ABCUL

Association of British Credit Unions Limited

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Scottish diligence review

The Association of British Credit Unions (ABCUL) Scotland welcomes the opportunity to submit a response to the Accountant in Bankruptcy's review of diligence in Scotland. ABCUL is the main trade association for credit unions in Scotland, representing the majority of credit unions and credit union members.

Credit unions are not-for-profit financial co-operatives owned and controlled by their members, for whom they provide savings and affordable loans. Scotland has a thriving credit union movement, which has been growing year on year. There are currently 375,000 credit union members in Scotland and, collectively, credit unions lent £276m to members in 2015.

Credit unions occupy a unique position in Scotland's financial services landscape as – while still making appropriate checks to ensure responsible lending – they are often prepared to lend to people who may not be able to access credit from other sources, and do so at ethical and affordable rates of interest. As fully regulated responsible financial services providers, credit unions of course make provision for bad debt. However, the long term sustainability of credit unions' business depends on borrowers repaying their debts in full.

Of course this could be said for any lender. However, taking into account the interest rates charged by many, as well as the fact that many banks restrict their lending only to those they regard as the most credit-worthy customers, the credit union model of lending based on the ability to repay – including to the financially excluded – differs from that of other organisations, and makes them particularly vulnerable to bad debt.

Credit unions are also unique in have the most restrictive interest rate under current legislation - 3% per month on a reducing balance (42.6% APR). In truth, many of Scotland's credit unions choose to charge no more than 1% per month (12.7% APR). Lending a relatively small amount at an ethical rate means that the income generated from the loan is fairly small (hence why other mainstream lenders often choose not to serve this market), and so is essential to long term sustainability.

With this in mind, we have generally welcomed the steps taken by the Scottish Government and Accountant in Bankruptcy in recent years to limit the impact of non payment.

In this response we have not provided a detailed analysis of the diligence measures being considered. However, we would like to highlight the essential role that many of measures under review have in ensuring that credit unions can recover debts owed to them. We would of course look at any proposed administrative changes that come about as a result of this review with an open mind, but we would oppose any moves to significantly restrict the availability of diligence measures to small creditors like credit unions.

Of the measures listed within the review, our members have noted the following as being of use to them: exceptional attachments; inhibition; money attachments; and actions for removing heritable property. In general, these work well for them.

However, I would particularly like to highlight diligence against earnings as being essential to many credit unions, with some members noting to us that it would be devastating to them if this option was either significantly restricted or removed. Some of our larger members have several of these in place at any given time, and also take the view that the function acts as a deterrent to further non payment. In general, the current arrangements work well for them as a means of recovering debt.

In terms of the administration, the only comment we have to make is in relation to conjoined arrestment orders. One member has raised frustrations that the system works in favour of local authority creditors, who make a separate application for each additional year of unpaid council tax. This means that the percentage paid to non-local authority creditors inevitably reduces with each year, while the local authority receives a greater amount of the total repayment.