



MABS Pre Budget Submission 2010

Prepared by MABSndI

About the Money Advice and Budgeting Service (MABS)

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 kind in Ireland. Through a network of over 60 offices nationwide, trained MABS money advice staff provide support and assistance to clients in need of one-to-one support. Advice and assistance on all aspects of money management and dealing with personal debt is also available on the MABS website www.mabs.ie and through the MABS National Helpline, (Lo call 1890 283438, Monday to Friday, 9am to 8pm). MABS is funded and supported by the Citizens Information Board.

MABSndI

MABS National Development Limited (MABSndI) was established in 2004 to further develop the MABS Service in Ireland. MABSndI provides training and technical support to MABS staff nationally. MABSndI also assists the MABS in providing educational and informational support at local and national levels. MABSndI works with services and other stakeholders to resolve policy issues that arise in the course of money advice work undertaken on behalf of clients. MABSndI has responsibility for the administration of the MABSIS system, for the ongoing development of the MABS website and for the operation of the MABS Helpline.

MABS Statistics:

An analysis of MABS statistical data for the period 2007, 2008 and to Q3 2009 indicates the following:

Clients:

Table 1 MABS clients

MABS Clients					
Year	Information (only)	Budget Negotiable ¹	Special Account	Total MABS Offices	Helpline
2007	2673	9886	2547	15106	1680 ^[1]
2008	2441	13924	2676	19041	10973
2009 ^[2]	2505	12736	1963	17204	18490

- The active caseload is currently 30,160, having increased from 14,707 at the end of 2006.
- The demographic profile of the client base remains relatively stable over time. In the main, MABS clients are social welfare recipients (averaging 63%), the majority are female, aged between 26 and 40 and two thirds have children.
- While just over half of all MABS clients reside in either private rented, or rented local authority accommodation, over the last 3 years we have seen an increase in the number of MABS clients with mortgages. The latest statistics indicate this is 36% compared with 22% in Q1 2006.

Debts:

- The average amount owed by clients presenting at MABS Services has grown from just over €6,990 in 2006 to €16,973 at end Q3 2009.
- As of end Q3 2009, 64% of all debts owed by MABS clients were owed to banks or financial institutions – of which 50% were personal loans, 28% credit card debts, 10% mortgage debts, 6% overdrafts and 6% hire purchase agreements. The remaining 36% is primarily comprised of debts /arrear in respect of utilities, rent, catalogues, moneylending and court fines.

¹ “Budget Negotiable” refers to clients who have been assisted to negotiate repayment plans with their creditors, “Special Account” refers to clients whose renegotiated repayment plans are supported via the MABS Special Account Scheme.

^[1]MABS Helpline launched October 2007

^[2] To end Q3 2009.

1. Context for MABS Pre-Budget Submission 2010

Nationwide, MABS is an important component of the State's overall response to assist people to manage on a reduced income and to address debt issues in the current climate. We understand the nature of the change occurring in the economic environment and we appreciate the need for State funding to be used judiciously in the context of Budget 2010. Our concern, as we enter 2010, is to ensure that the State affords protection to those who are most vulnerable, by taking action now in a number of key areas which will prevent further debt spirals for people on a low income in the near future².

In these difficult economic times, when the State is seeking considerable savings in the delivery of the services it provides, it is timely, in our view, to consider reforming the legal process in relation to non-contested consumer debt. Wide-ranging changes are proposed in the Law Reform Commission's Consultation Paper on Personal Debt Management and Debt Enforcement³, they include: preventative measures to address personal indebtedness at an early stage; interventions to resolve debt problems in an efficient way; the need to bring debt enforcement processes into line with international best standards; examining the utility of imprisonment as a means of enforcement; and, placing these proposals in the context of relevant changes to the financial services regulatory framework.

MABS believe that, in addition to the proposals set out in this pre-budget submission, reforms, such as those proposed in the Law Reform Commission's Consultation Paper, will do much to protect and assist people who are in debt or at risk of becoming over-indebted in the future.

As such, MABS Pre-budget Submission 2010 focuses on the following:

- Measures to prevent further over-indebtedness
- Measures to address Housing Debt
- Measures to support people who are over-indebted

² Data from the EU-SILC survey (2005) show that 8.8% of the population experience debt problems arising from ordinary living expenses. Data from the debt module contained in EU SILC (2008) indicate that 15.5% of the population are unable to afford to pay for arrears (mortgage, rent, bills) and that more than 28% of households that were at risk of poverty reported that they were in arrears on at least one item compared with just under 19% of households that were not at risk of poverty. Just over 12% of households that were at risk of poverty reported being in arrears on two or more items compared with 6.9% of households that were not at risk of poverty.

³ Law Reform Commission, September 2009.

2. Preventing over-indebtedness

We believe the primary concern in 2010, the 'EU Year for Combating Poverty and Social Exclusion', should be to enable people to avoid debt problems relating to day-to-day living expenses; such as, housing, food and utilities, childcare and education, and to ensure, where possible, actions are taken which would prevent loss of employment, income, housing or essential utilities.

People are over-indebted if their net resources (income and realisable assets) render them persistently unable to meet essential living expenses and debt repayments as they fall due⁴.

We understand the Government's requirement to reduce costs and generate income. However, as MABS core work is budgeting and debt management, we also believe that Budget 2010 could introduce changes which would undermine the work we have been doing with clients⁵ whose income only barely meets their current outgoings and force them into ongoing over-indebtedness. It is evident to us, from the household budgets we prepare for clients, that for many families there is little, and in many cases nothing, left after tax, housing costs, food, utilities, transport, childcare and education costs.

As such, we would wish to see further measures/initiatives in Budget 2010 to protect, in particular, families on low incomes and those wholly or partially reliant on social welfare or supplementary welfare allowances.

While, macro-level resource reductions to each service or social support might appear to have little impact on individuals, the cumulative effect of reductions, threshold and/or eligibility changes etc., on those partially or wholly reliant on social welfare will be substantial. Inevitably, reductions to core social welfare supports will adversely affect the ability of families to balance their household budgets and will contribute to over-indebtedness if people fall into arrears, or borrow more, in an attempt to meet essential living costs.

⁴ A Policy Framework for Addressing Over-indebtedness, Combat Poverty Agency (2009)

⁵ Money advisors report having to renegotiate some of the arrangements which have been put in place with lenders on behalf of clients as a result of reduced working hours, income levies etc. (Almost 13,000 such arrangements had been agreed on behalf of clients to Q3 2009).

While MABS acknowledge that elements of the “cost of living” have reduced, other costs have not. There have been very welcome decreases during 2009 in certain relevant categories (housing, fuel, clothing, food) across the Consumer Price Index (CPI)⁶. However, the costs of some of those categories of goods and services most relevant to the MABS target group, such as education and transport, have increased in 2009. Furthermore, ESRI research⁷ indicates that the year on year rate of deflation to August 2009 was 3.6 percent for those in the poorest income decile compared with 5.5 per cent for those in the richest decile. Finally, despite these decreases, many core costs including, in particular, those relating to childcare and utilities in Ireland, remain comparatively high⁸.

As such, we would welcome measures to further reduce, *inter alia*, the cost of food, utilities, transport, childcare and education, thus reducing essential outgoings in line with the reduction in income many families are experiencing⁹. Furthermore, there must be systematic efforts now, across every sector of society, to facilitate people to better manage their income, to minimize their outgoings on essential goods, and to achieve best value for money on all essential expenditure.

3. Housing debt

The MABS ‘mortgage debt’ category is increasing; both in terms of amounts owed and numbers of clients presenting with arrears¹⁰. The fact that mortgage and rent debts currently appear as a relatively small percentage of MABS clients’ total debt portfolios reflects the high priority given to housing over other payments. In many instances clients are managing to pay for housing costs but, on examination, their situations are ultimately unsustainable as they have growing personal debt and utility arrears.

3a. Problematic Mortgage Debt:

⁶ <http://www.cso.ie/releasespublications/documents/prices/current/cpi.pdf> (November 12 2009)

⁷ Jennings, A., S. Lyons, and R. Tol, 2009. “Price Inflation and Income Distribution,”.

ESRI Working Paper No. 308. www.esri.ie

⁸ National Competitiveness Council - Annual Competitiveness Report 2009

⁹ MABS is actively engaged in a wide variety of initiatives at local and national levels to assist people to better manage their money and has seen a very significant increase in demand for assistance with, and information on, money management from a very wide range of groups.

¹⁰ <http://www.mabs.ie/publications/STATS/MABS%20stats%20Q1%20Q2%20Q3%202008.pdf/>
<http://www.mabs.ie/publications/STATS/MABS%20stats%20Q3%202009.pdf>

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In keeping with the MABS mission statement, we work to help people stay in their homes (where this is sustainable in the short to medium term) and avoid the familial, social and financial trauma and longer term consequences of repossession. In this context we welcome the high level proposals relating to debt, and mortgage debt in particular, in the renewed Programme for Government¹¹.

Despite the existing protections – the Statutory Code of Conduct on Mortgage Arrears (the “Code”), and the Mortgage Interest Supplement (MIS), and our own work for, and on behalf of families with problem mortgage debt - we believe, without action now, some families are at risk of homelessness through repossession over the next 1-3 years.

Neither the Code nor MIS were designed to provide the medium term support that will be needed over the next 1-3 years for mortgage holders who, 1) do not regain employment in that period or, 2) who do not regain paid employment commensurate with the earnings they expected when they took out a mortgage. Regrettably, neither is capable of providing the required resolution to the difficulties being experienced in some cases.

The Code has given a welcome opportunity to many home owners who are in arrears to work with their lender (and MABS) to address the situation. However, the moratoria provided (12 months for AIB and BoI and 6 months for the other lenders) are ‘running out’ for those whose arrears difficulties commenced in Q1 2009¹². Furthermore, a moratorium may be inappropriate if the mortgage debt was unsustainable from the outset or, due to significantly changed circumstances, is likely to be unsustainable in the longer term.

¹¹ The existing Statutory Code of Conduct on Mortgage Arrears and the recently agreed protocol between the Irish Bankers Federation (IBF) and the Money Advice and Budgeting Service (MABS) on debt default will be further reviewed with a view to expanding the options available for dealing with debt situations, including, for example, the use by banks and lenders of more flexible mechanisms to avoid foreclosure in appropriate circumstances. These could include:

- reduced rates
 - longer maturity dates
 - rolling-up of outstanding interest
 - bank taking equity in the house
 - bank taking ownership and leasing back to the resident with rent payments coming off the loan
- With reference to the measures adopted in other jurisdictions, the Government will examine ways of expanding its own mortgage -support measures

¹² In this regard the IBF Mortgage Lenders’ “Pledge to Help Homeowners Facing Difficulty with their Mortgage Repayments” (10/11/2009) is a welcome development – it is, however, voluntary, and does not apply to sub-prime lenders.

MIS is an important support for those who are eligible – but there are many experiencing mortgage difficulties that are not eligible. There are others, for whom it is a necessary but short-term support. However, in MABS experience, many who are in receipt of the supplement remain highly concerned about the future sustainability of their situation. In these and other situations, we are concerned that many are (or are considering) voluntarily surrendering their homes in what they (wrongly) perceive as a resolution to the difficulties they are experiencing.

The eligibility criteria for MIS mean that many currently in difficulty with their mortgage repayments are ineligible. The most significant issue emerges because an applicant cannot receive assistance if they (or their partner) are working 29 hours or more per week - regardless of how low their income is. As such, where a mortgage was based on two incomes, (as many recent mortgages are) and one party has become unemployed, or both suffer a loss of earnings, the household is ineligible.

Issues relating to eligibility for MIS have also emerged in MABS casework with regard to:

- the definition of “unreasonable” interest;
- the amount of arrears;
- the claimant’s capacity to prove they could meet the terms of the loan at the time it was secured;
- “top-up” or consolidated loans secured on the mortgage; and,
- having the house up for sale etc.

It is our view that a review of problem mortgage debt needs to be undertaken at national level¹³ in order to address the relevant issues systematically and comprehensively and to identify homeowners who are most at risk¹⁴.

On this basis enhancements/adjustments could be made to both the Code and MIS to better support borrowers with a short-term difficulty.

¹³ We are aware of the review of the Mortgage Interest Supplement Scheme which is ongoing.

¹⁴ Vulnerable /at risk homeowners could, for example, include families with dependant children, a pregnant woman within the household or people who are vulnerable as a result of old age or medical reasons.

Furthermore (subject to a more comprehensive assessment of the issue as outlined above), we believe that for vulnerable or 'at risk' homeowners whose situations will not be resolved in the short term, it may be necessary to put in place a medium-term mortgage rescue/resolution scheme now (rescue schemes for homeowners and their families at risk of repossession have already been put in the 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.

As any family made homeless through repossession would be entitled to assistance from the State in the form of Rent Supplement or Local Authority housing, from a cost / benefit perspective there is a rationale for a mortgage rescue scheme for vulnerable householders at risk of repossession.

Lastly, MABS currently provides straight-forward advice on what do to in a mortgage arrears situation¹⁵, and we know that some people are afraid and confused about what they should do. We believe it would be beneficial if all of the stakeholders involved consistently and unambiguously encouraged anyone who has a concern about mortgage debt to contact their lender or the MABS Helpline at the earliest opportunity.

3b. Interest Rates:

One major lender has already raised its interest rates and other banks have not ruled out the possibility that they too may consider a rate increase. It is evident from our work with clients already managing on a much reduced income that an increase in interest rates, coupled with pay-cuts, levies and (potentially) higher taxes will mean they are unable to meet their mortgage commitments. (It would also, of course, undermine efforts by Government to protect homeowners and to reduce costs in other areas).

We are of the view that mortgage rates should be kept as close to the European Central Bank (ECB) rate as possible, that all interest rate reductions should be passed on to the consumer, and that any proposed interest rate increase by a lender be subject to the approval of the Financial Regulator.

¹⁵ http://www.mabs.ie/publications/leaflets/mortgage_arrears_2009.pdf

3c. Interest Rates on Local Authority Mortgages:

In the late 1980's and early 1990's local authorities entered the mortgage market with fixed rate loans below the market rate in order to assist consumers who could not afford mortgages at the very high interest rates then being offered by banks and building societies. Many of these borrowers were able, with the help of the Local Authority, to redeem those loans without any interest rate penalty and refinance them in the private sector. However, because they were unbanked or had a poor credit rating, some were unable to buy out of the original mortgage and continued to pay rates of 10% + when interest rates were historically low. Measures should be introduced to ameliorate the situation of this group.

3d. Rent

The Supplementary Budget of April 2009, announced a number of changes to the Rent Supplement. The Rent Supplement minimum household contribution was increased from €18 to €24 from June 2009. The maximum rent limits were also reduced between 6% and 10%, depending on geographical area and household size. Rent Supplement payments currently being made to tenants were also reduced by 8%. These changes were introduced in order to encourage landlords of existing rent supplement tenants to reduce their rents with regard to the reductions in the market as a whole.

We are concerned that certain vulnerable welfare recipients may not be able to effect a reduction in rent from their landlord, so leaving them with a considerable reduction in resources for every day needs.

We understand that good progress has been made in acquiring units for the Rental Accommodation Scheme (RAS) to date. We would welcome the prioritisation of the RAS scheme which will move the responsibility of negotiating a market rent from the tenant to the local authority, as well as securing good quality accommodation within the present housing stock.

4. Debt prevention & Access to Financial services

" 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"¹⁶.

4a Basic Bank Account:

MABS has always been of the view that access to mainstream financial services is essential to assist people to manage their money and provide alternatives to illegal credit sources. In this regard, we welcome the Government's initiative, as part of the recapitalisation of the banks, to introduce a basic bank account which would give access for all citizens to basic banking facilities.

In September 2008, the Combat Poverty Agency (CPA) released a policy statement¹⁷ on tackling financial exclusion in Ireland. This statement outlined the characteristics of such an account, based on European best practice, as follows:

- Debit (ATM and point of sale) card with no government stamp duty
- Flexible account opening requirements
- No minimum opening or monthly balance
- Free transactions
- No account-keeping fees
- Electronic funds transfer facilities
- Direct debit/standing order facilities
- No overdraft facility or chequebook
- Buffer zone of €20 (allows customers to withdraw a little more money than is allowed)
- Weekly bill payment account (suits the budgeting needs of low-income consumers)
- Financial advice and information

¹⁶ Financial Exclusion in Ireland, Combat Poverty Agency 2006 (2.8)

¹⁷ Combat Poverty Agency Policy Statement: Tackling Financial Exclusion in Ireland.

The requirement for such a scheme has become more urgent as certain lenders are threatening to withdraw banking services from customers who are in arrears.

In addition, we are of the view that availability of this account should not be dependent on a person's credit rating and should only be removed in certain instances e.g. fraud. The provision of a basic bank account should not be left solely to one financial institution, or to one type of financial institution, rather it should be broadly based across the market, at a minimum, as part of all lenders' social corporate responsibility obligations.

4b. Credit Availability:

Money lending thrives in a supply vacuum. Borrowers turn to money lenders (legal and illegal) and other forms of high cost credit (catalogue) etc. when conventional credit is no longer available¹⁸. (Money advisers are already beginning to note an increase in debts owed to illegal and legal money lenders).

While the preference is always for access to suitable, affordable and appropriate mainstream credit, in our view, there may be a need to consider the provision of a social lending mechanism to provide lump sum payments, grants and loans for important costs that are hard to pay for out of regular income¹⁹. Such a fund could be developed on a cross sectoral basis. The recent SVP/MABS/ Credit Union initiative in Cork which offers loans to people with impaired credit histories²⁰ may provide a model, however, the potential for wider private sector/philanthropic funding of such an initiative should be further explored.

4c. Credit History:

We are of the view 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 participants in the "MABS/IBF Debt Settlement Pilot", whereby a special entry

¹⁸ <http://www.berr.gov.uk/files/file35171.pdf> page 22

¹⁹ http://www.adviceguide.org.uk/index/life/benefits/help_for_people_on_a_low_income_-_the_social_fund.htm

²⁰ <http://www.irishexaminer.com/ireland/svp-to-be-guarantor-for-people-seeking-loans-97972.html>

was introduced to the Irish Credit Bureau (ICB) records to indicate compliance with the agreements, could be considered.

5. Summary of MABS Pre-Budget Submission 2010

The following is a summary of the recommendations in MABS Pre-Budget Submission 2010.

General

- Prioritise the current work of the Law Reform Commission on personal debt management and debt enforcement

Measures to prevent further over-indebtedness

- Prioritise the protection of those on low incomes
- Introduce measures to further reduce the costs of essential goods and services
- Encourage cross-sectoral efforts to enable people to better manage their money
- Support the achievement of best value for money on all essential goods and services

Measures to address housing debt

- Conduct a comprehensive assessment of problem mortgage debt, drawing together data from all the relevant sources to establish the extent of the problem and identify those most at risk.
- On the basis of the above:
 - Review/augment Mortgage Interest Supplement and the Statutory Code of Conduct on Mortgage Arrears.
 - Consider introducing a mortgage rescue/resolution scheme for vulnerable homeowners.
- Address the situation of those still paying high interest rates for local authority mortgages.
- Prioritise the Rental Accommodation Scheme.
- Encourage concerned homeowners to contact their lender/the MABS Helpline early.

Measures to support people who are over-indebted

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- Ensure every citizen has access to a basic bank account.
- Consider the introduction of a “social lending” mechanism and consider private sector/philanthropic support for same.
- Introduce a mechanism to restore/rehabilitate the credit histories of debtors recorded on the ICB based, perhaps, on categorization employed in the IBF/MABS debt settlement pilot.