Bank Data disclosure in Great Britain

The banking transparency agreement in Britain: first results

Report from the London conference, 20 March 2014

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The British agreement on bank data disclosure

In June 2013, Chief Secretary to the Treasury Danny Alexander announced the signature of an agreement by the British Bankers Association (BBA) and the Council of Mortgage Lenders (CML) to disclose significant retail lending information by post code sector. Seven leading banks agreed to participate including the Spanish Bank, Santander.[2] Not one French bank was a signatory.

According to Alexander, this agreement would provide "new actors in finance with the means to identify and fill the gaps in services provided by banks; and businesses with the means to recognise responsible banks". Alexander also made it clear that the Government would consider amending the law in order to obtain the information were the voluntary agreement to prove ineffective. The harsh tone of Alexander's remarks is not hard to understand. The month of June 2013 marked a reputational nadir for British Banking. Indeed: following the collapse of RBS and the manipulation of LIBOR, it had become clear in 2013 that British banks had chosen not to recapitalise in order to hold adequate reserves. They proceeded instead to "deleverage" at the expense of Britain's businesses. In 2013, they lowered the total value of outstanding SME overdrafts by 16%.[3] In the last quarter of 2013 alone British banks drew £4.2 billion of capital OUT of British SMEs.[4]

Alexander confirmed the principles and objectives of the agreement: to improve bank allocation of savings towards SMEs and the local economy through publication of bank lending activities by locality, throughout Britain. For Alexander, this data will reveal the financial deserts where banks fail to finance businesses and private individuals.[5] By reducing the opacity of lending it will allow banks better to understand local credit markets in order to adapt their processes, products and services. Further, it will provide bank stakeholders (investors, depositors, borrowers and authorities) with the

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[1] Special thanks to Richard Browne and the City of Birmingham for the graphics in this article. http://citysavecreditunion.files.wordpress.com/2014/01/personal-loans-birmingham.pdf

[2] Barclays, Clydesdale & Yorkshire, HSBC, Lloyds, Nationwide Building Society, RBS & Santander UK.

[3] Philip White, CEO of Syscap, 2.9.13, http://www.syscap.com/news-and-views/2013/september/small-business-bank-overdrafts-plunge-by-16-in-a-year/#.U0Jnbf2uYxI

[4] Bank of England, « *Trends in Lending* », January 2014, the *Independent Report* on the Royal Bank of Scotland confirms that it was RBS policy to reduce SME assets. http://www.ft.com/intl/cms/s/0/f7a23e1a-55b9-11e3-b6e7-00144feabdc0.html#axzz2yq7var2r

[5] Thanks to CIC for calling our attention to a recent study of lending in Boston demonstrates persistent differences in availability and price of credit in low and moderate income communities, which are not correlated with credit risk factors, but are indeed correlated with the ethic origins and neighbourhood of residence of borrowers. See J. Campen, (2010), 'Changing Patterns XVI: Mortgage Lending to Traditionally Underserved Borrowers & Neighbourhoods in Boston, Greater Boston and Massachusetts, 2008, Gastón Institute Publications. Paper 106: http://scholarworks.umb.edu/gaston_pubs/106/

means to act: building stronger relationships with good banks and cutting ties with others. Most important of all for the Government, bank transparency will open the way for new financial competitors, including lenders from the community finance sector: cooperatives, credit unions and Community Development Finance Institutions (CDFIs).

A movement in favour of transparency in banking

That a Conservative-dominated Coalition Government has decided to seek this agreement with banks represents a success for the members of Britain's Community Investment Coalition (CIC) and other campaign groups. It follows years of lobbying MPs and campaigning the general public.[6] The agreement also represents a success for the banking federations. The seven leading British banks and building societies were able to overcome internal opposition and succeeded in record time (and while they have not indicated their costs, if US experience is a guide, then at no great cost) in publishing data using selection criteria and format proposed by their federations.

The CIC conference in March brought together key campaigners, practitioners and policy specialists. The main objective was to learn, from the first attempts at analysis of bank data, whether banks and their stakeholders could in fact use the new information to improve lending to and services in all communities.

- Identify financial deserts
- Evaluate the performance of banks and local partnerships
- Reverse the decline in small businesses lending
- Show public authorities that this information can be used to strengthen public policies
- Reduce predatory lending[7].

Does transparent banking improve competition, as desired by the Government? Does it facilitate the expansion of CDFIs (Community Development Financial Institutions) and other community finance providers?

Have the first attempts to analyse the new data helped to identify continuing data gaps, which if corrected would enable stakeholders better to understand and stop financial exclusion?

The information released by British banks

Alexander declared that the June agreement was more inclusive than the American CRA, as it provides for publishing bank data on all three classes of credit most important for local economies: credit to small businesses (including overdrafts); mortgages and consumer credit.[8] As in the US, Payday lenders are not signatories to the agreement.[9] The methods used for bank reports are

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[6] www.communityinvestment.org.uk The Paris Think-tank *Labo ESS* www.le**labo-ess**.org/ is associated with CIC in European matters.

[7] Payday lenders are enjoying rapid growth in Britain. They are outlawed in France. These non-bank lenders charge extremely high interest rates (from 400% to 6000%) on very small, short-term loans. The American Silicon Valley Bank is among the larger investors in payday lender Wonga. See the Financial Times: http://www.ft.com/intl/cms/s/0/7f8e7bd8-7de0-11e3-b409-00144feabdc0.html#axzz2yTbo78Yw.

[8] For an adequate overview of CRA see: http://en.wikipedia.org/wiki/Community_Reinvestment_Act

[9] Although Payday lenders are outlawed France, the New York Times (15/4/2014) notes an alarming rise of black-market lending to SMEs in France and across Europe, funded by enormous reserves of crime syndicate monies seeking entry into the legal economy.

determined by the two federations, which receive data from each bank, aggregate it by postcode then publish the combined data. Participating banks also publish their own disaggregated data. Publication is quarterly. Another important difference between the UK agreement and the American CRA is that banks report on a voluntary basis. Furthermore, British banks do not publish credit amounts, rates, demographic characteristics of borrowers, or the numbers and motives for rejection of credit requests. Nor do they publish total ensured savings by branch.

What is vital however is that the British agreement does enable comparison between banks in each community, and in all three asset classes, as each bank has also agreed to publish its own data individually. Still, conference participants noted the absence of a common reporting support for individual bank reports. Thus HSBC chose to release its first report in PDF format![10]

The first submission of data by the banks took place as planned, and in December 2014 the aggregated data were published online by the federations. They cover the following percentages of lending across Great Britain, except Northern Ireland.

- 60% of SME loans and overdrafts
- 73% of mortgages
- 60% of consumer loans, excluding credit cards (30% of overall consumer credit)

Publication by postcode to protect personal information

The agreement uses the postal code system to define the zones for data publication. A British postcode is comprised of four dimensions. Take B4 7DG, which is the postcode for an area of Birmingham:

Area	District	Sector	Unit
B	4	7	DG

Under the agreement credit data is released at the sector level (9,000 sectors across Britain) instead of at the unit level (1.8 million). This choice was made to ensure the protection of personal data, and it is at this scale of detail that bank data is published.[11]

Postcode sectors can be correlated to British census and other data. Consequently, their use permits experts more easily to apply multiple overlays of bank data with public and private data. The method has been well known to marketers for years: it permits better understanding of the economic potential of a territory and the preferences of its consumers.

On the other hand, the choice of using postcode sectors limits somewhat the detail of analysis.[12] In addition, since post-code sectors do not match precisely to administrative boundaries, their use may generate some supplementary costs for public authorities.

[10] Which makes the HSBC data virtually useless for comparative analysis. Other banks were more forthcoming: perhaps HSBC will improve its future reports.

[11] In order to protect personal data, the agreement excludes publication of data in a sector with fewer than 10 borrowers, or if there is a strong correlation between total lending and a small group of borrowers. Banks need not publish their sector data if their total assets represent less than 10% of total SME bank credit and 3% of consumer and mortgage credits.

The first analysis of bank data by the city of Birmingham

Birmingham is divided into a total of 125 sectors; each corresponds to approximately 6500 adult residents.

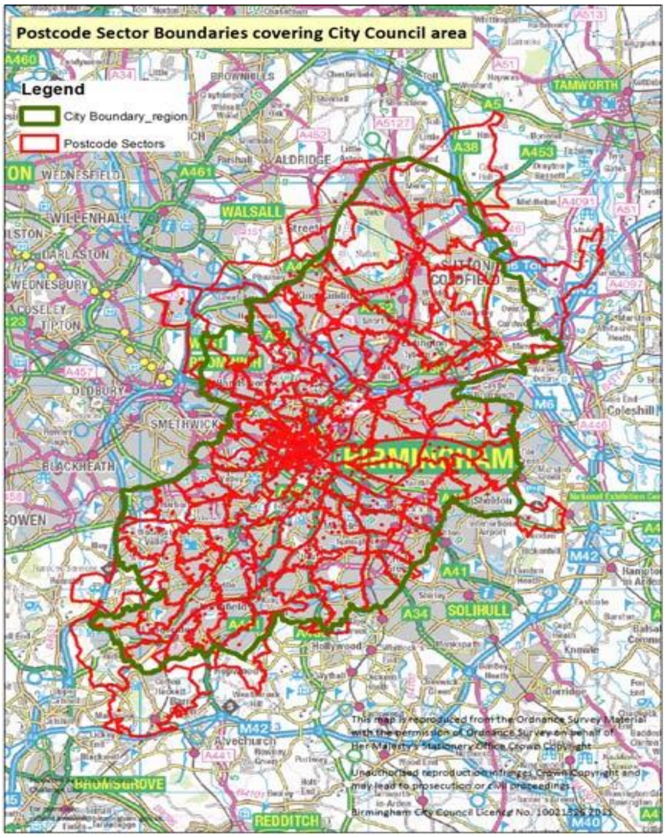

fig.1: The publication of bank data by post code enables the mapping of bank lending

The city's first priority was the analysis of consumer credit data. The reason for this is voter outcry about predatory lending notably by payday lenders. This widespread public anger explains why the city's first priority is to better understand the connection between territorial discrimination in the offer of banking services and the expansion of predatory payday lenders.

As Birmingham sees the issue, and as national data confirm, a certain use of consumer credit is necessary and normal. This means that any relative under-use of bank credit in a territory may be an indicator of bank exclusion (credit rationing). This is confirmed by studies that show strong correlation between the removal of bank branches from a neighbourhood, and the growth of payday lenders there.[13]

[12] Reporting under HMDA includes a dozen data points on each loan, covers all lenders bank and non bank. HMDA data is published by *Metropolitan Statistical Unit*, which corresponds to some 5000 households in most urban areas. See HMDA reports at www.ffiec.gov

[13] Below see work by Nottingham University geographer Andrew Leyshon and his team.

Birmingham: consumer credit to adults correlated to the deprivation index

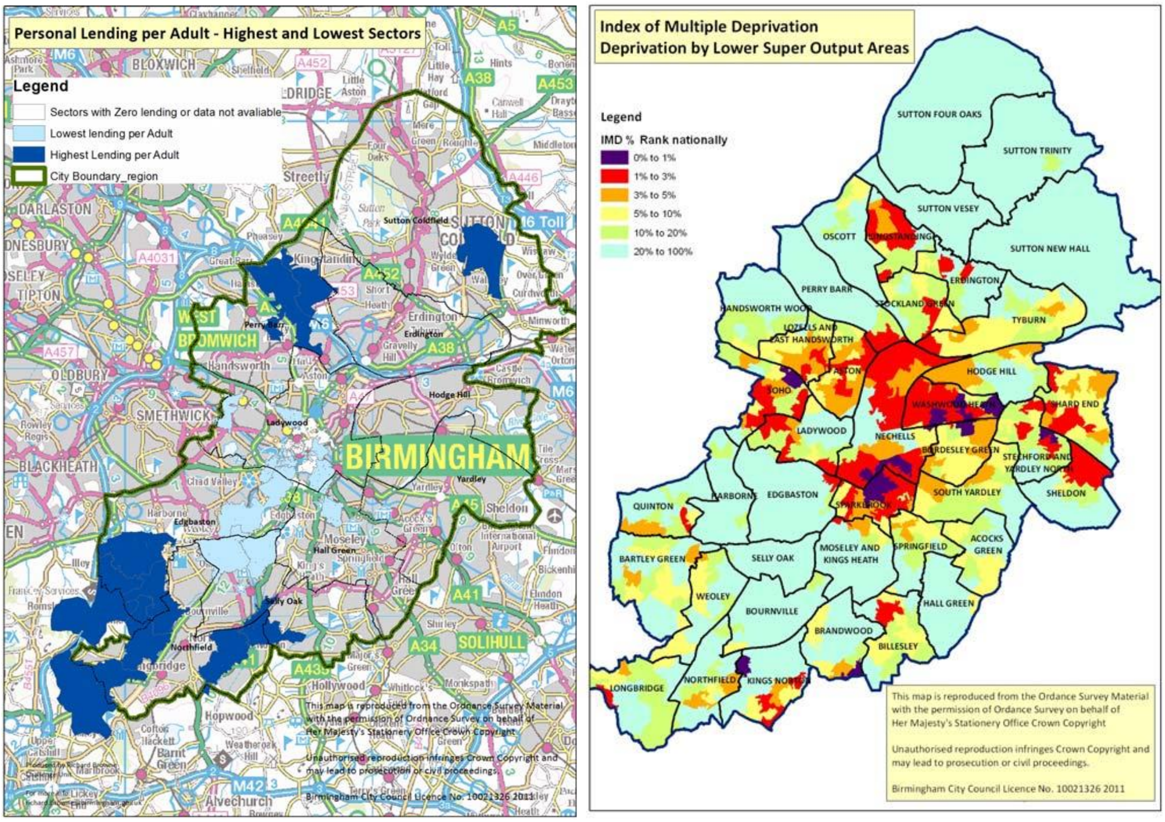

fig.2: Tracking bank data to public data enables stakeholders to link bank lending to its social, economic and policy consequences

Birmingham Postcode zone B5 5: £125.40 bank credit per adult

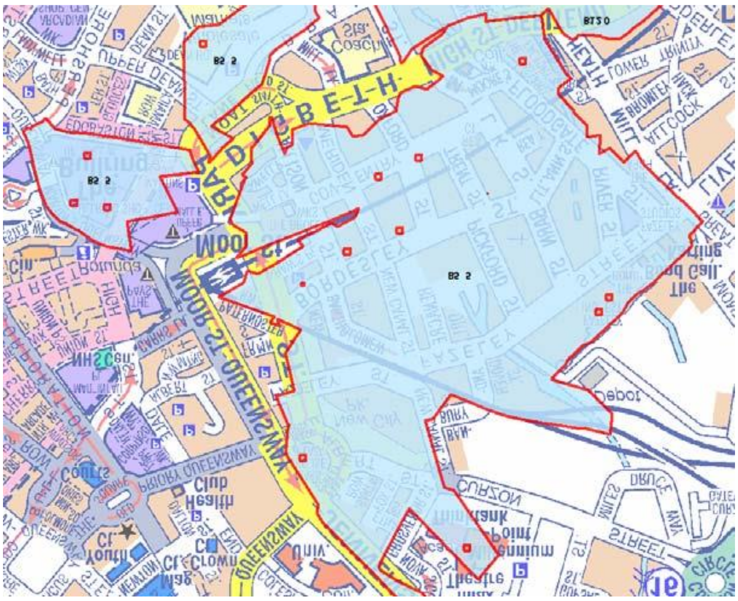

*Fig. 3***:** *Lower use of consumer credit in Birmingham's city centre*

Birmingham's first analyses show that the use of bank credit per adult is indeed lower in disadvantaged and student areas in the city centre, and what's more, that banks lend less in these areas in Birmingham than elsewhere across the United Kingdom. [14]

Mapping bank data thus identifies the areas in Birmingham that are becoming "credit deserts". Figure 3 above shows the current credit use by adults in an area in the town centre: Digbeth and Bulling, which are part of the Deritend district. Birmingham will soon publish a detailed analysis of the availability of small business credits (loans and overdrafts). A final report will provide both bank-by-bank and aggregate overview of bank credit by neighbourhood for all 3 classes of credit.

Unequal banking facilities by neighbourhood

The new bank data takes on increased significance when compared to studies on the reduction of bank branches across Britain. Andrew Leyshon and Shaun French at the University of Nottingham, interested in the geography of financial exclusion, have maintained a national database on the location of bank branches since the 1980s. They use it to track developments in branch banking across the United Kingdom. Since 2013, the Nottingham database also includes the location of non-bank credit providers, the *payday lenders*.

In Great Britain banks and building societies have reduced the number of branches by 42% between 1989 and 2012. [15] Geographical analysis nationally shows that this corresponds to a withdrawal of branches disproportionately in certain poorer communities. Starting from 2003, the researchers in Nottingham can map the bank data to demographic data, including the deprivation indexes used in urban policy. Between 2003 and 2013 3.5 times more bank branches were closed in these poor communities than in more prosperous suburban and urban areas. This disparity is continuing, although there is an overall slowdown in the frequency of branch closures.

The evidence from Nottingham thus flatly contradicts claims by the British Bankers Association and many others, that branch closures merely reflect a reduced overall need for branches. According to these claims, modern banking uses technical innovations that make branches increasingly obsolete: these include online banking, call centres and the centralisation of risk analysis and scoring methods.

But in fact, contrary evidence is clear; rather than a uniform reduction of bank branches in all communities:

- The rate of branch closures is substantially larger in low income and industrial areas than in other areas;
- Selective withdrawal of bank branches in these communities accentuates financial deprivation;
- There is correlation between branch closures in these new banking "deserts" and the use of predatory credit.

[14] Average credit use of £412.49 in Birmingham, compared to £488.22 nationally.

[15] Our thanks to Professor Andrew Leyshon, head of the Geography Department at Nottingham University, for the pre-publication summary of new branch and payday lender data, that also take into account the 2014 bank data. These deepen prior studies. See: http://www.nottingham.ac.uk/geography/documents/events0910/the-changing-geography-of-british-bank-and-building-society-branch-networks.pdf

Neighbourhoods with a higher rate of branch closures thus also host a growing number of payday loan offices. The growth of payday lenders in these areas is twice that in other areas across Britain.[16]

Overall, the first analyses of the new British bank data in Birmingham, when combined with the Nottingham research, clearly show patterns of territorial discrimination reminiscent of the American practice of "Redlining." While British data does not suggest racial correlation to this exclusion, in the US, similar targeted withdrawal of bank services in similar low-income communities created there localised spirals of economic collapse, which lowered local asset values, created artificial competitive handicaps for local economic initiatives and encouraged illegal transactions. This spiral increased the overall opacity of financial transactions in these neighbourhoods by driving them out of regulated banking. Is this the trend we see emerging in Europe?

Experts in the UK are only beginning to analyse the new bank data on lending to small businesses, so it is too early for them to evaluate the effects of targeted bank withdrawal on small business creation and community development. However, many expert analysts in Europe, America and France are in agreement: the physical presence of bank branches, with expertise and knowledge of the local market, is a key determinant in assuring that small businesses have their essential banking needs met.

In Europe a precedent-setting decision in 2009 by then European Commissioner for competition Neelie Kroes, underlined the continuing importance of networks of bank branches in the access to banking services.[17] In its judgement the Commission decided that when a single bank dominates a neighbourhood, this fact is sufficient proof of restriction of competition. The Commission's decision identified the absence of bank branches in a given area as an indicator of the absence of an effective and competitive banking offer, and so sanctioned it. This decision moves the reasoning of European law closer to that of the CRA, which considers a comparative scarcity of lending by a bank in a territory as proof of discrimination there, and so sanctions it.

Are bank services to small businesses of sufficient quality?

Yet even the presence of bank branches does not guarantee the quality of bank services. Both research and experience indicate that the "industrial" large banks offer services inadequate to meet the needs of small businesses. For example, the work of economist Richard Werner confirms the importance of the "Sparkassen" network in financing German small businesses. The quality of service to SMEs from these small, local banks stems from their charters, which require that they reinvest locally a majority of savings deposited locally. [18]

A recent study by the Board of Governors of the American FED traces some of the causes of the difficulties faced by big bank networks in meeting the needs SMEs: delocalisation of decisions, based on scoring systems that rely on information that excludes small businesses, weak knowledge of niche markets by bank officers locally, an absence of borrower monitoring and missing client

[16] Interview with Andrew Leyshon, Nottingham University, 3.20.14

[17] In refusing the planned reorganisation of Lloyd's HBOS unit, the Commission's decision forced Lloyds to sell hundreds of bank branches. See http://www.ft.com/intl/cms/s/0/b633cf86-aa08-11de-a3ce-00144feabdc0.html#axzz2yTbo78Yw

[18] https://www.youtube.com/watch?v=LQOeVnGqtuY

relationships.[19] The study underlines the importance for small businesses that banks maintain expert staff in local bank branches, as do the thousands of community banks in the USA and the 600 German *Sparkassen*. This is the reason that in the USA, the Dodd-Frank reforms of 2010 reinforced the CRA by putting in place improved local reporting on small business lending, and expanding the rules to cover non-bank lenders as well as banks.[20]

Policy considerations for France

The macro-economic vision of SME credit is generally more positive in France than in Britain. In the first place, French banks are not shutting down their branches, even though the level of bank concentration in France is similar to that of Britain. Nor are French banks "deleveraging" as visibly as British banks.[21] On the whole, the total amount of SME lending in France has not decreased notably. In addition, France provides considerable direct support and indirect guarantees for French bank lending to small businesses. Other French public agencies provide substantial financial support for a considerable non-profit small business assistance network, including *France Active*, *Initiative France*, *ADIE* and *Boutiques de Gestion*.[22] As we have seen, Payday lenders are outlawed in France.

Yet comparison with Germany gives a much less favourable vision of the situation in France. Despite the public subsidies in France, according to a European poll by BCE (2013), access to bank loans was amongst the main worries of French entrepreneurs, while for their German counterparts the question was not seen as important. The European Central Bank publishes a poll-based rating called the "finance gap" (the imbalance of demand for and availability of SME credit) in the countries in the Eurozone. The 2013 poll shows that this gap is growing in France, while it is decreasing in Germany.[23] The total outstanding credit for the German small businesses (€270bn) is largely superior to that lent to the 2.5 million French small businesses (€201bn).[24]

One explanation of the difference in small business growth in France and Germany is the absence in France of the network of "Sparkassen".[25] As in the United States, it is networks of small, local banks supported by an appropriate legal framework that make the difference.

But neither a macro-economic vision, nor that provided by the European Union polls, helps us understand the finer details of the situation of small businesses in French neighbourhoods. Do "financial deserts" exist in French urban and rural areas as they do in Britain? Are French banks also missing out on significant opportunities to finance the creation and growth of small businesses?

For the moment the failure of French regulatory authorities to require territory-based bank disclosure has created an unfortunate environment for serious diagnosis. The absence of data reduces a very considerable French social bank experience in SME finance to mere anecdote.[26]

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19 http://www.federalreserve.gov/pubs/ifdp/2013/1096/ifdp1096.pdf

20 http://files.consumerfinance.gov/f/201306_cfpb_laws-and-regulations_ecoa-combined-june-2013.pdf

21 Reducing overall lending to achieve reserve levels, rather than to recapitalize. See page 1, notes 3 and 4.

22 Lending remains a bank monopoly in France, in spite of the legalisation of crowdfunding in 2014.

23 See BCE: European SME access to finance, tables 6 & 21, rapport 11/2013.

24 Breugel Policy Report, Issue 2013/10, July 2013

25 http://www.dsgv.de/de/ The 600 *Sparkassen* provide 44% of small business lending in Germany (58% if we include Cooperative Banks); the SME market share of these banks has risen steadily during the crisis.

Still:

- The failure of French banks to supply credit and services to SMEs is tacitly recognised by the very significant public subsidies and guarantees given to non-profit but also bank SME lending operations. Government fund operational expenses for hundreds of local social lenders and service providers to SMES, producing over E 2 billion in loans and investments annually.
- Local bankers and social lenders in France nearly uniformly confirm the main conclusions of international experts, cited above. [27]

French experience too thus confirms that large banks are withdrawing resources from poorer areas and from small business lending. As a result, French entrepreneurs, local businesses and social businesses must compete unequally with their counterparts in better-regulated countries.

The CRA and other US laws requiring bank transparency have encouraged new competition and promoted significant positive changes in the management and behaviour of large banks locally. This progress has no relationship to the sub-prime lending by non-banks, funded by capital markets, or to sovereign risk: in the United States SME debt is not securitized.

The British Government and British banks have just taken an important step in favour of transparency. French banks are nowhere to be seen. [28]

The changes in finance over the past decades have drawn stinging criticism from the industrial sector, for their probable links to the prolonged crisis in economic growth and employment across Europe. As in other countries, French small businesses, banks and Government can only gain from a policy of territorial bank transparency.

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[26] *Finansol*, for example, has developed innovative funding mechanisms, which channel billions of Euros of employee savings plans funds towards CDFI and other social investors annually. While these schemes are clients of bank investment units, they remain entirely separate from retail branch banking.

[27] Based on unpublished interviews and on limited territorial bank data (2013 and 2014) made available to the author as part of Region-wide experiments in France. This experiment is designed to capture all currently « unbankable » SME loan requests in several sample territories, to ensure that these are channelled to appropriate professional service providers and to analyse the reasons successful and unsuccessful funding. These experiments are conducted for the Regions and participating banks by the French Think-tank, Labo ESS.

[28] Pressure from the French banking sector led to loss of Government support for banking transparency legislation proposed in France. See http://www.lelabo-ess.org/IMG/pdf/Propositiondeloi_mars2013.pdf.