**Government is tackling Licensed Moneylenders’ excessive rates but what about illegal moneylenders as the cost-of-living rises?**

*By Brendan Whelan, Chief Executive of the Social Finance Foundation*

The ever-increasing cost-of-living could provide fertile ground for the toughest and least desirable of lenders, namely illegal moneylenders, to take advantage of the more vulnerable in Irish society. With the Irish rate of inflation at its highest level in almost 40 years, as many as one in five people (952,185) are now living in poverty when housing costs are deducted from disposable income (Source: Social Justice Ireland). The increased cost-of-living will have a range of consequences including a likely increase in the number of people who resort to illegal moneylenders.

The licensed moneylending sector is regulated by the Central Bank of Ireland. Legislation to address the licensed moneylending sector was passed by the Oireachtas and enacted by the President on 29th June. Amongst the changes in the Consumer Credit (Amendment) Act 2022 is the introduction of a cap of 48% on the simple interest rates which licensed moneylenders can charge. Social Finance Foundation, whose purpose is to foster the availability of finance for social good, has advocated for such a cap for many years and welcomes this first step. The mechanism for the Minister for Finance to further reduce this cap is particularly important, so that these rates come closer to personal loan rates from mainstream financial institutions.

Illegal moneylending is a form of criminal activity. Given the lack of information on this area in Ireland, Social Finance Foundation commissioned an independent position paper on Illegal Moneylending in Ireland. Given the criminal nature of this activity, and the unwillingness of lenders and borrowers to discuss matters, it is not possible to quantify its extent. Nonetheless, given that we know there are now almost one million people living in poverty, after they have paid their home costs (rent or mortgage), the potential for significant numbers of households to fall foul of unlicensed/illegal lenders is growing by the day.  The paper commissioned by Social Finance Foundation gives an excellent insight into the Irish illegal moneylending story and how this can be addressed.

In the UK, so damaging is the experience of those who borrow from illegal lenders, that the term ‘victim’ is consistently used to describe them. Illegal loans in Ireland can range from €50 to as much as €20,000, with the amounts to be repaid in the region of double that borrowed and the repayment terms are often over relatively short periods of weeks or months. Penalty charges for non-payment often appear to involve double payments.

Loans tend to be for the purposes of family and/or once-off events, emergencies, household items, essential living, or utility costs (including food), and addiction. Much of this may be referred to as “survival borrowing”. Finally, financial exclusion – or more specifically issues around credit exclusion - appears frequently as an underlying issue for those resorting to illegal/illegal moneylenders.

Illegal moneylending consists of a spectrum from “friendly” to “harder” lending. The key dimension to illegal moneylending at the “harder” end of the spectrum involves the creation of a dependency relationship from first contact, mirroring the approach identifiable in the drug debt literature. The intention here is to promote further borrowing to discourage people from exiting indebtedness. Another element appears to be keeping the borrower in the dark about what they owe, with documentation being held by the lender. Consequences of non-payment can be severe (at the harder end), with borrowers fearful of reporting their lender to the authorities.

Illegal moneylending has and continues to be an issue in Ireland. Although confined to “pockets” in various locations and/or communities, it can become embedded and many individuals can become victims of it.  Victims tend to be those who are otherwise marginalised in society, but emerging evidence from the UK suggests there to be a broader pool than perhaps commonly thought.

In Ireland, we already have in place many of the policy building blocks required to address illegal moneylending, but more needs to be done. Our legislation on illegal moneylending is progressive, low-cost credit alternatives are available through credit unions, there is a strong national money advice service (MABS) and State and charitable supports are available.

The potential therefore exists both to prevent and tackle illegal moneylending pro-actively. For this to happen, enforcement activities by An Garda Siochana in particular needs prioritising. Additionally, financial education, supports and alternatives need to be more targeted and creative. To this end, a more multi-dimensional, holistic, and dedicated policy response is recommended.

We urge the many Departments, State agencies and relevant organisations to collaborate to provide that policy response that is so desperately needed. Social Finance Foundation are willing to co-ordinate that work amongst the relevant stakeholders.

**ENDS**

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