

**Credit Consumption and Debt Accumulation  
Among Low-Income Consumers:  
key consequences and intervention strategies  
An Exploratory Study**

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## Abstract

Reflecting the US and Europe, changes in attitudes to money, spending and saving have led to an acceptance that spending and credit are part of modern Irish consumer society. Increasing access to credit, aggressive marketing tactics and asymmetric information between borrower and lender is prevalent, particularly among those in the lower-income, vulnerable categories, who may not have the same range of choices as higher-income customers (Kempson *et al.*, 2004; Conroy and O'Leary, 2005).

As there is a paucity of analytical and academic commentary within an Irish context, this research explores the current nature of credit consumption and debt accumulation among low-income groups in Ireland. Qualitative supply-side research was conducted through a series of in-depth interviews with key informants of support agencies and financial institutions in Ireland involved with consumer credit and debt. In addition, focused consumer research was conducted with a sample of MABS clients and their advisors in the Mid West region.

This research identifies critical factors related to both credit provision and debt accumulation. Key intervention strategies are proposed in relation to consumer education, financial services regulation and targeted support by voluntary and government agencies.

Keywords: Low-Income, Consumer Credit, Over-indebtedness, Intervention Strategies

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## 1. Review of Literature and Policy

### 1.1 Introduction to Low-Income Credit and Debt Issues

Current developments within Irish society and key dynamics in relation to financial services in Ireland and internationally have led to a dramatic increase in access to and use of credit, and an overall increase in indebtedness across all strata of society (e.g. Kempson, 2002; Burton *et al.*, 2004; Irish Bankers Federation, 2005). The rise in both secured and unsecured lending has led to an increased concern over the high level of personal debt in Ireland, which reflects a similar unease elsewhere. In particular, there are worries that an upturn in the Irish economy may be negatively affected by the rapid build-up in personal debt, with the Central Bank estimating that the level of personal credit outstanding at the end of 2004 was at €85 billion – almost six times that of ten years earlier (Central Bank, 2004; Murphy, 2005). According to Goodbody stockbrokers, Ireland as a nation is becoming increasingly indebted at a rate higher than any other country in the world, with the Irish Central bank predicting that by 2008, debts will be equivalent to 200 per cent of disposable income (McWilliams, 2005). Whatever the increase in indebtedness in Ireland may imply, its rapid rise must be an issue of concern for government, consumer agencies and charities as well as financial institutions.

In terms of lower-income customers, there appears to be an ever-broadening range of credit available through both the prime and sub-prime markets (Burton *et al.*, 2004), in addition to easier access to credit, particularly of an unsecured nature such as credit cards. Coupled with the increased range and access to credit, there is a high level of asymmetric information between borrower and lender (Oxera, 2004) which is particularly relevant for lower-income people who may be classed in the 'vulnerable' category. In addition, due to widespread access to prearranged lines of credit and technological advances, it has become easier for creditors to offer revolving credit (Durkin, 2000), which promotes a vicious cycle of indebtedness. Moreover, there is a higher level of aggressive marketing techniques and promises of 'easy money', particularly by non-traditional financial institutions (Griffiths, 2000), which often target customers who may be in the more vulnerable lower-income categories.

With the exception of a number of recent Irish publications (e.g. Byrne *et al.*, 2005; Conroy and O'Leary, 2005), the nature and meaning attached to credit and debt among lower-income customers in Ireland, traditionally representing a particularly excluded group, remains largely undocumented. Hence, this study provides a much-warranted analysis of low-income indebtedness by conducting secondary and primary research into the current

dynamics and developments of low-income consumer debt (and credit by association) in an Irish and international context. Access to credit is also investigated as part of the indebtedness cycle. This area has been relatively under-explored in research and policy to date, but is of urgent relevance because 'in talking about credit we must be aware of its relationship to debt' (Liam Edwards, National Co-ordinator, MABS, 2004).

## 1.2 Debt and Credit – Definitions and Scope

In terms of the definition and scope of debt and credit, there are a number of key terms and distinctions to be made. According to Joyce (2003), it is important to distinguish between *indebtedness* and *over-indebtedness*. Indebtedness relates to frequent use of credit which is now part of the common currency of society, whereas over-indebtedness relates to the imbalance or shortfall between income and expenditure. Citizen Advice in the UK defines *problem debt* as a situation where individuals are 'unable to pay their current credit repayments and other commitments without reducing other expenditure below normal levels' (DTI/DWP, 2004). *Arrears* refer to any missed payment, over the course of the previous year. According to Oxera (2004) there is a difference between *arrears on a structural and non-structural basis*.

Structural arrears refer to debt and indebtedness in the medium to longer term whereas non-structural may refer to forgetting to pay a bill. Similarly, Webley and Nyhus (2001), distinguish between a short-term problem or *temporary debtors* and *chronic debtors*. Chronic debtors are a small group and are distinguished by having more limited economic and social resources, being present-oriented and finding it more difficult to control their expenditure than temporary debtors. Importantly, particularly in relation to low-income debt, it is possible to have a debt without ever having borrowed money, e.g. a utility bill. For the purposes of this study, indebtedness relates to the level of debt accumulated through the consumption of credit, whereas over-indebtedness relates to a situation where the debtor's actual expenditure to meet his/her credit repayments is excessive relative to his/her income.

According to Berthoud and Kempson (1992), 'although the rich used most credit, it was the poor who had most debt'. *Credit* is the provision of money to facilitate a purchase, which will have to be repaid at a later date, along with interest and other stated charges. Sources of credit include loans, overdrafts, credit cards, credit sales, charge cards, in-store cards, hire purchase, leasing (consumer hire), housing, loans/mortgages, moneylending and pawnbroking (www.odca.ie). The distinction is also made between *revolving and convenience credit*. Revolving credit is used as a mode of financing and electing to pay

interest charges on an unpaid balance, while convenience credit refers to the use of credit as payment of a bill when it is due (Lee and Hogarth, 1998). In terms of the rise in the use of private-sector credit in Ireland, term and revolving loans rose by €1.2bn in 2004 (Central Bank, 2004). When personal debt and use of credit spirals out of control, however, there is a deterioration in the ability of consumers to fund their purchases by means other than credit. When credit becomes the only available funding mechanism for consumers, they must ultimately 'saturate their borrowing capacity', unless they receive corresponding increases in income to enable them to service the additional debt (Murphy, 2005).

### 1.3 Poverty, Low Income and Indebtedness in Ireland

From a review of the literature, a number of recent studies have investigated Irish poverty levels (e.g. Nolan, 1998; Nolan and Smeeding, 2005; Whelan *et al.*, 2005; Watson *et al.*, 2005). While Nolan (1998) highlighted the 'changing face of Ireland's poor', Nolan and Smeeding (2005) analysed Ireland's income distribution and noted that while the economic boom of the second half of the 1990s (termed the 'Irish miracle') raised some living standards, it also widened income gaps, with Ireland remaining an outlier in relation to other rich European nations in terms of income inequality. Watson *et al.*, (2005) emphasise that poverty is a structural rather than a spatial issue and arises from socio-economic pressures such as unemployment and low-paid work, low education attainment, old age, dependency and lone parenthood. In the case of households with children, a direct link has been found between family income and well-being, with a higher incidence of better health and higher achievement among children in higher-income families (Duncan, 2005). Recent figures from 2005 show that the unemployment forecast for 2006 is to remain at 4.2 per cent (ESRI, 2005).

According to a recent submission to the NAPS (2003-2005), indebtedness is a major social problem in Ireland, linked to income inadequacy for low-income families. While there are figures on general levels of indebtedness in Ireland, there is very little research available on poverty and levels of indebtedness among low-income people. Taking a European perspective on Irish poverty statistics, Fahey (2005) calls for an EU-wide measurement of poverty, bearing in mind the fact that there are considerable gaps in income between the richer and new poorer member states. Kearns (2004) assessed the average indebtedness levels of Irish households using a debt to GDP or GNP ratio and highlighted that Ireland's place in debt to GDP ratio is high among OECD countries. The study noted that when GNP is used, Ireland rises to third place, coming behind only the UK and the Netherlands.

Other studies focus on consumer perceptions of the levels of burden of both mortgage and non-mortgage debt (e.g. Hughes and Duffy, 2005). Using subjective feelings of debt burden, together with levels of income and indebtedness, the survey by Hughes and Duffy found that low-income households were most likely to find their debts to be a heavy burden. In terms of profiling those most likely to be in low-income groups, persons at risk of poverty were living in households where their income was less than 60 per cent of the median at an individual level and included lone parent households (48 per cent) and persons living alone (36 per cent). Other high-risk groups included persons living in rented or rent-free accommodation, the unemployed and the ill or disabled. Top-income groups had five times more income than the bottom group.

Table 1: Percentage of Persons Reporting Deprivation Classified by Household Composition, EU SILC 2004 (Central Statistics Office, 2005).

Deprivation Indicators	1 Adult No Children	2 Adults No Children	3 or more Adults No Children	1 Adult With Children	2 Adults With 1-3 Children	Other Households Children	Total
<b>2004</b>							
Experienced Debt Problems Arising from Ordinary Living Expenses	5%	3.2%	5.1%	36.6%	9.5%	13%	8.7%

As illustrated in Table 1, according to the EU Survey on Living Conditions (EU-SILC) 2004, the most common type of deprivation reported in 2004 related to 'experiencing debt problems to meet ordinary living expenses' (8.7 per cent). This was particularly prevalent among lone parent households (36.6 per cent) and other households with children (13 per cent). Therefore, these groups in the lower-income categories are likely to be most affected by the credit choices that they make and the resultant debt that they accumulate and are thus of most interest to the study. Similar to the Irish context, a review of some of the larger UK studies addressing poverty (e.g. DTI/DWP, 2004) reveals scant reference to the issue of the need to borrow and subsequent indebtedness for poor individuals and families. Conroy and O'Leary (2005) highlight the pressure on all Irish families, regardless of income, to consume at a rate equal to that of their peers, which may be leading particularly vulnerable individuals and households into debt.

#### 1.4 The Nature of Debt among Low-Income Groups

While Ireland is in a 'comfortable' position and not currently an outlier within the EU context, the rapid rise in private sector credit and the number of people on variable interest rates may change this scenario (Kelly, 2004). This accelerated rise in the level of indebtedness in Irish

society is reflected by the increase in the number of over-indebted middle-income customers accessing the services of the Money Advice and Budgeting Service (MABS). In terms of the nature of debt among low-income groups, running up arrears can frequently be the first form of unsanctioned credit used by low-income families in Ireland. The nature of debt is varied and can range from small loans to difficulties with utility bills, credit card debt, mortgage or rent arrears or indeed debt around life events such as bereavements and weddings (Hogan, 2005). According to MABS (2004), mortgage and rent arrears should be considered priority debts, the sanction for which is house repossession or eviction. In relation to mortgage debt, the Irish Bankers Federation and member institutions of the Irish Mortgage Council have operated a standard mortgage arrears policy (Irish Bankers Federation, 2005).

There have been a number of Irish studies in Ireland in recent years in relation to the private rented sector (e.g. Threshold, 2003; Dublin City Council, 2004; Kearns 2004). Lone parent families are 5 times more likely to fall into rent/mortgage arrears than households with no dependants and 1.5 times more likely than couple households with dependants (Kearns, 2003). Utility bills such as electricity and gas are also potential sources of arrears and debt for households (Massey, 2004). In addition, it has been found that food poverty presents another concern, with children identified as experiencing restricted access to nutritional foods (Friel and Conlon, 2004), known as food poverty.

Reflecting the Irish situation, debate on consumer credit in the UK has also tended to ignore the main way that families tend to borrow in times of need by delaying paying bills (McKay, 2005). Indeed, there appears to be a much stronger link between low income and arrears on bills than with consumer credit problems (Kempson *et al.*, 2004). US research highlights that when income is high, borrowing tends to increase as people who are worse off try to attain the lifestyles of the better off (Morgan and Christen, 2003; Brown, 2004). This is particularly significant for those on lower incomes who perceive growing pressure to increase their borrowing and spending and thus feel part of this consumption-driven society. Consumption has signalled a re-organisation of the calendar into events such as Christmas, Easter, Halloween, Valentine's Day, Mother and Father's Day, and (in Ireland) Communion and Confirmation. These events represent times of huge financial expenditure and strain for many families. In addition, age, income (McKay, 2005; Kempson, 2002) and key lifestyle interruptions such as having children or going through a divorce (Kempson 1998; Rowlingson *et al.*, 1999) affect money management, budgeting and credit and debt levels.

Based upon both Irish and UK studies, being on a low income is among the strongest influences on indebtedness and this is magnified by drops in income (through job loss,

relationship breakdown, sickness or disability), other changes in circumstances (McKay, 2005), inaccessibility of mainstream financial services and unethical credit practice (Comhairle, 2003). Moreover, the link between family and individual difficulties in repaying debts and financial stress or over-indebtedness has been highlighted (e.g. Disney and Bridges, 2003), with some researchers identifying a link between social and health implications (Conroy and O'Leary, 2005) and mental health problems and being in arrears (Meltzer *et al.*, 2002). Easier access to credit and a corresponding rise in debt across all strata of Irish society (Mintel, 2003) represents a significant factor behind a doubling of the numbers of people seeking help from the Money Advice and Budgeting Service (MABS) in the past four years (Hogan, 2005), from 18,000 in 2001 to 30,000 in 2004.

Table 2: Profile of MABS Clients (MABS, 2005a)\*

<b>Total New MABS Clients (2005)</b>	16,000					
<b>Age</b>	26-65 (95%)	26-40 (majority group)				
<b>Gender</b>	Female (65%)	Male (35%)				
<b>Marital Status</b>	Married (18%)	Married with Children (12%)	Separated with Children (9%)	Single (29%)	Single with Children (25%)	
<b>Accommodation</b>	Private Rented (25%)	Local Authority (16%)	Mortgage (20%)	Owned (6%)	Living with Parents (4%)	
<b>Income</b>	Waged (31%)	Unemployed (7%)	Disability (6%)	One Parent Family Payment (12%)	Supplementary Welfare Allowance (12%)	Other (25%)
<b>Supplementary Income</b>	Community Welfare Officer misc. (2%)	Child Benefit (11%)	Charity (.25%)	Family Income Supplement (2%)	Other (10%)	
<b>Initial Debt Balance due to Creditors</b>	Total €62 million	Banks/Financial Institutions (55%)	Credit Unions (11%)	Utilities (5%)	Moneylenders (3%)	Local Authority (4%)
<b>Referral Sources</b>	Counselling Referral (23%)	Self Referral (30%)	Local Authority (9%)	St Vincent De Paul (6%)	Community Welfare Officers (7%)	

\*Estimated figures for 2005 based upon MABS Database

More recent estimated figures in relation to the MABS client profile suggest that the total number of new clients in 2005 was 16,000. As illustrated in Table 2, 95 per cent of clients

were between the ages of 26 and 65 years, with the majority in the 36-40 age group. In relation to gender, 65 per cent were female and 35 per cent were male, with 18 per cent married, 12 per cent married with children, 9 per cent separated with children, 29 per cent single and 25 per cent single with children, reflecting the high proportion of lone parents using the MABS services (MABS, 2005a).

Importantly, while the majority were living in private rented (25 per cent) and local authority (16 per cent) accommodation, 20 per cent of current MABS clients have a mortgage, suggesting that income levels of indebted clients have risen. Similarly, nearly one third (31 per cent) of clients were employed. In terms of debt owing to creditors in 2005, of the total €62 million, more than half (55 per cent) was owed to banks and financial institutions as compared with only 11 per cent owed to credit unions and a mere 3 per cent owed to moneylenders. Utility debt also appeared quite low, at 4 per cent. In terms of client referral, counselling (23 per cent) and in particular self-referral (30 per cent) were the two most important sources, suggesting that clients are becoming increasingly proactive in seeking the services of MABS in resolving their debt issues. These estimated figures reflect the increasing trend towards a newer type of MABS client, who may be employed, have a mortgage or own a house and whose debts may be to more mainstream financial providers such as banks and credit card companies.

### 1.5 Access and Use of Credit among Low-Income Groups

Reflecting recent Irish reports (e.g. Conroy and O'Leary, 2005), the poor in the UK pay more for many things but it is the extent to which they pay more for credit that puts the greatest strain on their budgets (Collard and Kempsom, 2005). Although there have been a number of attempts to develop low-cost credit products for people on low incomes (e.g. credit unions, savings and loan schemes set up by housing associations, and community-based loan schemes), cost does not appear to be the main consideration and the take-up has been modest (Collard and Kempson, 2003, 2005). From an Irish perspective, the NAPS (2003-2005) report suggests that a preventative approach should be taken which would entail a twin-track strategy of delivering targets on income adequacy and ensuring access to appropriate and affordable credit, thus by-passing the exorbitant interest in the informal credit market. The aim is to substantially reduce indebtedness among low-income families resulting from recurrent expenditure as well as ensure universal access to basic banking and credit facilities.

### *1.5.1 The Structure of the Irish Credit Market*

The financial services market for credit has undergone rapid change in recent years, with private lending in Ireland spread over three main types of lender: banks and other financial institutions, credit unions and home collected traders or moneylenders. Due to the increased use of credit scoring, many people on the lowest and least stable incomes (Collard and Kempson, 2005) are deprived of borrowing money from mainstream institutions (the prime market) and this has led to the growth and differentiation of the sub-prime market. The sub-prime market has therefore become sensitive to the highly complex, fragile, precarious and shifting world of many low-income consumers for credit and has been innovative in responding to and attempting to extend this market (Burton *et al.*, 2004).

#### *1.5.1.1 The Sub-Prime Market: Moneylenders, Pawnbrokers and Goods on Credit Providers*

Home credit companies (also known as moneylenders, doorstep lenders or weekly collected credit companies) are the main commercial providers of small value personal loans in the UK and Ireland (Datamonitor, 2004). Home credit can be defined as the provision of credit, typically small-sum cash loans, the repayments for which are collected in instalments (often weekly and fortnightly) by collectors who call for that purpose at the customer's home (OFT, 2005). Low-income people are generally attracted to moneylenders because of the offer of small amounts of money for relatively short periods of time. Moneylenders also provide easy, quick and non-bureaucratic access, flexible, manageable payment and a close relationship with the lender (Kempson *et al.*, 2000).

In recent years, there has been an increase in research conducted on the Irish sub-prime market, particularly on the Irish money-lending sector (e.g. Daly and Walsh, 1988; Quinn and McCann, 1997; Quinn and Ní Ghabhann, 2004; Conroy and O'Leary, 2005; Byrne *et al.*, 2005). Daly and Walsh (1988) compiled a comprehensive study on the impact of moneylending in Ireland and highlighted the absence of other credit alternatives as a key reason behind the strength of moneylending as a credit option. More recently, Conroy and O'Leary (2005) found that home collected credit in Ireland represents a significant section of the financial services market, with around 50 licensed traders serving 150,000 customers. The majority of moneylenders on the register in Ireland for 2005/6 are licensed to charge over 100 per cent APR and many have the right to charge between 150 per cent and 200 per cent.

Another aspect of the moneylending service is the notion of 'guilt-free cash' where 'loans come without lectures' (Gallaghy and Dernovsek, 2000:43). According to Byrne *et al.*, (2005), a very high percentage of borrowings (72 per cent) from moneylenders was reported, of

whom 70 per cent also borrow from the credit union and 65 per cent use other mainstream banking sources, implying that access may not be a problem as much as 'use' of more prime sources of credit. Similarly, Quinn and Ní Ghabhann (2004) reported that 66 per cent of Travellers who were not credit union members cited 'use' factors such as 'inability to save' and 'general lack of interest'. Hence, moneylenders (both legal and illegal) appear to be the main source of credit among lower-income groups.

Pawnbrokers offer small cash on property, usually jewellery, and typically charge interest per calendar month ranging from 5-12 per cent, equating to an APR of between 70-200 per cent (Collard and Kempson, 2003). In the UK, a growing number of cheque cashiers, pawnbrokers and home credit companies offer payday loans, which are often used by some low-income families to make ends meet or in the event of an emergency (Dominy and Kempson, 2003).

Mail order catalogues including credit shopping offer the goods immediately by paying for them over a potentially long period of indebtedness and represent one of the main sources of credit for many people (Mintel, 2001). In Ireland, the mail order or credit goods business remains a key source of credit for many low-income people, evidenced by the success of companies such as Provident and Marlboro Trust. Their business has evolved from being a loan-lending service to offering a catalogue or goods on credit service normally over a period of 21 weeks' credit (Marlboro Trust Ltd. Catalogue, p. 1).

Benefit dependants and working women are more likely than any other group to order and purchase goods through an agent, rather than dealing directly with the company (Conroy and O'Leary 2005). In terms of choice of sub-prime provider, low-income consumers preferred to deal with a 'tried and tested' provider, relied heavily on recommendations and were unwilling to switch supplier even if it meant saving money (Byrne *et al.*, 2005; Conroy and O'Leary, 2005; Collard and Kempson, 2005; Whyley and Brooker, 2004).

#### *1.5.1.2 The Prime Market: Banks and Credit Unions*

While mainstream lenders have been traditionally reluctant to enter the low-income credit market (Collard and Kempson, 2005), the mainstream banks are beginning to realise that financial services for poor people can be commercially viable while allowing them to play a greater role in alleviating poverty. Internationally, 2005 was designated the Year of Microfinance and a global effort is currently being made to increase the role of commercial banks in providing financial services to the poor. It is recommended that banks must also play a greater role by making their infrastructure more accessible to the poor and limiting the

impact of unregulated lenders (The Banker, 2005). Despite these international initiatives, Conroy and O'Leary (2005) highlighted the existence of a two-tiered system of credit in Ireland whereby many low-income groups are being refused basic banking services from mainstream financial providers and are being forced into using unsanctioned and more expensive credit.

A key player in the market for lower-income lending and borrowing is the credit union movement, represented by the Irish League of Credit Unions (ILCU) with 434 credit unions and the Credit Union Development Association (CUDA) with 20 credit unions. The credit unions are positioned as a voluntary, community-based, not-for-profit, co-operative movement. Traditionally they have remained outside the Irish Credit Bureau (ICB), thereby acting as a valuable source of affordable credit for people who might be deemed a credit risk by mainstream institutions (Slattery, 2005). A recent change within the movement is the decision to join the ICB on an individual credit union basis in the case of loans of €20,000 or more, allowing credit unions to check a member's history of borrowing at other institutions and potentially lower their exposure to bad debts.

Figure 1: Proportion of Loan Market Held by Credit Unions (Millward Brown IMS, 2005)

**What proportion of the loans market does the Credit Union have?**

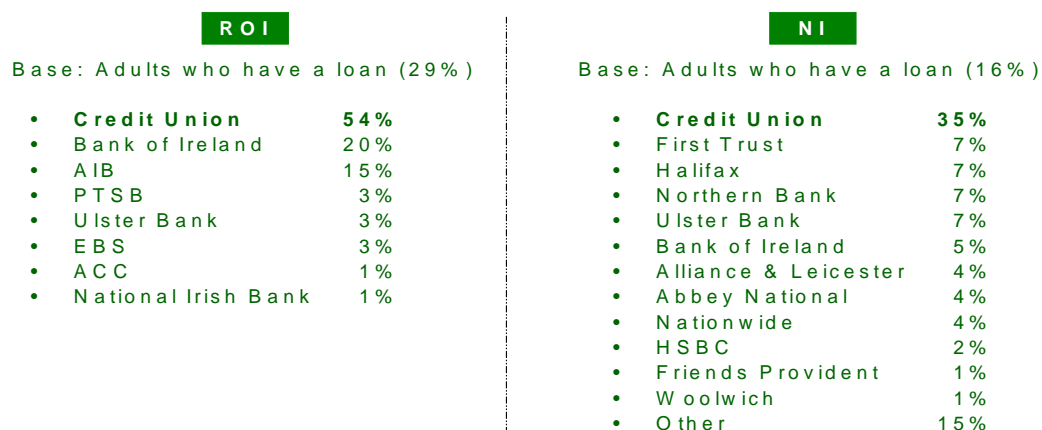
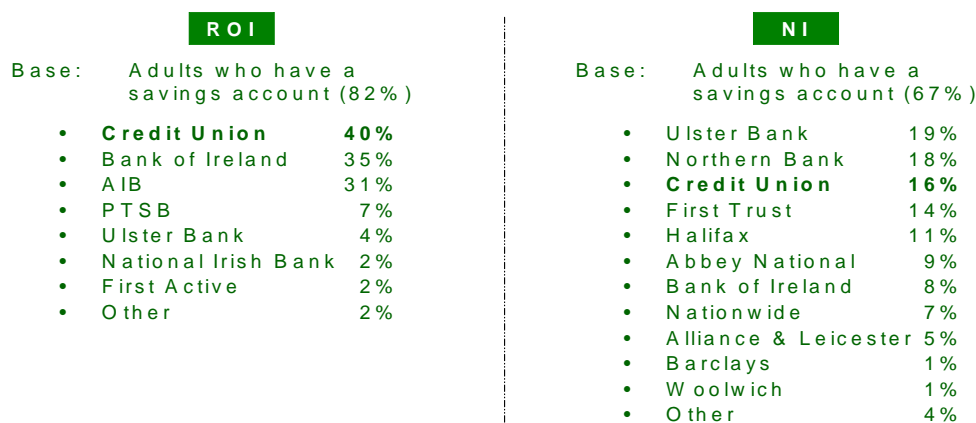


Figure 2: Proportion of Savings held by Credit Union (Millward Brown IMS, 2005)

**What proportion of the savings market does the Credit Union have?**

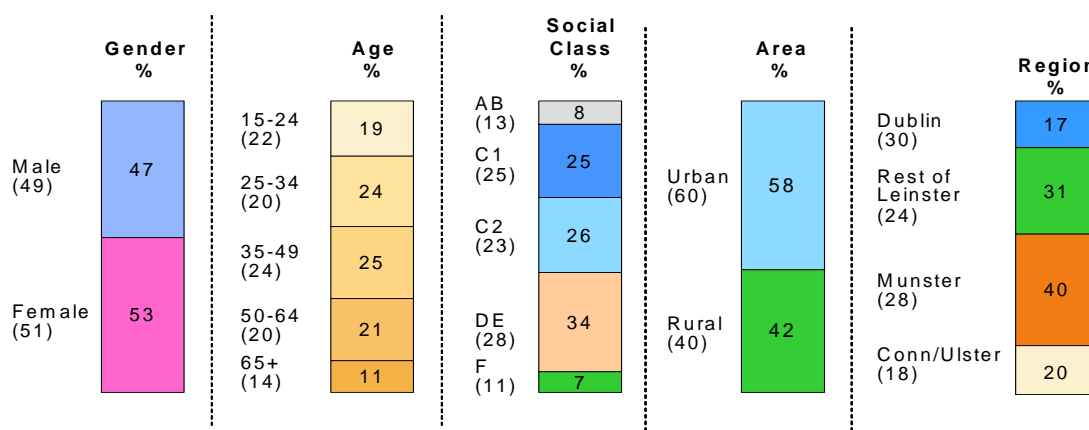


The proportion of loans and savings held by the credit union in 2005 is illustrated in Figure 1 and Figure 2. Of the 29 per cent of adults in the Republic of Ireland who had a loan, 54 per cent was provided by the credit union while, of the 82 per cent of Republic of Ireland customers who had a saving account, 40 per cent were held by the credit union. It would therefore appear that credit unions hold a significant proportion of saving and loans among Irish adults, particularly in the Republic.

Figure 3: Demographic Profile of Credit Union Members in the ROI (Millward Brown IMS, 2005)

**What is the demographic profile of Credit Union members in ROI?**

Base: All ROI Credit Union Members (37% of adults)



( ) Bracketed figures indicate adult population profile

Figure 3 illustrates the demographic profile of credit union customers in the Republic of Ireland for 2005. 47 per cent were male and 53 per cent were female. The age profile was evenly spread, with a slightly higher proportion in the 35-49 age category (25 per cent). In

terms of social class, reflecting the focus on lower income groups, the majority of customers were in the C1 (25 per cent), C2 (26 per cent) and DE (34 per cent) categories. In relation to the urban-rural divide, while the majority were urban (58 per cent), Munster represents the region with the largest membership (40 per cent). In terms of focusing on low-income groups, Byrne *et al.* (2005) noted that credit union loan products still appear to be tailored to low-income groups in terms of how loans are accessed, the availability of small loan amounts, the reasonable cost of loans and the geographical proximity of local credit union offices.

#### *1.5.1.3 Non-Commercial Sources of Credit*

In recent years several community-based loan schemes have been established in the UK which offer lower-cost personal and business loans without the need to save, including the Social Fund Budgeting Loan Scheme and a new form of savings and loans scheme, targeted at tenants. The latter has evolved through partnerships between housing associations and building societies and banks (Kempson *et al.*, 2004). It would, however, appear that public confidence in the UK in non-commercial lenders is not high among lower-income groups and needs to be fostered and developed (Collard and Kempson, 2005).

From an Irish perspective, the initiatives available to low-income customers through the credit unions and MABS include the following. Firstly, the Special Budget Account allows all members to pay their creditors through the credit union and helps them to break the link between the indebted client and the creditor such as the moneylender. Secondly, the Loan Guarantee Fund allows MABS to guarantee small loans for up to €300 to be used for emergency needs, although these are not granted automatically and are subject to a member's record and ability to pay (Jones, 2003). This is called the 'Exception Needs Payment'. Finally, the Social Lending Fund initiated through the credit union and some MABS offices was established to meet the emergency needs of clients rather than relying on a moneylender. This will be discussed in more depth in section 1.6.3.

#### *1.5.1.4 Credit and Debit Cards*

An international comparison of credit card use in Ireland places Irish credit card usage above the EU-15 average (Kelly and Reilly, 2005; Mintel, 2003). It is claimed that the increase in use of credit and debit cards is supply-led, not demand-led, brought about by aggressive marketing tactics. Recent Irish research showed that lower socio-economic groups such as lone parents, who traditionally would have been customers of mail order shopping, are now increasingly penetrating the credit and debit card market (Conroy and O'Leary, 2005).

## 1.6 Initiatives to Tackle Indebtedness among Low-Income Groups

### *1.6.1 Widening Access to Credit and Promoting Financial Inclusion*

Leyshon and Thrift (1995: 314) define financial exclusion as the 'processes that prevent poor and disadvantaged social groups from gaining access to the financial system'. While access and physical exclusion from the bank are a factor (Government of Ireland, 2000; Conroy, 2005), the greatest concern remains in educating people about the proper use of financial services (Gloukoviezoff, 2004; Jones and Barnes, 2005). According to Kempson *et al.*, (2004), financial exclusion consists of geographic exclusion, access exclusion, condition exclusion, price exclusion, self-exclusion and marketing exclusion. The need for affordable credit is greatest among those who are not in steady employment, and who often have to borrow for day-to-day needs and essential household goods (Collard and Kempson, 2005). Hence, affordability of credit, accessibility, appropriate products, trusted, reputable providers (Collard *et al.*, 2003) such as commercial lenders and not-for-profit organisations such as credit unions and community-based loan schemes were recommended (Collard and Kempson, 2005).

Gardner and Molyneux (2004) maintain that Ireland has a relatively high level of financial exclusion in the EU, at 16.79 per cent of the population. More specifically, Conroy and O'Leary (2005) found that lone parents were particularly susceptible to financial exclusion, as were members of the Traveller community, and thus more reliant on moneylenders (Quinn and Ní Ghabhann, 2004). In relation to price exclusion, low-income customers may not compare the cost of credit and tend to continue to borrow from more expensive sources such as moneylenders (Daly and Walsh, 1988; Jones and Barnes, 2005). Byrne *et al.*, (2005) identified a number of elements of financial exclusion in relation to low-income customers' use of and access to credit unions in Ireland. These include: a savings condition, lack of targeting and inadequate financial advice. In order for credit unions to best serve the needs of their clients, the study recommended increased accessibility and provision of small loans, EFT (electronic fund transfer) services as well as budget accounts for general membership and further marketing and education initiatives targeted at low-income groups.

### *1.6.2 Encouraging Saving among Lower-Income Consumers*

Burger and Zellmer (1995: 26) perceive saving as a key element in 'building a successful financial relationship' between a customer and a financial institution. People on low incomes have little to save and thus need a savings account where they can lodge very small amounts of money (Collard *et al.*, 2001). Additionally, low-income people are more likely to

save for the short rather than the long term. Thus the motivations need to be simple and transparent if they are to be effective for low-income groups (Collard *et al.*, 2003; Whyley and Kempson, 2000). In this respect, the UK Savings Gateway scheme is deemed to offer the greatest incentive to save for people of working age who receive state benefits or in-work tax credits which offer pound for pound matched funding up to a certain limit. The scheme involves a savings limit of £25 per month, with matching funding of up to £1,000 over a five-year period (Kempson *et al.*, 2005). In terms of encouraging saving among Irish low-income groups, Byrne *et al.*, (2005) recommend that the credit union continue to promote small-scale saving schemes tailored to people's ability to save. Thus, encouraging saving among lower-income groups is deemed to be very important as it not only builds financial security but also teaches customers how to borrow correctly (Gallagly and Dernovsek, 2000).

### *1.6.3 Money Advice and Support*

People on low incomes cannot afford to make mistakes, either in the way they manage their money or in the products or services they choose (Collard *et al.*, 2003). In addition to the need for adequate training in money management skills, independent advice and information, the need for advice on debt is generally more immediate than the need for other forms of financial advice, reflected by the popularity of the Money Advice and Budgeting Service (MABS) (Collard *et al.*, 2003). As the MABS current client base includes all social categories, this has put pressure on the service to the original target group. Hence, it would appear that MABS is considering a tiered system of advice, depending on client capacity (Edwards, 2005). MABS centres provide a free, independent and confidential service to help people regain control of their finances and gain access to affordable credit. MABS advisors encounter first-hand the human face of serious debt situations. The Department of Social Affairs which provided €13.6 million in funding to the service in 2005 has responsibility for MABS which has 65 offices throughout the country (Hogan, 2005).

In addition to the regular MABS/Credit Union Special Budget Account, MABS has launched a number of initiatives that are designed to support and assist people in financial difficulties. The 'Exception Needs Payment' is available to assist with a once-off essential need in exceptional circumstances and is administered at the discretion of the relevant Community Welfare Officer. In addition, a Social Lending Scheme has been in operation by a number of MABS offices in conjunction with the Credit Union since October 2004. This includes provision of loans at 1 per cent p.a. to low-income families who are in debt for certain purposes such as back to school, Christmas, clearing moneylender and utility bills and up to a maximum of €3,000 if existing loans are to be transferred to the Social Lending Scheme. This scheme is based on the premise that it encourages people to perceive the Credit Union

as their preferred option to the 'friendly moneylender' when looking for a loan, regardless of how small it is (MABS, 2005b). In terms of tackling indebtedness as part of the European Social Inclusion Strategy, MABS has been highlighted as an example of 'good practice for Europe' (Conroy and O'Leary, 2005).

In relation to legal protection, the Free Legal Advice Centres (FLAC) is a 'non-governmental organisation which campaigns for full and equal access to justice for all and promotes and operates a range of services to meet the legal needs of those living in poverty' ([www.flac.ie/home.htm](http://www.flac.ie/home.htm)). Responding to the increased need for information and advice on credit and debt issues and the shortage of legal practitioners involved in advising the over-indebted, FLAC has become increasingly involved in Credit and Debt Law. Acting as a legal resource, FLAC offers a variety of services to money advisors and members of the public and provides information and guidance on rights and entitlements through its publications including *Moneylending and the Law* (1998) and *An End Based on Means* (2003).

#### *1.6.4 Improving Financial Literacy and Capability*

Separate to financial exclusion, financial literacy can be defined as 'an individual's ability to obtain, understand and evaluate the relevant information necessary to make decisions with an awareness of the likely financial consequences' (Mason and Wilson, 2000). While recent research on Irish adult literacy (e.g. Morgan *et al.*, 1997) and financial literacy has been scant, it appears that Ireland is lagging behind other western nations in relation to understanding and dealing with financial literacy, thus requiring co-ordinated research into numeracy, literacy and finance (Conroy, 2005). In a recent study, 75 per cent of consumers perceived written information on financial products to be too complicated and difficult to understand; 38 per cent of Irish adults surveyed lacked the ability to identify a common financial term but 92 per cent of consumers said that they would read more information on financial products if it was written in plain English (O'Dea, 2004).

In response, the National Adult Literacy Agency highlights the need for basic numeracy and general literacy skills in Ireland (NALA, 2004) through a number of initiatives including NALA/EBS publications. Supported by the Financial Regulator, the NALA/EBS financial literacy initiative provides consumers with information on financial products in plain English, through a website known as [www.itsyourmoney.ie](http://www.itsyourmoney.ie). Promoting and increasing financial literacy and capability – involving financial skills, knowledge and understanding, managing money and planning ahead – is a priority among low-income vulnerable groups. However, the general increase in consumer debt and credit in Ireland (Hughes and Duffy, 2005) highlights the importance of considering financial literacy difficulties as a whole-population

issue, rather than one exclusive to marginalised or otherwise vulnerable sections of society (Conroy, 2005).

### *1.6.5 Increasing Consumer Protection and Legislation*

Reflecting the increased statutory power of the Financial Service Authority in the UK to create a fair and efficient financial services market (Financial Services Consumer Panel, 2001; Kempson and Paxton, 2003), the Financial Regulator in Ireland has been charged with augmenting the accessibility and understanding of financial services information but also increasing consumer protection and legislation. According to the *Financial Regulator Strategic Plan 2006* (p.10), the mandate for the Financial Regulator includes: 'helping consumers to make informed choices through education and codes of practice in a fair financial market'. This involves providing information as simply and clearly as possible, developing financial planning education, fostering access to financial services, ensuring that financial providers act in a fair and transparent way and monitoring competition.

A new consumer protection code was established in July 2006, with the aim of providing a consumer-focused standard of protection in respect to financial services consumption, equal protection to consumers across all types of financial services providers and the facilitation of fair, open competition. Other provisions of the code are being made for addressing debt consolidation of mortgages in terms of comparing costs, mortgage re-financing/equity release and wrap-up loans (O'Dea, 2006). All of these measures are being taken in order to maximise consumer information and protection through increased regulation. Interestingly, moneylenders have not come under the recent consumer protection codes and therefore their interest rates remain uncapped.

## 1.7 Summary

There is a paucity of analytical and academic commentary exploring the dynamics and nature of low-income credit and debt, particularly within an Irish context. In addition to the traditional utility and rent arrears associated with low-income groups, this study highlights credit card debt, mortgage arrears and debt around life events and celebrations, fuelled by an increasingly consumerist society.

The nature of the client and debt among lower-income groups is gradually changing, with a higher incidence of employed and mortgage holders who are indebted more to banks and financial institutions than to credit unions and moneylenders. There is also an increasingly

broad range of credit options available to lower-income customers through both the sub-prime and prime markets, with the credit union continuing to represent a key provider.

In terms of the initiatives to tackle indebtedness, this chapter has highlighted key factors such as access to affordable credit, encouraging saving, money advice and support, improving financial literacy and capability and increasing customer protection and legislation.

## **2. Research Methodology**

### 2.1 Research Objectives

This study aimed to explore the nature of credit consumption and level of debt among low-income-groups. In addition it aimed to identify key intervention strategies required to support and protect lower-income customers from access to unsolicited and inappropriate credit, leading to unmanageable levels of personal debt.

Key research aims were identified in relation to credit consumption and debt accumulation:

- To identify the types of credit available to and used by low-income people, the nature of consumption underlying this credit use and the cost (relative to income)
- To explore the nature and extent of low-income indebtedness and highlight current attitudes and behaviours in respect to debt management and coping mechanisms.

In relation to policy interventions, the following objectives were developed:

- To assess the adequacy and appropriateness of access and provision, in addition to current advice, support and regulation in relation to low-income credit and debt
- To identify what intervention strategies need to be developed and augmented in relation to credit provision and consumption among low-income people.

### 2.2 Research Design

The research involved a three-stage study with the first phase focusing on a comprehensive literature review of secondary research including reports, articles, and publications from both social and public policy and marketing/management spheres. A range of secondary sources were consulted including:

- Academic literature from Ireland, the UK and international arenas
- Administrative data based on Central Bank, MABS and ILCU research
- Survey data including the EU-SILC report.

Key research issues and themes in terms of low-income debt and credit were unveiled and the direction of both the supply/agency-side and consumer-based primary research was appropriately informed.

The second stage of the research study involved a series of five in-depth interviews with key supply-side informants representing a range of government support agencies, consumer protection agencies and financial institutions. This entailed a multistage interview approach including an interview with a key MABS representative and with key credit supply informants and policy analysts as follows:

- Michael Culloty, National Development Officer, MABS ndl
- Liam O'Dwyer, CEO, Irish League of Credit Unions (ILCU)
- John Brennan, Head of Sales, Marlboro Trust Ltd
- Jim Walsh, Head of Research and Policy, Combat Poverty Agency
- John-Mark McCafferty, Head of Social Justice and Policy, St Vincent de Paul.

As a third stage to the research, exploratory consumer-focused research involved a series of five in-depth interviews with three MABS clients and two MABS advisors from two areas in the Mid West. Drawing on the experience of several MABS advisors, a purposive sample of three clients was selected, based upon their relevance to the study. Firstly, all clients were on low incomes; one client was a lone parent in part-time employment, the second had been unemployed and had recently begun earning a low wage and the third, while employed in the past, was receiving social welfare due to long-term illness. Additionally, each client was selected as representative of many typical MABS clients who had run into difficulty through availing of a range of credit choices and had accumulated significant levels of debt. Though all female, they represented a range of other demographic factors including age and lifecycle stage and urban/rural setting:

- Client 1 (Female, Married/Children, Unemployed, Urban, 45-54) (Mid West Region A)
- Client 2 (Female, Married/Children, Employed, Rural, 35-44) (Mid West Region B)
- Client 3 (Female, Lone Parent, Part-time Employed, Urban, 25-34) (Mid West Region B)
- MABS Advisor 1 (Mid West Region A)
- MABS Advisor 2 (Mid West Region B).

Due to the sensitivity of the research and the difficulty of gaining access to clients, follow-up interviews were also conducted with two MABS Advisors who provided financial advice to the three clients and who therefore were in a position to offer additional background

information into each client's debt situation. The Advisor interviews also played a critical role in providing a wider spectrum of insight and experience into the client/consumer perspective, drawing upon a range of cases from their entire client base.

The in-depth discussions with both supply-side representatives and low-income consumers and advisors provided a holistic range of perspectives and views on credit provision and levels of debt among low-income groups. All interviews were transcribed and coded using a qualitative software programme (N\*Vivo) and key themes were identified and analysed. Importantly, due to the small sample sizes in relation to both supply-side and consumer research, the findings are neither representative of all relevant agency/supply-side bodies nor of all low-income consumers. Rather they represent the views of a purposive sample of informants who were willing to share their views and insights on low-income credit and debt. Through a thorough review of appropriate literature and careful structuring of data analysis (Carson *et al.*, 2001), the validity and reliability of the qualitative findings and conclusions was maximised, albeit based upon small sample sizes.

### **3. Analysis of Agency/Supply-Side Research**

#### **3.1 General Credit and Debt Issues among Low-Income Groups**

There was agreement among supply-side respondents regarding the financial needs of low-income groups, which included basic living expenses such as rent, heat and food. Child-related expenses were cited 'as a huge pressure' (Mike Culloty, MABS), in addition to health and education, food poverty, fuel poverty and lack of a savings mechanism. A broader issue highlighted in the context of the financial needs of low-income groups was that of budgeting. In terms of low-income credit availability and use, while there was a suggestion that access to mainstream lending was improving, there was agreement that the type of credit available to and used by low-income groups remained limited and expensive.

In terms of the factors underlying low-income debt, respondents highlighted the difficulty of managing on a very tight budget with a fixed level of resources which did not easily accommodate for 'lumpy expenditure', in addition to the inaccessibility of good-value mainstream credit. Others emphasised the increasingly consumerist, materialistic Irish society. They noted certain times of the year and celebratory periods in people's lives, such as birthdays and particularly Christmas, as key examples of the consumer-led, consumption-based society that low-income people live in. These pressures were identified as coming primarily from businesses and organisations, which appeared to be 'targeting low-income people in a way that never happened before, due to the perceived ability of all consumers to access credit easily' (Liam O'Dwyer, ICLU). This has resulted in a rise in the need for and use of credit among lower-income groups.

#### **3.2 Changes in Nature of Debt and Customer**

##### *3.2.1 Change in Nature of Debt*

Related to the pressure from society and the community, some respondents emphasised the change in consumer 'expectations, norms and standards' (John Mark Mc Cafferty, SVP) and the nature of spending (and hence debt) that low-income people engage in, in trying to attain a certain lifestyle. According to respondents, the kinds of goods that low-income people spend on are HiFis, clothes, cars and children-related consumption:

*For people on low incomes that's [TV, HiFi] the only form of entertainment that they actually can have ... I'd say a lot of it is to do with clothes ... to do with children and the house, because that's where people are so much of the time (Jim Walsh, Combat Poverty).*

Similarly, others emphasised the growing tendency for low-income people, as others, to 'live beyond their means' (St Vincent de Paul) and highlighted the growing spending culture in Irish society, reflected by some low-income people purchasing cars because of 'the marketing that's there and without due consideration of the associated costs' (Liam O'Dwyer, ILCU).

Access to credit in terms of a change in the nature of debt was highlighted by Mike Culloty (MABS) as the 'mis-selling' of pre-approved loans to vulnerable people who were unable to afford repayments. Another respondent discussed the increasing level of car ownership among low-income groups which was evident in council estates, and highlighted the 'rows between neighbours over the car park spaces' (John Brennan, Marlboro Trust). Other products identified in association with the changing nature of debt were mobile phones (sometimes multiple ones), cable TV (John Mark McCafferty, SVP) and costs associated with working such as clothes and transport (Jim Walsh, CPA). In line with the changing client in the credit unions, the rise in the use of credit cards and the level of credit card debt evident even among low-income groups was noted; this is also evident in the rise in middle-class debt such as multiple mortgages and multiples cars (Liam O'Dwyer, ILCU).

### *3.2.2 Changing Profile of Low-Income Consumer*

In relation to profiling low-income debt, respondents noted the factors characterising those affected by debt as:

- Gender
- Geographic background
- Age/lifecycle
- Level of income.

*Gender* appeared to be a factor, with women presenting as most vulnerable to debt and tending to carry the burden more than men, reflected by the comment that 'women own the problem' (Michael Culloty, MABS). Indeed, women constituted over 60 per cent of the MABS client base. Within this group, lone parents were highly represented as a particularly vulnerable group and this vulnerability increased proportionate to an increase in family size (John-Mark McCafferty, SVP).

In terms of *urban-rural background*, while broadly similar, rural people may be more isolated and may not be able to access credit or indeed communicate their financial problems as easily. Access to affordable transport was also cited as a problem in rural areas, necessitating additional expense through having two cars in the family. In relation to urban

living, the 'costs associated with renting in cities such as Dublin hit the lower wage earner disproportionately' (John-Mark McCafferty, SVP).

In relation to *age and lifecycle*, the most prevalent group affected by debt were 'young families ... from mid-20s to mid-40s' (Michael Culloty, MABS). Interestingly, older people who visit MABS tend to avail of the services because, in supporting their own older children financially, they find themselves in debt. As highlighted by John Brennan (Marlboro Trust), 'young families, either single-parent families or two-parent families' appeared to be most at risk of being in debt and they were most likely to use the services of the moneylenders. Most acknowledged that, while their client base consisted of low-income people on social welfare, this has also been added to by a number of different groups including younger people with higher expectations of life. There also appeared to be a change in expectations and attitude to debt, with Michael Culloty of MABS emphasising that young people held 'higher expectations of life' and were 'less perturbed [about debt] until it becomes very serious'. This was echoed by the moneylender who emphasised the change in attitude regarding defaulting on a loan, claiming, 'They say, "I can't pay you, so what? What are you going to do about it?"' (John Brennan, Marlboro Trust).

*Level of income* appeared to be a factor characterising those affected by debt. 'Income inadequacy' was highlighted by some respondents, who also noted that 19-20 per cent of the population is at risk of poverty. Within this, there appeared to be a subset of people who fall into the 'at-risk of consistent poverty' category. Their level of poverty is more severe; 'their resources are quite diminished because they have been poor for some time' (Jim Walsh, Combat Poverty). Importantly, within the income-poor group, there appeared to be an increasing number of people working (20 per cent), termed the 'working poor' or the 'newly indebted', implying that low income is 'extending into other groups, into a kind of working category' (Jim Walsh, Combat Poverty). This was emphasised by John-Mark McCafferty SVP, who saw an increasing number of 'people in poverty in the labour market' using their service.

Other groups at risk of becoming indebted included *foreign nationals and people with disabilities*, who may face particular challenges in participating in the labour market. Indeed, there appeared to be increasing numbers of non-national, asylum seekers, refugees and other 'economic migrants' using social services (Jim Walsh, Combat Poverty). These changes in the profile of the indebted client had brought about the change in focus of many voluntary organisations in terms of servicing changing needs. Due to an increasing emergence of the newly indebted, the importance of encouraging people to 'self-help' on

their website was highlighted – the priority for MABS still rests with low-income groups as opposed to 'looking after consumer debt of the middle class' (Michael Culloty, MABS).

### 3.3 Financial Exclusion

There was strong agreement among respondents that financial exclusion exists in Ireland. There is a perceived lack of interest on the part of the mainstream banks in low-income customers, rendering it an 'emergent issue' worthy of increased attention (Jim Walsh, Combat Poverty). In terms of a solution to financial exclusion, the notion of social lending was offered. This would include a basic/budget bank account or 'low-frills' banking for low-income people, involving more accessible language, marketing and promotional material (Michael Culloty, MABS). This basic account concept, re-iterated by Combat Poverty, would not be 'confined to a bank' but could involve 'low-cost affordable credit through the credit unions' (Jim Walsh, Combat Poverty). In addition, the MABS representative emphasised the importance of asset transfer in offering a long-term solution to poverty and financial exclusion:

*The only way that people get out of poverty is through the accumulation of assets ... asset transfer doesn't mean money necessarily. It means education, it means health, it means access to financial services ... you don't have enough money to save, not enough money even for today ... just talking about access to credit, it's just not enough* (Michael Culloty, MABS)

The need for more government support in improving access in disadvantaged and rural areas was highlighted. Due to the low take-up (15 per cent) of credit union services among lone parents (15 per cent), highlighted by Conroy and O'Leary (2005), a joint MABS-Credit Union pilot initiative was underlined, aimed at improving access to and availability of affordable credit to low-income groups through door-to-door promotion of the credit union and through educational sessions (Liam O'Dwyer, ILCU).

### 3.4 Role of Financial Service Providers in Servicing Low-Income Groups

#### 3.4.1 Mainstream Banks

There was acknowledgment from some respondents of the need for low-income people 'to be brought into the banking system and products devised to meet their needs' (Michael Culloty, MABS). There was agreement among respondents that the banks do not regard low-income people as their primary market and tend to exclude them from their agenda, resulting in these people feeling 'marginalised' from banks (John-Mark McCafferty, SVP). The proposed rationale for banks effectively excluding low-income people was that banks 'want to exclude them because they are not profit making' (Mike Culloty, MABS).

Mainstream banking is promoting the Internet and telephone banking and is 'less accessible to low-income groups' who are deemed to be a higher risk (Jim Walsh, Combat Poverty). However, banks are beginning to develop a 'social finance initiative' and 'improved social access to financial services' (Jim Walsh, Combat Poverty). Conversely, the absence of corporate social responsibility and the need to 'show some restraint in their lending practices' was highlighted (John-Mark Mc Cafferty, SVP). John Brennan of Marlboro Trust discussed the perceived 'social divide' associated with banks and highlighted the increased availability of inappropriate low-income credit such as credit cards.

### 3.4.2 Credit Unions

There was agreement among respondents that the role of the credit union was changing. According to both the MABS and the moneylending representative, credit unions were becoming more 'middle class' in focus, subject to the same regulatory regime as banks and their employees were no longer from a credit union or traditional 'working class' background. Similarly, while there was acknowledgement that the credit unions still had a 'localism' associated with them, it was felt that the needs of low-income people who may not be members of the credit union were being neglected (Jim Walsh, Combat Poverty). Importantly, there was agreement among respondents that credit unions differed in focus and market depending on where they are located. The CEO of the Credit Union highlighted that it was possible to service both markets including the emerging middle-class group and the more traditional lower-income groups, but within the constraints of a member-led organisation. He also emphasised that the needs of low-income people were serviced, stating that '45 per cent of the loans are for less than €1,000' (Liam O'Dwyer, ILCU). Despite this, there is a need for credit unions to 'more actively target' low-income groups so that they are offered a 'choice of lender' and are not solely reliant on the moneylender (Jim Walsh, Combat Poverty).

### 3.4.3 Moneylenders

There was agreement among the majority of respondents that there is a legitimate role for moneylenders. Indeed, the moneylending product was (on one level) deemed to be tailored to low-income groups due to its convenience, small loan amounts and ease of access:

*They do provide a product that people on low income like. There's no questions asked, no fuss, no form filling ... it's collected on a weekly basis from the door, which is very convenient ... because their need for the cash is now, people on low income are more interested in the weekly repayment than in the interest charged (Michael Culloty, MABS).*

Compared to the credit unions, there is no bureaucracy associated with obtaining a moneylender loan, and it would appear that 'convenience' and 'immediate need' were more important to many people who do not appear to be aware of the APR or costs. John Brennan emphasised that they provide a service to customers in whom nobody else is interested because these customers are struggling financially. He also underlined the importance of the personal relationship with his clients, stating, 'our relationship generally with customers is excellent' (John Brennan, Marlboro Trust). Conversely, other representatives stated that they were encouraging people away from moneylenders who did not want their clients to reach a level of 'self sufficiency', aiming instead to keep them 'dependent on their service' (John-Mark McCafferty, SVP).

Other sources of credit used by low-income people included pawnbrokers, illegal moneylenders and borrowing from family members. Michael Culloty of MABS emphasised that, for those who were struggling, 'you just get money wherever you can'.

### 3.5 Saving

There was agreement among respondents that saving was possible in theory but not widely practised among low-income groups. Respondents agreed that there was a lack of a savings mechanism for low-income people who cannot budget or plan ahead and are 'confined to really just eking out a living for today and existing' (Michael Culloty, MABS). Liam O'Dwyer emphasised the kind of saving that might be possible among low-income groups, involving saving small amounts with the credit union, and highlighted the 'three to one ratio' that still exists in some credit unions. In terms of possible models of saving mechanisms, initiatives undertaken in the UK and US in terms of the UK Savings Gateway scheme and the community re-investment tax scheme were highlighted (John-Mark McCafferty, SVP). Others discussed the notion of a special savings account which offers support and flexibility and is tailored to low-income needs. Jim Walsh explained the nature of these dedicated accounts and emphasised the need to provide 'help and support' to low-income people:

*... the [savings] product has to be quite different ... the ones that strike me are having some place where they can store and manage their money, a kind of low-cost facility. The second one would be then short term loans which again are at a very modest cost ... the third one is a kind of savings facility that ... offers some level of flexibility (Jim Walsh, Combat Poverty).*

Similarly, Liam O'Dwyer (ILCU) highlighted the importance of the Credit Union/MABS budget account which developed 'a record of saving' and empowerment among low-income people.

### 3.6 Financial Capability and Literacy

#### *3.6.1 Financial Capability, Budgeting and Planning Ahead*

Based upon discussions, there appeared to be a shortfall in the level of financial skills that low-income people have in terms of how they apply their 'own innate or learned management skills' to financial services (Jim Walsh, Combat Poverty). Others emphasised that there was a mix of financial capability among low-income people, some of whom were 'excellent money managers and try to make every cent stretch' but were dealing with inadequate income, while others may have never been taught coping skills and have neither the 'money nor the budgeting skills' (John-Mark McCafferty, SVP). Some low-income people were simply 'living on the borderline' (Jim Walsh, Combat Poverty), while others had such a low level of income that it was impossible for them to live within their means and they were 'barely surviving' (Michael Culloty, MABS). Other mitigating factors were health issues and addictions which 'undermine the coping skills' and 'encourage certain patterns of behaviour ... to put them in the red' (John-Mark McCafferty, SVP).

In terms of budgeting and planning ahead, others felt that low-income people were very good at 'managing extremely well on the monies they have', but that there were other factors at play such as income inadequacy, pressure from society and child-related expenses such as education which should in fact be 'free' (Liam O'Dwyer, ILCU).

#### *3.6.2 Financial Literacy, Education and Confidence*

In terms of literacy, financial terms and conditions were highlighted as a major deterrent or 'block' for low-income people. Financial literacy was perceived to be low, representing a significant problem which could only be dealt with through increased education in the schools and a proactive approach to an 'educational sort of promotion in disadvantaged communities' (Liam O'Dwyer, ILCU). Appropriate education was also highlighted by MABS in terms of introducing money management and consumer credit into 'the education system early on' (Michael Culloty, MABS).

Combat Poverty emphasised the 'deficit in terms of people's knowledge of options' among some low-income people in terms of choosing the best financial option. In addition, financial literacy was viewed as all-important within the broader need for 'life skills' and empowerment among low-income people (Jim Walsh, Combat Poverty). Conversely, according to the moneylender, there was a higher level of knowledge and astuteness among his clients. Indeed, he claimed that some of his clients would 'teach you' and described some of them as 'extremely streetwise' (John Brennan, Marlboro Trust).

### 3.7 Debt Management, Support and Protection

#### *3.7.1 Effectiveness of System in Identifying People in Debt*

Based upon discussions, people in problem debt are identified when they default on utility bills. However, if they become involved in gambling or an addiction, they may even begin to pawn off items in the house which may be 'harder to detect' (John-Mark McCafferty, SVP). Moreover, many people who find themselves in debt do not appear to have a high level of transparency over how much they owe and to whom. It was noted that the 'explosion of credit cards' may hinder the identification of people in debt because debt may not be 'from any single source' (John-Mark McCafferty, SVP). From a moneylending point of view, the level of training and experience necessary to be able to identify and deal with people in debt can 'take three or four years' to acquire (John Brennan, Marlboro Trust).

The importance of the MABS role was highlighted by all respondents and MABS received considerable praise for its service. It is 'second to none' in identifying and assisting people with problem debt and this is primarily due to its 'local presence' which ensures a better chance of 'being caught in the safety net' (John-Mark McCafferty, SVP). MABS was also acknowledged for its service as the 'single most important state intervention against poverty' which deals with people in a non-patronising, professional manner and is therefore an 'honest third party broker' for everyone else in the system to deal with (Liam O'Dwyer, ILCU). The notion of self-help was noted as being important, particularly as staff resources and 'money advisor capacity' may be limited at MABS. Consequently, clients were encouraged, where possible, to self-diagnose (Michael Culloty, MABS).

#### *3.7.2 Debt-Coping Strategies*

Combat Poverty described the different kinds of debt situations and ways in which people cope or manage their debt. This includes 'chronic debt', people in debt but able to 'manage their debt' and those who are in 'bad' to 'manageable' situations again. Hence, it is important not to see people or their debt-coping strategies as being similar in every situation (Jim Walsh, Combat Poverty). In terms of the issues and challenges relating to incurring debt, some respondents discussed economic factors such as lack of adequate income and a savings mechanism, without which people were being forced into an 'indebted or an over-indebted situation' (Michael Culloty, MABS). Others discussed psychological issues such as 'feeling powerless', with some people 'burying their head in the sand' and developing 'a chronic hopelessness' (John-Mark McCafferty, SVP). According to MABS, low-income

people cope (or do not cope) with escalating debt by using multiple sources of credit, by borrowing from 'Peter to pay Paul' and doing without:

*They cope. But it has a whole lot of other ramifications ... they may go without food ... they may go without light and heat ... Others would try and borrow their way out of it by getting a loan to pay off a loan. Some people would have two or three moneylenders. And again it's like the credit card, borrowing from one to pay off the other (Michael Culloty, MABS).*

Hence, some low-income customers deal with debt by attempting to 'borrow their way out of loan' and incurring increasing levels of debt.

### 3.7.3 Responsibility of Financial Providers in Debt Issue

There was agreement among respondents that many financial service providers were ignoring the poverty and debt problem. MABS emphasised the importance of banks 'giving something back to the community' in terms of being more 'proactive in their care for society rather than just taking everything out of it'. Combat Poverty concurred, stating that the 'issue of corporate social responsibility hasn't been fully embraced' (Jim Walsh, Combat Poverty). Similarly, the CEO of the ILCU emphasised the lack of proactive involvement by the main financial institutions in debt in general and particularly among low-income people and noted their 'laissez-faire approach'. St Vincent de Paul commented on the readiness of the banks to provide credit and 'build up profits based on debt' but also highlighted their reluctance to become involved with 'unmanageable debt' (John-Mark McCafferty, SVP). Thus, there was agreement that financial services providers should be more proactively working together to alleviate low-income debt. This was highlighted by Jim Walsh, Combat Poverty, who underlined the need for non-discriminating initiatives appropriate for low-income customers:

*You're not expecting banks to provide all their services for all low-income groups but there should be a certain level of non-discrimination at least ... there should be a levy on all banks which then can create a fund and this fund can support, reward, encourage groups who specifically meet the needs. Why not have a regulating charge ... that would go to the Regulator which would help fund pilot initiatives (Jim Walsh, Combat Poverty).*

St Vincent de Paul also emphasised that banks should be 'incentivised' to adopt the same policies as the US and UK through introducing 'a community reinvestment tax' where that money is then funnelled into communities through micro-credit and low-frills bank accounts (John-Mark McCafferty, SVP).

#### *3.7.4 Legal Protection*

In terms of legal support, the importance of modernising the legal system in relation to debt was emphasised. More intervention is needed in this area. The Irish legal system in relation to debtor protection and debt enforcement was perceived as 'old fashioned' and needed 'to modernise' in line with consumer credit legislation (Jim Walsh, Combat Poverty). Similarly, Mike Culloty of MABS highlighted that, while FLAC had introduced a 'raft of resources' which was beginning to address the credit issue and deal with people in debt, there is need for more progress. He also stated that, in the case of low-income people, legal advice should 'constitutionally be their right', alongside money advice services. The vulnerability of poor people in the current legal system was highlighted, with many not presenting in court, or being unable to afford representation, and thus being particularly vulnerable to the system.

#### *3.7.5 Governmental and Societal Responsibility*

Respondents emphasised the need for wider governmental and societal support. According to MABS, there is a lack of societal and political importance attached to dealing with poverty and handling the debt problem; there is a 'lack of real commitment to poverty' (Michael Culloty, MABS). This view was supported by Combat Poverty. Jim Walsh emphasised that 'poverty is a social issue' which has changed from a more traditional view that low-income debt was 'delinquent debt'. In many cases, it is 'not a question of won't pay, it's a question of can't pay'. In addition, there is a need to make poverty and low-income issues more central to policy making and the political agenda and to take on board the notion of 'mainstreaming social exclusion' (Jim Walsh, Combat Poverty).

### 3.8 Regulation

#### *3.8.1 Appropriateness of Current Level of Regulation*

Some respondents felt that the level of regulation was 'inadequate' or inappropriate in respect to low-income credit and debt, with much of the emphasis on protecting the middle-class sector (Mike Culloty, MABS). While the Financial Regulator plays an important role, it is based upon the consumer having access to and full understanding of information. This may not be the case among low-income people. They 'may not have enough information to make rational choices' (Jim Walsh, Combat Poverty). The CEO of the ICLU highlighted the inappropriateness of some of the new Financial Regulator codes in relation to the nature of credit union lending and emphasised that form-filling for small loan amounts was not necessary or appropriate. Conversely, St Vincent de Paul acknowledged that the work and role of the Financial Regulator had become more 'visible' and underlined that the recent

guidelines on financial products had 'improved awareness of the negative effects of spending' across the social sector (John-Mark McCafferty, SVP).

### 3.8.2 Regulation of Moneylenders

According to John Brennan, moneylenders were adequately regulated through the Financial Regulator and the Consumer Credit Association, with whom they appear to have a good working relationship. However, he highlighted that some of his customers did not feel comfortable filling out the legally required documentation for loans (John Brennan, Marlboro Trust). Importantly, other respondents highlighted the difficulty in terms of introducing heightened regulation with regard to moneylenders as this may discourage legal moneylenders from staying in the market and encourage 'illegals' to take their place:

*People say, 'Well, why do you allow them to charge 182% APR?' They do not look for collateral. The amount of defaulted loans can be high ... they are providing the good service, even though it is an expensive one. But then if regulation tightens the market and people will leave it ... that's the problem with moneylenders, they'll go underground and that's when you get illegal moneylending (Michael Culloty, MABS).*

While there is currently no cap on interest rates for moneylenders, their charges have to be declared and subsequently approved by the Financial Regulator. However, there was a perception that moneylenders are given 'a free licence' and that the government should be 'capping interest rates at a rate that's reasonable', as in the credit unions and other financial institutions (Liam O'Dwyer, ILCU). Michael Culloty of MABS emphasised the importance of offering an affordable alternative to the moneylender in terms of 'putting products in place that are suitable' for the needs of low-income people. John-Mark McCafferty of St Vincent de Paul highlighted the need for more targeted awareness of the negativities of moneylenders. Similarly, the importance of regulation in relation to moneylenders was highlighted by Jim Walsh, Combat Poverty, who emphasised improved 'customer protection' and the avoidance of unlicensed moneylenders with 'no regulation'.

### 3.9 Summary

Based upon the in-depth interviews with agency and supply-side informants, a number of key findings emerged from the discussions. In relation to general credit and debt issues among low-income groups, financial needs such as living expenses and budgeting, access to and type of credit available and key factors underlying debt were highlighted. In support of the literature, supply-side informants underlined changes in expectations, leading to an increase in luxury item consumption and debt such as cars, clothes and TV/DVD systems.

Related to the nature of debt, the profile of the customer included a higher proportion of heavily-indebted working people or 'newly-indebted'.

Despite the widening access to credit, financial exclusion was claimed to still exist, with some intervention strategies highlighted including social lending, asset transfer and improved credit access and affordability initiatives. Mainstream banks were perceived to be still largely focused on middle and higher-income categories, with some suggestions that credit unions were also moving towards a middle-income market. While a legitimate role for moneylenders was acknowledged, the importance of offering a viable alternative for low-income groups was also emphasised.

A number of low-income saving initiatives were suggested, including an appropriate savings mechanism similar to the UK Savings Gateway. Financial capability and literacy was discussed in the context of money management, budgeting skills and improved education.

The importance of debt management and support was discussed in terms of identification of people in debt and debt-coping strategies. A number of governmental, societal and financial service provider responsibilities were highlighted as well as the need for heightened legal protection. Respondents also emphasised the continuing need for increased regulation and consumer protection, particularly in relation to the regulation of moneylending practices.

#### 4. Analysis of Consumer-Based Research

##### 4.1 Living on a Low Income

In relation to the normal expenses incurred by low-income groups, rent or mortgage, ESB, food, fuel, TV license, channels, transport, phone were listed. In line with changes in society and higher expectations, respondents also discussed more modern expenses related to holidays, cars, house improvement, luxuries like TV/DVD systems and mobile phones. The difference between weekly and yearly expenditure was emphasised by MABS advisors, with the more 'lumpy expenditure' relating to occasions like Christmas, birthdays, Confirmation and Holy Communion. Other types of 'lumpy expenditure' referred to included house decorating and furnishing which in some cases might involve a complete refurbishment of a council house and, thus, represented a significant capital expenditure. Further significant expenditure for employed low-income people related to childcare which could be up to '€70 for a half day' (MABS Client 2).

In relation to work as a source of income, one client worked part time, the second had recently taken up full-time employment, while the third had lost her job and was receiving state welfare and other benefits. One MABS client explains how she lost her job and how her financial situation changed:

*... when I worked ... everything was paid without no problem whatsoever. Never fell behind with payments on anything. Until I lost my job ... Then things went downhill* (MABS Client 1).

The lone parent MABS client was 'struggling' to survive, working two days a week, and felt that it was 'not worth it' to work longer hours as she would lose out on her lone parent's benefit and medical card.

In terms of managing on a low-income, all three clients in the study expressed the difficulties of making ends meet and were 'often gone over the limit', with one client stating the need to 'scrounge off of my husband or my daughter' (MABS Client 1). Another client talked about how bills were always to be paid and that money 'goes in one hand on a Thursday and out the other' (MABS Client 3). Yet another client discussed how she had no social life, claiming that 'I couldn't tell you the last time I was outside the door' as it was 'beyond our means' (MABS Client 2). While the lone parent MABS client talked about how surviving was 'an awful burden', she said that she would 'not deprive my kids of anything' (MABS Client 3).

Consequently, 'meticulous' budgeting and money management was necessary, 'specific to the penny' (MABS, Client 2).

#### 4.2 Access to and Use of Credit

All three clients in the study noted how easy it is to obtain credit initially. It is easy to access credit through telephone banking or the Internet which could be processed in a matter of 'a couple of days'. The main sources of credit used are discussed below.

##### 4.2.1 Credit Unions

Due to their involvement with MABS, all clients in the study had dealings with the credit union through the Credit Union/MABS Budget account or through acquiring credit in general. Both MABS clients and advisors praised the credit union for their flexibility:

*The Credit Union is the only place I can get money ... They will actually negotiate how much do you think you could pay back weekly ... they don't just assume that you're going to be able to pay it back, say €20 a week when maybe you couldn't. So ... they're very good. They're the best option for me anyway (MABS Client 1).*

Another client praised the credit union as 'brilliant' in terms of providing 'top-up loans' and said they were 'amenable' to reduce repayments 'when you are in a bit of a bind' (MABS Client 2). Importantly, both MABS advisors praised the credit union for their 'support and back-up' and 'relationship with MABS' and highlighted the Credit Union/MABS Social Lending Scheme. This was perceived to be a very valuable low-interest option and key in 'introducing clients to become members' (MABS Advisor 1). Importantly, an increase in borrowings from the credit union was noted which is mirrored by an increase in the level of credit union debt among low-income and middle-income people:

*Most low-income and middle-income use the credit union ... we have started to see a huge fluctuation in an increase in debt to credit unions ... people are coming into us owing the credit union €22,000 and these loans are over a 5-year period which means that they're well in excess of €100 a week ... the next thing is it's nearly as much as the mortgage and they're finding it a problem (MABS Advisor 1).*

##### 4.2.2 Banks

In relation to banks as a source of credit, one MABS client emphasised the ease of obtaining a loan through the bank while she was working:

*With a good income coming in weekly ... it was so easy to apply for loans through the bank once they knew you were working ... you got the loan no problem (MABS Client 1).*

Another MABS client said that they had used the bank for small loans and 'wouldn't mind getting a loan [€1000 over 3 years] again' as it was perceived to be a good value credit option (MABS Client 2). Conversely, Client 1 indicated that her credit rating was so adversely affected in the bank that she 'can never go to a bank again and I'm glad really'.

#### 4.2.3 Moneylenders

All respondents emphasised the cost of the moneylender, as reflected by one client:

*Interest was very high, very expensive ... what did I borrow that time – €600. I was paying back over €1000. They're too expensive (MABS Client 3).*

Consequently, this respondent underlined her reluctance to use a moneylender, stating she would 'ask my mum or my sister first before I would go down that route'. The cost of moneylender credit was re-iterated by MABS advisors, claiming that they were 'charging so much interest' that MABS were constantly 'trying to gear people away from that and introduce them to the credit union' (MABS Advisor 1). Indeed, both MABS advisors underlined the differences between the moneylenders and the credit union in terms of cost, flexibility and tradition, with direct comparisons being made between the cost of the moneylender and the credit union on loans. MABS Advisor 2 noted the ease with which money can be obtained from moneylenders, particularly 'if a client defaults with the credit union'. The importance of the 'tradition among families' of using moneylenders as well as flexibility and a personal relationship were also highlighted:

*... a lot of people have the moneylender calling to the door. This moneylender is their friend. He has serviced their parents, their sisters, their brothers and all their neighbours. He is convenient. So even though you're paying top notch back he's still very handy. You don't have to go to the bother of going down to the credit union or going down to the bank and explaining yourself ... (MABS Advisor 1).*

In terms of moneylender dealings with clients, one MABS advisor said that many moneylenders targeted council estates as 'they'll always get customers there' (MABS Advisor 2). From a client's perspective, one respondent describes how she was intimidated by a moneylender:

*... I got an X box off him, I got a carpet off him ... I was paying it back, to be honest with you I was afraid of my life not to pay it, he would sit outside my door for over an hour, and he would bang and bang ... I was afraid to go out to him, because he would disgrace me out in the front of the neighbours ... at one stage he came to the door for money and the abuse he threw at me in front of them! Oh I actually cried here over him, because of the way he came to my house ... and I owed him very little and he disgraced me (MABS Client 3).*

In relation to moneylenders and intervention by MABS, one MABS advisor emphasised the negative reaction of moneylenders to MABS involvement, advising clients that there 'was no need to be going to MABS', aiming instead to keep a direct relationship with customers. MABS advisors explained that by going through MABS, moneylenders were no longer a 'priority payment' and would receive reduced repayments, sometimes from €70 a week down to €10 a month (MABS Advisor 1).

#### 4.2.4 Credit Cards

While all three clients in the study were aware of the risk of using credit cards and some had learned to avoid them, they all highlighted the ease with which they were able to obtain credit cards, as emphasised by one client:

*A Bank of Ireland credit card, no problem, because they knew you were working so I got everything too easy, so I don't know where to stop ... with the credit card they'd automatically top you up at the end of every year by €2,000 ... I also applied for an MBNA, Visa and Mastercard, no problem ... I just kept borrowing (MABS Client 1).*

However, having defaulted on her four credit card repayments, she stated that credit cards were 'out of the picture completely ... very bad' (MABS Client 1). Both MABS advisors talked about how popular credit cards had become. They are 'freely available', particularly for working people who may be on low incomes, resulting in increased credit card debt (MABS Advisor 2). This was supported by a MABS client who claimed that credit cards were 'handed to you on a plate' and were easily available, but she also claimed that she had 'learned her lesson' (MABS Client 2).

In terms of level of credit card debt, MABS Client 2 described how she found herself heavily in debt through credit cards:

*In the beginning I thought this is grand. I can go into town and buy bits of shopping and clothes for the kids and then when I came back and got my bill I thought Jesus Christ what am I after doing?*

A MABS advisor spoke of one of her clients who had incurred significant credit card debt:

*She had two MBNA credit cards and a Bank of Ireland credit card. She had three credit cards. And they're all in bad debt now ... they would have allowed her credit up to €4,500 on one of those credit cards. MBNA ... because she was a good a payer in the beginning and they increase your limit (MABS Advisor 1).*

This MABS advisor also spoke of some clients owing money on three or more credit cards, sometimes reaching thousands of euros, emphasised how 'very tempting' it was to over-use the credit and highlighted the 'easy access' and the fact that the 'limit was increased' by the

financial institution (MABS Advisor 1). Consequently, many clients defaulted on their credit card repayment, resulting sometimes in escalating penalties and intimidation tactics used by credit card companies. She discussed one client's case, who owed €5,000 to MBNA:

*They rang him three times a day every day. He said he stopped answering the phone. There have been additional charges of nearly €100 per bill between late payment, the insurance and the interest ... for the last three months.*

#### 4.2.5 Other Sources of Credit

Other non-mainstream financial institutions (e.g. City Financial) were also used by consumers as they dealt with consumers with adverse credit rating. One MABS client discussed the car loan for €4,000 she held with them and how the high interest only became apparent when the loan agreement arrived:

*The interest was huge ... we didn't actually realise it until the loan was taken out ... they sent back the documentation and my husband said 'Oh my God' (MABS Client 2).*

Hire Purchase was also identified as another easily available, expensive source of low-income credit which is often confused by clients as a term loan, but where the purchase 'cannot be owned by the consumer until the last payment' (MABS Advisor 1). A further type of credit which some low-income customers with 'adverse credit rating' avail of is loan consolidation, where, 'instead of paying 3-4 per cent interest, you'd be paying 6-7% per cent (MABS Advisor 1).

#### 4.3 Saving

According to client interviewees, saving was perceived to be 'difficult' or 'impossible' on a low income or when 'you have only one income coming in' (MABS Client 3). Another MABS client said she would prefer to 'save and buy' than buy on credit and looked forward to paying off her debt and begin saving again:

*... we just want to clear off everything first, get on an even footing and then we would be able to start saving. That's our main goal at the moment anyway (MABS Client 2).*

According to MABS Advisor 2, saving is actively encouraged through opening a savings account with the credit union in order to instil 'pride' in their clients through saving. MABS Advisor 1 emphasised how difficult it is to save on social welfare but that those on low wages can develop a 'habit of saving, even a fiver a week once they're clear of one or two bills'.

#### 4.4 Financial Exclusion

Access to mainstream banks was discussed. MABS advisors stated that there was a greater need for access to bank accounts as monies were being increasingly lodged into bank accounts by 'employers, FÁS schemes and even social welfare' (MABS Advisor 2). However, it was also emphasised that having a bank account may lead to negative borrowing habits such as 'getting a small overdraft which gradually builds up' (MABS Advisor 1). Importantly, the majority of clients did not appear to be excluded from mainstream financial institutions, particularly for small loans, until such time as they defaulted and 'had no choice' (MABS Client 1). A MABS advisor discussed how a perceived lack of choice of lender and targeting by costly lenders lay behind some clients 'getting into trouble ... affecting their credit rating' and access to mainstream lending:

*I'm thinking of another client recently ... I said, 'Why did you borrow from them [City Financial] knowing that you were going to pay back that much extra?' And she said, 'We'd no choice.' So I suppose there is a part of ignorance on the borrower's behalf where they won't shop around ... I do feel it's also about targeting people that wouldn't get it any place else (MABS Advisor 1).*

Similarly, one of the MABS clients described how she had no option but to use a moneylender as she had run into arrears with other lending institutions, stating, 'I had to go to Provident (moneylender). They helped me out with my daughter's Confirmation. I had no other choice' (MABS Client 3).

#### 4.5 Financial Capability and Literacy

##### *4.5.1 Financial Capability, Budgeting, Planning Ahead*

In relation to financial capability, MABS Advisor 1 described how financial management and capability varied from client to client, noting that some employed people 'still can't manage their money' while others 'would actually teach us as opposed to us giving them any tips'. Another MABS advisor emphasised how some clients lack the 'capacity to help themselves' and would become 'long-term dependent on MABS' (MABS Advisor 2). The differences between people in terms of ability or propensity to budget and live within their means were emphasised, as were the challenges facing those on limited income, who 'just can't afford these things and have to budget' which can be 'so difficult and you feel deprived' (MABS Advisor 1).

All clients in the study emphasised the difficulty involved in budgeting on social welfare and the importance of having an income in order to budget and manage outgoings. One client

claimed she 'loved paying bills, first priority' when she was working (MABS Client 1). Indeed, another MABS client illustrated her expertise as a money manager and budgeter through the following example:

*I have always done my Christmas planning in September, the minute they are gone back to school ... that's the way I have always worked it ... Now, I could do with a new suite of furniture ... but I was passing a shop and they were closing down and I got fantastic throws for €10. It made all the difference (MABS Client 2).*

In terms of encouraging good money management, one of the MABS advisors emphasised the need to establish good habits such as regular budgeting and 'handling of money' which people 'aren't trained to do anymore' (MABS Advisor 1). On the other hand, there appeared to be increased awareness among Irish people in general of the importance of financial skills and of the services offered by MABS. Additionally, recent media coverage (e.g. Eddy Hobbs) makes it more 'acceptable to have money problems ... and acceptable to go to somebody to talk about them' (MABS Advisor 2).

#### 4.5.2 Financial Literacy and Numeracy

The three MABS clients in the study underlined how they were not aware initially of the amount they were being charged on the credit they had taken out. One client stated that she 'didn't know how much it was going to cost' and that the banks 'don't give a hoot' (MABS Client 1). Similarly, another client stated that she and her family had been 'badly caught' by one financial institution who did not 'make it clear' how much it would cost and claimed that 'it was only when we got the letter out that we realised the interest'. She advised others to therefore deal with institutions 'face to face' and not 'over the phone' (MABS Client 2). This lack of awareness and lack of financial literacy was also supported by both MABS advisors. They identified some clients as being particularly financially illiterate, not knowing the difference in APR between a term loan and a credit card, and only realising the cost when they start 'paying the charges and penalties' (MABS Advisor 1). Conversely, one client showed a higher level of awareness of rates and had become 'very, very wary' as a result of being caught out once, identifying the credit union interest rate '.777%' as the lowest' in the market (MABS Client 2).

#### 4.6 Nature of Debt

According to a MABS advisor, approximately 20 per cent of clients were experiencing arrears in 'utility bills' while the remaining 80 per cent relates to younger clients incurring different kinds of 'smaller or larger debt' through credit cards and mobile phone bills (MABS

Advisor 2). Other typical goods and services purchased on credit which led to problem debt included cars and holidays, as reflected by the following example:

*I took out a loan to buy my car which was €5,000. I took out a loan just to have a nice life ... didn't go on anything too extravagant ... a car ... I'd pay off bills and stuff like that. Go on a holiday to England you know ... (MABS Client 1).*

In addition, it appeared that credit cards were used for special occasions like 'birthdays and Christmas' or where money was required 'for something in an emergency' (MABS Client 2). Based upon discussions with both clients and advisors, the level and extent of debt tended to range from a couple of hundred to over tens of thousands of euros. One client in the sample, while she 'never planned it', had incurred €32,000 of debt through re-mortgaging, bank loans, overdrafts, credit cards and moneylenders. Her advisor emphasises how the bank continued to offer credit without doing the necessary review of her financial situation:

*... she wanted the money because she was finding it difficult maybe to cope on her budget and meet the repayments on the existing loans ... she had an overdraft, she had her personal loan and she had two moneylenders and a credit union loan all on the go . So her need was: at Christmas or a special occasion she wanted money ... in that situation, the bank did not do an analysis of her outgoings (MABS Advisor 1)*

Another client explains the basis of her €7,000 loans:

*I borrowed €3,500 in a Tesco loan and then I got a loan a few years ago from the Ulster bank to go on a holiday and then I topped that up to €3,000 ... When I went for a loan to the bank to clear off the Tesco loan and the Ulster Bank loan she told me I would have to clear off €4,500 ... Then with the moneylender is €500-600 ... or nearly €700 ... (MABS Client 3).*

These examples clearly highlight how some low-income consumers access and use multiple sources of prime and sub-prime credit, leading to increasing levels of problem debt.

#### 4.6.1 Nature of Indebted Client

In relation to type of client, according to MABS advisors, 80 per cent of MABS client base appear to be younger clients of which 'maybe half would be working' (MABS Advisor 2). All clients in the sample were female (as were both advisors), reflecting that women, whether alone or married, are expected to 'handle' money problems and there was a 'tendency for the wife to take over' (MABS Advisor 2). MABS Client 3 was a lone parent who had a particular set of circumstances as she was supporting two children on her own:

*I want the best for my kids. If I had to go to the bank to borrow money, I had to do it to support them. I had to support my two kids on my own ... I am hoping with the help of MABS I can get back on my feet again.*

Reflecting the supply/agency-side research, there were increasing numbers of newer, middle-class MABS clients who may be 'only one month's pay away from being in debt' (MABS Advisor 2). Another MABS advisor stated that middle-class clients had become their 'more traditional client' where there are 'both couples working' (MABS Advisor 1), but emphasised how low-income and social welfare groups were still a priority for MABS.

#### 4.6.2 Triggers of Debt

A change in circumstances was the key trigger for debt, according to MABS clients and advisors. This included events such as 'maternity leave, an accident, a debt' as they may have 'nothing to fall back on' (MABS Advisor 2). One of the MABS clients explained how taking a loan out on a car, which subsequently proved un-payable because of her husband losing his job, was the key debt trigger:

*It's just with the car and my husband out of work and everything, it took us nearly four weeks before we got any money from the social welfare ... we went to the St Vincent de Paul at one stage ... we had no money for food or anything, it was just bad luck ... we fell behind in the rent, we fell behind in the ESB payments (MABS Client 2).*

An additional debt trigger appeared to result from lifestyle and child-related spending. According to MABS advisors, many MABS clients in the middle-class bracket incur debt to sustain a certain lifestyle, including expenses related to socialising, but are not willing to cut back 'because it's not cool ... you reach a certain standard and it's very hard to go back down and watch what you spend every day' (MABS Advisor 1). Both MABS advisors and clients also emphasised the influence of the consumerist society which is exercising huge pressure on all, including low-income groups, to 'buy, buy, buy' (MABS Client 1). Another MABS client discussed the pressure from neighbours who had 'a fantastic house' and how she was 'pure jealous over it' (MABS Client 3). This pressure in society to spend was particularly prevalent where children-related expenditure was concerned:

*... we have a consumer society ... you're being pushed the whole time and where the biggest problem happens is families, children ... children go to school ... it's the designer school bag and runners ... the pressure is on parents to come up with this money. And if you're on a low income you can't do this ... and mothers come in and they say you know they don't want their children to be different. They want their children to fit in (MABS Advisor 1).*

This was supported by the other MABS advisor who stated that the children of low-income people 'will not want for anything even if they've got to do without something themselves ... even if they're behind on a payment with something' (MABS Advisor 2). The pressure to provide all for one's children despite being on a low income was illustrated by a MABS client who was conscious of providing the best for her daughters:

*I am very fortunate. I have two brothers and they were home from Australia for Christmas and they bought them a stereo each. They bought them a portable television each. There was a Play Station too ... that took the pressure off me then ... they both do piano lessons, they do set dancing and they are starting horse riding (MABS Client 2).*

The pressure exercised by children was described by another MABS client in terms of how her daughter 'wants to be up to date' and constantly 'needs money for this and that' (MABS Client 3).

#### 4.7 Coping with Debt

##### 4.7.1 Mental and Physical Implications of Debt

In terms of coping with debt, some clients in the study referred to the fact that they were 'not able to cope' or were 'just hanging in there' and that 'there was awful pressure'. One client discussed the mental and physical implications of debt and indicated how this had led to suicide among some people she knew:

*I am not able to cope ... sometimes I just come home and I just cry ... how did I get myself into this mess ... I know two or three people that have tried to do away with themselves because of this, there is so much pressure, ... I got into major depression ... Oh it'll take a long time before I can get rid of my debts. I can't see nothing for the future yet (MABS Client 3).*

Another client stated that she 'hated being in debt' and was 'deep in depression' as a result of her debts which were 'eating [her] up really'. In terms of physical effects, she described how she had attempted self-harm on a number of occasions:

*... I could be 6 under because at one stage as ... I was in the habit of taking tablets ... and 40 is well the highest within 3 days whereas you're supposed to go into hospital after if you take 10 together ... I continued that route you know. Then I was doing self-harm to myself. Three little rusty nails I found at home ... swallowed them ... I was hoping it would bust the lung or something, d'you know (MABS Client 1).*

The 'awful burden' of debt was also discussed by MABS advisors who claimed that some clients were 'stressed to the gills' as a result of debt. The effects that their clients experienced in terms of sleepless nights, stress-related skin disorders and effects on relationships were also noted. One advisor highlighted the relief that the MABS service offered one of her clients who claimed, 'it was the first night that I had a good sleep in ages' (MABS Client 1).

##### 4.7.2 Not Confiding in Family or Friends

A number of MABS clients explained how they did not confide in their family, stating that they would 'be shot' if their family knew:

*It's all within I don't tell anyone about it. My daughter knows a little but not a lot ... No I wouldn't worry my children at all ... my husband wouldn't be able to handle that at all ... I wouldn't chat to my brothers or sisters ... carrying it on my own (MABS Client 1).*

Hence, MABS Advisor 1 explains how the advisor role involves an important counselling dimension as 'somebody to listen to them outside their own family' (MABS Advisor 1). This was also supported by the other MABS advisor who stated that the stigma associated with debt was preventing people from confiding in family and friends as people feel that 'you're weak ... and you can't handle your money ... it must be hugely stressful' (MABS Advisor 2).

#### 4.8 Debt Support Services

While some clients had not been aware of the MABS service before getting into debt, they subsequently heard of MABS through family members, neighbours or aid organisations like St Vincent de Paul. One of the advisors noted the importance of people seeking to help themselves, or be 'self-referrals' (MABS Advisor 1).

##### 4.8.1 Debt Support offered by MABS

All clients interviewed praised MABS greatly for their individual and dedicated service, stating that they are 'brilliant' and that the MABS budget account 'takes the pressure off': MABS Client 1 described how her advisor had brought her to the bank and 'fight your case', while another client emphasised the personal help provided by her MABS advisor:

*... she is the best support I have had in a long, long time. She really helped me and she said what you are entitled to and she made me go about it ... I was on the verge of losing my house, that's how bad it was. Only for MABS I would be lost ... MABS is the best thing that every happened to me ... I hope in the future I will become debt free. I won't have to run to a bank or a moneylender. I can cope with the money I have, and I am on the right road now (MABS Client 3).*

MABS Advisor 1 noted that they were being increasingly perceived by banks as 'intermediaries'. The banks see MABS 'as a help to collect their debt because we're local to the person' and facilitate the settlement of the debt. MABS Advisor 2 discussed how the banks and other financial providers were 'sending people to us' for money advice and bill paying on defaulting accounts. In terms of number and turnover of clients, one of the MABS advisors indicated that they take on 20 new clients to their MABS office on a monthly basis, adding significantly to their existing client base. MABS Advisor 1 underlined the level of independence and empowerment that can be instilled among clients:

*... that's what I was trying to do, empower him to solve it ... and anyone else who would have the capacity to help themselves and you'd say, 'you make that phone call now, and you write that letter or you do this' (MABS Advisor 1).*

On the other hand, depending upon their 'capacity to help themselves', the other advisor reported that it was sometimes difficult to instil a sense of independence. Some clients remain 'long term dependent ... the file never leaves your desk' (MABS Advisor 2).

#### 4.8.2 Outreach Education and Additional Support Services

Both MABS advisors emphasised the outreach education they offer in the community and in schools on financial education:

*We do a community education talk ... we show them the APR and [advise them] to watch it. We show them the difference between paying back the credit union and paying back moneylenders ... we give them budgeting tips ... how to pay their rent (MABS Advisor 1).*

In terms of promoting financial literacy in the schools which is more 'prevention than cure', one of the MABS advisors stated that Ireland was well behind Europe in terms of financial education. She also explained the challenges therein, noting that accessing final-year students was difficult as they have 'too hectic a school timetable'. She highlighted the difficulties in 'getting through' to students for whom a discussion of money management may not appear relevant (MABS Advisor 1).

Other services and supports which were highlighted by both clients and advisors in the study included access to community development officers and increased opportunities for support and discussion groups for those carrying debt. According to one MABS client, there are very few other services available apart from MABS. She emphasised the need for more opportunities to discuss her debt situation with others in the form of 'community councils' or 'debt-free' meetings, stating that there were no meetings in her own local community which was a distance from a main city (MABS Client 3).

#### 4.9 Regulation

There was agreement among clients that there should be increased 'regulation and awareness before you borrow money' (MABS Client 2). Indeed, one client believed that credit was available too easily and often involved 'just a matter of a phone call' (MABS Client 3). Another MABS client emphasised the need for more laws, particularly in relation to access to credit and use of credit cards:

*There should be more laws ... I see young ones with credit cards and I say to myself how do you pay it back and you can get a credit card like that ... its easy to get money these days, because they know people are in debt and they will get paid back whatever. You can just get money like that. It's no problem (MABS Client 1).*

#### 4.9.1 Increased Regulation of Credit Limits and Lender Practices

In terms of increasing regulation of credit limits, all advisors and clients in the study underlined the danger of increasing credit limits. This should be subjected to more stringent legislation. According to one client, the bank kept 'building up the credit limit', leading to significant credit card debt. Consequently, this client was advised to 'take out no loans from a bank and apply for no plastic cards, in case of losing a job' (MABS Client 1). This was also echoed by MABS Advisor 1 who welcomed the recent changes to credit card limits but underlined the need for more regulation, claiming 'there's a lot to do'.

The need for heightened lender responsibility was also stressed by MABS advisors. One advisor linked lax lending policies to excessive debt, stating that 'no analysis of her [client's] situation' was undertaken by the bank (MABS Advisor 1). Both MABS advisors took a critical stance in relation to credit union regulation and emphasised the need for increased credit union responsibility and vigilance in terms of ensuring that customers do not have multiple accounts. One advisor conceded however that this was difficult due to lack of credit scoring (MABS Advisor 2). Because of the fact that many credit unions in Ireland are members of the Irish Credit Bureau, it appears to be still very easy for a customer to obtain credit and many are 'just adding another debt onto their list' (MABS Advisor 2). Credit scoring was also discussed by a MABS client, who claimed that the banks should 'check the credit history and stop people getting into debt' (MABS Client 2). This client compared the Irish to the English system where 'a complete background check' is done:

*... if they think you have borrowed enough already they say no ... they don't do that here [Ireland] ... You can go in and say you are making whatever. There are some places that are not even asking for identification ... or whether you can afford to pay it (MABS Client).*

This also raised the issues of the need for increased borrower responsibility, with one MABS Advisor highlighting that some people may not be completely honest in terms of their prior borrowings or debts:

*There's the lender's responsibilities and there's the borrower's responsibilities ... And they [the bank] don't check because they're just relying on the person to tell them ... and these are people who are desperate for money (MABS Advisor 1).*

#### 4.10 Summary

Based upon the interviews with MABS clients and their advisors, a number of key consumer-based themes emerged. The nature of low-income living expenses was highlighted, with the challenges in relation to short-term budgeting and coping with 'lumpy expenditure' emphasised by respondents. In terms of access to credit, a range of credit providers were used including banks, credit unions, moneylenders, credit cards and other financial institutions. While access appears to have widened, affordable credit is limited, particularly if the consumer has defaulted on a loan and must resort to sub-prime lenders for future credit needs.

While saving was considered impossible for those on social welfare, the findings indicate that it remains difficult but is sometimes possible for those on low incomes. Financial capability and financial literacy were also highlighted as key issues and barriers among low-income groups in making the best financial decision.

In terms of the nature and level of debt, debt levels appear to be high, fuelled by easier access to credit cards, banks loans, overdrafts and mortgage top-ups. Echoing the literature and supplier research, there appeared to be a higher number of younger, middle-class, working people in debt, with a large representation of lone parents still vulnerable to problem debt. Changes in circumstances, lifestyle and pressure from a consumerist society, particularly for child-related expenditure, were underlined as key debt triggers.

The majority of respondents highlighted the difficulties involved in coping with debt and emphasised the mental and physical effects of being in debt, with many not confiding in others. While MABS remains a key money advice outreach educational service, the need for additional complementary support and advice services was stressed. The need for heightened regulation was also emphasised, particularly in relation to increased credit limits and tighter lender practices.

## **5. Conclusions, Recommendations, Limitations and Future Research Directions**

### 5.1 Conclusions

Building upon recent Irish publications (e.g. Byrne *et al.*, 2005; Conroy and O'Leary, 2005), this study attempts to address the lack of academic and policy-related research on the nature of credit and debt among low-income groups in Ireland. Based upon a comprehensive review of the literature, a number of key conclusions can be drawn. Recent reports and publications exploring poverty and indebtedness (e.g. Fahey, 2005; Central Statistics Office, 2005) indicate that, despite growing economic prosperity in Ireland, a direct link still exists between poverty levels and indebtedness, with certain segments of the population, particularly lone parents, in debt due to ordinary living expenses.

Based on the literature exploring the current nature of debt (e.g. Kelly, 2004; Conroy and O'Leary, 2005), low-income debt appears to be changing and includes a greater element of 'middle-class, lifestyle-related' consumption and debt including credit card debt, mortgage arrears and luxury goods debt, which is often driven by pressures in consumption-driven Irish society. This development in the nature of debt is also mirrored by a change in the nature of the indebted client, with an increase in the number of young, employed mortgage holders replacing the traditional MABS client (MABS, 2005b).

While some proponents in the literature highlight the existence of financial exclusion, particularly among certain groups (e.g. Conroy and O'Leary, 2005; Quinn and Ní Ghabhann, 2004), a review of the Irish prime and sub-prime credit markets shows that overall access to and use of credit is increasing. While the credit union network represents the main low-income credit provider (e.g. Byrne *et al.*, 2005), it would appear that an increasing proportion of MABS clients are indebted to banks and other financial institutions (MABS, 2005), indicating that, while mainstream lending has become more accessible, it may not always be the most appropriate option for low-income groups.

In light of the developments regarding the nature and level of low-income credit consumption and debt accumulation, a number of key intervention strategies are proposed in the literature to address indebtedness. These include: reducing financial exclusion, encouraging saving, money advice and support, improving financial literacy and capability and increasing customer protection and legislation. While some initiatives have been taken, e.g. MABS/Credit Union Budget Accounts, Consumer Protection Code, NALA/EBS financial literacy programme, further low-income targeted intervention and support is required. This is

particularly critical because of the widening access to credit and the increasing level and evolving nature of debt being incurred by this particularly vulnerable group.

Based upon an analysis of the in-depth interviews with agency/supply-side respondents, a number of key conclusions can be drawn. In support of the literature in relation to general credit and debt issues among low-income groups (e.g. Hogan, 2005; McKay, 2005), one can conclude that traditional challenges associated with short-term budgeting and managing on a low income and coping with unexpected, large payments still exist. The findings also suggest, however, that expectations of lower-income groups have been raised in response to increased, aggressive marketing and advertising, and heightened pressure of consumption-driven Irish society.

This is reflected in the newer type of client (e.g. working, newly indebted) presenting at MABS and the apparent changing nature of low-income debt which has evolved from traditional rent and utility-related arrears to more middle-class, luxury-goods based debt (e.g. cars, mobile phones and luxury child-related expenses). Such debt appears to be incurred through middle-class type credit sources such as personal loans, credit cards, overdrafts and mortgage top-ups.

Building upon the literature focused on financial exclusion and access (e.g. Byrne *et al.*, 2005), while there were mixed views among supply/agency-side respondents regarding the extent of financial exclusion and access to affordable credit for low-income groups, mainstream banks were still perceived as being largely focused on middle and higher-income categories, with some suggestions that credit unions were also moving towards a middle-income market. It appears that low-income groups are increasingly targeted by many types of credit providers and are offered a range of sub-prime as well as prime credit options. Hence, the importance of offering a viable alternative to moneylenders was emphasised.

While MABS has been accredited in the literature and in the research as an excellent service, dedicated to low-income money advice and support, it is increasingly challenged to cope with the growing debt problem that is affecting all strata of society in general and low-income groups in particular. Referring to the literature highlighting the need for increased intervention, support and regulation (e.g. Jones and Barnes, 2005; Collard *et al.*, 2003), it appears that current intervention strategies and policies in relation to low-income credit and debt support and regulation remain inadequate. Agency/supply-side respondents proposed improvements in relation to savings initiatives, dedicated money-management and budgeting

skills, enhanced debt management and legal support, increased financial service provision and governmental responsibility and augmented regulation and consumer protection.

Based upon the analysis of the consumer research with MABS clients and their advisors, a number of key conclusions emerge. Reflecting the literature (e.g. Conroy and O'Leary, 2005) and supply-side research, the unpredictable nature of low-income financial needs was highlighted in terms of difficulties in relation to budgeting and coping with unexpected expenses. While access to and use of a range of both mainstream and sub-prime credit providers appear to have increased, this has resulted in a higher incidence of default and debt among low-income groups. The findings suggest that access to mainstream lending and affordable credit exists only until the consumer has defaulted. Then, due to an adverse credit rating, that consumer must resort predominantly to sub-prime lenders for future credit needs. Given the low incidence of saving and the varying levels of financial capability and literacy among low-income groups, it would appear there is little chance of escaping from the cycle of indebtedness without the necessary financial skills to make the best financial decisions or adequate savings to avoid recurring debt.

Echoing the supplier research, the increased access to credit and resultant debt levels evidenced in the consumer research, triggered often by societal pressure and a desire to attain a certain lifestyle, indicate that the nature of both debt and client has evolved considerably. The mental and physical repercussions of debt, including stress and physical self-harm, often carried alone, heighten the need for augmented debt support services for the consumer and increased regulation for the financial services industry. The consumer-based research indicates the need for additional low-income focused debt-related education and support including more targeted regulation, leading to improved lender as well as borrower responsibility, stricter credit limit controls and a lender-wide credit scoring system.

The apparent access to and use of credit and the resultant rise in debt among low-income groups currently represents a critical issue of concern and therefore needs to become a strategic priority at national policy level, requiring heightened governmental and regulatory intervention and support. A number of primary and secondary recommendations in terms of intervention strategies are proposed.

## 5.2 Key Recommendations

### 5.2.1 Addressing Financial Exclusion: Asset Banking

Despite an apparent increased choice of lender and access to credit to low-income groups, it is recommended that low-income groups should be provided with the following: appropriate

and affordable lending options such as budget or 'low-frills' bank accounts, access to small loans, asset transfer opportunities and improved access to financial services in rural and disadvantaged areas. While credit unions may be currently servicing some of these needs, it is recommended that all members of the financial community, as part of their corporate social responsibility, be required to work together to ensure that dedicated affordable and appropriate financial services products are made accessible to low-income groups.

#### 5.2.2 Augmenting Money Advice and Support Services: MABS

MABS appears to be increasingly challenged to service the growing numbers of its diverse client base. It is therefore recommended that additional support and resources be provided to MABS through increased budgets, additional staff and support services. As debt is transcending all social strata in society, it is recommended that MABS be provided with the necessary resources and capacity to offer a segmented approach to a range of different clients, while still retaining low-income customers as their priority. This approach should allow it to remain as an example of best practice money advice and budgeting in Europe.

#### 5.2.3 Heightened Regulation and Consumer Protection: Lender Responsibility and Pro-activity

Despite recent augmentation of financial services legislation and consumer protection, it is clear from the research that the particular vulnerabilities of low-income groups are not fully addressed. It is therefore recommended that increased low-income targeted regulation and consumer protection be introduced. Heightened lender responsibility resulting in improved borrower responsibility is called for, in addition to stricter credit limit controls and regulation of moneylending rates and practices. It is recommended that all credit unions join the Irish Credit Bureau to prevent its members holding multiple accounts and multiple loans in different branches. Tighter legislation and a lender-wide credit-scoring system should augment the transparency of customer credit rating across all prime and sub-prime providers.

#### 5.2.4 Strategic Priority of Low-Income Credit and Debt at National Policy Level

Low-income credit consumption and debt accumulation needs to become a strategic priority at national policy level, requiring heightened governmental and regulatory attention and support. It is recommended that further government-backed targeted regulation, protection and support is required to assist low-income customers in relation to poverty, indebtedness and credit consumption. This can only be realised through an increased 'mainstreaming' and

inclusion of low-income issues in governmental policy and a dedicated focus on low-income credit and debt needs in relation to financial services regulation, policy and practice.

Considering the lack of Irish academic attention on low-income credit consumption and debt accumulation, it is recommended that the state fund research into further exploring attitudes and behaviours in relation to debt and credit among low-income groups. Additional avenues for further research relate also to the intervention strategies outlined, including investigating financial exclusion, measuring literacy and capability, evaluating current debt advice, support and management services and evaluating the appropriateness of financial regulation and consumer protection in relation to low-income groups.

### 5.3 Other Recommendations

#### 5.3.1 Providing Low-Income Saving Opportunities

It is recommended that appropriate motivations are put in place to encourage saving among low-income groups. It is crucial, therefore, that the credit union continues to raise awareness and promote itself as a saving opportunity targeted at low-income people. It is recommended that a government-backed, 'matched' savings mechanism, similar to the UK Gateway Savings model, be offered, using perhaps the credit union network, and dedicated to low-income saving capabilities in order to develop a sustainable pattern of saving.

#### 5.3.2 Continued Improvement of Financial Literacy and Capability

Building upon past initiatives, a more targeted approach is needed to address financial literacy and capability issues among low-income groups. While some outreach educational initiatives are being undertaken by MABS and the credit unions, it is recommended that a government-backed dedicated programme of financial literacy and capability be introduced as part of the school curriculum, in addition to more targeted outreach education in disadvantaged areas as part of a broader 'life skills' programme.

#### 5.3.3 Enhanced Debt Management and Support

Given that St Vincent de Paul is often accessed by low-income people as a first port of call in seeking support, advice and assistance with regard to problem debt, it is recommended that the State recognises and supports the core role this volunteer organisation plays at local, regional and national levels in capturing the nature and extent of low-income debt, offering key support to vulnerable groups and in tackling indebtedness. Moreover, it is recommended that other community services and support groups should be equipped to assist in the identification and assistance of people in problem debt. As a support service to MABS,

opportunities to discuss credit and debt-related issues in a confidential setting should be provided in all local communities. It is recommended that FLAC be facilitated and supported in continuing to modernise and augment the legal process related to debt settlement. It is recommended that these proposed debt management/support initiatives be supported by the government and also by financial services providers as part of their community and social responsibility programmes.

#### 5.4 Limitations and Future Research Directions

This is an exploratory study which sought to unveil current key supply-side and consumer-side perspectives regarding the nature of credit consumption and debt accumulation among low-income people in Ireland. Due to the scope of the project and the sample sizes involved, these findings, while not generalisable to low-income people as a whole, are indicative of a range of key emerging themes and issues warranting further investigation.

Further research into low-income credit and debt issues on a larger scale is warranted, with the aim of broadening and extending the scope of this study and facilitating further exploration of these indicative findings.

A follow-on, larger-scale, qualitative study of a wider range of representative bodies from the agency or supply-side, complemented by a larger qualitative and/or quantitative study of low-income consumers, would capture a broader supplier/agency and consumer base, thus producing findings and conclusions from which broader inferences and generalisations could be made.

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