

# MABS Pre Budget Submission 2011

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*MABS Helpline*

**1890 283 438**

Monday to Friday: 9am - 8pm

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## 1. Introduction

The Money Advice and Budgeting Service (MABS) was established in 1992 to help people on a low income to cope with debts and take control of their own finances. It is the only free, confidential and independent service of its type in Ireland. It currently comprises 53 MABS Services, located in over 60 offices nationwide. MABS is funded and supported by the Citizens Information Board.

MABS National Development Limited was established in 2004 to further develop MABS in Ireland. It provides training and technical support to MABS staff nationally. MABSndl also assists the MABS service in providing educational and informational supports, as well as assisting in highlighting policy issues that arise in the course of the money advice work on behalf of clients. MABSndl has responsibility for the ongoing development of the MABS website [www.mabs.ie](http://www.mabs.ie) and for providing the MABS national helpline service.

An analysis of MABS statistical data for the period, Q1 2007 to Q3 2010, indicates the following:

Table 1 MABS Client Statistics

Year	Information Only	Budget negotiable	Special Account	Total MABS Offices	Helpline
2007	2,673	9,886	2,547	15,106	1,680 <sup>1</sup>
2008	2,441	13,924	2,676	19,041	10,973
2009	3,868	16,476	2,618	22,962	24,837
2010(all to Q3)	2,831	14,947	2,022	19,800	21,800

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<sup>1</sup> MABS Helpline was launched in October 2007

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- In the first 9 months of 2010, the MABS Helpline, which offers assistance to callers Monday to Friday 9am to 8pm, took over 21,800 calls, compared with 18,490 calls in the same period of 2009.
- The demographic profile of the client base remains relatively stable over time. In the main, MABS clients are social welfare recipients, (growing from approximately 63% in 2007, to almost 70% in 2010), the majority is female, aged between 26 and 40 and over 60% have children.
- The total share of 'Budget Negotiable' clients is increasing over time, i.e. MABS is negotiating arrangements with creditors for a higher proportion of its client base.
- The number of mortgaged clients is growing as a percentage of the total caseload and at 6,641 clients now amounts to almost 40% of the client base where accommodation status is known (this compares with 35% for 2008 and 35% for 2009). (It should be noted that not all mortgaged clients present with a mortgage difficulty but the mortgage is a consideration in such cases as there may be debts secured on the home etc.)
- Debts: The average amount owed by new clients presenting at MABS Services has grown from just over €6,990 in 2006, to €19,471 at Q3 2010.
- At the end of Q 3 2010, 70% of all debts owed by MABS clients were owed to banks or financial institutions.
- While there had been a declining trend in total utility debt owed over 2009, for each Quarter in 2010 we have seen a growth in the total amount owed by new clients to utility companies.

## 2. "Focus on Priorities"

The MABS approach to debt management is holistic in nature and is rooted in developing a full understanding of our clients' situation, based on which we facilitate the repayment of debt in a structured way. In all of this work we focus on priorities (housing, food and fuel, educational and other supports for children, repayment of court fines, etc.) we also respect the fact that

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people also need provision, even in a basic budget, to enable them to maintain a quality of life<sup>2</sup>. A core focus of our work is working with clients to achieve sustainability.

Therefore, our continuing concern in 2011, is to enable people to avoid debt problems relating to 'priority expenditure' or day-to-day living expenses, and to ensure, where possible, actions are taken to prevent the factors which cause or compound debt problems, such as, loss of employment, income, housing or essential utilities. Within this context, the vulnerability of over-indebted people is a key concern and our work also aims at empowering the client base and bolstering their resilience in difficult times.

As such, the priorities that we believe must be focused on in Budget 2011 are:

## **Box 1: Priorities Budget 2011**

1. Mortgage Debt
2. Energy Debt
3. Supports for sole traders
4. Supports for Children
5. Rehabilitating debtors

We believe measures in each of these areas need to be considered, not just in the context of Budget 2011, but also with regard to the proposed multi-annual fiscal policy covering 2011 to 2014.

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<sup>2</sup> Our view on poverty and its prevention is in accord with the definition of poverty and social exclusion which the Government first adopted in 1997:

*"People are living in poverty if their income and resources (material, cultural and social) are so inadequate as to preclude them from having a standard of living which is regarded as acceptable by Irish society generally. As a result of inadequate income and resources people may be excluded and marginalised from participating in activities which are considered the norm for other people in society."*

## 3. Mortgage Debt

As part of its casework mission statement, MABS works “towards the prevention of homelessness”. At the end of Q2 2010, 36,438 residential mortgages or 4.6% of total residential mortgages were in arrears for 90 days or more, of which, 24,797 were more than 180 days in arrears.<sup>3</sup> As indicated previously, the proportion of mortgage holders as a percentage of the MABS client base is also increasing. With over 442,000 on the live register we anticipate that the number experiencing housing debt problems could increase even further over the coming years.

### 3(a) Understanding the issue

While MABS has always dealt with housing debt; problematic mortgage debt and other “housing stress” related issues emerged as a strong feature of MABS casework in mid 2007. In response, MABS has consistently focused on monitoring issues, developing support materials, working with creditors and up-skilling staff. Due to the complexity of the issues and the need to more fully understand housing stress from the perspective of the householder, 28 MABS services participated as ‘gatekeepers’ in a ‘Housing Costs Survey’ that was supported by the Homeless Agency Partnership. The survey interviewed persons using MABS services who agreed to participate. The survey was conducted over the telephone by independent researchers using a structured questionnaire specially designed for the purpose, and ran from October 2009 to April 2010 - 201 clients, broadly reflective of the overall MABS client base and distributed across 20 of the 26 counties, completed the survey.

The survey results are currently being collated and analysed. The findings will demonstrate a number of things, namely:

- the period during which housing stress developed and the reasons behind it; the extent and nature of the problem at the time of interview;

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<sup>3</sup> Source - Financial Regulator

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- the response to default and arrears they received from their mortgage lender or housing provider;
- Respondents' views on their prospects for the future.

A further related, and more qualitative, piece of research focusing on MABS' client experiences has recently been initiated by Waterford MABS<sup>4</sup>. This research will, *inter alia*, explore the application of options for the resolution of mortgage debt difficulties in order to identify and refine "best practices" that can be utilised by Money Advisers when working with clients in a mortgage arrears situation or clients who may be at risk of entering into arrears; and will make recommendations based on the findings of this research to inform policy and practice on addressing mortgage arrears and related difficulties. Both studies will generate unique household level evidence data which will assist MABS, Money Advisers and others in the development of supports for people experiencing housing stress and housing debt difficulties.

### **3 (b) Mortgage Rescue:**

We welcome the interim report from the Mortgage Arrears and Personal Debt Expert Group<sup>5</sup> (the Expert Group) and the proposed revision and strengthening of the Statutory Code of Conduct on Mortgage Arrears. We also welcome the recommendations contained in the Mortgage Interest Supplement Review<sup>6</sup>, and we look forward to the changes these will bring about in protecting and supporting consumers in these difficult times. From our own work for, and on behalf of, families with problem mortgage debt we believe that, without a policy initiative in this area, many families are at risk of homelessness over the next 3-5 years.

In our 2010 pre-budget submission and in submissions to the Expert Group (2010) and to the Department of Social and Family Affairs in 2009, we have expressed the view that it is better to

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<sup>4</sup> With the support of the Citizens Information Board and MABSndI.

<sup>5</sup> 'Mortgage Arrears and Personal Debt Expert Group, Interim Report', July 2010

<sup>6</sup> Department of Social Protection, July, 2010

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put in place a limited scope and short-medium term mortgage rescue scheme now (rescue schemes for homeowners and their families at risk of repossession have already been put in place in the United States and the UK) rather than have homes repossessed, to be placed onto a dormant property market causing further weakening of that market.

In any such scheme the protection of the family homes of those most vulnerable<sup>7</sup>, and those most reliant on supports afforded by a particular community e.g.- older people, people with a chronic illness or disability, parents of school-aged children etc. must be prioritised. In resolving mortgage cases lending practices also need to be closely examined.

## Case Study<sup>8</sup> 1

*MABS Client and partner remortgaged the family home (ex Council house bought for €80,000.00) in July 2007. The Client was 47 at the time. The mortgage term was 30 years and the client was meant to be 77 when the mortgage was paid in full. The client has one daughter with two years left in college.*

*He borrowed from a sub-prime lender through a broker. His monthly contractual payments are €1,870.76, the 'interest only' amount per month is € 1,628.32. The client is in arrears of over €18,000.00. The lender has agreed to a repayment of €350.00 per month for the moment but he is finding it difficult to meet this. The client was in receipt of MIS for one year but this has stopped. This decision is under appeal.*

## 3(c) Flexibility & Innovation

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7 The IMF's (May 31, 2010) commentary in their Concluding Statement for the 2010 Article IV Consultation on Ireland is notable in this regard:

"Mindful of the moral hazard risks, narrowly-targeted support measures for vulnerable homeowners would limit the economic and social fallout of the crisis"

8 Case studies used in this document are, of necessity, abridged – however, they are representative and each case study represents an issue that is relevant to a significant number of clients. More detail in respect of relevant cases and more cases relevant to the issues can be provided.

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Macro level policy measures may be advanced by Government through the work of the Expert Group; and standardized procedures will emerge within the revised Code of Conduct on Mortgage Arrears. In addition, we believe that there must be a continued focus on innovation and flexibility in lenders' responses to the difficulties experienced by individual customers and this can only be based on a thorough understanding of the customer's situation and real engagement between all parties in working to find a solution. We would hope, based on good practices identified in existing MABS casework, as well as the further analysis and research described above, to assist in the identification of low cost or "zero sum" remedies for at least some of our client base.

### **3 (d) Interest Rates:**

We have continued concern about increases in mortgage interest rates for those on variable rate mortgages. We know from our client base that the budgets of those managing on a low income allow no scope for further outgoings to service mortgage costs. As such, further interest rate increases will further reduce our clients' capacity to pay for food or fuel or necessary supports for children. Interest rate increases obviously could cause repayment difficulties for those currently making repayments, thus increasing the numbers of people currently in arrears.

We are of the view that mortgage rates should be kept as close to the ECB rate as possible and that all interest rate increases be subject to the prior approval of the Financial Regulator. Where an interest rate is approved, sufficient time and support must be given to consumers to make necessary adjustments to their budgets to cope with the change.

### **3(e) Structures**

We are of the view that the resolution of mortgage arrears difficulties (which have been described as the "biggest legacy"<sup>9</sup> of the financial crisis) will take some time. While we understand that the Expert Group was established with specific terms of reference and a defined lifespan, we believe a high level monitoring group comprising the key stakeholders will

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<sup>9</sup> Financial Regulator, Matthew Elderfield, May 2010.

be required to ensure that there is a joined-up approach to the implementation of its recommendations.

### **4. Energy Debt and Issues Arising**

MABS acknowledge that the regulatory, economic, environmental, payment and competition issues relating to energy provision are extremely complex. Our view however, is that strong consumer protection is required as deregulation of the market occurs.

In relation to utility debt we are of the view that three inter-related issues need to be prioritized: energy affordability, disconnection policy and improved definitions and processes for the treatment of “vulnerable” consumers.

#### **4(a) Energy Affordability:**

Since its formation the cost of fuel for low income families has been a key concern for MABS. In this regard MABS welcomed the opportunity to contribute to the consultation paper prepared by the Inter-Departmental/Agency Group on Affordable Energy<sup>10</sup> which states that “energy affordability is a function of income, energy prices and energy efficiency of the home”.

While we welcome the many measures taken in recent years to improve household energy efficiency, we would concur with the recommendation in the discussion paper on ‘Affordable Energy Strategy’ that ‘there will remain a requirement for targeted current expenditure-based supports to alleviate the effects of energy poverty in the short-run, particularly for the most vulnerable groups and those who move into energy poverty due to sharp increases in energy.’<sup>11</sup>

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<sup>10</sup> The report estimates that, depending on the definition applied, energy poverty in Ireland in 2009 could vary between 117,264 and 396,947 giving an energy poverty rate of between 7.6% and 25.7% of all households in the State. Following the expenditure method of 10% of household income spent on fuel poverty, research by the ERSI in 2008 estimated that 19% of Irish households (301,368) may have experienced fuel poverty.

<sup>11</sup> Discussion Paper on Affordable Energy Strategy Table 33, page 42 – [www.dcenr.gov.ie](http://www.dcenr.gov.ie)

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In the context of declining incomes for many householders, when extra or new taxes are introduced on basic energy products (such as the Carbon Tax, introduced on domestic fuels in May and the introduction of a 5% increase in energy prices in October) compensation measures must be put in place to protect the most vulnerable. In our experience, capital supports are also required to switch fuels from expensive and inefficient heating fuels, such as coal or oil, to a more efficient and cost-effective fuel source.

Finally, and given the entry of new suppliers into the Irish market, there needs to be improved provision of information regarding rights, entitlements and energy efficiency measures. We know that many of our clients have switched suppliers without a full understanding of the relevant terms and conditions, and, in particular, have entered into contracts and payment terms that are demonstrably unsuited to their needs.

While recognizing that some very comprehensive web-based information resources exist (e.g. [www.powerofone.ie](http://www.powerofone.ie)) based on our experience of the issues presenting within the client base, we also believe that there is a need for a small, mobile, independent energy advice service (possibly funded by the sector), to assist low income consumers gain access to the best energy tariffs, grants, schemes, loans and other energy efficiency offers available. This could be modeled on the Scottish Energy Saving Advice Centres<sup>12</sup> which provide free, independent and local energy saving advice.

### **4(b) Disconnection/de-energisation of Domestic Energy Supply**

At present and in order to prevent disconnection and the related costs, MABS is engaged with suppliers of gas and electricity to put in place operational protocols<sup>13</sup> for “can’t pay” debtors which will prioritise the achievement of arrears’ payment arrangements that are affordable and sustainable for the client. In our experience disconnection is often a clear indication of real

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<sup>12</sup> Energy Saving Scotland advice centre (ESSac), see also Glasgow Home Energy Advice Team provides advice and support on energy related issues to the city’s fuel poor households, in their homes and through clinics at money advice and citizens advice services. .

<sup>13</sup> Modeled on the existing debt management protocol agreed between MABS and the IBF in June 2009.

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hardship being suffered by individuals and families. It is our experience that for those who “can’t pay” disconnection and reconnection fees serve no other purpose than to add to that hardship.

## **Case Study 1 – disconnection**

*A separated single client on Jobseeker’s allowance for the past 15 months was disconnected on 5th August 2010 for an outstanding balance of €950 approx. The client came to MABS on 11th August. The MABS budget and financial statement indicated that their core income of €196 per week was inadequate due to the fact that he has his children on alternate weekends. The client had made very significant adjustments to outgoings since becoming unemployed, such as, mid week visits to children stopped, Car sold, Sky TV disconnected, telephone landline disconnected etc.*

*The client had very little debt apart from that owed to the energy provider.*

*MABS contacted the supplier for reconnection terms, which were full payment. MABS made a further approach to the supplier and got the terms down to €800. A request to consider a budget controller was declined. The client was referred to the CWO, however even with the assistance of the CWO there was still a significant gap between the amount owed and the amount the client could pay.*

## **Case study 2**

*Client X is a lone parent with 4 children. She is no longer working as a result of illness and was referred to MABS by a Woman’s Domestic Violence Service. Client X’s electricity has been disconnected. Client X has already received an Emergency Needs Payment (ENP) from her CWO and was told she would not be eligible to apply again for another year.*

*MABS conducted a home visit and Client X and her family have no electricity, heating or cooking facilities. The original bill amount was €279.30, however, Client X needs to pay for a deposit: €300, a disconnection fee: €97.61 and a reconnection fee: €99.88 before she can be reconnected. The total bill of €776.49 must be paid before reconnection. MABS made contact with the CWO and a relevant local charity.*

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While we are hopeful that our 'Energy Supplier Protocol' will assist, we believe that a regulatory response may be required to address the issue. Disconnection clearly impacts adversely on clients and on their families; it adds to the over-indebtedness of families already experiencing hardship, and has a real impact on the well-being and quality of life of those affected. It is also a cost to the State, to MABS and to those charities that provide assistance.

While allowing the right of disconnection to be retained in 'won't pay' cases, we are of the view that all energy suppliers must:

- 1) Take a more holistic approach to arrears management and recognise that payment for utilities is one of a number of priority payments (together with housing costs and food etc.) that low income families are often struggling to pay. Disconnection and reconnection fees therefore greatly impair their capacity to service other priority payments such as those for housing and food and in some cases lead families with no other recourse but to borrow from money lenders.
- 2) Be much more judicious in determining those who "can't pay" from those who "won't pay" and use this information before deciding to disconnect.
- 3) Communicate energy saving and debt management advice to customers and significantly improve their approach to resolving arrears problems with their customers.

We know, from our experience with clients, that most arrears problems can be averted through the use of pre-payment meters. We are of the view that the technology (software driven smart prepayment or advanced metering systems) exists to resolve this issue without disconnection. In the longer term this would represent a saving to the customer, to the supplier and to MABS, the CWOs and other major charities routinely involved in the resolution of disconnection difficulties for clients.

## **4 (c).Vulnerable Consumers and Energy Supply**

Our review of literature from the EU, the UK and elsewhere<sup>14</sup> suggests that Ireland is less advanced in the protections and supports it provides to vulnerable energy consumers than other jurisdictions. This applies both in relation to provision for social or “life-line” tariffs for people who are on a low income and to the application of the Special Service Register, which is available only to people over 66 years, living alone or with other elderly or minors, people on life support equipment and people with mobility, hearing and sight disabilities. We note, in particular, the adoption by UK suppliers of guidance produced by the Money Advice Liaison Group on dealing with customers with mental health problems<sup>15</sup>. Our experience of working with energy suppliers on behalf of an increased volume of vulnerable clients over recent years suggests that 1) the existing regulatory definition is too narrow and 2) staff of energy providers are insufficiently aware of the vulnerability of customers, their capacity to manage money as a result of that vulnerability, and the impact which disconnection can have on their physical and mental well being.

We therefore:

- propose that the issue of vulnerability needs to be revisited to establish a definition that more comprehensively deals with this complex issue as outlined above.

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<sup>14</sup> <http://www.europarl.europa.eu/sides/getDoc.do?type=REPORT&mode=XML&reference=A6-2008-0202&language=EN>

<sup>14</sup> [http://ec.europa.eu/energy/energy\\_policy/consumers/doc/2007\\_07\\_05\\_comm\\_386\\_en.pdf](http://ec.europa.eu/energy/energy_policy/consumers/doc/2007_07_05_comm_386_en.pdf)

<sup>14</sup> House of Commons Select Committee on Public Accounts Thirteenth Report 1.1

<sup>14</sup> ‘Guidelines on the arrangements to assist low income and vulnerable consumers’. 2007. Electricity Commission, New Zealand.

<sup>15</sup> Review of protection for vulnerable customers from disconnection, (OFGEM) 2009

- Suggest that guidelines encompassing mental health issues also be established.

### 5. Debts of Sole Traders/Micro-enterprise<sup>16</sup>/ Access to Social Welfare Supports:

#### The MABS Experience

It is widely acknowledged that during the last decade or so the micro- entrepreneur/sole trader played a significant role in the economic life of both the local community and the Irish economy. These traders, many in financial difficulty, are now finding it hard to access low cost or free business debt advice and social supports for themselves and their families.

Because they traded without having the protection of a limited liability company, sole traders (e.g. contractors, construction workers, transport workers, agricultural workers etc.) now face considerable personal debts and MABS is providing a response in this regard. MABS is also regularly approached at the national level by groups representing sole traders seeking assistance, advice, materials etc.

Some businesses have already folded while others are still operating, but their mortgages and utilities are falling into arrears as they struggle to make the business pay. Many were formerly on the Back to Work Enterprise Allowance, and their businesses have failed. They are now left in debt, often with potentially serious implications for themselves and their family's finances.

While business debt does not fall within the remit of MABS, whose services are aimed at the personal and family debts, of people on a low income, there is very often no division of the finances of micro-entrepreneurs into "business" and "personal" and those presenting in MABS services often have very low or nil income. Further, they often put up their home as collateral for business loans and do not have separate accounts for home finances. This means that when things go wrong, as they often do<sup>17</sup>, the family home can be in danger. Even if the home has not been put up as collateral, as the trader is not limited by guarantee, his/her personal assets may be subject to repossession.

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<sup>16</sup> Unincorporated entities

<sup>17</sup> The rate of small business failure in Ireland is estimated at between 33-41% after 5 years, source: 'Small Business Failure in Ireland, Report to the Department of Enterprise Trade and Employment' (2002) Fitzpatrick Associates

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It is this, together with their loss of income, and lack of capacity to cope with their debts, that brings such clients to the MABS Services. Due to lack of alternative supports, these clients can be amongst the most vulnerable. MABS can offer advice and support in relation to personal debt but cannot give the necessary advice on small business debt. The difficulties need to be resolved holistically i.e. because in these cases they are so intertwined, business and personal debts need to be looked at jointly. In the absence of such support we are concerned that their business debts could grow and that salvageable enterprises may fail.

(It should be noted that through its linkage with relevant professional (accountancy and legal) bodies MABS can provide a conduit to limited *pro bono* supports.)

### **5(a) Access to social welfare and other supports**

In our experience former sole traders are finding it increasingly difficult to access social welfare supports to meet basic living expenses for themselves and their families. This is as a result of the absence of a Tax Clearance Cert which, because of their situation, takes some weeks to obtain consequently leaving them and their families without any income.

We propose that:

(a) Where a person cannot establish entitlement to Social Welfare that Social Welfare Allowance (SWA) be paid for a period of 6-8 weeks in order to tide a person over. The principle enshrined in the Social Welfare Consolidation Act 2005 regulations with respect to persons with no income to be invoked as normal practice in these cases.

(b) That a free mentoring service for sole-traders/micro enterprises in difficulty be established – preferably through an existing structure such as the County Enterprise Boards and that a module be added to BASIS<sup>18</sup> covering core material relating to troubled micro-enterprises.

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<sup>18</sup> BASIS (Business Access to State Information and Services) was established in 2000 as part of the Irish Government Action Plan 'Implementing the Information Society in Ireland'. The Department of Enterprise, Trade & Innovation is responsible for the development of the BASIS initiative.

The aim of the BASIS website is to 'deliver Government information and services to business 24 hours a day, seven days a week, from a single access point and with a consistent look and feel.'

(c) That given the change in the economic climate, and the need for the MABS to remain focused on its target group, this issue should be examined in the context of national employment strategy and consideration given to establishing a separate support unit with the requisite competence along the lines of the UK's Business Debtline<sup>19</sup>. We believe that the key stakeholders in such an initiative include the City and County Enterprise Boards. Subject to resources, and due to the cross-over between personal and business debts, MABS are prepared to assist with any such an initiative.

### 6. Supports for children

#### 6(a) Protection of Child Benefit

The detailed budgets prepared by Money Advisors for clients indicate that clients on social welfare or a low income often have very limited capacity to pay for housing, fuel food and other essentials while also trying to make repayments on priority and other debts. In this context child benefit is ring fenced within the MABS Standard Financial Statement as an income that is specifically for children. When, of necessity, many other budget lines in a household are cut, as families struggle to adjust to life on a much reduced income, this payment plays an essential role in protecting the welfare and well-being of children.

#### 6(b) Education Costs

In its budgeting work with clients, MABS is aware of the growth in the cost of education and encourages all families to plan early for "back to school" expenditure and, as relevant, to avail of the Back to School Clothing and Footwear Allowance. This is a very important support for our client base and should be protected in Budget 2011.

However, it is clear, from research undertaken by North Cork MABS<sup>20</sup>, that there is a widening array of costs associated with both primary and secondary education.

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<sup>19</sup> (<http://www.bdl.org.uk>).

<sup>20</sup> Education Costs Survey, August 2009-September 2010, (North Cork MABS), [http://www.mabs.ie/publications/reports/school\\_costs\\_survey\\_Sept2010.pdf](http://www.mabs.ie/publications/reports/school_costs_survey_Sept2010.pdf)

Depending on the school year, costs per student could be in excess of €2,400 (underpinning the importance of Child Benefit). Given the pressures on families it would be timely to place a national focus in both secondary and primary schools on achieving economies and reducing non-essential costs<sup>21</sup> while maintaining the quality of the learning experience.

### **6(c) 'Qualified Children' and short term social welfare payments.**

A person in receipt of a social welfare payment may receive an increase of €29.80 in respect of each 'qualified child'. A child may continue to be considered a qualified child up until that age of 22 if they remain in full time education. However, there is a distinction made between the child dependents of those who are in receipt of what are classified as a 'short term' social welfare payment and a 'long term' social welfare payment. Those who are in receipt of Jobseekers Benefit/Allowance and Illness Benefit for less than 156 days are classified as 'short term' welfare dependant and as a consequence cannot claim an increase for their child dependant once the child reaches 18 years.

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<sup>21</sup> Parents responding to the North Cork MABS research made a number of very practical suggestions for reductions in educational costs which included the following:

- School uniforms could be bought in a chain store and school crest added
- Changes to schoolbook curriculum should only be permitted every 5-6yrs to allow books to be passed to siblings
- School uniforms to be worn on confirmation day
- Book lending schemes in all schools and incorporating a once off-annual payment for all material books, copies pens etc.
- The educational value of school tours to be examined, especially tours abroad

Put in context this means that a person who has recently lost their job and who has a child in third level education will not receive an additional payment for that dependant until they have been unemployed for 156 days. The claimant has €29.80 less per week than a person who has been unemployed for a longer period.

In practical terms the absence of a child dependant support for recently unemployed families is causing considerable hardship by making a household income crisis more acutely felt.

### 7. Rehabilitating debtors

MABS has considerable experience of the corrosive psycho-social effects of indebtedness on individuals and families. We hope that the many people currently experiencing over-indebtedness will return to employment or otherwise increase their incomes as the economy recovers. However, with so many people adversely affected, we believe that there are individual, economic and societal imperatives to put in place measures to rehabilitate over-indebted consumers<sup>22</sup>. We have provided a detailed submission to the Law Reform Commission's Consultation Paper<sup>23</sup> in this regard.

However, given current focus on economic recovery and the imminent publication of both the Final Report of the Mortgage Arrears and Personal Debt Expert Group and the Final Report of the Law Reform Commission, we believe that is timely to highlight the key priorities in this regard, which in our view are: access to credit, credit rating, payment systems and debt settlement/fresh start.

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<sup>22</sup> Our view on the need to rehabilitate debtors also draws on the report of the National Economic and Social Council, 'Well Being Matters: A Social Report for Ireland, Report 1 (2009). It states "*A person's well-being relates to their physical, social and mental state. It requires that basic needs are met, that people have a sense of purpose, that they feel able to achieve important goals, to participate in society and to live the lives they value and have reason to value.*" (p.xiii)

<sup>23</sup> Op cit

## **7(a). Credit Availability:**

For many who are unemployed, unbanked and/or have poor credit ratings there are few options for small emergency credit loans save the moneylender. Research demonstrates that borrowers turn to money lenders when normal credit products are no longer available<sup>24</sup>, and it is clear that a variety of new types of money lending are opening up on the Irish market such as 'pay day' loans etc.

In our view there is need for the provision of a social lending mechanism for low income families. This could be achieved by putting in place a social fund with a social lending body (possibly credit unions) and/or a scheme similar to the UK's Budgeting and Crisis Loans<sup>25</sup> under the Social Fund which provides lump sum payments, grants and loans for important costs that are hard to pay for out of regular income<sup>26</sup>.

## **7(b) Credit Rating:**

We are of the view that some mechanism needs to be found to restore the credit rating of those consumers who are unable to fully maintain their present commitments because of the unforeseen change in their economic circumstances. The plans by the Financial Regulator to create a Central Credit Register are welcome. We would also welcome an arrangement similar to that which was introduced for people who took advantage of the MABS/IBF Debt Settlement Pilot, which commenced in 2002, whereby a special entry was introduced to the Irish Credit Bureau (ICB) records to indicate compliance with revised agreements.

## **7 (c) Consumer friendly payment systems for necessary expenditure**

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<sup>24</sup> <http://www.berr.gov.uk/files/file35171.pdf> page 22

<sup>25</sup> [http://www.dsd.gov.uk/index/ssa/information\\_for\\_advisors/ssani\\_adviser\\_technical\\_guides/social\\_fund\\_guide/social\\_fund\\_guide\\_pt3/social\\_fund\\_guide\\_pt3\\_crisis\\_loans.htm](http://www.dsd.gov.uk/index/ssa/information_for_advisors/ssani_adviser_technical_guides/social_fund_guide/social_fund_guide_pt3/social_fund_guide_pt3_crisis_loans.htm)

<sup>26</sup> [http://www.adviceguide.org.uk/index/life/benefits/help\\_for\\_people\\_on\\_a\\_low\\_income\\_-\\_the\\_social\\_fund.htm](http://www.adviceguide.org.uk/index/life/benefits/help_for_people_on_a_low_income_-_the_social_fund.htm)

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In MABS experience people on a low income sometimes manage their money from day-to-day and therefore can find it very difficult to manage bills that are scheduled on a yearly, bi-monthly or even a monthly basis and can be penalized for the fact that they can't afford to pay one annual payment (motor insurance, motor tax etc). In our experience, and in many relevant sectors (utilities, telecoms etc.), new mandatory payment types (direct debit, 'paperless billing' etc.), and minimum payments are being introduced which are unsuitable for some low income families. While bearing in mind the objectives of the National Payments Implementation Programme<sup>27</sup>, the greatest possible simplicity and flexibility should be provided in payment systems for necessary expenditures such as TV licence, telephone, utility and motor tax costs etc. MABS experiences of the operation of both the MABS Special Account and working with clients on the 'Household Budget Scheme,' demonstrate that people can, and do, manage their money more effectively when there is a user-friendly infrastructure in place to support them.

### **7(d) Debt Settlement/Fresh Start**

Debt Settlement is the partial or total forgiveness of debt, or the slowing or stopping of debt growth. As a result of the recession of the early 1990's many European countries introduced legislation to update their bankruptcy laws in order to cope with the problem of consumer insolvency. In all EU member states, where consumer insolvency laws exist, the idea of a fresh start for debtors has been addressed. The purpose of 'fresh start' is that the consumer would be rehabilitated and would regain control of his/her financial affairs after the legal process and a payment plan have been satisfied. Such laws were enacted in Austria (1993), Germany (1999), Netherlands (1997), Belgium (1998), Luxembourg (2001). England (1990) and France (1989) also introduced regulation to assist the over-indebted consumers. The purpose of all consumer insolvency procedures in the EU is to discharge debt at the end of a plan of payment.

### **MABS' Perspective**

In 2002, reflecting what was happening in Europe, the Irish Banking Federation and MABS operated a Debt Settlement Pilot Scheme that had, at its core, the principles of full disclosure

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<sup>27</sup> <http://www.ipso.ie/section/NationalPaymentsImplementationProgramme>

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and fresh start. The concept of fresh start was recognised by all parties to the scheme and this was reflected in the settlements reached under the Pilot.

In our submission to the Law Reform Commission's Consultation Paper we point out that MABS has always made a clear distinction between "Can't Pay" and "Won't Pay" debtors as highlighted by the Commission throughout the Consultation Paper. This distinction is important, as it envisages "Won't Pay" debtors proceeding through the judicial process and "Can't Pay" debtors facilitated to repay their debts by way of a non-judicial process. MABS submitted that allowing a "Can't Pay" debtor to voluntarily come to a solution to their debt issue, with assistance where necessary, will act as an impetus to deal with the situation efficiently. Furthermore, in our submission we also proposed a rehabilitative, fresh start and non-discriminatory approach towards the debtor (MABS Submission 3.4.1 and 5.3). These proposals reflect what is in existence in many EU member states.

In our view, Debt Settlement and a Fresh Start are appropriate where the consumer's inability to meet contractual commitments is the result of unforeseen events. Any loss should be borne, in our view, by the contractual party best placed to absorb the risk while not undermining the moral imperative of paying one's debts. As mortgages are the largest credit contract that most consumers will ever enter into, and consequently can be the largest debt, it is important that mortgage debt be included in any consideration of debt settlement.

## **8. Conclusion**

Due to the linkage between these issues evident to MABS in its day-to-day work, we believe there is a need for interaction between regulators, financial institutions, utility providers, policy makers, and practitioners such as MABS, the CWOs etc., if a holistic and sustainable approach to the prevention and management of the personal debt problem is to be achieved.

Our experience of working with a wide range of stakeholders (Citizens Information Centres, CWOs, charities, banks, credit unions, energy providers, regulatory bodies, NGOs providing legal advice, local authorities etc.) to assist our clients, demonstrates that we increase the chances of success when we work together. While, as outlined, policy measures are necessary,

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collaboration is also part of the answer. We believe therefore, that in the current economic environment adopting a holistic approach and achieving a balance within and between the priorities outlined and thus preventing poverty and further over-indebtedness, should be the primary focus of Budget 2011.

### Summary of all MABS recommendations

Priority	Relevant to:
<b>Mortgage debt</b>	
a) Understanding the issue & developing responses based on evidence.	MABS & other stakeholders working with householders experiencing mortgage debt difficulties
b) Mortgage Rescue	Expert Group on Mortgage Arrears
c) Flexibility & Innovation	Lenders, MABS, others
d) Mortgage Interest Rates – keep as close to ECB as possible	Lenders, Financial Regulator
e) Structures- Establish a high level group to monitor implementation of the recommendations of the Expert Group	Department of Finance/Expert Group
<b>Energy Debt</b>	
a) Energy Affordability <ul style="list-style-type: none"> <li>• Compensation measures for the most vulnerable/capital supports</li> <li>• Independent, one-to-one energy advice</li> </ul>	Department of Social Protection, Department of Communications, Energy and Natural Resources Energy Suppliers
b) Minimise disconnections <ul style="list-style-type: none"> <li>• New arrears management procedures – distinguish – ‘can’t pay’ from ‘won’t’ pay debtors.</li> <li>• Prepayment meters /smart metering</li> </ul>	Commission for Energy Regulation Energy Suppliers
c) Greater supports for vulnerable customers	Commission for Energy Regulation Energy suppliers
<b>Supports for Sole traders/Micro Enterprise</b>	

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a) Provide free specialist advice on small business debt to sole traders	Department of Enterprise Trade and Innovation, City and County Enterprise Boards/MABS
b) Special Business Debt Module on BASIS	
c) Consider establishment of a Business Debt Line	
<b>Supports for Children</b>	
a) Protection of Child Benefit	Department of Social Protection
b) Reduction in education costs	Department of Education & Skills/Schools
c) Qualified child allowance for short-term social welfare recipients	Department of Social Protection
<b>Rehabilitating debtors</b>	
a) Credit Availability	Credit Unions / Department of Social Protection
b) Credit rating	Financial Regulator (Central Credit Register)
c) Consumer friendly payment systems	IPSO, Financial Regulator, utility and important service providers
d) Debt Settlement/fresh start	Law Reform Commission/Expert Group/Department of Justice and Law Reform /Department of Finance/ Lenders