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

Community Investment Coalition

Background to data disclosure

Bank disclosure means providing information about a range of bank activities in defined geographical areas. The data provides information about the ways that banks invest the money the public deposits with them. Disclosure can also provide an opportunity to deepen understanding of market trends and to refine products and services to better serve local markets. It can also be used to compare the performance of different banks in a transparent and verifiable way to reward top performers and penalise those who fall short.[1]

Moreover, data disclosure highlights whether the main high street lenders are concentrating the provision of credit in certain areas leaving other areas to become 'credit deserts' with businesses and consumers struggling to access affordable credit. It is a major step forward in terms of transparency. This new data will allow businesses and the public to see clearly how the banking and building society sectors are serving the wider economy, and in what areas of Great Britain there is less lending. Publishing data in such a detailed way will 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 habits has roots in the United States. Introduced in, the 1977 Community Reinvestment Act (CRA), aims to "encourage depository 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 requires that that each insured depository institution's record in helping meet the credit needs of its entire community is evaluated periodically. That record is then taken into account in considering an institution's application for deposit facilities, including mergers and acquisitions.

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

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

For instance, work by the University of Massachusetts Boston[3] highlighted the substantial discrepancies in the lending behaviour of financial institutions in the city of Boston, for Greater Boston, for Massachusetts, as well as for each of the state's fourteen counties and each of its thirty-three largest cities and towns.

Using data sourced by the federal Home Mortgage Disclosure Act (HMDA) along with population and income data from the US Census Bureau, it 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].

It is argued that a similar strategy can be devised in Great Britain, using income levels as a substitute for race and ethnicity.

Why has the Community Investment Coalition (CIC) campaigned for it?

The need for disclosure of lending data is central to CIC's campaign for access to affordable finance.

The New Economics Foundation (NEF)[5] has noted the following advantages of the banking sector disclosing lending data publicly:

- The availability of banking services in deprived communities can be clearly identified.
- Full disclosure means that it is possible to identify who the banks are actually reaching, and who remains outside of the banking system.
- Financial exclusion is often localised, meaning that banks need to disclose information on a local-area basis that is consistent with measures of deprivation.

[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.

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

- Banking transparency is a powerful tool that can ensure the effective targeting of scarce resources to deprived areas.
- Without area-based bank disclosure, communities are left in the dark on how their savings and resources are being invested.
- Transparency can also highlight the positive contribution banks make to deprived communities and can facilitate working partnerships between banks, third sector lenders, and other community-based initiatives to build new products and operating models.

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, taking account of regulatory and competition investigations into the LIBOR rate-setting process, lessons to be learned about corporate governance, transparency and conflicts of interest, and their implications for regulation and government policy. 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."

[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

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]

Andy Love MP

"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

"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."

Andrea Leadsom MP, Economic Secretary to the Treasury

"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.."

[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

The voluntary framework used for data disclosure

The British Bankers' Association (BBA)[9] and the Council of Mortgage Lenders (CML)[10] have jointly published aggregated data on bank lending disclosure, and will subsequently repeat this on a quarterly basis, detailing the outstanding stock of lending that has been committed to customers across three categories:

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

Each postcode will be broken down by category to show the exact lending being made to each.

The figures will fluctuate over time for a number of reasons including:

- new borrowing agreements
- customers repayments, either in part or in full
- existing agreements mature
- borrowers move location
- borrowers switch into or out of alternative finance products
- borrowers switching to a different lender

In particular, it highlights those more deprived areas where larger banks are often not willing to lend. This will enable those looking to improve access to affordable financial services to more effectively intervene. It could also allow alternative community finance providers, such as CDFIs, to expand their activities.

[9] *'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/

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

The British Bankers Association has published aggregated data for participating lenders here. Individual lenders will publish consistent data relating to their own customers' borrowing. The datasets include data from seven major lenders:

- Barclays[11]
- Clydesdale and Yorkshire Banks[12]
- HSBC[13]
- Lloyds Banking Group[14]
- Nationwide Building Society[15]
- Royal Bank of Scotland[16]
- Santander UK[17]

[11] *'Barclays publishes lending data across UK postcodes'*, 14th January 2015: http://www.barclays.com/news/2015/01/barclays-publishes-lending-data-across-uk-postcodes.html

[12] *'Clydesdale Bank PLC - Postcode reporting'*, 14th January 2015: http://www.cbonline.co.uk/media/results-financial-information/postcodelending

[13] *'Postcode lending data'*, 14th January 2015: http://www.hsbc.co.uk/1/2/about-us/sustainability/postcode-lending-data

[14] *'Data for SME, Personal and Mortgage Lending'*, 14th January 2015: http://www.lloydsbankinggroup.com/media/postcode-lending-data/

[15] *'Nationwide lending activity by postcode sector'*, 11th July 2014: http://www.nationwide.co.uk/products/mortgages/service/lending-by-postcode

[16] *'Postcode Lending Data'*, 14th January 2015:: http://www.rbs.com/news/2015/january/q2-2014-rbs-postcode-lending.html

[17] *'Santander lending to individuals and businesses – by postcode sector'*, 14th January 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 framework 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 data published 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. 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 stocks 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.

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 analysed the data 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 community development finance institutions (CDFIs). You can read its report here.[18]

Notes:

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% of the total national market of all lending to SMEs by banks and building societies. It is therefore important to

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

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% of the total national residential mortgage market. 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 the mortgage industry as a whole.

Initial analysis of postcode data

Analysis of postcode lending data has already begun. Click here to read this report written by Birmingham City Council, which details the level of borrowing in Birmingham.

'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.

The study concludes that although the UK is now a world leader in disclosing area-based lending data, 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.[19]

You read the report in full here.[20]

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, the following steps must be taken:

- Introduce and report a common system of cell 'markers' across reported datasets to identify reason for blank or missing data;

- Expand accompanying notes 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;

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[19] 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

[20] 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

- Expand data release to include:
    - 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.

- Report data 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); and

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

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

- Information regarding bank branch closures should also be made available, so that only are communities without basic banking facilities can be identified.

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:

CfRC centre for responsible credit 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.

CfRC centre for responsible credit | Local Trust creating lasting change | CCLA | cdfa | community development foundation

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.

CDFA's mission is to support the development of thriving and sustainable community development finance (CDFI) 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.