6. Problems with Repayments

One of the drawbacks of using credit, especially by families on low incomes, is the risk of falling into difficulties with repayments. Concern is often expressed at the number of people facing court procedures or other sanctions for the recovery of debt. Leaders of the credit union movement are keen to help protect their members from indebtedness in three ways: first, by offering credit at cheaper rates than may be available elsewhere, especially from money-lenders; second by limiting advances to what the individual can afford to repay; third, by ensuring that any difficulties over repayment are dealt with in a sensitive way.

Although credit unions intend to avoid the problems of debt, it is nevertheless possible for members to fall behind with their repayment instalments. This chapter examines the evidence on repayment arrears from all three of the main sources: the survey of members; the analysis of annual accounts; and the interviews with officers and committees.

Members' experiences and attitudes

The great majority of the members who had ever taken out a loan from their union said that they had never had any problems finding the money. But 13 per cent of borrowers said that they had missed payments at some time. At least one member of every union reported some repayment difficulties, with the exception of the employment-based union (Borough) which arranged for repayment instalments to be paid out of wages. About half of those with any problem said they had missed only one or two payments, but the other half had missed several. Among these a handful – four members of the sample – gave an indication that their difficulties had been serious. This is a very small minority, but it is not possible to say with any certainty whether problems over credit union repayments are any less common than arrears on other kinds of loan. Unfortunately, but not unexpectedly, most of the people who reported repayment problems had low incomes (Table 6.1).

Table 6.1 Difficulties with repayment, by available family income

Percentage of members

Available family income	Less than £10 pw	£10 to £49	£50 to £109	£110 or more
Had missed payments on credit union loans	30	8	5	8
(Sample size)	(43)	(40)	(51)	(46)

Note: Table confined to members who had ever had a loan.

It is likely that any member who had completely defaulted on a loan would have been expected to resign from his or her credit union, and would therefore not have been included in the sample of people interviewed. Even so, it was notable what a relaxed attitude people had towards the procedures which took effect when instalments were missed. When those who had missed payments were asked what had happened, the most common single answer was 'nothing' – that is, they had returned to steady payments without a fuss being made on either side. Others said that the officers had written to them to ask about the missed payments. Some had got in touch with the union to explain their difficulty.

> I went down and explained the situation to the people in the office who sorted things out and brought payments down by half.

> (I had) one missed payment due to problems with my pension. The credit union didn't bother. (I) just paid double next week.

Similarly, most people who had not experienced repayment problems assumed that the credit union would get in touch with slow payers to find out what the problem was. Many thought that it would be possible for borrowers to pay at a reduced rate, or pay interest only for a while, until they were in a better position to pay up. Only six members suggested that the credit union would take people to court to collect arrears. More than a third simply had no idea what would happen if they fell behind.

> Maybe someone would come to see you, check whether you were sick or what was wrong.
>
> I'd get a reminder letter and then they'd arrange for someone to see me and arrange for me to pay less, pay what I could afford.
>
> I don't know, I think they would wait until I could afford it.

Bad debts

The annual accounts submitted by credit unions to the Registrars of Friendly Societies include a statement of bad debts written off, though it is difficult to draw conclusions about bad debts from the items recorded in a single year. It is not possible to determine whether a low bad debt figure means that the credit union has a generally good record of securing repayment; has done better this year than it expected to last year; or has been over-optimistic in its allowance for losses. High figures are equally hard to interpret. It is, however, possible to assess average figures for a group of credit unions with more confidence.

Figures in Chapter 1 show that the average credit union in Northern Ireland allowed for a loss of £5,080 of bad and doubtful debts in 1986 (£6,380 written off; £1,300 recovered). This is 10 per cent of the income derived from the interest paid on loans. Another way of putting it is that the effective rate of return on loans is reduced from 12.7 per cent to 11.4 per cent.

Only five Northern Ireland credit unions felt confident enough to record zero bad debts in 1986. On the other hand, none recorded bad debts in excess of a third of the interest payable. There was little sign that larger or smaller, richer or poorer, stable or growing unions were particularly at risk of bad debts.

Bad and doubtful debts reported in Great Britain averaged £540 per union, representing 9 per cent of loan interest. This was a slightly better performance than in Northern Ireland, where the equivalent figure was 10 per cent. But it is notable that half of the British unions made no provision at all for bad debts in their latest returns. Less than a quarter of the smallest British unions made any provison, though the figure rose to 90 per cent among the larger groups. A zero allocation indicates either a very healthy repayment rate, or rather imprudent accountancy practices.

At the other extreme, five unions in Great Britain wrote off more than half of their income from loan interest against bad or doubtful debts in their latest accounts. At least one of these is known to have improved its debt recovery since then, but some of the others may be in trouble.

Leaders' assessment of the problem

The officers and committee members of the 12 credit unions investigated in detail varied in the extent to which they were having to deal with arrears. One union had never had any 'delinquent accounts'; another 'very few'. Other groups felt that it was a major problem – the most serious problem they had had to deal with. Arrears and bad debts diminished the pool of savings available to lend to members, and reduced the income needed to build up reserves and pay a dividend. These problems might then discourage members from saving with the union, and the vicious circle of financial difficulties and lowered morale might eventually threaten a credit union with bankruptcy. So ensuring prompt and regular repayments was one of the major responsibilities of the leadership group.

> We were inexperienced in lending and got involved in some bad debts which weren't paid back. We had to put a lot into reserve to build up against it and therefore we couldn't pay the dividend that was expected ... I think a lot of people felt 'Well, we might as well put our money in the bank or somewhere else.' The dividend is quite a good part of it all, people think ... We saw ... the dividend being nil, nil, nil, year after year. The penny dropped that something really had to be done to set up a system for credit control and one could no longer just depend on this trust. People were just taking advantage.

> The unemployment started. It grew and delinquency grew as well. There would not have been delinquency otherwise. The black people in the credit union were more at risk from unemployment. Until 1978 it was quite stable because everybody had a job and was quite motivated. It still appeared stable several years after that, but it was actually declining while we were not aware of the real situation. Delinquency grew and more and more energies should have been put into dealing with it at the time. Because they were not, it is haunting us now. It had grown into a very large problem by the time we tried to tackle it.

Leaders' comments on these problems indicated that there were two types of influence on the extent of the problem. One lay in the membership and the strength of the common bond. The other lay in the union's policy and procedures for giving loans and chasing up repayments.

Membership

The two unions with the least problem of this sort both recruited their members from among relatively prosperous middle-income families, and this may be a sufficient explanation for their good payment record. On the other hand, the leaders attributed their success to the fact that they had restricted membership to a small tight-knit group of people, mostly members of their local Catholic Church. Indeed the whole point of credit unions is that group membership and loyalties should substitute for other forms of sanction in encouraging full and prompt repayment of loans.

It was therefore considered important that members and officers should know each other, and that these connections should regularly be reinforced by contact at collections and at other types of meeting. This policy was much more difficult to achieve if the number of members was large, or if the common bond was one which did not inspire strong loyalties: residence in a particular area, or working for an employer.

> Those people who were members in those days, who live far away ... we do not even know their faces and they are the ones that have quite a lot of delinquent amounts out. If we were in a community where we were moving amongst one another we would have seen them and better contact would be made.

> The boundary is sort of a protection so your members are all together. If you do incur any bad debts, you don't have to chase all over town looking for them. We found that the majority of bad debts came from outside our common bond. So we keep that as strict now. They have to live in the area. Delinquency hasn't been as rampant.

These considerations suggested a policy of confining membership to people who were clearly within the common bond. Indeed, one officer suggested that there might even be a common bond of disloyalty among people on the fringes.

> You do find that you get groups of members who joined about the same time from the same area, quite close. Those are people who never really had any intention. They start quite well and have a first loan, pay some of it off and then go for as much as they can

get, husband and wife and maybe some of the family. There's a very small percentage like that.

A union could face problems if it tried to expand its membership by recruiting outside its original core group. For example, a credit union formed among the people in one division of an employer's workforce decided to take members from other divisions:

> They weren't just in a different building, they were actually not even doing the same sort of work as us ... We had great difficulties in communicating with them and that in turn led to delinquent loans ... We didn't have the daily working contact with them that we have with other people in the same building and therefore couldn't chase them in quite the same way.

Lending and enforcement policies

Several credit unions had started with an open lending policy, but later tempered their idealistic approach.

> Three years ago it was whoever came, came. But now we've sewn it down a bit.

> We really started without having much idea of what loan policy we should have ... We just more or less gave the loans that were asked ... We all knew each other pretty well ... At the beginning there were two trends... One was people who wanted to use the loans to help people who were in difficulty – the Christian attitude. Then there was another group of people who wanted it to be business – almost like a commercial bank, applying criteria fairly strictly ... Somehow we tried to meet these two things together. We had a man who asked for a loan who was actually in prison because of arrears of rate s... If we could lend him so many hundred pounds, he would be able to clear his debt, get out of prison and start earning again and then be able to pay us back. We anguished over this for a long time. It really was a kind of test case and in the end we gave it. It's still not been repaid ... We don't want to do that kind of thing again ... Gradually the trend has moved towards a more business-like approach.

All officers hoped to ensure as far as possible that members were 'borrowing wisely' when the initial application for a loan was made:

> We don't give out loans willy nilly. We don't want to overburden people with paying us back. Certainly if they have financial problems and they're coming to us for a loan to pay off a debt, we don't want to put extra strains on them in terms of repaying it. A knowledge of the person and their financial state is important to us.

Although by law credit unions can sue for repayment in the courts and set off the member's savings against the loan, most unions used these tactics as a last resort. Emphasis was put on early intervention. At either the first or the second missed regular payment all the credit unions (except one) would attempt to contact the member either by letter or by 'a word in their ear' to try to establish what the problem was. This usually led to renewed payments, or a renegotiation of repayment terms until the member was in a better position. And all credit unions exhorted their membership to inform them if there were problems or if they foresaw problems on the horizon, so that they could be dealt with. Letters were sometimes supplemented by personal visits.

> If we can get someone to visit for us it helps to keep the people close to us ... They know that we're in touch with them. They can't get down one week and maybe don't go down for two or three weeks. Then all of a sudden they realise they owe £5 instead of £1 and 'Oh, I haven't got £5 this week, I'll leave it till next week.' But it's accumulating. Once it gets to a certain pitch, they're ashamed and afraid to come down because they don't like to say 'I haven't got it'. They've maybe had to use it for something unexpected. This is where we try to say to them, 'If anything happens, tell us. We can perhaps help you adjust it', or we can say, 'right, leave it for a month, if you pay the interest at least it keeps that going and you're still connected.' I find with a lot of cases, a personal approach is better than the letters.

But, as with loans policy, it might take some time to get the right balance between sensitivity and firmness.

> I think by the very nature of the organisation at the beginning, there was a lot of leniency shown towards people that were slow payers. Perhaps we didn't recognise quickly enough that there was a problem there. They were friends and you thought that, well, they'll come through, and they didn't come through ... After a while we had a problem on our hands and we were too slow to recognise it. It was known as the bank with a heart, and perhaps we had too much heart. We went too much humanitarian. Maybe it was a good thing in one way. It's given us a bit of a problem but probably the good that it did outweighed the problems that we were left with. We can cope with them.

Visits to members' homes were not easy to arrange. It was an embarrassing task requiring great tact. Not every volunteer was prepared to be a debt collector. Costs in terms of time, energy and travelling expenses, particularly where the membership were spread over a wide area, could be high for little reward.

> We keep writing every now and again and he sends us a fiver. Sometimes we motor out there and we come back with another fiver. But it's still hundreds of pounds and the interest keeps mounting up.

So although personal contact was really preferred, many credit unions were concentrating their efforts mainly on letter campaigns or phone calls which became increasingly threatening as the weeks passed with no positive response.

All the credit unions tried as far as possible to distinguish between the 'can't pays' and the 'won't pays'. One credit committee said they were dealing with 70 'stutterers' or slow payers – those who paid one week, missed the next two, paid the fourth week and so on. Slow payers were given as much help as possible to improve their repayment record and many were first time loans where members did not fully understand how the credit union worked and the importance of consistent repayments. This could be rectified by an explanation:

> Most delinquent loans are first time loans. People who are on their second or third are better payers. They don't really understand. If they can get help, that's their main interest.

However eight of the twelve credit unions we visited reported a hard core of what one of them called 'vindictive delinquents', who appeared to have no intention of paying up if they could help it. Most of these debts had been pursued by officers for at least six months before being classified as hard core.

In such cases, officers' only recourse was to write the debt off or to make use of the law. Three credit unions said they had never issued summonses although they might have threatened them. Four said they issued three to six per year. The credit union with the largest membership had taken 50 debtors to court in the past eight months. However all agreed that getting a judgement against a member did not necessarily lead to repayment, although it involved the credit union in extra costs which it could ill afford. Most tried to avoid using such extreme measures.