
- agree to repay the loan through the Household Budget Scheme[36] or by standing order or direct debit if your social welfare payment is paid electronically.

4.2.2 THE TASK FORCE ON HIGH COST CREDIT

The Task Force on High Cost Credit (Task Force) was set up on a non-Governmental basis in 2018 to specifically address two challenges that currently exist with the PMC scheme, they are:

1. How to achieve nationwide availability of the PMC scheme so that relevant consumers have an alternative to licensed moneylenders, and

2. How to encourage consumers to switch from accessing credit via moneylenders to accessing credit via the PMC scheme which includes the niche loan offering of It Makes Sense loans; local credit union specific initiatives and standard lending.

The Task Force is chaired by the Citizens Information Board / MABS, and is made up of representatives from a number of stakeholder bodies, as the subject matter crosses over a number of areas of expertise and responsibilities.[37] Where issues or improvements are identified by the Task Force, it is up to individual stakeholders to address these issues or to make improvements. For example, setting up a PMC loan requires more administration than a standard loan and up until recently resulted in a weekly 25c charge payable to An Post for the loan repayments via the

[34] *Central Bank (Supervision and Enforcement) Act 2013 (Section 48) (Licensed Moneylenders) Regulations 2020 Questions and Answers,* 1st Edition, June 2020.
[35] Further information on the It Makes Sense Loan is available at: https://itmakessenseloan.ie/.
[36] This scheme is administered by the Department of Employment Affairs and Social Protection, where social welfare recipients opt to have up to 25% of their weekly payment deducted at source to pay for local authority rents and utility bills.
[37] These stakeholders include the Citizens Information Board, the Central Bank of Ireland, the Department of Employment Affairs and Social Protection, the Social Finance Foundation, a number of credit union representative bodies, Afanite (who project manage the PMC scheme) and the Department of Finance.

Household Budget Scheme; in order to address ongoing complaints about the transaction charges borne by participating credit unions, the Department of Social Protection introduced a pilot initiative, in January 2020, whereby the Department would pay these charges.

Two pieces of research have been commissioned by the Task Force, both of which the Department of Finance has co-funded with the other stakeholder members.

The first piece of research, *Unlicensed Moneylending in Ireland: Extent, Nature, Legislation and Policy*,[38] focused on the area of unlicensed moneylending.

The principal findings were:

1. There is very little available evidence to suggest that if a moneylender interest rate cap were introduced, that it would lead to widespread migration to unlicensed moneylenders. However, some in more desperate need within certain 'catchment' areas or communities may do so unless enforcement activities, supports and alternatives are more targeted and creative.
2. The CCA as it stands is very robust in relation to unlicensed moneylenders. The authors provide two reasons for this. Firstly, the burden of proof is inverted by placing it on the accused to show that they are not engaged in unlicensed moneylending and this prevents witnesses from having to give evidence against the accused. Secondly, the penalties[39] prescribed by the CCA were intended to act as a deterrent.

Despite this robust legislation, the authors note that there have been very few successful prosecutions brought in relation to unlicensed moneylenders. The authors suggest that intimidation and drug-related debt is often associated with unlicensed moneylending and in such instances the Gardaí may have insufficient evidence to justify an investigation.

The second piece of research, recently completed by Amárach Research,[40] focuses on the borrowers of licensed moneylenders in the home collection sector. Results from this study indicate that borrowers are located all across the country, the majority are female, and have children. The results also suggest that some stereotypes about borrowers in this sector need to be challenged, for example, most are working, have a transactional banking relationship and there is a spread across all socio-economic groups. These findings are similar to the findings of the research programme undertaken by the Central Bank of Ireland in 2013.[41]

[38] *Unlicensed Moneylending in Ireland: Extent, Nature, Legislation and Policy* (2019) – Stamp et al.
[39] S. 13(1) of the *Consumer Credit Act 1995* provides that a person found guilty of an offence shall be liable to a fine not exceeding € 3,000 or imprisonment for a term not exceeding 12 months or both (on summary conviction), or to a fine not exceeding € 100,000 or imprisonment for a term not exceeding 5 years or both (on conviction on indictment).
[40] *Home Collection Borrower Research (2020)* – Amárach Research.
[41] *Report on the Licensed Moneylending Industry* (2013).

5 Public Consultation, Policy Options and Recommendations

The Department of Finance launched a public consultation[42] in May 2019 to gather views from stakeholders on whether the Government should introduce a statutory interest rate cap on moneylenders in Ireland. In particular, the consultation process sought views on whether the introduction of a cap would have a negative effect on the supply of credit and might lead to an increase in unlicensed moneylending or to financial exclusion for consumers of these regulated firms. Views were also sought on other matters related to the regulation of moneylenders including, home collection charges and practices, maximum repayment amounts, the registration and licensing of moneylenders, digitalisation, advertising by moneylenders and terminology. The consultation posed a number of questions relating to the moneylending industry which are set out in Appendix 2. Consultees were also given the opportunity to provide any additional comments or observations that they thought would be of benefit.

The consultation ran from 31 May to 31 July 2019.

The consultation received a total of 25 replies, of which two were from individuals, ten were from licenced moneylenders including their representative body, seven were from credit unions and representative bodies in that sector and six were from other categories of respondents including NGOs. A full list of the entities that provided responses to the public consultation and the questions posed is set out in Appendix 3.

This section sets out the different policy options in respect of the different questions and makes recommendations in respect of same.

5.1 Introduce an Interest Rate Cap

5.1.1 INTRODUCING INTEREST RATE CAPS – RESPONSES

14 submissions **were in favour** of introducing a cap on interest rates for moneylenders with four of these suggesting that the cap should be brought in as soon as possible. These submissions were received from credit unions and NGOs.

These submissions noted that introduction of an interest rate cap would:

- Offer protection to vulnerable consumers from low income households who avail of the services of licenced moneylenders. A number of submissions also note that access to short-term credit is essential for these low income households.
- Reduce the cost incurred by those consumers in need of short-term credit and reduce the number of consumers in default.
- Align Ireland with other European countries (21 out of 28 EU countries have an interest rate cap on short-term credit).

[42] *Public Consultation on Capping the cost of Licensed Moneylenders and other Regulatory Matters* (May 2019).

Some of the submissions in favour of introducing an interest rate cap on licenced moneylenders suggested that the credit union's current interest rate cap of 1% per month should be increased to 2%. This would enable the credit unions to deal with any additional demand for credit that may arise from the introduction of an interest rate cap.

Only six respondents suggested a particular figure as a cap; either an interest rate varying between 2% and 3% per month or an APR varying between 24% and 36%.

13 of the submissions provided suggestions for an interest rate cap model:

- Eight were in favour of a fixed or relative (to a reference rate) APR cap,
- Two were in favour of a fixed or relative (to a reference rate) nominal interest rate cap,
- One was in favour of a nominal interest rate cap that vary by the term of the loan and/or the value of the loan, and
- Two made alternative suggestions which included -
    - providing a total cost of credit set out as a "%-rate-per-week" so that customers could easily compare one lender to another, and
    - the fixing of maximum moneylending rates should be linked to a multiple of the retail rate or the retail rate plus a maximum amount.

Six submissions **were against** the introduction of a cap on interest rates for moneylenders.

These submissions were received from the moneylending sector and noted that the introduction of an APR cap would most likely:

- lead to a reduction of licenced moneylenders in the market, and
- would cause consumers in need of credit to turn to unlicensed moneylenders.

The general consensus among licenced moneylenders was that the credit unions would not be able to meet consumers demand for short-term credit if a cap is introduced and licenced moneylenders would leave the market.

5.1.2 INTEREST RATE CAPS – DEPARTMENTAL ANALYSIS

Three issues were analysed in the context of introducing an interest rate cap, namely:

1. the justification for an interest rate cap,
2. the ineffectiveness of interest rate caps based on APR, and
3. the risk of migration to unlicensed moneylenders.

These are discussed in turn below.

1. The Justification for an Interest Rate Cap

As noted already, Ireland already has a *de facto* interest rate cap of 188% APR (287.72% when collection charges are included). Aside from collection charges, moneylenders are prohibited from applying any additional charges in the event of a default in the payments due under the agreement, *i.e.*, the total amount repayable by a consumer is limited to the amount specified in the moneylending agreement (the only exception being the awarding of legal costs by a court of law).

This means that the ultimate cost of credit for moneylender loans in Ireland is not necessarily more expensive than it is in other jurisdictions, particularly when fees and charges are taken into account.[43] Appendix 1 provides further information on the interest rates for short-term credit that exists in other OECD countries.

Based on the Department of Finance public consultation and the UCC Report published by the Social Finance Foundation,[44] there is strong support, with the exception of licensed moneylenders, for the introduction of a statutory interest rate cap to reduce the interest rates borne by the vulnerable customers of moneylenders.

The introduction of an interest rate cap carries the risk of adverse economic effects if the chosen statutory cap impacts on supply. Operators in the micro-credit industry, including moneylenders, are dealing with the issue of adverse selection *i.e.* those that are most likely to seek their services are those who have poor credit history and limited or no access to alternative forms of credit or who have exhausted their access to credit, including banks, credit cards and/or credit unions. This means that they carry a higher risk of missed payments or default which gives rise to the high interest rates currently being charged. If the interest income for moneylenders is reduced too much and too quickly, then some moneylenders may cease operating and supply could be reduced. The moneylenders that remain would be likely to reduce their credit risk appetite leaving a portion of their existing customer with reduced access to regulated credit.

2. *The Ineffectiveness of Interest Rate Caps based on APR for terms less than one year*

As discussed in Section 3, our analysis is that the introduction of an interest rate limit based on APR would be an ineffective method of regulating the short term credit market, particularly where loan terms are less than one year. APR is significantly affected by varying loan durations and is open to mitigation by extending the term of the loan which would potentially further exacerbate the continuous lending cycle many borrowers are currently experiencing.

In addition, due to the levels of missed payments experienced in the short-term credit market, coupled with the fact that Irish moneylenders are not entitled to charge default or late payment fees, the true APR of a loan is frequently lower than the originally listed rate. For example, if you were to borrow €500 for a six month term and repay €650, the APR would be 187.22%; but if you missed a number of repayments and the same loan is paid back over seven months the APR would be approximately 145%. Basing a cap on APR could also lead to moneylenders offering loans with a long repayment term to artificially reduce the APR in order to comply with a statutory cap at the potential cost of borrowers borrowing larger amounts and paying a higher cost of credit.

3. *The Risk of Migration to Unlicensed Moneylenders*

There is very little data available about the potential migration of customers from moneylenders to unlicensed moneylenders. This makes it is difficult to assess the likelihood of customers migrating

[43] *Short-Term Consumer Credit: Provision, Regulatory Coverage and Policy Responses* (2019) – OECD.
[44] *Interest Rate Restrictions on Credit for Low-Income Borrowers* (2017) – Faherty et al.

to unlicensed moneylenders if a cap is introduced that reduces or removes the supply of credit from licensed moneylenders. Citizens Advice in the UK, noted that *"only a small number (6%) indicated that borrowers were turning to illegal lending or unauthorised credit"* in its response to an FCA request for input on the impacts of the introduction of a stricter regulations on pay day loans.[45] If the same level of migration were to occur in Ireland, this could potentially lead to almost 7,400 customers of cash loan firms migrating to unlicensed moneylenders (based on 2018 figures). This is consistent with research recently conducted by Dr. Stuart Stamp and Paul Joyce, which found, based on the available evidence that it is unlikely most customers would migrate to unlicensed moneylenders. However, the research also found that some in more desperate need within certain 'catchment' areas or communities could be at risk of migrating to unlicensed moneylenders.[46]

Conclusion

The existing interest rates charged by moneylenders are very high and, as they cannot be altered under the existing regime, a statutory interest rate cap mechanism should be introduced. However, care must be taken to mitigate against the potential impact on supply arising from the introduction of such a cap. A further concern is that introducing an interest rate cap could lead to moneylenders regarding the cap as a minimum interest rate target. In other words, moneylenders, whose existing individual maximum interest rates under the current regime are below the proposed cap, might seek to migrate to the cap.

An interest rate cap based only on APR is not considered the best approach, particularly for loans with a duration of one year or less. Instead, a two pronged approach is being recommended for cash loans, with a duration of up to one year, which would limit the interest rate to a certain limit per week along with an annual interest cap. Using a simple interest arrangement for the interest rate caps will simplify the product and enhance transparency. Borrowers will be able to easily evaluate whether the interest they are being asked to pay for a loan is in excess of the statutory weekly or annual caps. An alternative approach is being recommended for loans provided on a running account basis, whereby a nominal interest rate would be applied to the outstanding balance on a monthly basis. Moneylenders will still be required to quote the relevant APR when providing loans.

It is also proposed that the caps introduced by legislation could be amended in the future by regulation, taking account of appropriate factors and impacts. These could include:

- the viability of the moneylender sector;
- the potential impact on supply of a change;
- the evolution of average interest rates; and
- the potential impact on financial exclusion.

This approach means that the initial statutory caps would only be the start of the process. Further reductions could be made in these caps, if justified taking account of the factors outlined above.

[45] *FCA High-Cost Credit Call for Input*, Citizens Advice Response (2017).
[46] *Unlicensed Moneylending in Ireland: Extent, Nature, Legislation and Policy* (2019) – Stamp et al.

The details of both of the different interest rate approaches are outlined below.

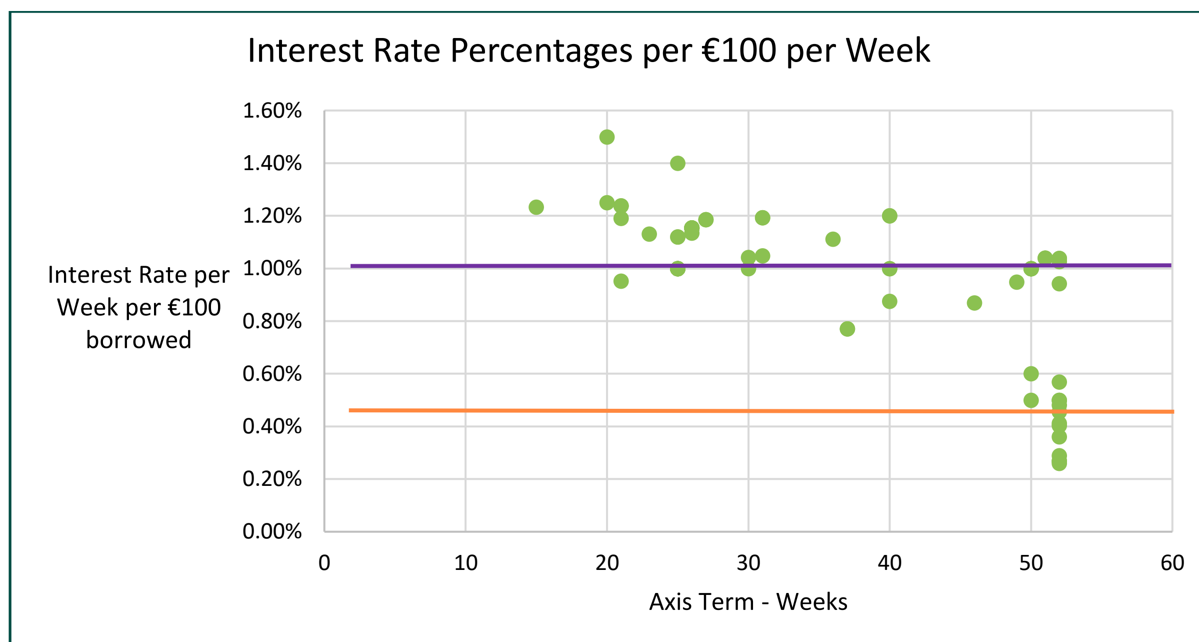
1. *Cash Loans*

Introducing two caps for cash loans means that there would be two tools available going forward. Both could be changed at the same time or independently, e.g. the total cost of credit could be reduced without changing the weekly interest rate cap, if this was justified by the prevailing conditions.

- ***Limiting the Weekly Interest Rate on Cash Loans***

Firstly, there is little point in introducing a new statutory cap if it does not provide some benefit to the majority of customers. This is subject to the proviso outlined above that such a benefit would only accrue if moneylenders remained viable and access to credit was not reduced to any significant extent. Our analysis of permitted sample loans as set out in the licences of moneylenders issued by the Central Bank is that many of the six month loans are advanced at a simple interest rate of 30% (excluding collection charge, if one is applicable). In simple terms, a loan of €500 generates a repayment cost of €650. This equates to applying a simple interest rate to the amount borrowed of 1.15% per week of loan term. This appears to hold true for many of the sample loans over different periods.

Figure 6 – Weekly Interest Rate Percentages of €100 Loans



Green dots – weekly interest rate of available loans of €100.
Purple line – where the moneylending industry would sit if an interest rate limit of 1% per week were imposed.
Orange line – where the moneylending industry would sit if the proposed credit union limit of 24% per annum were introduced.

Figure 6 above demonstrates that there is currently a concentration of loan offerings at 1-1.2% per week. An initial interest rate cap of 1% per week would allow moneylenders operating at rates above the limit to revise their business model and reduce their margins to enable them to operate within the legislative cap. This would be a preferable initial step rather than creating a limit where

their business may no longer be viable, which could result in reduced access to credit for many borrowers as well as significantly distorting the market. This limit is broadly in line with the limits established in a number of OECD jurisdictions.[47]

The purple line indicates where the moneylending industry would sit if an interest rate limit of 1% per week were imposed. The orange line indicates where the proposed credit union limit of 24% per annum would fall. As it is currently below the majority of market offerings, the credit union will continue to be a viable alternative and the potential exists for users of moneylenders to migrate towards more traditional forms of credit.

- ***Limiting the Annual Interest Rate on Cash Loans***

In addition to limiting the weekly interest rate to 1% per week, it is proposed to cap the annual interest rate as well. In APR terms, this cap equates to c.152% APR. The choice of an annual interest rate cap needs to take into account the possibility of using it separately from the weekly interest rate cap. This intention is best signalled by selecting a total cost of credit cap to apply annually that is less than the 52% you get from multiplying 52 weeks by 1%. Accordingly, a simple interest cap of 48% is proposed for loans up to one year. This equates to a 4% cap per month which is in line with other OECD jurisdictions such Singapore and Australia, although it should be noted that both these countries also allow administration fees and default charges. In APR terms, a cap of 48% in simple interest terms on a 52 week loan equates to c.129% APR.

The proposed caps are higher than a number of other European jurisdictions, however, the prohibition on any additional charges as a result of default on a moneylending agreement will remain in place, which is not the case in other European countries.[48] An examination of sample loan interest rates in the moneylending licences issued by the Central Bank shows that there are only 14 sample loans with a term near to or at one year where the simple interest rate is above 48%. This suggests that imposing this rate should not have a major impact on credit supply from moneylenders.

Combining weekly and annual interest rate caps provides two tools to reduce the cost of interest for borrowers. The annual cap could be reduced without impacting on the weekly cap. If the weekly cap is reduced in the future, then it would be advisable to reduce the annual cap on a pro-rata basis to keep it below the sum arrived at if the weekly cap were to be multiplied by 52.

If the 48% cap is reduced in the future, there is a danger that moneylenders might reduce the terms of moneylending agreements to match. So at 48%, loans could have a maximum term of 48 weeks and at 36%, 36 weeks. Were this to be the case, consideration would have to be given to addressing this unintended consequence.

With regard to moneylending agreements in excess of one year, the level of interest being charged, though still very high compared to normal consumer loans or credit cards, is lower than loans of a year or less and interest caps that are suitable for the less than one year segment would be higher

[47] These OECD jurisdictions include the United Kingdom, Lithuania, Slovakia, South Africa, Singapore, Japan and Chile. Further information on these limits are set out in Appendix 1.
[48] Limits are set out in Appendix 1.

than the levels currently being charged. In other words, it would be possible in theory to significantly raise the interest rates for moneylending agreements with a duration of one year and still comply with the interest rate caps being recommended below. This then raises two potential options:

1. Introduce a separate interest rate cap for loans over one year in duration; or
2. Remove the possibility of having high interest loans in excess of one year by introducing a term cap of one year.

Introducing a separate cap for loans in excess of a year would introduce complexity into the system. There is a strong argument for banning high cost moneylender loans of more than a year's duration because a key rationale of high cost borrowing is that such borrowing is necessary because of short-term circumstances and there may not be an alternative source of borrowing available. This rationale holds less water when the borrowing is for a relatively large amount and over a longer period. As highlighted earlier, lower APRs do not necessarily mean cheaper credit. So the lower APRs quoted for loans with a term over one year do not mean that the cost of credit is lower, in fact, the cost of credit for any loan increases with the length of the term.

2. *Interest Rate Limits for Running Accounts offered by Catalogue and Premium Finance Companies*

Some moneylender loans in excess of one year are provided by catalogue companies and premium finance companies on the basis of having a running account. Applying a simple interest rate cap and a 12 month term limit to these type of loans may not be feasible because running accounts operate like credit card accounts. Each borrower has a credit limit and can buy goods up to that limit. If they have capacity below the limit, because the outstanding balance has been reduced, they can purchase additional goods. In effect, each purchase is like a new loan. Trying to track and apply term limits and simple interest rate caps to each purchase that ends up in a single outstanding balance on an account is unlikely to work.

The catalogue and premium financing firms account for well over half of the moneylending sector, so if a 12 month term limit was imposed on these type of firms this could be difficult to implement operationally which could lead to many being excluded from being able to avail of these type of loans. This would be an undesirable outcome as it could lead to financial exclusion particularly when catalogue and premium financing firms tend to charge lower APRs than the cash loan operators (c.50-60% APR). In this instance a nominal interest rate could be applied as the account balance could regularly go up and down and applying a simple interest onto each item could be difficult to apply.

A target of 40% APR seems suitable for running accounts as this represents the cheapest rate of APR that catalogues operate at currently. 40% APR equates to an annual nominal interest rate of 34%, which equates to 2.83% per month on the outstanding monthly balance in a running account. In simple interest terms, this equates to 19.33% for a single loan paid back over 12 months, or 39.65% APR.

5.1.3 INTEREST RATE CAPS – RECOMMENDATIONS

Accordingly, it is recommended that a simple interest rate restriction be applied to cash loans at a rate of 1% per week up to a maximum of 48% per annum on the amount borrowed. With regard to catalogue and premium finance loans, it is recommended to introduce a nominal interest rate of 2.83% per month on the outstanding balance in an account. Cash loan terms will be limited to a maximum term of one year, but no such limitation will apply to catalogue and premium finance loans.

It should also be provided that these interest rate caps can be varied in the future by regulation, if circumstances and consideration of the factors outlined above warrant it. It is further recommended that such regulations should be made by the Minister for Finance, on the basis of a report prepared by the Central Bank that evaluates the potential impact of a reduction in the caps taking account of the factors outlined above (*i.e.* viability, supply, average interest rates, financial exclusion, etc.). The Central Bank will be required to prepare a report within two years of the interest rate caps coming into operation. This report should assess the impact of the caps and the prohibition of lending beyond one year.

An interest rate cap at the recommended limit will give the moneylending industry time to review their business practices and identify areas in which operational efficiencies can be achieved. It would also allow time for the Central Bank to monitor the impact of the cap, to check that loan terms and amounts are not being manipulated in order for caps to be met and advise the Department of Finance of its findings.

While the Central Bank has access to a great deal of information provided by moneylenders under the annual licensing process, the structure of this information does not lend itself to covering all the analysis outlined above which will be necessary going forward. Accordingly, the issue of data acquisition and the use of such data, including the publication of aggregate statistics and data, by the Central Bank will need to be reviewed in the context of drafting legislation to implement the proposed recommendations.

With regard to cash loans in excess of one year, the recommendation is that these should be banned as high cost credit for such terms is not appropriate or justifiable. Catalogue and premium finance companies are to be excluded from this limitation as they operate on the basis of a running account and it would not be feasible to impose a 12 month term limit as it could lead to a significant cohort not being able to access these type of loans.

5.2 Home Collection Practices

5.2.1 HOME COLLECTION PRACTICES – RESPONSES

The majority of submissions stated that the prohibition on charges other than collection charges should remain.

A number of submissions have also noted that:

- The home collection service offered by licenced moneylenders can be appealing to customers due to the convenience it offers.
- If a cap on interest rates is introduced, that a statutory maximum home collection charge would also need to be introduced. This would prevent moneylenders recouping any revenue lost due to the introduction of a cap by other means such as through increased collection charges.

A small number of submissions suggested that collection charges should be abolished entirely. These submissions highlighted that by allowing moneylenders to pass on their labour costs to the consumer, there is no incentive for them to modernise their operations.

5.2.2 HOME COLLECTION PRACTICES – DEPARTMENTAL ANALYSIS

Not all moneylenders that offer home collection charge for the service but those that do charge a specified amount for every €1 borrowed, with the highest currently authorised charge standing at 14 cent per €1 borrowed. Moneylenders are in favour of retaining the home collection model because it reduces the occurrence of missed repayments and bad debts. Some consumers like the convenience of home collection based on previous Central Bank reports.

However, a flat rate charge means that someone borrowing a larger sum than someone else is paying more even if the term of the loan is same and the collection costs incurred by the moneylender are the same.

There is a risk that if interest rate caps are introduced that moneylenders could try to recoup any of loss of revenue via alternative means, such as home collection charges. Thus, it may be prudent to consider changing the home collection model either by introducing a cap on the maximum home collection charge or abolishing the charges in their entirety with a continued prohibition on any additional charges *e.g.* default fees or administration charges. Both options are set out below.

- ***Capping Home Collection Charges***

In order to cap home collection charges, a two pronged approach may be worth examining whereby home collection charges would be limited to a certain limit per €1 borrowed, with a maximum cap of €50 on the total home collection charge. Such caps would be introduced by legislation and could be amended in the future by regulation, taking account of appropriate factors and impacts.

As with the proposal on interest rate caps, the initial statutory caps on collection charges would only be the start of the process. Further reductions could be made to these caps, if justified, taking account of the factors outlined above. Introducing two caps means that there would be two tools available to regulate home collection charges going forward. Both could be changed at the same time or independently, *e.g.* the maximum home collection charge could be reduced without changing the cap on every euro borrowed, if this was justified by the prevailing conditions.

An examination of the data from the Central Bank's Public Register of Moneylenders,[49] provided to the Central Bank by different moneylenders as part of their annual authorisation process, shows

[49] *Register of Moneylenders,* Central Bank of Ireland - http://registers.centralbank.ie/DownloadsPage.aspx

that the most common home collection charge for those authorised to charge for home collection is €0.10 per €1 borrowed. However, it should be noted that a significant number of moneylenders do not charge a collection charge at all, including the two largest operators who are not authorised to charge collection charges.

The costs associated with home collection are independent of the value of the repayment being collected. The number of home collection visits remains the same whether the loan amount is €500 or €1000 if it is paid back over the same time period.

The most frequent loan amounts range from €200 to €500, with the average loan amount being €622. Setting the initial statutory cap on the total home collection charge to €50 should see a reduction in the cost of home collection charge without having a negative impact on the market. Once introduced the impact of the €50 cap can be analysed and the cap can be amended as necessary.

This proposed approach is not without its disadvantages however. As discussed in section 3, APR is a useful comparison tool for loans of the same amount offered by lenders for the same term, but APR has inherent problems when it comes to shorter-term loans. The APR impact of any flat rate charge on shorter term loans, particularly below 26 weeks, is excessive and in some instances is above the *de facto* APR cap that is currently in place.

For example, the total cost of credit for a €500 loan with an interest rate restriction of 1.0% per week with an upper cap on the total cost of credit of 48% would result in total repayments of €540, €565 and €630 for repayment periods of 8, 13 and 26 weeks respectively. The APRs for these loans range from 145% - 153%. If the collection change is capped at 10c per €1 borrowed the total cost of credit would increase to €590, €615 and €680 for repayment periods of 8, 13 and 26 weeks respectively and the APRs would be about 607%, 388% and 247%. The first two are above the existing *de facto* cap.

- ***Abolishing Home Collection Charges in their entirety***

Abolishing collection charges in their entirety is another option worth exploring. It should be noted that a number of moneylenders, particularly the larger firms, do not charge any home collection charges at all. In addition, some moneylenders may be tempted to increase or introduce charges in order to recoup any revenue lost due to the introduction of a cap on interest rates.

The outbreak of the COVID-19 pandemic has led to dramatic changes in our daily lives in a very short period of time. Social distancing requirements necessitated by the initial lockdown under COVID-19 has demonstrated that moneylenders can put alternative collection models in place if the need arises. A number of firms introduced some form of remote collection during the lockdown in the second quarter of 2020. Many firms may have had to invest in technology to facilitate remote collection but these are one-off capital costs that once introduced shouldn't require too much additional expenditure.

Abolishing home collection charges has many advantages including:

- A reduction in costs for borrowers; and
- Simplifying loan products as a single maximum total cost of credit can be applied to each loan based solely on the proposed interest rate caps.

It should be noted that this option does not abolish the practice of home collection, merely the right to charge separately for it. Moneylenders choosing to continue the practice will have to accommodate the overheads associated with it in their revenue model, which can only consist of interest.

5.2.3 HOME COLLECTION PRACTICES – RECOMMENDATIONS

Although introducing a cap on home collection charges would be beneficial to consumers, it would be preferable, much simpler and transparent if no collection charges existed at all. The COVID-19 pandemic has shown that moneylenders can implement remote payment systems and move away from an anachronistic form of collecting loan repayments, if necessary. Therefore, in light of these recent developments in the industry, the abolishment of home collection charges is recommended. The existing prohibitions on all other charges should continue and this change should encourage the digitalisation of the industry, which could lead to the home collection model being naturally replaced by remote or online repayment models.[50]

Consideration should be given to allowing a sufficient lead-in time for the sector before home collection charges are abolished so that moneylenders who are still reliant on the home collection model, are given time to implement new repayment systems and processes.

5.3 Digitalisation

5.3.1 DIGITALISATION – RESPONSES

The majority of submissions are in favour of giving customers of licenced moneylenders the option to receive a digital record of their transactions instead of a hard copy.

5.3.2 DIGITALISATION – DEPARTMENTAL ANALYSIS

The increasing digitalisation of the moneylending market can be seen in the increasing numbers of consumers migrating to online and direct debit repayments. However, section 100 of the CCA states:

> "*A moneylender shall, in respect of every moneylending agreement, supply to the borrower a book or document ("repayment book") in which to record repayments made under the agreement which shall be completed and maintained by the moneylender.*"

In practice, some moneylenders issue loan statements which sets out the same information.[51]

[50] Digitalisation is discussed in more detail in Section 5.3 below.
[51] https://www.citizensinformation.ie/en/money_and_tax/personal_finance/loans_and_credit/moneylending_in_ireland.html.

In order to encourage the modernisation of an industry which has some very traditional tendencies, section 100 could be amended to include that an online version of the book should also be made available to customers. The benefit of the option would be that consumers would have easy access to up-to-date information on their loan.

Customers currently have the option of avoiding home collection charges by paying at the provider's office. However, this may not be convenient for some. As an alternative, moneylenders could also be required to proactively offer remote payment options, either by phone or online with the option to pay with a debit card or a credit card. The option to pay by Standing Order should also be offered. Abolishing home collection charges, as recommended above, would incentivise moneylenders to move to cheaper remote payment collection methods. For borrowers who may not have a bank account, a basic bank account is available, free of charge, to a person who does not hold a bank account in the Republic of Ireland. All of the main Irish banks provide a basic bank account.[52] As discussed in Section 5.2.2 above, the challenges of COVID-19 has shown that many moneylenders have the facility to put remote collection arrangements in place to ensure that repayments are collected whilst adhering to social distancing requirements.

A potential challenge arising from this option would be the ability of smaller moneylending firms to establish an online system. However, by *encouraging* rather than *requiring* moneylenders to offer remote payment options, this should give moneylenders the opportunity to set up online systems over time.

5.3.3 DIGITALISATION – RECOMMENDATIONS

The requirement to maintain a repayment book should be amended to include the option of maintaining an online version of a repayment book.

5.4 Moneylenders Licensing

5.4.1 LICENSING – RESPONSES

A number of submissions received from moneylenders, NGOs and credit unions noted that having to stipulate what District Court area you intend on operating in as part of the moneylender application process is no longer suitable. Some suggested that when a licence is granted to a moneylender, they should be licensed to operate countrywide and not just in certain districts.

5.4.2 LICENSING – DEPARTMENTAL ANALYSIS

District Court Licensing

Under section 93 of the CCA, moneylenders are currently required to register for District Court areas in which they can operate. They do this by indicating the relevant areas on their application forms.

[52] Further information is available at: https://www.citizensinformation.ie/en/money_and_tax/personal_finance/banking/standard_bank_account.html.

This requirement can be traced back to section 5 of the *Moneylenders Act 1933*, where a certificate had to be obtained from the District Court in each area where a moneylender operated. The Gardaí and/or the residents in that District Court area had a right to object to the issuing of a licence in the area. Objections could be made on the basis that the applicant held other types of licences or if there were questions over the applicant's character or suitability to hold a licence. This certificate is no longer required but as each applicant has to publish a newspaper ad, this would give interested parties a similar opportunity to make an objection to the Central Bank.

A large proportion of moneylenders operate in all districts, at present, there are only nine moneylenders out of a total 35 that are not registered to operate in all districts.[53] Thus, this method of licensing has become largely unnecessary and outdated. By amending the legislation to remove this requirement, and instead licence on a State wide basis as part of the licensing application, the administrative burden on both the moneylender and on the Central Bank will be reduced.

Licensing Periods

Moneylenders are required to apply for their licence renewals annually. This is a unique situation which is not required for any other category of financial services provider. Usually financial services providers undergo a comprehensive application process for authorisation. They then have to satisfy the Central Bank's supervisory processes on an ongoing basis including the fulfilment of reporting obligations.

While moving to the regime that applies to all other categories of financial provider, *i.e.* an unlimited licensing period, would appear to be a major jump, a five year licensing period seems a reasonable initial approach as it means that the moneylending industry will no longer be the only financial services provider that has to apply for a licence annually. It also means that there will be reduction in the administrative costs for both the licensed moneylending firms and the Central Bank, and there is the potential to free up Central Bank staff to work on supervisory and other inspection activities to assess and ensure compliance with all relevant legislative and regulatory requirements, which would more likely to lead to better consumer outcomes.

There is a risk, however, that the longer licensing term could lead to non-compliance by some moneylenders; moneylenders that breach their authorisation requirements during this period will still be subject to Central Bank enforcement which can include suspension or loss of their licence.

5.4.3 LICENSING – RECOMMENDATIONS

The licensing term could be increased to every five years rather than annually. The Central Bank would retain powers to review this position with a licensee if they have reason to suspect that a licensee is not strictly adhering to all relevant regulatory and legislative requirements.

[53] Central Bank of Ireland, Register of Moneylenders – http://registers.centralbank.ie/DownloadsPage.aspx.

It is also proposed that the Central Bank could increase the maximum term of a moneylending licence, subject to the consent of the Minister for Finance, where is it satisfied that such an increase would not result in any consumer detriment.

In addition, the requirement to register for a particular District Court area should be removed.

5.5 Advertising and Terminology

5.5.1 ADVERTISING AND TERMINOLOGY – RESPONSES

Advertising

The following suggestions were made in relation to advertising:

- Moneylenders should be required to display a warning message on their products, such as: "*Warning: this is a high cost loan*".
- Moneylenders should be required to include all costs associated with the provision of credit including home collection costs in all of their advertisements.
- Greater regulation of the use of advertising particularly leaflet drops by moneylenders is necessary. These submissions highlighted that leaflet drops tend to take place at "peak time" for low income and vulnerable households seeking to access credit, for example, for Christmas, back to school, communions and confirmations.
- Moneylending agents should be prohibited from promoting new loans when customers are nearing their final repayments.

The majority of the submissions received from licenced moneylenders recommend that there should be no further restrictions on advertising by moneylenders and that they should be subject to the same rules as other credit providers.

Terminology

The majority of submissions received suggest that consideration should be given to renaming licensed moneylenders in order to differentiate them more clearly from unlicensed lenders.

5.5.2 ADVERTISING AND TERMINOLOGY – DEPARTMENTAL ANALYSIS

Advertising

Many of the suggestions relating to advertising are already catered for in either the CCA or in the Moneylending Code. In addition, the Central Bank has since published the Moneylending Regulations which addresses areas like advertising and targeting. The requirements of the Moneylending Regulations should assist consumers in becoming more informed and encourage them to consider alternatives. These requirements include:

1. Moneylenders are required to include an enhanced "high cost credit" warning statement in all advertisements and pre-contract documentation, regardless of whether an advertisement refers to "a rate of interest" or "cost of credit". The following text must be included in the warning statement:

"*Warning: This is high-cost credit. Consider alternative options before applying for this credit, including alternatives from other lenders regulated by the Central Bank of Ireland*."

2. The cost of credit must be displayed either on a moneylender's website or at the beginning of on application form or application process relating to a moneylending agreement.

3. Moneylenders are required to provide an information notice at the application stage, advising customers that if they are applying for credit to pay for accommodation, food, electricity, heating, medication or other similar costs that this type of credit may not be in their best interests and that they should contact the Money and Advice Budgeting Service (MABS) for further guidance.

4. Moneylender advertising must be clear, not misleading and presented in a way that a customer will know that it is an advertisement.

5. Moneylenders can no longer make unsolicited contact on the recommendation of an existing customer ("refer a friend").

6. Moneylenders are required to take reasonable steps to identify customers that are vulnerable customers and ensure that they are provided with the assistance that may be necessary.

7. Moneylenders are required to employ a fair and reasonable marketing strategy, approved by its Board of Directors.

8. Moneylenders are required to display an information notice at its premises, on its website and on its application form. The information notice should include the following:

- advice to customers to consider other regulated forms of credit,
- advice to customers to shop around for credit,
- information about MABS,
- advice to customers who are in receipt of social welfare payments to inquire about additional supports, and
- information about the APR and the cost of credit.

The high-cost warning requirement came into effect on 1 September 2020, with the remainder of the Moneylending Regulations coming into effect in 1 January 2021.

Terminology

In order to create a greater contrast between unlicensed and licensed moneylenders, an alternative title could apply to those carrying out licensed moneylending activities. The following titles indicate that this particular type of credit comes at a high cost:

- Short Term High Cost Credit Providers
- High Cost Credit Providers
- High Cost Lenders

Other suggestions include:

- Licensed Fixed Cost Credit Provider
- Licensed Home Collected Credit Provider

One thing to be borne in mind is that the term “moneylender” is used extensively in the CCA, thus changing the title could be a significant task at the drafting stage.

5.5.3 ADVERTISING AND TERMINOLOGY – RECOMMENDATIONS

Advertising

After reviewing the CCA, the Moneylending Code and the Moneylending Regulations, no changes to the advertising provisions of the CCA are being proposed at this time. The new Moneylending Regulations should considerably enhance the existing protections in place. It may be more prudent to review their effectiveness at a later date and then make changes if problems are identified. These Regulations are drafted in consultation with the Minister for Finance, therefore the Department of Finance and the Central Bank can liaise with one another if issues arise that require changes.

Terminology

The term ‘licensed moneylender’ should be changed, and it is recommended that it should be changed to ‘High Cost Credit Providers’, to differentiate between licensed and unlicensed moneylenders and to subtly remind customers that the cost of the loan is high. The following factors were taken into account in this recommendation:

- the use of the term ‘Short-Term’ could be misleading as some moneylenders offer loans between 1 – 5 years where any loans greater than 1 year are not considered ‘short term’;
- not all firms are ‘Home Collection’ firms so this could also be misleading; and
- the term ‘Licensed Fixed Cost Credit Provider’ may not convey to a consumer the key ‘high cost of loans’ message intended in a clear manner.

6 Summary of Recommendations

In summary, this report makes the following policy recommendations:

6.1 Interest Rate Cap

- Introduce a simple interest rate restriction on cash loans of 1.0% per week up to a maximum of 48% per annum on the amount borrowed for loans up to a term of one year.
- Loans provided on the basis of a running account (by catalogue and premium finance companies) will be subject to a cap of 2.83% per month.
- Prohibit cash loans in excess of one year, as high cost credit for such terms is not appropriate or justifiable. Loans provided on the basis of a running account (by catalogue and premium finance companies) will not be subject to this prohibition.
- These rates could be reviewed periodically and amended by Regulation by the Minister for Finance after consulting with the Central Bank.
- The Central Bank will be required to prepare a report within two years of enactment.

6.2 Home Collection Practices

- It is recommended that home collection charges be abolished.
- A sufficient lead-in time should be provided to the sector before home collection charges are abolished so that moneylenders, who are still reliant on the home collection model and charges, are given time to implement new repayment systems and processes.

6.3 Digitalisation

- The requirement to maintain a repayment book should be amended to include the option of maintaining an online version of a repayment book.

6.4 Licensing

- The licensing term should be increased from one year to five years. The Central Bank should be able to increase the maximum term by Regulation with the consent of the Minister for Finance, if it satisfied that there would be no consumer detriment.
- The requirement to register for a particular District Court area should be removed and all licences issued on a State-wide basis.

6.5 Advertising and Terminology

- No changes to the advertising provisions of the CCA are being proposed at this time
- The term ‘licensed moneylender’ should be changed to ‘High Cost Credit Provider’, to differentiate between licensed and unlicensed moneylenders.

Appendix 1

Countries with Interest Rate Caps

Information obtained from an OECD report conducted in 2019: *Short-Term Consumer Credit: Provision, Regulatory Coverage and Policy Responses*

COUNTRY/ ECONOMY	FEATURES
AUSTRALIA	The typical moneylending loan in Ireland would be considered a Small Amounts Credit Contracts (SACCs) in Australia. These loans run from 16 days to 1 year and are for $2,000 or less. No interest can be charged on an SACC but there is a cap on the fees which can be charged. These include an establishment fee which can be a maximum of 20% of the original loan amount and a monthly fee of 4% of the original loan amount. In total, the amount a consumer can be required to repay, including default fees, is limited to twice the loan amount. Medium Amount Credit Contracts (MACCs) are loans from $2,001-$5,000 which run from 16 days up to 2 years. For these loans, fees are set at a maximum of a one off fee of $400 and a maximum annual interest rate of 48% including all other fees and charges. This does not include default fees.
CANADA	A 60% APR cap is imposed at Federal level. Some payday loans are regulated at Provincial (State) level and these provinces are directed to enact legislative measures that "*protect recipients of payday loans and that provide for limits on the total cost of borrowing under the agreements*."
CHILE	A nominal interest rate cap of 35% was introduced in 2013 for all forms of consumer credit, this gradually reduced the rate from above 50% to 35%.
ESTONIA	APR cannot exceed three times the average of APR of consumer loans granted to private individuals by credit institutions, which is disclosed on the central bank website. If the figure is higher, the contract is void
GEORGIA	The APR cannot exceed 100%, in addition to a cap on all sanctions set at 150% of the outstanding balance of the loan (to be calculated daily).
GERMANY	In general, the court can declare a consumer credit contract usurious if the interest rate is more than twice the average interest rate of comparable consumer loans, plus a handling fee (currently 2.5%). This also applies if

	there is a difference in interest rates of 12 percentage points between the rate charged and the average interest rate of comparable consumer loans.
HONG KONG	It is an offence under the Money Lenders Ordinance to lend money with an APR that exceeds 60%.
ITALY	The interest charged on a credit facility can only exceed the average APR charged over the previous quarter by a maximum of 25% - with an additional 4% margin. In addition, the difference between the cap and the average APR cannot exceed 8 percentage points. Currently, the cap on the interest rate on personal loans stands at 16.4%.
THE NETHERLANDS	Short-term credit agreements which are required to be repaid within 3 months are subject to a total cost cap set of 14% APR (this includes all fees, charges and interest).
LITHUANIA	Cap of 75% on annual interest rate, and cap of 0.04% of the total cost of the credit on other costs.
JAPAN	A nominal interest rate cap of 20%. The *Moneylending Control Act* prohibits lending when the total amount of borrowings exceeds one-third of the borrower's annual income.
PORTUGAL	Caps are based on the market APRs and are revised every quarter. [54] Credit institutions are prohibited from granting credit agreements where the APR is more than 25% of the average APR of the credit agreements concluded in the previous calendar quarter, for each type of credit. In addition, no credit agreement can charge an APR of 50% above the average APR established in all credit agreements concluded in the previous calendar quarter. When a credit agreement is concluded with an APR exceeding the cap, the APR is automatically reduced to half of the cap value.
SINGAPORE	Unsecured credit facilities are capped at an interest rate of 4% per month. Late fees are capped at SGD 60 per month and administration fees are capped at 10% of the principal of the loan. In addition, the overall interest and fees charged cannot exceed 100% of the principal.

[54] Banco de Portugal, Instruction No. 16/2019 - https://clientebancario.bportugal.pt/en/interest-rates-consumer-credit.
For example, the maximum rates applicable for personal credit in Q4 2019 were:

- 6.5% for Education, Health, Renewable Energies and Financial Leasing of Equipment, or
- 13.4% for Other Personal Loans (non-specific, home, consolidated and other purposes).

SLOVAKIA	Only loans up to 3 months in duration are subject to an APR cap of 30% per annum.
SOUTH AFRICA	A cap of 5% per month for the first short-term loan borrowed in a calendar year. A 3% cap is applied for all subsequent loans borrowed in the same calendar year.
UNITED KINGDOM	The UK introduced a price cap on High Cost Short Term Credit (HCSTC) loans in 2015. These are loans which have an APR of 100% or more and are due to be substantially repaid within a maximum of 12 months. The cap consists of three elements: (a) The interest rate and fees charged must not exceed 0.8% of the principal per day, (b) Default fees cannot exceed £15, (c) The total cost of credit for all fees, charges and interest cannot exceed 100% of the amount borrowed.

Appendix 2

Questions posed in the public consultation:

1. **Interest Rate Caps**

Q 1.1 Should a statutory interest rate cap be introduced in Ireland? Please provide the rationale for your answer.

Q 1.2 If you feel a cap should be introduced, should it be introduced as soon as possible or should its introduction be linked to the availability of reliable alternative sources of credit, as recommended in the UCC Report?

Q 1.3 If an interest rate cap is introduced, which model do you feel would be the most beneficial and transparent for consumers? Options include:

- fixed or relative (to a reference rate) APR caps;
- fixed or relative (to a reference rate) nominal interest rate caps;
- nominal interest rate caps that vary by the term of the loan and/or the value of the loan; or
- staggered nominal interest rate caps (for loans in the same calendar year).

Alternatively, please suggest a model of your own choice.

Q 1.4 Having selected or outlined a model for the capping of interest rates, what level(s) of interest do you feel would be most appropriate, in terms of benefitting consumers and maintaining the regulated supply of credit? Please provide the rationale for your answer

2. **Home Collection Charges**

Q2.1 Should the prohibition on charges other than collection charges continue?

Q2.2 Should a statutory maximum home collection charge be introduced?

Q2.3 If one is stipulated in legislation, should it be on the basis of;

- the current model of X cent in the euro borrowed (i.e. a fixed cost) or
- the number of visits, with a flat rate fee per visit?

Q2.4 Having selected or outlined a model for the home collection charge, what level(s) of charge do you feel would be most appropriate, in terms of benefitting consumers and maintaining the regulated supply of credit? Please provide the rationale for your answer.

Q2.5 Should specific repayment options be required to be included for consumers – such as Post Office repayment, standing order, direct debit, on-line transfer? Please list all repayment options you consider appropriate.

Q2.6 How should the provisions in respect of collection charges be changed to reflect the alternative repayment options?

3. Maximum Repayment Amounts

In Ireland, moneylender's licences already set out the maximum cost of credit that they can charge. This includes home collection charges, where relevant. At the moment, as noted above, it varies by moneylender. If policy decisions are reached on an interest rate cap and a cap on home collection charges, there will be, in effect, a statutory cap on the maximum charge for the cost of credit. Depending on policy choices, the extension of a loan term could reduce the APR without reducing the actual cost of the credit

Q3.1 Do you have any comment on this?

4. Home Collection Practices

Moneylenders are currently permitted to undertake house visits for collection of repayments. These visits are restricted to certain time periods. Moneylenders and collection agents are not permitted to visit or telephone a consumer without their consent between the hours of nine o'clock in the evening on any week day and ten o'clock in the morning on the following day, or at any time on a Sunday or a public holiday. Borrowers can give consent for contact between 8 a.m. and 10 a.m. on any week day.

Q4.1 Given the changes that have taken place in lifestyles since 1995, do you think that these contact provisions require changing and if so, how should they be changed?

5. Digitalisation

Q5.1 In light of technology advances, should the option be made available to consumers to receive a digital record of their transactions instead of a hard copy?

6. Registration and Regulation

Q6.1 Do you think the District Court method is still an appropriate method of licensing moneylenders?

Q6.2 Should the Central Bank, at its discretion, be given the power to issue licences to moneylenders for periods longer than one year? If so, should there still be a maximum period for such a licence, e.g. 3 or 4 years or should such licences be without any time limit

7. Advertising

Q7.1 In your opinion, should there be further requirements or restrictions on advertising by moneylenders?

Q7.2 If you feel it is appropriate for moneylenders to advertise, please suggest a model of your own choice for use in the advertisement to illustrate the repayment which may be applicable.

8. Terminology

Q8.1 Should consideration be given to renaming licensed moneylenders on a legislative basis **-** for example, as “high cost credit providers” to more effectively differentiate them from illegal operators?

Q8.2 In your opinion, would such an approach be beneficial? If so, what name would you suggest using and why?

9. Additional Comments

Q9.1 Do you have any additional comments or observations that you wish to add to your submission?

Appendix 3

The following entities provided responses to the public consultation:

- Derry O'Sullivan (Private Individual)
- Irish League of Credit Unions (ILCU)
- Leinster Credit Limited
- University College Cork (UCC)
- Amigo Loans
- Marlboro Trust
- Society of St Vincent de Paul
- Oxendale and Co Limited
- Wicklow Finance Limited
- Citizens Information Board (CIB)
- Jordan Estates Ltd
- Competition and Consumer Protection Commission
- Credit Union Managers Association (CUMA)
- Core Credit Union Limited (CCU)
- Susan Lynch (Private Individual)(Credit Union Manager)
- Shop Direct Ireland Limited
- Sligo Credit Union
- Health Services Staffs Credit Union (HSSCU)
- Consumer Credit Association (CCARI)
- Drogheda Credit Union
- Eco Advocacy
- Close Brothers Limited
- Credit Union Development Association (CUDA)
- R&P Credit Limited
- Social Finance Foundation (SFF)

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Tithe an Rialtas. Sráid Mhuirfean Uacht,
Baile Átha Cliath 2, D02 R583, Éire
Government Buildings, Upper Merrion Street,
Dublin 2, D02 R583, Ireland

T:+353 1 676 7571
@IRLDeptFinance
www.gov.ie/finance