Fair access to resources: Summary 3

Community Investment Coalition

What are the less costly ways to access finance?

Saving

- Overall saving is preferable to using credit. For example, saving less than £5 a week for a year is equivalent to two years of repayments to a rent-to-own provider.[1]
- But there are barriers to saving including: access to / distance from banks especially if saving small amounts, mistrust of saving providers and a perception that it is not possible to save small amounts with banks. Informal saving is more common such as with family / friends, supermarket stamps, Christmas hamper saving schemes.[2]

Basic bank accounts

- Basic bank accounts enable people to deposit and withdraw money, usually though cash machines and over the counter in bank branches. They do not provide overdraft or credit facilities other than, sometimes, a small 'buffer zone' to allow for accidental overdrafts. They generally allow for payments by Direct Debit but often do not include a debit card facility. [3]
- Basic bank accounts can be a 'gateway' to accessing mainstream finance and the additional opportunities that customers can access. In 2010 it was reported that around half a million basic bank accounts had been upgraded to accounts with more features since 2003.[4]
- However, some charge for accessing cash machines of other banks[5] and the CAB and LINK recommend that they could be enhanced by: all allowing access to the LINK network, counter access in bank branches, a debit card facility, a buffer zone, limits on charges, and the facility to deposit and withdraw money

and check balances through the Post Office network. They also recommend eligibility criteria with minimal exclusions.[6]

Credit Unions[7]

- There are around 400 credit unions across England, Scotland and Wales.
- Credit unions' assets amount to £1.02 billion, whilst holding £843 million of deposits and possessing loans worth £620 million.[8]
- In the six months between September 2012 and March 2013, credit union membership rose by 3.2% (or 33,000) to 1,072,202.
- Lending small sums to people on low incomes (sub prime consumers) is generally expensive, carries a higher than normal risk of default & potential write off. Hence, banks tending to avoid this type of lending.
- Research shows that Credit Unions made over 650,000 loans to people on low incomes saving them on average £401 a year compared to the cost of borrowing from various other lenders. This represents a total saving to this consumer group of £250m.
- '*Credit unions are the only financial institutions in the UK to which a legislative cap on interest rates applies*'. This is fixed at 2% pcm (equivalent of 26.8% APR) on the receding balance of loans and means even the most efficient of credit unions are unable to break even on small loans.[9]
- Credit unions are said to offer the most competitive rates in the UK for personal loans of up to around £2000. Where credit unions can afford to reduce the interest rate charged to 1% per month for loans of up to £3000 they are also UK market leaders.
- Evidence exists to suggest that lower income groups would save between £5 and £20 a week if they were able to access a trusted local provider.
- Of more than 4,500 people consulted, more than 60% said they would use credit union services if such were available but only 13% were aware of the services credit unions offer.

Community Development Finance Institutions (CDFIs)

- The Community Development Finance Association (CDFA), the membership body had, as of March 2013, 53 members, with 63% providing services across a region or multiple regions, to one of the four UK nations, or across the entire UK. The proportion of CDFIs operating at this scale has increased steadily, up from 50% in 2010.
- CDFIs served 52% more customers than in 2013, disbursing 50,700 loans totalling £123 million[10]
- In 2013, CDFIs lent £52 million to 9,300 businesses, creating and protecting 15,000 jobs.[11]
- CDFIs lent £19 million to 40,600 individuals in 2013, saving over 29,000 from high cost credit lenders.[12]
- 540 homeowners borrowed £4 million from CDFIs in 2013, of which 531 were able to stay in their own homes thanks to CDFI loans.[13]
- 71% of recipients of household lending by CDFIs were benefit recipients, 74% were unemployed and 71% were in social housing. Loans were typically for debt management (36%) but also for consumables (22%), other expenditure including bills (18%) and household maintenance (13%).
- APR was typically 39%, similar to 26.8% charged by credit unions. 24% of household lending recipients were in arrears and 6% were written off in 2011/12.

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[1] http://www.barnardos.org.uk/a_vicious_cycle_report_online.pdf

[2] http://www.barnardos.org.uk/a_vicious_cycle_report_online.pdf

[3] http://www.hmrc.gov.uk/leaflets/fsa.pdf

[4] http://www.link.co.uk/SiteCollectionDocuments/CAB_Access_to_cash.pdf

[5] http://www.which.co.uk/news/2011/08/furore-as-natwest-and-rbs-restrict-cash-machine-access-263501/
http://citywire.co.uk/money/rbs-stops-poorest-customers-using-rivals-cash-machines/a517053

[6] http://www.link.co.uk/SiteCollectionDocuments/CAB_Access_to_cash.pdf

[7] http://www.dwp.gov.uk/docs/credit-union-feasibility-study-report.pdf

[8] http://www.abcul.org/media-and-research/facts-statistics

[9] http://www.bbc.co.uk/news/business-23448990

[10] http://www.cdfa.org.uk/wp-content/uploads/2010/02/ICF-2013.pdf

[11] http://www.cdfa.org.uk/wp-content/uploads/2010/02/ICF-2013.pdf

[12] http://www.cdfa.org.uk/wp-content/uploads/2010/02/ICF-2013.pdf

[13] http://www.cdfa.org.uk/wp-content/uploads/2010/02/ICF-2013.pdf