

Response to Consultation Document: Proposals for regulatory reform of credit unions in Northern Ireland

**Issued jointly by HM Treasury and Department of Enterprise,
Trade and Investment**

May 2010

Executive summary

As part of our financial inclusion policy work with lenders, Housing Rights Service in partnership with credit unions in Northern Ireland has made considerable progress in developing an affordable credit pilot for tenants in rent arrears.

It is well documented that social housing providers house a concentration of people on low incomes. Often these people pay crippling rates of interest to borrow money from doorstep lenders and loan sharks as they are denied access to financial services. Such practices can both trigger and exacerbate debt problems which, if unchecked, can lead to eviction and homelessness. Housing Rights Service, in recognition of the need for more affordable credit options, has been working tirelessly to put in place a pilot scheme to enable tenants in rent arrears to obtain loans from a local credit union. Housing Rights Service has secured commitment from a number of credit unions and housing associations to be involved in the scheme. We are currently working to develop the detailed arrangements. It is anticipated the scheme will be operational from July 2010.

This response is based on Housing Rights Service's view that credit unions have an increased role to play in opening up access to affordable credit for people on the margins of financial exclusion, who have been denied access traditionally.

- Housing Rights Service is supportive of change that will enhance the ability of credit unions in NI to contribute to tackling financial exclusion. However, we believe this should be complemented by the development of a NI-specific, Executive led, Financial Inclusion Strategy.
- Housing Rights Service believes that, through access to Government initiatives such as the Growth Fund, credit unions will be able to develop their role in terms tackling of financial exclusion.

- We recognize it is important that the Northern Ireland Assembly is able to legislate in the best interests of NI credit unions. However, in the interests of expanding the role of credit unions in terms of addressing financial exclusion, we urge the Northern Ireland Assembly to match UK reforms.
- Housing Rights Services considers it imperative that credit unions in Northern Ireland remain financial institutions run by the community for the community.
- To this end we believe a balance should be struck between expanding services and promoting access to affordable credit, as well as protecting the credit union ethos.

1.0 Introduction

Housing Rights Service welcomes this opportunity to comment on proposals for regulatory reform of credit unions in Northern Ireland. Our response initially provides a brief overview of our services, concentrating specifically on housing debt and the Preventing Possession Initiative and then provides comment on the areas which we have identified as important and relevant to our work. The focus of our response is calling for measures that will enhance the role of credit unions in Northern Ireland enabling increased access to affordable credit for those on the margins of financial exclusion. Accompanying this response is the policy paper *Financial Inclusion and Housing Debt in NI*; this was published by Housing Rights Service in July 2009. The paper explores the problem of financial exclusion and housing debt and proposes possible policy solutions.

2.0 Organisational Background

Housing Rights Service was established in 1964 and is the leading provider of independent, specialist housing advice services in Northern Ireland. We believe everyone has the right to a decent, safe, affordable home. Our services include:

- Providing a housing advice line
- Undertaking advocacy and legal representation on behalf of people with housing problems
- Providing a specialist Mortgage Debt Advice Service pilot for people who face losing their homes through debt
- Providing online advice through our award winning website www.housingadviceNI.org and an email advice service
- Providing a specialist housing advice service within the prisons
- Delivering a skills and knowledge based training programme
- Producing information resources materials

- Supporting (In partnership with Citizens Advice and AdviceNI) generalist advice agencies to deliver high quality housing advice in their local communities
- Providing client based comment to influence the development of relevant public policy and legislation
- Providing practical advice and assistance at court for possession proceedings and undertaking preventative policy work through our Preventing Possession Initiative.

Overall, we work to achieve positive change by protecting and promoting the rights of people who are in housing need in Northern Ireland. Our policy work is based on the experience of our clients and our work actively supports current government policy commitments in the broader areas of:

- Tackling Poverty and Promoting Social Inclusion
- Promoting Access to Social Justice
- Preventing Homelessness and Meeting Housing Need
- Promoting Equality and Better Relations
- Working in Partnership with the Voluntary Sector

Funding for our work comes from a range of different sources. Our core services are funded by the Housing Division of the Department for Social Development NI.

3.0 Housing Debt Service – Preventing Possession Initiative

The prevalence of rising personal debt and the threat of repossession of homes in the current economic climate have been well documented. In the last five years, Housing Rights Service has witnessed a significant increase in demand in Northern Ireland for specialist housing debt advice and representation. In 2008/09 Housing Rights Service statistics show that the number of clients represented at possession proceedings increased five fold compared to the previous year.

In response to this crisis, Housing Rights Service launched “The Preventing Possession Initiative” in February 2009. This 3 year initiative aims to prevent homelessness as a consequence of debt related possession action using a two pronged approach: by providing high quality advice, support and representation to those who are facing the imminent threat of repossession; and through our policy agenda with social housing providers and lenders. As part of our financial inclusion policy work with lenders, Housing Rights Service, in partnership with Credit Unions in Northern Ireland, has made considerable progress in developing an affordable credit pilot for tenants in rent arrears.

It is well documented that social housing providers house a concentration of people on low incomes. Often these people pay crippling rates of interest to borrow money from doorstep lenders and loan sharks as they are denied access to financial services. Such practices can both trigger and exacerbate debt problems which, if unchecked, can lead to eviction and homelessness. Housing Rights Service, in recognition of the need for more affordable credit options, has been working tirelessly to put in place a pilot scheme to enable tenants in rent arrears to obtain loans from a local credit union. We have secured commitments to be involved in the scheme from a number of credit unions and housing associations and work is ongoing to develop the detailed arrangements. It is anticipated that the scheme will be operational from July 2010.

Housing Rights Service welcomes the opportunity to respond to the joint consultation by HM Treasury and Department of Enterprise, Trade and Investment on proposals for reform of credit unions in Northern Ireland. Some of the questions in the consultation are outside the scope of the work of Housing Rights Service. We will, therefore, confine our comments to the role of credit unions in tackling financial exclusion. Our particular focus will be on the potential for credit unions to increase access to affordable credit for low income households

4.0 General comments

Housing Rights Service is aware through the experience of our clients that people on low incomes or the financially excluded are more likely to need credit for essential items such as household appliances, clothing and furniture and to pay bills. For these people affordable credit is a matter of necessity, not luxury. The problem facing people who are financially excluded is double-edged. Not only do they need credit for necessities, but they are very likely to have difficulties accessing affordable credit from mainstream lenders. The result is fewer available options and more people turning to higher interest products from sub-prime lenders (such as doorstep lenders, mail order catalogues, pawnbrokers, pay-day loans and illegal money lenders). The majority of these sources of credit can be extremely costly, with APRs ranging anywhere from 100 to 400%.

It is for these reasons that the Government felt there was a role for not for profit lenders such as credit unions in Britain to deliver affordable credit to those on the margins of financial exclusion. To this end, the Government developed a Financial Inclusion Strategy which established a Growth Fund of £42 million to enable credit unions to deliver affordable credit to the financially excluded. This was followed up by the publication of the "Financial Inclusion Action Plan for 2008-2011" which sets out the Government's commitment to promoting financial inclusion in partnership with credit unions.

Housing Rights Service welcomes the proposals and is supportive of change that will enhance the ability of credit unions in NI to contribute to tackling financial exclusion. However, we believe this should be complemented by the development of a NI-specific, Executive led, Financial Inclusion Strategy. We would urge the NI Executive to develop and implement a Financial Inclusion Strategy to assist the implementation of proposals outlined in this consultation. It is Housing Rights Service's view that credit unions in Northern Ireland are currently impeded from realising their potential in the area of combating financial exclusion. We are, therefore, supportive of measures that will enable credit unions in Northern Ireland to fully participate in tackling financial exclusion.

Housing Rights Service believes that in order for credit unions in Northern Ireland to play a central role in tackling financial exclusion they must have access to the Government initiatives identified in this consultation. We believe transferring regulation of credit unions in Northern Ireland to the Financial Services Authority (FSA) will provide access to the Growth Fund. The Growth Fund has been instrumental in enabling credit unions in England to open up availability of affordable credit to people who would, traditionally, have been denied access.

Housing Rights Service would like to see the credit union movement in Northern Ireland broadening its role. It is our view that through access to Government initiatives credit unions will be better placed to develop additional services and financial inclusion initiatives. Housing Rights Service considers any modernization and growth of credit union services to be a welcome development for credit unions and an invaluable service to the local communities in Northern Ireland.

3.0 Specific comments

3.1 Legislative and registration responsibilities

Option 1: *legislative and registration responsibilities should remain with the NI Assembly*. Housing Rights Service believes it is important that the Northern Ireland Assembly is able to legislate in the best interests of NI credit unions. However, in the interests of expanding the role of credit unions in terms of addressing financial exclusion, we urge the Northern Ireland Assembly to match GB reforms.

3.2 Amending NI credit union legislation

In the Enterprise Trade and Investment (ETI) Committee's Inquiry into credit unions, the Committee recommended that "*credit unions in Northern Ireland should be permitted to expand their range of services to include, at the very least, those services which credit unions in GB can currently offer (recommendation 1)*". This viewpoint was also strongly supported by the credit union movement in Northern Ireland. Housing Rights Service endorses this viewpoint and believes that to enable the expansion of services it is imperative that the credit union legislation in NI is amended to match GB reforms.

Housing Rights Service believes that option 2: *amend credit union legislation in NI to match GB reform*, is the most appropriate option in relation to the legislative framework for credit unions. We recognize that it is for the NI Executive, in consultation with the credit union movement, to identify its own needs and course of action. However, we consider the measures that have been taken in England to be positive steps in enhancing credit unions' ability to support people on the margins of financial exclusion.

3.3 Re-investment of assets

Housing Rights Service agrees that this proposal will allow the Northern Ireland Assembly to legislate for NI-specific measures such as community investment. However, we agree with the ETI Committee's Inquiry that there is a need for caution when reinvesting assets into community development and enterprises. It is for the credit unions in Northern Ireland to ensure that reinvestment of assets would be of benefit to the community as well as being in the interests of their members.

3.4 Checks and balances

Housing Rights Service believes the expansion of services and opening up of access to affordable credit will benefit credit unions and communities in Northern Ireland immensely. However, there need to be checks and balances in place to ensure that these new powers are used appropriately. Housing Rights Service believes it is important that credit unions in Northern Ireland don't begin to replicate mainstream lenders and that a balance must be maintained. We believe it is imperative that credit unions in Northern Ireland are able to maintain their ethos; that they exist to serve their members not to profit from them.

4.0 Conclusion

Housing Rights Service welcomes proposals that will enhance the ability of credit unions in NI to contribute to tackling financial exclusion. However, we believe that these proposals would be complemented by the development of a NI-specific, Executive led, Financial Inclusion Strategy. Housing Rights Service believes that to ensure appropriate implementation of the proposals contained in this consultation, close partnership working between FSA, DETI and the credit union movement in Northern Ireland is vital.

We welcome proposals that will enable credit unions in Northern Ireland to expand their services and access Government initiatives for the purposes of promoting

financial inclusion. However, we caution that checks and balances must be in place to ensure that credit unions do not replicate mainstream lenders. Housing Rights Services considers it to be imperative that credit unions in Northern Ireland remain financial institutions run by the community for the community. We believe a balance should be struck between expanding services and promoting access to affordable credit, as well as, protecting the credit union ethos.

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