

**EXPLANATORY MEMORANDUM TO**  
**THE CREDIT UNIONS (MAXIMUM INTEREST RATE ON LOANS) ORDER 2013**  
**2013 No. 2589**

- 1.** This explanatory memorandum has been prepared by HM Treasury and is laid before Parliament by Command of Her Majesty.

This memorandum contains information for the Joint Committee on Statutory Instruments.

**2. Purpose of the instrument**

2.1 This instrument increases the maximum interest a credit union may charge on a loan to 3 per cent per month.

**3. Matters of special interest to the Joint Committee on Statutory Instruments**

3.1 None

**4. Legislative Context**

4.1 Section 11(7) of The Credit Unions Act 1979 gives the Treasury the power to set the maximum interest rate which a Credit Union may charge on a loan by order.

4.2 This Order increases the maximum interest rate that a Credit Union may charge on a loan from 2 per cent per month to 3 per cent per month.

**5. Territorial Extent and Application**

5.1 This instrument applies to England and Wales and Scotland.

**6. European Convention on Human Rights**

6.1 As the instrument is subject to negative resolution procedure and does not amend primary legislation no statement is required.

**7. Policy background**

7.1 In December 2012, the Government published a consultation on raising the maximum interest rate that credit unions can charge on their lending from 2 per cent to 3 per cent per calendar month. The consultation also proposed amending the Consumer Credit Act so that the current exemption that applies to the credit union sector could continue to do so. This consultation closed on 15 March. The Government also stated that, subject to the outcome of the consultation, the legislation required to make this change would be introduced in Autumn 2013, and come into effect in April 2014.

7.2 The consultation was in response to a Feasibility Study by the Department for Work and Pensions (DWP), which investigated the long-term sustainability of the credit union sector. The study found that, on average, credit unions make a substantial loss on their small, short term loans (defined as under £1000), even if they charge the

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maximum level of interest currently allowed. If they were allowed to charge 3 per cent interest per month, however, the study found that these loans would become economical to make. The study recommended that, alongside raising the interest rate, DWP invest £38m into the credit union sector to fund a modernisation project. This will allow the sector to be more sustainable, by reducing costs, increasing their use of automated systems, and developing a back office system. This project aims to increase the membership of credit unions by 1 million people over the next 5-7 years.

7.3 The increase in the maximum interest rate, along with DWPs investment, aims to eliminate the need for future Government funding after March 2015 as well as increasing access to financial services and affordable credit to people on low incomes.

7.4 The instrument does not amend or consolidate any existing legislation but does revoke the previous Order which set the maximum interest rate that a Credit Union may charge for a loan at 2 per cent per month.

## **8. Consultation outcome**

8.1 There were 43 responses to the consultation, of which 35 were in favour of raising the limit, and 2 non-committal. This was broadly in line with the response expected. The rise was supported by all trade bodies. In June 2013 HMT published a response to the consultation and agreed to proceed with the proposal to raise the maximum interest rate to 3 per cent per month.

## **9. Guidance**

9.1 None

## **10. Impact**

10.1 As the measure is deregulatory a full impact assessment was not required. A Regulatory Triage Assessment (RTA) was completed and confirmed in November 2012. The RTA stated that the change would reduce the scope of regulation by liberalising controls on a regulated activity. Credit unions are currently not allowed to lend money at a rate of interest greater than 2 per cent per month. Under the change they will be allowed to lend money at a rate of interest of up to 3 per cent per month. No new regulatory requirements will be placed on credit unions who wish to lend at up to 3 per cent per month.

## **11. Regulating small business**

11.1 This legislation does not apply to small business.

## **12. Monitoring & review**

12.1 While no specific review is planned for this instrument, it will be reviewed with regard to future policy regarding Credit Unions.

## **13. Contact**

Candice Mullineux at the Treasury: 0207 270 1037 or email: Candice.Mullineux@hmtreasury.gsi.gov.uk can answer any queries regarding the instrument.