Briefing on disclosure of data by the British Bankers' Association, the Council of Mortgage Lenders and high street lenders.

A briefing from the Community Investment Coalition
January 2016

Background to data disclosure

The Community Investment Coalition calls for financial institutions to disclose information concerning their activities in defined geographical areas as a way of creating transparency about the availability and delivery of financial services. This transparency will help to identify communities that are 'under-served' by financial institutions and so more vulnerable to financial exclusion. It will allow targeted intervention to tackle the lack of appropriate financial services whilst revealing market opportunities for those financial service companies with appropriate products.

Disclosure, in the form of data concerning indebtedness levels, plans for service provision, or the terms of financing for public services, is an important means of understanding the key role that financial institutions play in shaping localities and encouraging a constructive dialogue between these and financial services providers for mutual benefit. It can also be used to compare the performance of different banks in a transparent and verifiable way: offering the potential to recognise and reward top performers, or conversely, to ensure those which are genuinely falling short of reasonable expectations take action to raise their game.[1]

To date, disclosure has focused on the release of data on lending patterns of retail banks and larger building societies. The intention behind this has been to provide sufficient information to identify where greater efforts are needed to expand affordable credit provision to lower income households and small to medium sized businesses. The voluntary framework introduced by lenders in this respect (see page 5, below) is a major step forward in transparency. The new data allows stakeholders including local authorities, businesses, and the voluntary and community sector to begin to see how the banking and building society sectors are serving the wider economy, and in what areas of the United Kingdom there is less lending. Publishing data on lending patterns should

[1] *Full disclosure: why bank transparency matters'*, (2006), New Economics Foundation: http://s.bsd.net/nefoundation/default/page/-/files/Full_Disclosure.pdf

also assist competition, allowing new entrants to identify where there is unmet demand and to pursue new business in these areas.

The move to encourage banks to disclose their lending patterns, and provide details of service provision, at the local level, is rooted, and at its most advanced, in the United States. Introduced in 1977, the Community Reinvestment Act (CRA) has encouraged financial institutions to "help meet the credit needs of the communities in which they operate, including low- and moderate-income neighbourhoods, consistent with safe and sound banking operations."[2]

The CRA is focused on deposit taking institutions. It requires that where deposits are taken from a community that the institution also ensures that people have access to services, including credit, to meet their financial needs. The CRA requires that the performance of financial institutions is assessed on this basis, and this assessment is supported by the release of information concerning their lending patterns and service provision through a number of associated laws, including the federal Home Mortgage Disclosure Act ('HMDA'). The assessment is reviewed periodically and poor performance can affect the freedoms afforded to financial institutions, notably in respect of mergers and acquisitions.

For instance, a study by **the University of Massachusetts Boston**[3] highlighted the substantial discrepancies in the lending behaviour of financial institutions across the State. Using data released as a result of HMDA, and cross referencing this with population and income data from the US Census Bureau, the study found that Black and Latino borrowers were less likely to be granted prime home-purchase loans, but were also respectively 3.1 times and 2.5 times more likely than their white counterparts to receive high- APR loans[4]. The study was able to support community groups and financial institutions to discuss how the needs of Black and Latino borrowers could be better met.

Whilst the CRA and the US' broader suite of fair lending laws, including HMDA, have traditionally been focused on redressing the legacy of racial discrimination in that country, they have developed

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[2] http://www.federalreserve.gov/communitydev/cra_about.htm

[3] J. Campen, (2010), *'Changing Patterns XVI: Mortgage Lending to Traditionally Underseved Borrowers & Neighbourhoods in Boston, Greater Boston and Massachusetts, 2008'*, Gastón Institute Publications. Paper 106: http://scholarworks.umb.edu/gaston_pubs/106/

[4] Defined as home-purchase loans that charge annual percentage rates (APRs) at least three percentage points higher than the current interest rate on long-term U.S. Treasury bonds.

into a tool to help address the needs of other underserved communities. They provide a useful starting point to discuss how banks in the UK could be more transparent about their provision in our own communities.

Why has the Community Investment Coalition (CIC) campaigned for disclosure of lending data?

The need for financial institutions to exercise greater transparency concerning their lending patterns and service provision in local communities is central to our ambition to address the problem of financial exclusion and boost the economies of deprived areas in the UK. We believe that a more constructive dialogue between financial institutions and local communities themselves (based on a thorough understanding of the role of finance in local areas), is needed to inform effective local economic and community development strategies.

A study by **the New Economics Foundation (NEF)**[5] concerning the impact of data disclosure on lending patterns at the local level has identified that disclosure can underpin:

- An assessment of the overall availability of banking services in deprived communities assessed.
- Identification of individual financial institutions that are performing well, and those that are not – allowing for more targeted engagement and detailed discussion.
- Cross referencing of information on financial exclusion with other measures of deprivation at the local level to better inform local economic and community development strategies.
- More effective targeting of scarce resources to deprived areas.
- Greater confidence of communities in their financial services providers. Without disclosure, communities are left in the dark on how their savings and resources are being invested.

[5] *'Full disclosure: why bank transparency matters'*, (2006), New Economics Foundation: http://s.bsd.net/nefoundation/default/page/-/files/Full_Disclosure.pdf

- Reputational advantages for financial institutions which are seen as making a positive contribution and are seen to be working in partnership with alternative lenders, and other community-based initiatives to develop financial services of benefit to local households, businesses and public services.

The Parliamentary Commission on Banking Standards

In June 2013, the Parliamentary Commission on Banking Standards[6], appointed by both Houses of Parliament, reported on professional standards and culture of the UK banking sector. It made recommendations for legislative and other action.

On data disclosure, the Commission noted that:

"Increased disclosure of lending decisions by the banks is crucial to enable policymakers more accurately to identify markets and geographical areas currently poorly served by the mainstream banking sector…It will be important to ensure that the level of disclosure is meaningful and provides policy-makers with the information necessary accurately to identify communities and geographical areas poorly served by the mainstream banking sector."

Support for data disclosure by UK Parliamentarians

Michael Fallon MP, the then-Business Minister stated in 2012[7]:

"Publishing lending data should encourage these financial institutions to do more to help business thrive."

On 3 July 2014, there was an adjournment debate on data transparency in banking at the House of Commons.[8]

[6]House of Lords & House of Commons (June 2013), *Changing banking for good: Report of the Parliamentary Commission on Banking Standards*: http://www.parliament.uk/documents/banking-commission/Banking-final-report-vol-ii.pdf

[7] https://www.gov.uk/government/news/michael-fallon-urges-banks-not-to-let-small-businesses-down

[8] http://www.publications.parliament.uk/pa/cm201415/cmhansrd/cm140703/debindx/140703-x.htm

Andy Love MP, talking about data released through the voluntary framework (see page 5), said:

"The new data will allow the public to see clearly how the bank and building society sectors are serving the wider economy. Publishing data in such a detailed way will assist competition, allowing new entrants such as credit unions and community development finance institutions to identify where there is unmet demand and pursue new business in those areas."

Gareth Thomas MP commented that:

"One lesson from the United States, where similar disclosure of lending data takes place, is just how important the data are in identifying where credit unions or community banks—the community development financial institutions to which my hon. Friend referred—can help to plug the gaps."

Responding, **Andrea Leadsom MP,** Economic Secretary to the Treasury, said:

"The publication of the data will therefore play a big role in improving competition by enabling challenger banks, smaller building societies, credit unions and CDFIs to identify and move into areas that are not currently served by the larger banks. It will also mean that our economy is better served by their offering finance to customers who are crying out for support to help their business grow. I certainly believe that the project is vital, and that it will play a key role in improving lending in areas where it is currently lacking."

In March 2015, **the Treasury Select Committee** acknowledged in its '11th Report - Conduct and competition in SME lending'[9] that:

"Data on bank lending provides a means of assessing credit market conditions."

Adding that:

"While businesses may not all directly take an interest in lending statistics themselves, their perceptions of the lending environment are influenced by commentators and the media, who do. The publication of data on bank lending can therefore help to improve businesses' understanding of

[9] *'11th Report - Conduct and competition in SME lending'*, 16 March 2015, Treasury Select Committee, UK Parliament: http://www.publications.parliament.uk/pa/cm201415/cmselect/cmtreasy/204/20404.htm#a10

banks' willingness to lend…. The amount of lending from alternative sources is not yet well documented. Official sources barely record it at all. As alternative lenders grow, it is important that their contribution to the SME funding market is recognised and understood as part of a wider picture of business lending."

In March 2015, **the Northern Ireland Affairs Committee** stated in its '1st Report - Northern Ireland: banking on recovery?'[10] that:

"Transparency "will give everyone a clearer understanding of how the province's economy is performing.""

The Financial Inclusion Commission

The Financial Inclusion Commission, which possessed a wealth of experience and the Commissioners are drawn from frontbench UK politics, senior management roles in financial services businesses and the charity sector, national regulators and academia, published its findings[11] in March 2015.

The Commission recommends wider disclosure "to develop a greater understanding of the problem, arguing:

"If lenders were required to disclose data by postcode on credit applications and rejections, policymakers would be better able to understand the scale and shape of the low income credit gap."

[10] *'1st Report - Northern Ireland: banking on recovery?'*, 9 March 2015, Northern Ireland Committee, UK Parliament: http://www.publications.parliament.uk/pa/cm201415/cmselect/cmniaf/178/17809.htm

[11] *'Improving the financial health of the nation'*, March 2015, The Financial Inclusion Commission: http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf

The voluntary framework used for data disclosure

The British Bankers' Association (BBA)[12] and **the Council of Mortgage Lenders (CML)**[13] have jointly published aggregated data on lending patterns at the local level, and are now doing so on a quarterly basis. This release provides details of the outstanding stock of lending at the postcode sector level that has been committed to customers across three categories:

- loans and overdrafts to SMEs
- mortgages
- Unsecured personal loans (excluding credit cards).

However, the sole focus on the stock of lending (total outstanding balances) has limitations as changes in this figure can arise for a number of reasons, some of which may be positive and some negative. In particular, it is currently impossible to know whether a decrease in the total stock of lending is due to households repaying debt, or being refused access to credit. To achieve greater clarity concerning this, it would be helpful if the number of customers to whom the stock relates was also published, alongside net lending figures for the area in the period.

Nevertheless, the current data release goes some way to help identify those more deprived areas where larger providers of retail financial services are less willing to lend. By making a number of assumptions concerning the distribution of credit use based on local demographics the data analysis can be used to instigate a discussion with financial institutions about their provision and can boost the case for changes in provision and/or greater investment in alternative community finance providers, such as Credit Unions and responsible finance providers.

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[12] *'Lenders set out levels of borrowing from across the country'*, 10th October 2014: https://www.bba.org.uk/news/statistics/postcode-lending/lenders-set-out-levels-of-borrowing-from-across-the-country-2/

[13] *'Mortgage lending by postcode: updated data published today'*, 10th October 2014: http://www.cml.org.uk/cml/media/press/4040

The British Bankers Association (BBA) and **the Council of Mortgage Lenders (CML)** jointly publish aggregated data for participating lenders each quarter, which you can find here. Individual lenders will publish consistent data relating to their own customers' borrowing. The datasets include data from seven major lenders:

- Barclays[14]
- Clydesdale and Yorkshire Banks[15]
- HSBC[16]
- Lloyds Banking Group[17]
- Nationwide Building Society[18]
- Royal Bank of Scotland[19]
- Santander UK[20]

[14] *'Barclays publishes lending data across UK postcodes'*, 9th July 2015: http://www.home.barclays/news/2015/07/barclays-publishes-lending-data-across-uk-postcodes.html

[15] *'Clydesdale Bank PLC - Postcode reporting'*, 9th July 2015: http://www.cbonline.co.uk/media/results-financial-information/postcodelending

[16] *'HSBC Postcode lending data'*, 9th July 2015: https://investments.hsbc.co.uk/postcode-lending-historical-data

[17] *'Data for SME, Personal and Mortgage Lending'*, 9th July 2015: http://www.lloydsbankinggroup.com/media/postcode-lending-data/

[18] *'Nationwide lending activity by postcode sector'*, 9th July 2015: http://www.nationwide.co.uk/products/mortgages/service/lending-by-postcode#xtab:2014loans

[19] *'Q4 2014 RBS postcode lending'*, 9th July 2015: http://www.rbs.com/news/2015/july/q4-2014-rbs-postcode-lending.html

[20] *'Santander lending to individuals and businesses – by postcode sector'*, 9th July 2015: http://www.santander.co.uk/uk/infodetail?p_p_id=W000_hidden_WAR_W000_hiddenportlet&p_p_lifecycle=1&p_p_state=normal&p_p_mode=view&p_p_col_id=column-2&p_p_col_pos=1&p_p_col_count=3&_W000_hidden_WAR_W000_hiddenportlet_cid=1324570552787&_W000_hidden_WAR_W000_hiddenportlet_tipo=SANContent&_W000_hidden_WAR_W000_hiddenportlet_javax.portlet.action=EventLauncherIdContentAction&_W000_hidden_WAR_W000_hiddenportlet_base.portlet.view=W014InformationsGrouperInitView

Methodology used for data collection

The disclosure framework for local lending patterns centres on the postal addresses represented by **Royal Mail** postcodes, which is maintained periodically by **the Office for National Statistics (ONS)**. The figures cover Great Britain only (so excludes data from Northern Ireland, the Isle of Man, Jersey and Guernsey).

The published data reflects borrowing in 'live' postcodes (according to the list published by the Royal Mail in August 2013), and is an up-to-date picture of its geographic distribution across Great Britain (it is intended that the data will extend to Northern Ireland in 2015). There are around 1.8 million full postcodes, 10,000 sector postcodes, 3,000 districts and 120 postal areas.

To safeguard customer confidentiality and satisfy relevant data privacy, competition and other laws, **the BBA**, **CML** and individual lenders have applied a number of redaction filters to the raw lending figures reported by lenders.

These filters/rules are:

- Borrowing stock in a sector postcode is not disclosed where customer confidentiality would be compromised (i.e. where fewer than 10 borrowers exist in the sector or where borrowing is highly concentrated in a small number of the largest borrowers in the sector).

- Individual lenders are not obliged to publish borrowing at sector level if they hold less than 10 per cent of SME borrowing, 3 per cent of mortgages or 3 per cent of personal loans in a sector.

Typically, the total value of lending redacted in this way is relatively small, and spread thinly across a number of sector postcodes. The aggregate figures reported here therefore do not always represent the absolute sum of borrowing from all participating lenders. While this means that aggregate figures may not be exactly comparable across different sector postcodes, in most cases the borrowing amounts not included will be fairly small.

Wherever possible, any figures for an individual lender which either could not be attributed to a specific sector postcode, or had to be redacted for data privacy or other reasons have been added into the area totals shown. In a small number of instances, data privacy reasons prevent the attribution of specific amounts to certain postal areas. This means that aggregate figures may not be exactly comparable across different postal areas. Therefore, sector postcodes do not necessarily map across readily or exactly to alternative geographic classifications.

Personal loan figures are based on **Bank of England** reporting classifications, and will reflect unsecured borrowing my individuals and households.

Personal loan figures for participating lenders together represent fewer than 30 per cent of the total national unsecured credit market and an estimated 60 per cent of all personal loans. It is therefore important to take considerable care in interpreting local-level figures, as they will not necessarily be truly representative of the picture for unsecured credit as a whole.

SME lending figures relate to borrowing through loans and overdrafts **only**. Other forms of finance (e.g. business credit cards or asset-based finance) are used by SMEs, but not included here.

SME loans and overdrafts for participating lenders together represent about 60 per cent of the total national market of all lending to SMEs by banks and building societies. It is therefore important to take considerable care in interpreting local-level figures, as they will not necessarily be truly representative of the picture of SME finance as a whole.

Mortgage figures are based on **Bank of England** reporting classifications, and will include most buy to let activity, as well as borrowing by home-owners.

Participating lenders together represent about 73 per cent of the total national residential mortgage market. It is important to take care in interpreting local-level figures, as they will not necessarily be truly representative of the picture for the mortgage industry as a whole.

Use of data

We expect a wide range of different organisations to use this data. This will include universities and academics working on financial exclusion issues; local authorities and **Local Enterprise Partnerships (LEPs)** looking to extend access to affordable credit to support economic growth; policy and decision makers developing effective approaches to support innovation in the supply of affordable credit and provision of financial services to all communities and businesses. **Birmingham City Council** has already provided an initial analysis of the data to help it begin to identify geographical gaps in the supply of personal lending. They are now working with partners to fill these gaps, for example by supporting the development of local credit unions and responsible finance providers. You can read its report here.[21]

'Tackling Financial Exclusion: Data Disclosure and Area-Based Lending Data' – a Coventry and Newcastle University report

In autumn 2014, **CIC**, together with **Citi Community Development**, **Unity Trust Bank** and **Big Society Capital**, commissioned **Coventry and Newcastle Universities** to undertake research looking at this lending data.

The report – **'Tackling Financial Exclusion: Data Disclosure and Area-Based Lending Data'** found that currently, the lending data is limited and publication at postcode sector level increases the technical requirements and costs of meaningful data analysis. However, what it does show is that:

- Median personal lending per adult in Great Britain in 2013 was £602. Lending per adult in the lowest 10 per cent of postcode sectors was around two-thirds of this figure or less, whereas in most of the highest 10 per cent of postcode sectors lending per adult was around a third or more above the median figure. Data suggests that average personal lending tends to decline as the area's deprivation level rises.

- Average median SME lending per business in Great Britain in 2013 was £47,072 with lending per business in the lowest 10 per cent of postcode areas below £35,000 and in the highest 10 per cent of postcode areas lending per business was over £68,000.

[21] http://www.communityinvestment.org.uk/?page_id=341

The study concludes that although the UK's disclosure framework is useful, the existing data sets need to be strengthened and broadened to allow detailed and insightful analysis of which of the UK's communities are underserved by the UK's main high street banks. You can read the executive summary to the report here[22] and the full report here.[23]

Next Steps

In light of this early analysis of the lending data in the public domain, we believe that to fully understand patterns of lending and identify which communities continue to struggle to access affordable credit, it is necessary to expand the data release to include additional data sets:

- total number of transactions, including declines;
- individual loan amounts and the length of a loan;
- interest rate – (or at least some kind of marker about level);
- markers of cost of loan release;
- characteristics of the borrower (e.g. gender, ethnicity) or business (e.g. turnover, employment, legal form).

- The lending and deposit to different forms of organisations including Community Interest Companies and community benefit societies. In addition it would be helpful if the data were reported at Lower-layer Super Output Areas/Scottish Data Zones (LSOA) or, if not, Middle-layer Super Output Areas (MSOA). Some trade-off between more detailed geographies and data disclosure may occur but, at minimum, this should be tested (postcode sector is not the most applicable for everyone).

- Ensure that all financial service providers (including payday lenders) release lending data sets that cover the whole of the UK rather than Great Britain.

[22] Henry, N., Sissons, P., Coombes, M., Ferreira, J. and Pollard, J. (2014) *'Tackling Financial Exclusion: Data Disclosure and Area-Based Lending Data' [Executive Summary]* :http://www.communityinvestment.org.uk/wp-content/uploads/2014/11/FINAL_Executive-Summary.pdf

[23] Henry, N., Sissons, P., Coombes, M., Ferreira, J. and Pollard, J. (2014) *'Tackling Financial Exclusion: Data Disclosure and Area-Based Lending Data' [Full report]*: http://www.communityinvestment.org.uk/wp-content/uploads/2014/11/FINAL_Full-Report.pdf

- Move towards disclosure of postcode lending data in real-time.

There are also a number of other more technical issues which need to be resolved:

- Some data is not published due to filtering processes. There is limited accompanying guidance provided with the dataset and the process of dataset construction and quality assurance are not fully explained. So we recommend the Introduction and reporting of a common system of cell 'markers' across reported datasets to identify reason for blank or missing data.

- Expand the accompanying notes to the data to provide detail of coverage and data construction process across all participating lenders (and **the BBA**) for each data release. This should allow like-for-like comparisons of data cells across lenders and data releases as much as possible.

- Provide an additional technical report on dataset construction and which addresses issues of expected and actual volatility.

Finally, there is also a need to look at how transparency can be improved in respect of more than lending patterns. For example, it would be useful to have information concerning planned branch closures so communities can better engage with financial services providers concerning the implications of these and develop joint programmes to up-skill residents so they can use digital services. Local communities and financial services providers may also be able to find ways of using intermediary organizations to maintain face to face provision of retail financial services in deprived areas.

Similarly, it would be useful if there were moves to improve levels of transparency concerning the investments held by financial institutions in public services, including PFI contracts in hospitals and schools. With many public services under extreme financial pressure, the potential to restructure these agreements should be investigated.

For more information

For more information, please contact Jennifer Tankard, **Community Development Foundation (CDF)** on 020 7812 5430 or jennifer.tankard@cdf.org.uk.

About the Community Investment Coalition

The Community Investment Coalition is a partnership of national organisations including financial providers, charities, trade associations and academic bodies. Our mission is to promote access to affordable finance for families, businesses and communities.

CIC campaigns for:

- Increased transparency and public accountability of financial service providers to support consumer choice and allow effective intervention in under-served markets.
- Increasing diversity of providers and choice for consumers in the financial services sector, with more providers offering a wider range of fair and affordable products to households, individuals, communities and businesses.
- More innovation in the financial services sector so that affordable financial products are delivered accessibly to all communities.
- Sustainable local economic growth with a greater share of locally generated income remaining within communities.
- Improvements in financial literacy for all sections of the community.

Partners include:

The Centre for Responsible Credit (CfRC) is a dedicated unit established within the Centre for Economic and Social Inclusion to: monitor the development of credit markets; research models of responsible provision and promote policy responses which protect the long term interests of households.

CCLA manages money for more charities than any other fund manager in the UK and we are owned by our not-for-profit clients. We engage with the banking sector every day on behalf of our charity and local authority clients, who are concerned with issues that may affect shareholder value, but also wish to see account taken of their ethical investment concerns. **CCLA** is ranked top manager of ethical and responsible investment funds in the UK by assets under management.

Local Trust delivers the Big Local programme with an investment of over £200m from **the Big Lottery Fund**. Big Local is happening in 150 communities across England over the next 15 years. It provides residents in each community with at least £1m and a range of other support and funding to develop ways of making their areas even better places to live.

Responsible Finance's mission is to support the development of thriving and sustainable responsible finance sector that provides finance for disadvantaged and underserved communities and, as a consequence, contribute to the increasing prosperity of these communities.

The Community Development Foundation (CDF) is a social enterprise passionate about helping communities. We have unique expertise in using community development to strengthen local voices, improve people's lives and create better places to live. Our vision is for successful lives in flourishing communities.