

# JUSTIN'S COMMENTARY

Justin Urquhart Stewart is one of the most recognisable and trusted market commentators on television, radio and in the press. Originally trained as a lawyer he has observed the retail market industry for 30 years whilst in corporate banking and stockbroking, and has developed a unique understanding of the market's roles and benefits for the private investor.



## Time again for Credit Unions

### Up The Unions

At last some viable and acceptable competition for the loan sharks (those who are politely known as 'pay day loan companies'). These bottom feeders that prey on the weakest in society are designed to make handsome profits out of usury. They have been allowed by a weak and pathetic government to get away with charging eye watering rates for short term loans aimed mostly at those least able to manage them. Such exposed people do not need more paraffin to enflame a fire; they need help to put the fire out.

Enter then a little known but often overlooked Victorian invention, the Credit Union. These are non profit making mutuals that can provide short term lending for their members. Credit Unions are community-based, not-for-profit co-operatives in which members pool their savings to offer each other credit. The Treasury has recently confirmed it will introduce legislation to raise the interest rate ceiling on credit union loans from 2% to 3% a month following due consultation with lenders. 3% a month works out at an APR of 42.6%.

As is often the case with such anachronistic structures, they have been hampered by outdated legislation which has constricted their growth and viability. With the credit unions, they were prevented from having outlandish rates but somehow those same controls failed to apply to the pay day loan companies. Currently, restrictions on interest rates mean that while unions can make decent returns on long-term loans, loans of a similar length to those offered by payday lenders tend to operate at a loss.

Raising the interest cap on the loans will make short-term loans from credit unions more expensive, but at a maximum APR of around 42.6% they will still be significantly cheaper than the astronomical rates charged by payday lenders which can be over 4,000%!

A £400 loan would cost around £477 if paid back over the course of a year, whereas the same loan with a payday lender could end up costing thousands of pounds - though payday lenders take great pains to point out that their loans are designed for 30 days and that using annual interest rates is misleading.

Figures show that as of September 2011, Credit Unions in the UK manage £703 million worth of savings from 950,000 people with loans worth £560 million as of June 2011. That shows a 300% growth in the past decade.

The mutual section of financial services has come under some scrutiny with the recent Co-op banking fiasco, which has finally surfaced after lurking around since their disastrous takeover of the Britannia Building Society. However, with organisations like Nationwide and Liverpool Victoria, there are some very good names participating. The real benefit that the mutuals should try and promote is the joint ownership - which all too often is not really understood or appreciated. This sense of local community and participation can be a much stronger draw than just a big finance brand.

However, all should be aware that not all savings clubs are Credit Unions and don't necessarily come under the same rules - just look at the atrocious operations of the 'Christmas club' that was Farepak. Another charade to fool financial innocent people out of their money.

### **Out of date taxes - reform please**

As well as a regressive and out of date tax like Stamp Duty on both property and share transactions, perhaps we should look at other areas that should be brought up to date. For example IHT (inheritance tax) should be reformed as a more constructive family assisting tax, along with more useful pensions for families covering health and welfare cover.

There are however, other areas which are just out of date because the economy and society has changed. Shopping, for example, where we wonder why high streets are dying when shops are being penalised and pay more local business rates for having a presence in the towns. More transactions are taking place online without any need for local investment or any form of contribution, so businesses are punished for being in the high street and effectively incentivised not to be there! Surely then this begs the question that maybe the light-footed online traders should be paying a fairer part for ensuring that we still have a vibrant retail market - an online trading transaction tax?

Surely a fairer and more level playing field and a contribution to keeping town centres a vibrant core and not just a ghetto of charity and betting shops along with the odious pay day loaners would be good? Actually what we really need to do is to redesign town centres as living space and not just try to cling on to a sepia photograph of a fifty year old high street.

### **Durham coal - Redcar steel**

You may recall that the Thai company Sahaviriya (SSI) restarted the ex Tata mothballed steel blast furnace on the banks of the Tees at Redcar. Up until now the coal hungry plant (2 million tonnes per annum) has been dependent on overseas imports but now, with the opening of the new pulverised coal injection plant, UK sourced coal can be used for the first time.

Initially this will be coming from South Wales (the Tower colliery) but if they can get permission for the opening of open cast mines just 20 miles away in Durham, then the costs could fall from \$200 per tonne to \$120per tonne, which apparently would turn the plant profitable at a time when for the rest of the world the steel industry is in some serious difficulty.

Open cast mining may not be popular, but set against investment, jobs and growth, it has to be better value than more expensive overseas delivery.

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**And finally...**a group of friends in the eastern Mexican city of Xalapa fed up with politicians they call 'rats', have put forward their ideal candidate for mayor: a cat named Morris.

Xalapa resident Sergio Chamorro, who adopted the cat in August, said the plan began as a joke between friends borne out of their frustration with the Veracruz state government over freedom of speech.

'Fed up of voting for rats? Vote for a cat' reads one campaign poster featuring the black and white cat, using the Spanish 'ratas' for rats and 'gato' for Morris.

Chamorro created a Facebook page advertising Morris' candidacy in May. The page went viral in early June and now has more than 125,000 likes.

As the news spread, disillusioned citizens across Mexico nominated a donkey and even a chicken for political offices in the July 7 election.

## JUSTIN'S WEEKLY COMMENTARY

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There are seven official candidates for Xalapa mayor, including representatives of Mexico's three major parties. Despite his large following, Morris is not an officially registered candidate and Chamorro is asking voters to write in 'Morris' or draw a picture of a cat on their ballot.

Can't be any worse than any of ours!



Have a good week.

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