

04/06/2007

Accountant in Bankruptcy  
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Ayrshire KA13 6SA



**RESPONSE TO CONSULTATION ON CREDIT UNION DEBTS IN PROTECTED TRUST DEEDS**

Dear Sir/Madam,

Firstly, we appreciate this opportunity to make our responses to the Consultation Paper on Credit Union Debts in Protected Trust Deeds, and we thank you for this.

**CONSULTATION QUESTIONNAIRE (Page One)  
Credit Union Debts in Protected Trust Deeds**

The deadline for responses is **25 June 2007**

**Your details**

Name

**John Mackin**

Job title (if applicable)

**GENERAL MANAGER**

Organisation (if applicable)

**Scottish Transport Credit Union**

Address

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Postcode

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e-mail address

[REDACTED]

For the purpose of analysing responses, it would be helpful if you would also indicate the capacity in which you are completing this questionnaire, please tick as appropriate.

Advice Sector  
Business  
Individual  
Insolvency Practitioner

Legal Body  
Professional Body  
Statutory Body  
Credit Union

## Questions for Consultation

1a Do you think that cancelling debt in a Protected Trust Deed has a particularly harsh impact on Credit Unions?

Yes

1b If yes, what evidence do you have to support your comments?

Protected Trust Deeds are fast becoming a financial problem for credit unions. Credit unions have a small membership usually covering a specific area and the majority of members are likely to be from low-income families. The credit union is able to grant loans, which have a much lower interest charge than some members may find from a high street bank, or from the "local" provider e.g. Provident Financial Services, or Morse Club. A member is usually encouraged to save first, thus establishing a relationship with the credit union before applying for a loan, with lending decisions based on previous borrowing patterns, and amount of savings, credit checks, rather on a "credit score" rating based on for example salary earnings. Credit unions offer a more affordable way of borrowing, bearing in mind the credit union will provide support to some of the most financially excluded people in their union, who would not be able to borrow from some "reputable" lenders. The Government is also encouraging credit unions to increase the availability of low cost personal loans through the Executive's SGEI fund where the credit unions have an important role in the rolling out of financial inclusion policies and this alone should justify treating Credit unions as a special creditor.

Most debts from a credit union do not receive a dividend from Trust Deeds, and the full debt has to be written off, which will impact on their future lending and is particular hard on the small residential credit unions.

In our own case just in the 12 months up to April 2007 we have had four Trust Deeds on top of six Sequestrations and while the sum could easily have been £50,000 +, we were only very fortunate in this period that the amount was limited to a total of £13,161, we have received no monies to date for these, and if the upward trend of Trust Deeds continues this could well affect our future lending rates to members.

1c Do you think that Protected Trust Deeds should give special protection to Credit Unions?

Yes, Credit Unions will in the main have given prior assistance at cheap rates to people who have joined for help, and very often will have negotiated for them with creditors, Housing Associations, Councils and Mortgage lenders, only to find a Trust Deed, intervening and the Credit Union being treated the same as others who may have caused the problem in the first place with irresponsible and high cost lending.

**Credit Unions should not be seen as part of the problem, but as part of the solution!**

They can and should be part of the rehabilitation of people who have got it wrong and suffered, because other lenders will continue to deprive these people of credit or credit at decent rates, whereas Credit Unions will offer assistance and guidance and low cost credit, to help them avoid the pitfalls of the past. None of this can continue however if Credit Unions are financially persecuted for helping.

**CONSULTATION QUESTIONNAIRE (Page Two)**  
**Credit Union Debts in Protected Trust Deeds**

2a Do you think that cancelling debt in a Protected Trust Deed has a particularly harsh impact on any other creditor?

No

2b If yes, what other creditors are affected?

N/A

2c Do you think that Protected Trust Deeds should give special protection to any other type of creditor and which ones?

No. Others may be able to adjust their profit margins elsewhere in the business or make larger provisions for "Bad Debts" than a credit union can.

3a Do you think that introducing special protection for credit unions (or another type of creditor) would unduly harm the interests of the rest of the creditors?

No

3b If yes, what evidence do you have to support your comments?

N/A

4a Which of the options do you think would be the most appropriate?

**Option 2 (Debts not Cancelled) - Debts due to Credit Unions should not be cancelled by Protected Trust Deeds.**

4b Why do you think this option is most appropriate?

Credit unions will always work with their members, and if there is the possibility that they could recover some, or all of the debt, albeit sometime in the future they would be willing to work with the member to find the best way of doing this, e.g by rescheduling loans to suit their circumstances. It may mean a longer term is required to pay outstanding amounts, but it may also mean the avoidance of sequestration for the member and the credit union receives some or all the monies due to them.

4c Do you have any other comments on these options that we should consider?

Many more people today are entering into Protected Trust Deeds, on the advice of friends or work colleagues, and through reading the many advertisements in the daily popular papers aimed at offering "little known solutions" to those in debt. People find it easy to go down the route of a Protected Trust Deed and often enter into a Trust Deed without fully realising the impact this could have on their both on their current and future assets e.g. the value of their homes.

We have seen the level of high fees charged by insolvency practitioners, and how little the amounts left are to repay the creditors. ABCUL, our trade association has tried in the past to promote the DAS (Debt Arrangement Scheme) to become the first step in Debt Management. This would give debtors the right to receive free money advice from an advisor, and it would not then be as easy to get out of paying their creditors as a reasonable amount of repayment would be agreed until each debt repaid. The larger creditors could not so easily then petition for a Sequestration until the member, and the money advisor had explored all other options.

We would strongly urge the Executive to reconsider its position on this matter, particularly so as the money we refer to belongs not to the Credit Union, but to the .