First Credit, Ireland

- Type of restructuring:
  Internal restructuring
- Employees before restructuring:
  10-49
- Employees after restructuring:
  0-9
- Nace/Sector:
  Financial services
- Country:
  Ireland
- Date:
  24/04/2012
- Keywords:
  Recession/Crisis

Organisational profile

John McGuire incorporated First Credit as a limited liability company, FCMB Limited, on 10 May 2002. He was the sole shareholder in the company and as Irish company law requires that a company should have two directors, his father, a school headmaster, was the second director. His father has no real involvement in the running of the company.

The first objective of FCMB Limited – which trades under the name of First Credit – was mortgages and life assurance.

John McGuire was 29 years old when he established First Credit. His first job on leaving secondary education was in a commercial insurance broker's (a commercial insurance broker mainly sells insurance policies to businesses) but this only lasted four months as he was dismissed because his employer said he was not applying himself enough. He quickly found employment in another insurance broker's but the episode had a major impact on his attitude to work.

Prior to establishing First Credit, he spent a number of months researching ideas for a business before concluding that the provision of mortgages represented the best market opportunity. He set up the company with €40,000 in capital and a €20,000 overdraft. Between the ages of 19 and 28 years when John McGuire was working in insurance brokering, he was also involved in developing land and in purchasing property. He used the proceeds from the sale of one his properties to fund the establishment of First Credit.

He was the company's only employee in the initial period and it took some time for sales to build up before he needed to take on employees. Sales were initially slow because he had no prior experience of the mortgage brokering business and therefore had no customer base to draw upon. Word of mouth was an important means of spreading awareness of First Credit. John McGuire's innovative marketing strategy in 2006 of offering fixed legal fees in respect of mortgages taken out by borrowers helped to attract customers at a time when legal costs were a significant burden for home purchasers.

In the early years of First Credit, John McGuire relied heavily on the services of an external management accountant to guide him in relation to costs.

First Credit initially started in a small office and then moved to a larger office nearby before John McGuire purchased as a private investment (that is separately from First Credit) the building in Upper Pembroke Street – close to Dublin's city centre – in which First Credit and his other companies (see below) are now based.

First Credit benefited from the boom in the Irish property sector and five years after incorporation was organising more than €130 million in mortgages a year and was making more than €1.4 million in gross profit. John McGuire took more or less everything out of the company including an annual salary of €300,000 and rental income of €200,000 due to him being the company's landlord.

Employment in First Credit grew rapidly and by 2007 18 people were employed in the company. The majority of employees were men in their early 20s, most of whom had a background in financial services. The two main staff categories were sales and administration. The employees were not members of any trade union.

John McGuire took advantage of the profits generated by First Credit and the opportunities arising from the fast-growing Irish economy to invest in new businesses and in property. In his own words: 'I had just invested in two new companies, I had a net worth of €10 million and I was making a decent year's salary every month'.

His first new business was Pembroke Insurances, established in 2006. Its main business is the provision of insurances policies to the business sector. The second new business, Quote Devil (www.quotedevil.ie), was set up in 2007 to market insurance products via the web.

He also invested in property including one site in Ballsbridge, an upmarket location close to the city centre. He purchased this investment – which had the potential to be used as his residence – without the aid of a bank loan; he used the proceeds from the sale of his holiday home in Dubai to fund it.

Background to restructuring event

First Credit's main activity before the restructuring event was as a mortgage broker for first-time house buyers. The company facilitated borrowers to source mortgages from financial institutions and was a one-stop-shop advising on all the steps involved. Through a sub-brand, Remortgage Plus, it also assisted borrowers to re-mortgage their loans, that is, to consolidate all their outstanding loans into one loan.

During the period 2000–2008 (known as the 'Irish property bubble'), the demand for mortgages in Ireland grew rapidly. However, from 2007 onwards the mortgage broker industry was significantly – and negatively – impacted by a number of factors. A significant contributing factor was the extent of over-lending by Irish financial institutions to the property market which became apparent in 2007–2008 and ultimately resulted in the nationalisation of virtually all of the Irish-owned banks. Additionally, the collapse of the US investment bank, Lehman Brothers, in 2008 was a major shock to the international financial service sector and resulted in restrictions on wholesale bank lending – on which Irish financial institutions relied greatly as a source for funding.

The decision of the banks in Ireland to scale back on their lending – and in particular lending to the property sector – had disastrous consequences for mortgage brokers such as First Credit. Mortgage brokers, even if they had customers with good credit ratings, were unable to source mortgage finance from the banks.

The collapse of the Irish property bubble had other complications. Falling property prices meant that thousands of new homeowners were now faced with the prospect of negative equity: mortgage debt exceeding the value of the property. This also stopped the mortgage refinancing market in its tracks.

Additionally, the property bubble had created thousands of jobs in the construction sector and with falling property prices, activity in the sector ground to a halt and construction companies started to lay off staff. Furthermore, as the government had been over-reliant on revenues generated from the sales of properties as a source of revenue, when construction-related tax receipts fell, Ireland's fiscal deficit widened significantly.

Though initially the real culprit was the refusal of the banks to provide mortgages, the recession also caused a decline in the demand for mortgages by consumers. In his book, *Sorted!*, John McGuire describes the impact:

I was shocked in October 2008 when, along with many ofyou, I watched stock markets, pension funds, and everything else getannihilated. October 2008 was when the phone stopped ringing in my company, butit was in 2009, when it really hit the fan, that the business really stoppedturning and the cash reserves started to runout.

At one stage during 2009, John McGuire was putting €25,000 a month into the company to pay employees' salaries. He continued to put his own money into the company during 2009 as he felt the downturn in the demand for mortgages was going to be temporary.

In 2010, he realised that the new economic conditions were not temporary, but permanent. There would be no market for mortgages and, as a result, the business model on which First Credit was based was obsolete.

Restructuring processes

During the initial stages of the restructuring process which started in late 2008, John McGuire put a considerable amount of his own cash into First Credit in order to pay the salaries of employees.

Around this time too, one of First Credit's main competitors, Rea Mortgages, went into liquidation. John McGuire says that the owner of the Rea Mortgages had saved himself a lot of pain by going into liquidation early rather than enduring the slow, dragged-out death that other mortgage brokers experienced.

John McGuire's main challenge of the restructuring process was to deal with the declining market for mortgage brokering while at the same time take advantage of opportunities in other markets such as the sale of commercial and personal insurance policies. However, his main focus during 2009 and 2010 was survival. His survival plan – an overall plan that was flexible to change depending on circumstances – involved gambling on his two new companies (Pembroke and Quote Devil) and two property sites that he knew would eventually be profitable. However, he faced a double-bind: his main operating company, First Credit, was losing money on a monthly basis while his new businesses were in the start-up phase with no revenues being generated.

He needed the companies to be profitable so that they could pay him rent for the use of his building in Upper Pembroke Street. He needed this income to make his loan repayments – if he didn't, it would be all over. Realising that he had little prospect of finding a buyer if he were to put the property up for sale — there was even less property finance available for commercial land as the market had fallen 705–80% — and in an effort to generate additional rental income, he decided to set up a café/bar in the basement of the building. The company, Dax Café Bar, established to run the new venture was incorporated in 2009. He used the proceeds from the sale of his car and some of the money from the sale of his holiday home to finance the building works at Pembroke Street and at his property in Ballsbridge which cost over €1 million in total.

He had to decide if he should liquidate First Credit or keep going. He was conscious that First Credit had very loyal staff but he was equally aware that the company was losing more money than it was generating. He was dipping into his savings to pay for the shortfall in revenues.

First Credit's employees were fully aware of the difficulties faced by the company: they could see that the banks were not lending money for mortgages and that consumers were becoming increasingly reluctant to borrow money for a major purchase such as a house at a time when unemployment was rising and interest rates were increasing. The employees also saw that First Credit had stopped advertising and that the company's ranking on major search engines was falling.

During the restructuring process, staff salaries within First Credit were cut (ultimately by 30%) and additionally, because of the downturn in business, none of the sales staff were receiving commissions. Employees experienced delays in getting their salaries. One by one, his staff resigned from the company; they left of their own accord – there were no redundancies.

In his book, John McGuire describes the relief when the very last employee left. It meant that he would not have to draw upon his savings to pay the employee's monthly salary. For a short period during 2010, John McGuire was the only person working in First Credit.

In hindsight, John McGuire wonders whether it would have been more beneficial to have made employees redundant and thereby not have to work in the very tense and difficult atmosphere within the company. On the other hand, he says that jobs in the financial services sector were difficult to find and his employees might have had to face the dole for a couple of months before finding new employment. He says that it is easier to find a job if you are already in a job so the fact that First Credit kept the employees in employment may have made it easier for them to find work elsewhere.

Consultation with employees was not a feature of First Credit's modus operandi though it was obvious to the employees that the company was in trouble (firstly, no bank was lending money for mortgages and, secondly, there was little demand for mortgages on the part of borrowers). Though it was not officially spoken about within the company, staff became aware of the money John McGuire was personally putting into the company because their salary cheques came from his personal account. They knew too that First Credit's advertising budget had been cut which, as mentioned previously, meant that the company's ranking on search engines fell. Realising the very serious situation facing the company, the employees participated in initiatives to reduce costs, for example sourcing cheaper stationery items. As time progressed, it became evident to the employees that John McGuire's entrepreneurial energies were being directed towards his other enterprises and not First Credit.

In addition to his problems with First Credit, John McGuire had to contend with difficulties in his other ventures. The bank that had lent him money to develop his Ballsbridge site pulled the funding, leaving him essentially with a large hole in the ground that was worth nothing. There were problems too obtaining planning permission to develop his new café/bar venture.

Challenges and constraints of restructuring

John McGuire says in his book that had he merely been an employee of First Credit rather than its owner he would have left the company much sooner – a mortgage broker fighting for survival was not the most pleasant place to be.

He debated whether he should make his staff redundant or try to hold onto them for as long as possible. In the end, his employees made the decision for him by resigning. One employee characterised the situation facing staff as being like a passenger on the *Titanic* ('do I jump or do I stay on board?').

The main issue faced by First Credit and other mortgage brokers from 2008 onwards was the unwillingness of the banks to provide mortgage finance, even in cases where the applicant had a good financial track record. Then, the full extent of the recession kicked in with the result that consumers scaled back their purchases of homes and property. The situation was compounded by tensions between the two government parties over how to respond to the economic and financial crisis.

John McGuire initially took the view during 2007–2008 that the economic downturn was going to be temporary (he had even been considering an expansion path for First Credit). Then the full extent of the financial, economic and political meltdown in Ireland became apparent and was given full realisation with the signing of the bailout agreement in November 2010 between Ireland and the EU and International Monetary Fund. A general election held three months later in February 2011 resulted in a heavy defeat for the two government parties.

It was only when it became apparent that not only was the downturn not temporary but in fact it was going to get much worse, that John McGuire decided to run down First Credit and focus on his two new insurance-related ventures, Pembroke Insurances and Quote Devil, which had future potential and unlike the mortgage finance business were largely repeat business. He said that all his creative energy went into these two ventures because they represented his future. Both sold standard insurance products which, unlike mortgages, had to be renewed annually: that is, they were repeat business products. His other investment, Dax Café Bar, was also important to him as a source of rental income for his building.

Restructuring advice and support

John McGuire did not have access to state supports such as advice or financial assistance from Enterprise Ireland, the SME national support agency or any other agency. None of his other businesses have received support from state agencies.

He said that he did not know where or to which organisation he could have turned to for help with his restructuring.

In the early years of First Credit, John McGuire relied on his management accountant for advice. However, he was irked by the fact that during the post-2008 crisis, even though First Credit was in decline, his management accountant did not reduce his fees, and so he decided to dispense with his services.

First Credit was involved in an industry group, AMG Group, set up in 2008 by independent mortgage brokers to respond to the banks' decision to reduce the availability of mortgages. This group allowed for an exchange of ideas regarding the difficulties that mortgage brokers were experiencing at the time, particularly in relation to dealing with the banks. John McGuire participated in the group for approximately one year but left when he realised that there was no future for First Credit as a mortgage broker.

Outcomes of restructuring

The outcomes of the restructuring of First Credit are that it has considerably reduced its numbers of employees and it now no longer specialises in mortgages. First Credit currently has one full-time staff member who was recruited in late 2010 and who concentrates on the selling of life insurance policies; its trading name has been changed to First Credit Assurance. The company is generating a small profit, primarily because it only has one salary to pay; however, it is still carrying forward substantial losses from previous years.

John McGuire did not make any of his 18 staff in First Credit redundant. He decided he would make sure that there would be jobs for everyone who stuck with him; however, in hindsight, he says he could have given them a cash lump sum and let them find alternative employment.

A number of the staff who left First Credit found employment in other financial institutions while others are believed to have emigrated.

Prior to the restructuring of First Credit, John McGuire had established a commercial insurance brokerage, Pembroke Insurances, and an online low-cost car, van, home and health insurance business, Quote Devil. The latter business now already has over 10,000 customers and is trading profitably. He has also opened a new bar, Dax Café Bar, which is based in First Credit's old boardroom.

The property sites that he purchased during the property boom were completed and are now generating rental income for him.

Through his new businesses, John McGuire now employs 40 people and expects that number to grow by an additional 25 jobs.

It is important to point out that though First Credit now only employs one person and focuses on assurance products, John McGuire is considering a project that might involve a return to the mortgage market. He believes this new project, if brought to fruition, could have the potential to significantly transform the fortunes of First Credit.

Commentary

This is the case study of a company whose product simply disappeared overnight because of the refusal of the banks, as a consequence of the financial markets crisis in 2008, to provide mortgage finance. First Credit had grown from one employee to 18 by 2007 but as firstly the supply of mortgage finance dried up and secondly consumers scaled back on their demand for mortgages, its sales declined. The owner of First Credit, John McGuire, continued to pay employee salaries from his own personal savings until, one by one, they all left the company.

The company now employs one full-time employee and its focus is on selling life insurance policies. John McGuire is considering a new venture that could see the return of First Credit to the mortgage market and has the potential to significantly transform the fortunes of the company.

The company did not seek external help with its difficulties; in any case, John McGuire says he did not know who he could have turned to for assistance.

Though he parted company during the crisis with the external management accountant he had relied upon during First Credit's formative years, he believes it is important that enterprises facing a restructuring should have up-to-date information on their financial health.

In retrospect, he says he should have considered liquidating the company and making the employees redundant: this would have allowed him to safeguard his cash reserves for other opportunities. However, the scale and intensity of the financial and economic crisis did not become apparent for some time; he, along with other Irish entrepreneurs, thought that the downturn was temporary ('a blip') but soon came to realise that not only was it permanent, it was likely to get even worse.

Author

Tom Martin, Tom Martin & Associates (TMA)

Information sources

John McGuire (2012), *Sorted! How to survive and thrive when money is tight*, Penguin Ireland.

'I lost 15 million euro and fought back', *Irish Independent,* Weekend Supplement, 7 January, 2012.

Interviews

John McGuire, director and sole shareholder, FCMB Ltd (now trading as First Active Assurance)

Robert Murphy, former employee of FCMB Ltd

- Follow us on Twitter
- Follow us on Linkedin
- Subscribe to our YouTube Channel
- Subscribe to our RSS feeds

Contact us

Eurofound, Wyattville Road, Loughlinstown, Co. Dublin, D18 KP65, Ireland

Phone: (00) 353 1 2043100

E-Mail: information@eurofound.europa.eu

Press: media@eurofound.europa.eu

MEMBER OF THE NETWORK OF EU AGENCIES

EUROFOUND ACHIEVES EMAS REGISTRATION

Eurofound is an agency of the European Union

- Access to internal documents
- Financial information
- Archives
- Information centre
- RSS feeds

Top