

MABS National Development Limited

# Pre-Budget Submission 2015

Submission to the Department of Social Protection, through the Citizens'  
Information Board

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## 1. Introduction

The Money Advice and Budgeting Service (MABS) was established in 1992 to support people on a low income to cope with debts and take control of their own finances. It is a free, confidential and independent service. It currently comprises 53 MABS Services, located in over 60 offices nationwide. It is funded by the Citizens Information Board which has overall responsibility for the management of the MABS service, including monitoring, financial administration, executive decision-making, facilitating regional networking and funding the MABS service in its entirety.

MABS National Development Limited was established in 2004 to further develop the MABS Service 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.

## 2. MABS Statistics:

An analysis of MABS statistical data for the five years from 2009 to 2013 indicates the following:

**Table 1 MABS Client Statistics<sup>1</sup>**

Year	Information Only	Budget Negotiable	Special Account	Total MABS Offices	MABS Helpline
2009	3,868	16,476	2,618	22,962	24,837
2010	3,621	19,057	2,596	25,274	27,742
2011	4,419	20,367	2,095	26,881	23,636
2012	3,965	20,692	1,506	26,163	24,202
2013	3,825	19,484	1,068	24,377	23,036

<sup>1</sup>**Information only** involves providing a client with information / guidance in relation to their debts in respect of, for example, their legal rights & obligations, their social welfare entitlements etc., but does not involve any representation on behalf of the client.

**Budget Negotiable** is the core work carried out by MABS and involves meeting the client, engaging in a budgeting exercise with them and, in some cases, negotiating with creditors on their behalf.

**Special Account** is the provision of a basic payment facility for the repayment of debt to those clients who are in need of this additional layer of assistance with their finances.

- The demographic profile of the MABS client base has remained relatively stable over the years. MABS clients are mostly social welfare recipients, the majority are female, aged between 26 and 40 and 60% have children. Just over half of all MABS clients reside in either private rented or rented local authority accommodation, however over the last five years, we have seen an increase in the number of MABS clients with mortgages which is now at 48% compared with 22% in Q1 2006.
- At the end of 2013, 42% of all debts owed by MABS clients were owed to banks or financial institutions – of these, 29% were personal loans, 31% credit card debts, 21% mortgage debts, 6% overdrafts and 5% hire purchase agreements.
- The MABS Helpline, which offers assistance to callers Monday to Friday 9am to 8pm, took over 23,000 calls in 2013.
- The number of mortgaged clients has grown and is continuing to grow as a percentage of the total caseload and in 2013 amounted to almost 48% of the client base where accommodation status is known (this compares with 21% for 2006, 35% for 2008 and 35% for 2009, 39% for 2010, 45% for 2012 and 48% for 2013). (Please note 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.)

### **3. MABS Role in Assisting the Over-Indebted**

Since 1992, the Money Advice and Budgeting Service (MABS) has been an important component of the State's overall response to assist people to manage on a reduced income and to address over-indebtedness. MABS continues, in an ever changing economic climate, to play a vital role in assisting up to 50,000 new clients each year in addressing their financial difficulties and in their often complex negotiation with creditors.

MABS, given its limited resources, has responded effectively in recent years to increased client numbers, the changing regulation of the banking sector and the new debt resolution environment and is the Approved Intermediary for the provision of the Debt Relief Notice solution for people in debt who have no income or assets.

## **MABS Pre Budget Submission**

### **1. Income and Credit**

1.1 Income Adequacy

1.2 Minimum Wage

1.3 Availability of Credit/ Social Lending

### **2. Financial Inclusion**

2.1 Consumer Credit History

2.2 Financial Inclusion/Closing of Bank Accounts

2.3 Post Office Network and Financial Inclusion

### **3. Debt resolution**

3.1 The Provision of Free Legal and Financial Advice and Advocacy

3.2 Debt Relief Notice Issues

### **4. The Psycho-Social Impact of the Financial Crisis**

4.1 Stress Mental Health Guidelines for people in Debt

## **1. Income and Credit**

### **1.1 Adequacy**

MABS understands the nature of the changing economic environment and appreciates the ongoing need for State funding to be used judiciously in the context of Budget 2015.

MABS ongoing concern, however, is to ensure that adequate protection continues to be given to those who are most economically vulnerable. Budgets over the last few years have had a serious impact on low income families and the working poor which runs counter to years of positive supports to assist families work their way out of poverty. As a result of cuts in welfare, in public services and extra household charges the cumulative effect on welfare recipients and the working

poor must not be under estimated. As the economy improves we ask that priority be given to those most impacted by the recession.

The impact of the property tax and water charges will see additional taxes on the average Irish household. MABS from its own records has identified that the average yearly disposable income of new clients who attended the service in 2013 was €456.63<sup>2</sup>. These additional charges will result in the MABS clients having little or no disposable income in 2015.

## **1.2 Minimum Wage/Living Wage<sup>3</sup>**

The MABS statistics show that 37% of clients approaching the service are in receipt of income other than welfare. Many of these clients would be in employment and some on the minimum wage.

In principle the minimum wage was originally intended to set an income baseline that would provide employees with an adequate income. Earnings which are below that baseline means that employees having to go without what would be regarded as essential for living. The present minimum wage in Ireland set in 2007 is €8.56 per hour.

In July 2014 the Living Wage Technical Group, established by the Vincentian Partnership for Justice, published their research into a Living Wage for the Republic of Ireland. They have calculated that for Ireland the Living Wage should now be €11.45 or €483.60 per week (Gross). This shows that those on a minimum wage have a shortfall of €2.80 per hour so resulting in an income inadequate to meet the cost of essentials for everyday living. MABS urges that this shortfall receive attention so that those in full time employment and on a minimum wage will have a wage sufficient for everyday living needs.

## **1.3 Availability of Credit**

MABS has identified that personal debt and lack of access to credit are issues of growing concern. Many Irish people experience 'financial exclusion' and basic bank accounts have not as yet been made available in Ireland. In September 2013 the Board of the Citizens Information Board, out of concerns in relation to access to credit for the MABS client group, prepared a paper for the Minister for Social Protection<sup>4</sup>. That paper gave an overview of the issues pertaining to the availability of small scale lending which is needed by a growing cohort of citizens, as well as outlining a micro credit model.

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<sup>2</sup> MABSIS 2013

<sup>3</sup> See [www.livingwage.ie](http://www.livingwage.ie) and [www.misc.ie](http://www.misc.ie)

<sup>4</sup> CIB Paper on Personal Micro Credit 2013

Research showing that many people have insufficient income to cover the essentials suggests that small-scale debt is part of many households' day-to-day financial management. Many lower income households have very little capacity to absorb unexpected one-off costs. Families and social networks are an informal source of credit but for many these sources have been exhausted. The ESRI in 2011 identified a rising trend in Irish Households going into debt to meet ordinary living expenses.<sup>5</sup>

A large proportion of Ireland's population are dependent on social transfers for their main income, and Ireland has a significant percentage of 'low work intensity' households, households at risk of poverty and households experiencing consistent poverty. Mortgage debt is obviously a major cause of personal debt in Ireland. Utility bills are also identified as a particular area for concern.

Money lenders and credit unions are a mainstay for providing small scale loans. Crucially however, over recent years, credit unions' ability to make small scale loans accessible is diminishing, due to increased regulation and a change in the credit union ethos.

Borrowers turn to money lenders (legal and illegal) and other forms of high cost credit (catalogue) etc. when conventional credit is no longer available<sup>6</sup>.

Increasing debt default has had a negative effect on a consumer's credit history, which in turn precludes them from accessing mainstream credit facilities. In considering loan applications, lenders must be cognisant of the changed economic circumstances in Ireland to provide appropriate alternative facilities to consumers. "Low income households have, by necessity, a strong appetite for credit use. Six out of ten households in the low income quintile feel the need to borrow in any twelve month period. They have few options to raise money other than by borrowing"<sup>7</sup>.

Research carried out in 2005 by Sharon Collard and Elaine Kempson<sup>8</sup> identified sources of credit available to low-income households as comprising of small, short-term cash loans (e.g. licensed and unlicensed moneylenders) and loans tied to the purchase of goods (e.g. pawnbrokers, mail order catalogues). These sources offer loans at often exorbitant interest rates and, in some cases, with far more serious consequences.

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<sup>5</sup> Financial Exclusion and Over-indebtedness in Irish Households, ESRI 2011

<sup>6</sup> <http://www.berr.gov.uk/files/file35171.pdf>

<sup>7</sup> Joseph Rowntree Foundation Study entitled "Is a non-for-profit home credit business feasible" March 2009 Ch. 2.

<sup>8</sup> Affordable Credit, The way forward, University of Bristol, 2005

These findings were put in an Irish context by Caroline Corr in her work on behalf of the Combat Poverty Agency in 2006<sup>9</sup> who identified the main sources of credit for low income households as the credit unions, banks (albeit a small percentage), informal networks (e.g. family/friends) and sub-prime lenders (e.g. moneylenders). As outlined above, due to the restriction on credit availability, credit unions and mainstream banking facilities are scarcely available to the low-income demographic, leaving them with little alternatives but to turn to high interest credit in cases of need. In their Working Paper in 2005, Noreen Byrne, Olive McCarthy and Michael Ward<sup>10</sup> identified that, notwithstanding the availability of credit from the credit unions, moneylenders continued to thrive.

“Social lending has a social purpose rather than merely a financial/profit purpose and has assumed greater importance in anti-poverty policy with the increased difficulties faced by Low-income groups and communities in accessing mainline financial services.

Social lending is different to other forms of lending in that it is generally local, personal, simple and transparent. Perhaps as a result, loss rates on such loans have been shown to be lower than the commercial sector which indicates that the risk factor perceived in lending to low Income families is much overstated - further it indicates the viability of social lending”<sup>11</sup>

With 14.7%<sup>12</sup> of the population at risk of poverty, and in the absence of a basic protected income, some measure must be introduced to ensure that those in the lowest income deciles are facilitated in as far as possible to access some level of suitable affordable credit to enable them to enjoy such participation in Irish society.

*“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 marginalised from participating in activities which are considered the norm for other people in society.”* National Action Plan for Social Inclusion, 2007 to 2016<sup>13</sup>

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<sup>9</sup> Financial Exclusion in Ireland: An Exploratory Study and Policy Review, Combat Poverty Agency, 2006

<sup>10</sup> Meeting the Credit Needs of Low-Income Groups: credit unions v moneylenders, Combat Poverty Agency, 2005

<sup>12</sup> The Survey on Income and Living Conditions (SILC)2011

<sup>13</sup> <http://www.socialinclusion.ie/documents/NAPinclusionReportPDF.pdf>



These very real issues cited as far back as 2006 remain current and yet more critical in 2014 and require immediate attention.

## **2. Financial Inclusion**

The availability of access to basic financial services and products is very important in efforts to assist people out of poverty and financial exclusion. Christine Lagarde, Managing Director of the International Monetary Fund (IMF), said in a recent speech that “Responsible financial inclusion requires balancing opportunity and innovation in financial markets with safeguards to prevent excesses, both the supply and demand side. It means helping consumers, especially the most vulnerable, to benefit from access in a responsible way, without diving deeper into debt. Having in place well-designed financial regulations can ensure that loans are channelled to their most productive use”<sup>14</sup>.

As well as the provision of micro credit we in MABS are of the view, in the absence of a basic payment account available to all citizens, that the following issues are among those presently increasing financial exclusion and in need of consideration.

### **2.1 Credit History**

We are of the view, in order to assist individuals and the economy generally, that a mechanism needs to be found to “rehabilitate” the credit histories of those consumers who are unable to maintain their debt repayment commitments in full because of the change in their economic circumstances.

While it is essential that factual and accurate records are held, it may be necessary to consider augmenting categorizations to reflect the changed economic environment. An arrangement similar to that introduced for MABS participants in the “MABS/IBF Debt Settlement Pilot”<sup>15</sup>, whereby a special entry was introduced to the Irish Credit Bureau (ICB) records to indicate compliance with the agreements, should be considered.

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<sup>14</sup> *Address to the International Forum for Financial Inclusion* By Christine Lagarde -June 26, 2014

<sup>15</sup> Debt Settlement Pilot MABS/IBF 1999-2001

Given the fact that new comprehensive credit register is to be introduced care should be taken to give recognition to citizens who are in financial difficulty as a result of a systems failure rather than carelessness or mis- management on their part.

## **2.2 Closing of Bank Accounts**

For a person's full participation in society it is generally accepted that access to financial services has become more important if not essential over the last decade or so. *"Access to financial services has become a necessary condition for participating in economic life"*<sup>16</sup>. Lack of access to financial services has serious socio/economic consequences e.g. lack of a bank account, access to credit, goods and services cost more etc. *"Those who experience financial exclusion can find money management and bill payment more time-consuming and costly and they can face difficulties accessing affordable credit and accumulating assets (e.g. savings, insurance). Financially excluded individuals are also at risk of over indebtedness"*<sup>17</sup>.

Since the mid 1980's there has been a major increase in the availability of credit as well as other financial services and products to consumers. The vast majority of the population now have a bank account into which wages, welfare payments etc. are paid. Access to basic banking services and products are now vitally important to the citizen.

It would have serious social effects, in our view, if some providers in the banking industry continue a policy of closing the accounts of customers who are experiencing repayment difficulties, who already possess an adverse credit rating, and consequently have little or no possibility of opening a transactional account with another provider.

Given the Government's interest in the issue of access to financial services and the prevention of financial exclusion we consider it appropriate to raise this issue and to ascertain if this practice is in keeping with the ethos the Financial Inclusion Strategy<sup>18</sup>

## **2.3 Hidden Costs Associated with Bill Payment**

MABS continues to encourage both clients and the public at large to establish reliable systems at home for the paying of regular bills, in order to ensure that adequate control and oversight is maintained, and also to avoid arrears accumulating with the negative consequences which follow. For those without access to a bank account, many over-the-counter payment services now carry an

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<sup>16</sup> European Commission – MEMO/08/344

<sup>17</sup> Financial Exclusion in Ireland Combat Poverty Agency 2006.( 2.8)

<sup>18</sup> MABS Submission on the Closing of Bank Accounts 2008

additional fee; whilst such fees may appear to be nominal, they do considerably erode the amount of income available to a family and mitigate against responsible household management. For those on a low income who have retained their bank accounts, the fees and charges associated with payments from their accounts are proving a barrier to people in keeping their payments up to date. These costs are ones which exacerbate an already difficult situation for those on low incomes and require examination.

## 2.4 Maintaining the Post Office Network

Geographical access to banking facilities, in MABS view, is important at present for a large cohort of citizens. In rural Ireland there may be no bank presence except in the nearest town which can be some distance away. In the Combat Poverty Study on Financial Exclusion in Ireland “two of the urban focus groups took place in housing estates on the edge of large cities; both these locations were not served by banks, although one had an ATM facility in a local shop”<sup>19</sup>.

A key feature of universal banking in the UK is the fact that all banks offering a basic bank account are required to have an agency agreement with the UK Post Office, allowing account-holders to carry out transactional banking at their local post offices.<sup>20</sup>

Russell, Maitre and Donnelly<sup>21</sup> further refer to geographical concerns in the access of financial services in the UK, noting both the rural / urban divide in the provision of services and also physical exclusion due to restricted mobility, lack of access to private transport or public transport services. While it is noted that in-depth research in to this area has not been carried out in Ireland, based on the infrastructure of this country, as well as on anecdotal evidence from MABS money advice staff, it is likely that the same issues arise here.

An Post has a wide geographical spread in both rural and urban areas, and with over a thousand outlets nationwide, it has in place a network that has a presence in most communities<sup>22</sup>. It is therefore well situated to serve the needs of the consumers particularly those who are financially excluded. We therefore request that continued efforts be made to

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<sup>19</sup> Financial Exclusion in Ireland 4.4 – Corr 2006

<sup>20</sup> Financial Exclusion in Ireland 7.3.2 – Corr 2006

<sup>21</sup> Financial Exclusion and Over-indebtedness in Irish Households, 2011, p.31

<sup>22</sup> Serves 1.7 million customers every week - 1,170 Post Offices and 180 postal agents and over 2,500-strong PostPoint payment channel at retail outlets nationwide - [www.anpost.ie](http://www.anpost.ie)

make the post office network economically viable and to have basic banking facilities available through that extensive network.

### **3. Debt Resolution**

#### **3.1 Provision of Free Legal and Financial Advice and Advocacy**

Given the seriousness consequences for people in mortgage arrears whose mortgages are deemed unsustainable by their creditors, it is imperative that they have adequate timely financial and legal advice on the offers presented, as well as on the other solutions that may be available if the evaluation of their position was from an independent source.

The majority of borrowers presenting to MABS with mortgage difficulties do not have the means to access ongoing legal and/or financial advice to enter into and sustain a negotiation process with a lender. A large cohort of such clients currently presenting to MABS are those who have been offered an alternative repayment arrangement by their lender. In general, these clients have been informed by their lender that their mortgage is unsustainable, and asked to choose either to voluntarily sell their family home, to surrender it to the bank for sale, to trade down, or else face legal proceedings for repossession.

It is MABS view that the power imbalance that now exists between creditor and debtor in this regard is unacceptable and needs to be rebalanced by providing free legal and financial advice and advocacy to mortgage borrowers in danger of losing their homes.

#### **We therefore ask that urgent consideration be given to the following proposals:**

1. The provision of a free, end-to-end legal advice and court representation scheme for those who have either been given a new mortgage contract (such as a split mortgage) by their lender, or those whose mortgages have been deemed unsustainable and are now facing voluntary sale, voluntary surrender or repossession
2. Provision of a free, end-to-end financial adviser service for those engaging with their lenders and trying to agree a suitable ARA with them

3. Putting the Code of Conduct on Mortgage Arrears on a statutory footing so that breaches of it can form part of a defence to repossession proceedings in court and that it can be regulated more efficiently and clearly
4. To make it obligatory on lenders to share the documentation of their decision-making process as to why they have deemed one solution rather than another to be the most appropriate for any particular borrower so that the borrower is fully informed and can take appropriate advice and action.
5. Making the mortgage to rent scheme more attractive to lenders, since currently lenders have first refusal on this scheme
6. To devise an agreed framework for the definition of unsustainability

### **3.2 MABS experience of the Debt Relief Notice**

MABS is the Approved Intermediary for processing of the Debt Relief Notice (DRN). A Debt Relief Notice is an insolvency arrangement which is designed for those who have low levels of indebtedness, low levels of income and no assets. The first DRN was granted by the Circuit Court in Dublin on the 21st of January 2014. To date a number of debtors' situations have been assessed by the Approved Intermediary Services within the MABS organisation.

In MABS experience the largest obstacle for debtors in seeking to obtain a DRN is in relation to the eligibility criteria.

The issues creating the most difficulty are as follows:

- The Qualifying Debts must be €20,000 or less. In MABS view this figure is too low for many debtors who have no income and no assets. Many debtors are presenting with debts in excess of €20,000. It is the MABS view, given our experience to date, that a figure in or about €30,000 to €35,000 would grant more debtors the ability to avail of a DRN. The difficulty for many debtors presenting is that the only options available are either a Debt Settlement Arrangement (DSA), which for many on low incomes or on a social welfare payment is not a viable option as they do not have the resources to pay into such an arrangement. The only other alternative for them is bankruptcy, which again with associated fees etc., is not necessarily a viable option.
- In the recent past many creditors, in particular credit unions, have encouraged debtors to restructure their loans on a joint basis with their respective partners / spouses. As a result many debtors present with joint loans where the figure owed exceeds €20,000. MABS

submits that consideration be given to allowing for a 'joint' DRN. In such a case both parties should have the benefit of the individual ceiling (currently at €20,000) which would mean that a joint application should enjoy the benefit of €40,000.

- If a debtor has made a preference payment to one creditor above another and the effect of that payment was to substantially reduce their ability to pay other creditors, they are precluded from applying for a DRN for a period of two years. There are no exceptions for the essential debts / payments such as electricity, heat, food, rent etc. It is MABS view that the 2 year period is excessive and a lesser period of 6 months should be considered as appropriate. Also, we submit, that there should be an exception for payments to the aforementioned core services debtors.
- For many debtors the retention of a car valued under €2,000 does not pose any great difficulties however for others it has an impact on their ability to earn a livelihood. Many tradespersons have a need to have access to a particular mode of transport. Currently within the legislation there is no exception for vehicles which have a sole business use. MABS is of the view that consideration should be given to rectify this.

## **4. Psycho-Social Impact of the Financial Crisis**

### **4.1 Mental Health Guidelines for People in Debt**

While MABS does not retain information on clients' mental health, due to data protection obligations, MABS are acutely aware of an increase in clients suffering from financial stress related mental health issues seeking the support of MABS Services. Our staff witness this suffering and stress on a weekly basis. The Samaritans' Impact Report (November 2010 to October 2011) reported five main issues arising on their Helpline as follows (p.16 – emphasis added):

- Depression and mental health issues
- Relationship problems, *often exacerbated by financial difficulties*
- *Anxiety about the future*
- Loneliness

While it may be the case that all four issues may be caused and affected by financial difficulties, it is clear that two of the top three most certainly are.

The finding, in our recent report on MABS Clients and Mortgage Arrears, in relation to stress and mental health associated with mortgage repayment difficulty is supported by the Mental Health Commission's 2011 Report, *The Human Cost, An overview of the evidence on economic adversity and mental health and recommendations for action* (2011), which referenced actions taken in the UK to address debt-related mental health issues (e.g. the Good Practice Mental Health Guidelines produced by the Money Advice Liaison Group; the Debt and Mental Health Evidence Form, approved by the UK Information Commissioner's Office) and made a series of recommendations, some of which explicitly reference the use of MABS resources.

MABS made a workshop presentation at the Irish College of General Practitioners (ICGP) Summer School (2012) which focused on issues of mental health. Most GPs in attendance at the MABS workshop expressed concern at the increase in debt-related mental health issues arising in their patients and indicated that they too would welcome a national response to dealing with this growing problem.

The introduction of robust Mental Health Guidelines, such as those introduced in the UK, would be of significant benefit to the MABS client group and others.