Briefing on disclosure of data by UK Finance

Community Investment Coalition

A briefing from the Community Investment Coalition
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Background to data disclosure

The Community Investment Coalition calls for financial institutions to disclose information concerning their activities in defined geographical areas. It is 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;
- Allow targeted intervention to tackle the lack of appropriate financial services, whilst revealing market opportunities for those financial service companies with appropriate products.

The data disclosed is an important means of understanding the key role that financial institutions play in shaping localities, and encouraging a mutually beneficial dialogue between communities and financial services providers. It can also be used to compare the performance of different banks in a transparent and verifiable way. This will offer 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 the release of data on lending patterns of retail banks and larger building societies. The intention behind this has been 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 is a major step forward in transparency.

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

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 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, 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. 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, and were 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.

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[2] Federal Reserve (2006) *Community Reinvestment Act*
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.

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 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.

Case Study: Santander Bank U.S 'Inclusive Communities' Plan

In October 2017, **Santander Bank U.S CEO Scott Powell** announced a new 'Inclusive Communities' plan; an $11 billion, five-year commitment to lending, community development and charitable giving.[5] The plan outlines a commitment to communities across its eight state territory in northeastern U.S from 2017 through to 2021, during which time Santander plans to increase its CRA activity by 50% and triple investment in charitable grants. On the plans, Scott Powell commented:

"This plan is the foundation of Santander's approach to supporting the communities where we live and work.
"We recognize that Santander's success is directly linked to the prosperity of our communities' families, businesses and neighborhoods. By increasing lending, investments and financial education opportunities, we hope to boost the long-term economic success of low- and moderate-income individuals and neighborhoods."

The inclusive communities plan was developed with input from over 100 community-based organisations over a ten-month period, which helped identify emerging community needs and strategies aimed at addressing the challenges faced by undeserved communities in Santander's key markets. In addition to the financial commitments, Santander is establishing a national Community Advisory Board (CAB) comprised of not-for-profit community development organisations and financial inclusion advocates, as well as community development policy organisations and representatives of local or state economic development and housing agencies.

[5] Cison PR Newswire (2017) *Santander Announces "Inclusive Communities" Plan* https://www.prnewswire.com/news-releases/santander-announces-inclusive-communities-plan--a-new-11-billion-five-year-community-commitment-300545502.html

The plan illustrates the impact of the CRA on communities across the U.S, and how it is being used as a tool to help address the needs of underserved 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)[6] 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.
- Identification of individual financial institutions that are performing well in the provision of banking services, 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.

[6] New Economics Foundation (2006) *Full disclosure: why bank transparency matters* 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 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[7], 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[8]:

> *"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.[9]

[7] 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

[8] Gov.uk, *Michael Fallon urges banks not to let small businesses down* https://www.gov.uk/government/news/michael-fallon-urges-banks-not-to-let-small-businesses-down

[9] Parliament.uk, *House of Commons Hansard Debates Index for 3rd July 2017* http://www.publications.parliament.uk/pa/cm201415/cmhansrd/cm140703/debindx/140703-x.htm

Andy Love MP, talking about data released through the voluntary framework, 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'[10] that:

"Data on bank lending provides a means of assessing credit market conditions... 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 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?'[11] that:

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

The Financial Inclusion Commission

The Financial Inclusion Commission possessed a wealth of experience, with the Commissioners drawn from frontbench UK politics, senior management in financial services firms, the charity sector, national regulators and academia. Its findings were published[12] in March 2015.

[10] Treasury Select Committee, UK Parliament (2015) *11th Report – Conduct and competition in SME lending* http://www.publications.parliament.uk/pa/cm201415/cmselect/cmtreasy/204/20404.htm#a10
[11] Northern Ireland Committee, UK Parliament (2015) *1st Report - Northern Ireland: banking on recovery?* http://www.publications.parliament.uk/pa/cm201415/cmselect/cmniaf/178/17809.htm
[12] Financial Inclusion Commission (2015) *Improving the financial health of the nation* http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf

The Commission recommended 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."*

The voluntary framework used for data disclosure

UK Finance has jointly published aggregate data on lending patterns at the local level and is now doing so on a quarterly basis. Details of the outstanding stock of lending at the postcode sector level that has been committed to customers is spread 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. It can also boost the case for changes in provision, and/or greater investment in alternative community finance providers, such as Credit Unions and responsible finance providers.

UK Finance's aggregated data for participating lenders can be found here. Individual lenders will publish consistent data relating to their own customers' borrowing. The datasets include data from seven major lenders:

- Bank of Ireland[13]
- Barclays[14]
- Clydesdale and Yorkshire Banks[15]
- HSBC[16]
- First Trust Bank[17]
- Lloyds Banking Group[18]
- Nationwide Building Society[19]
- Royal Bank of Scotland[20]
- Santander UK[21]

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 exclude data from the Isle of Man, Jersey and Guernsey.

[13] Bank of Ireland (2017) *NI Postcode Lending Data* https://www.bankofirelanduk.com/business/ni-postcode-lending-data/2017-2/

[14] Barclays (2017) *Barclays publishes lending data across UK postcodes* http://www.home.barclays/news/2015/07/barclays-publishes-lending-data-across-uk-postcodes.html

[15] *Clydesdale Bank (2017) Clydesdale Bank PLC - Postcode reporting* http://www.cbonline.co.uk/media/results-financial-information/postcodelending

[16] *HSBC Investments Centre (2017) HSBC Postcode lending data* https://investments.hsbc.co.uk/postcode-lending-historical-data

[17] *First Trust Bank (2017)* Postcode lending data https://firsttrustbank.co.uk/help-and-guidance/important-information/postcode-lending-data

[18] Lloyds Banking Group plc (2017) *Data for SME, Personal and Mortgage Lending* http://www.lloydsbankinggroup.com/media/postcode-lending-data/

[19] Nationwide (2017) *Nationwide lending activity by postcode sector* http://www.nationwide.co.uk/products/mortgages/service/lending-by-postcode

[20] Royal Bank of Scotland (2017) *Q3 2016 RBS postcode lending* https://www.rbs.com/rbs/news.html

[21] Santander UK (2017) *Santander lending to individuals and businesses – by postcode sector* *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=column2&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*

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 and Northern Ireland. 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 by 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; and 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.

The **Centre for Responsible Credit** has provided an analysis of how local data can help identify 'debt hotspots'. The report 'The Distribution of Consumer Credit Debt in Leicester' analyses postcode level data on bank lending patterns alongside local area data concerning community demographics, to identify local debt hot spots in Leicester. The approach can be replicated across the UK, but the report also highlights:

- The need for the main retail banks to release better lending data to create a comprehensive picture of lending at a local level;
- The Financial Conduct Authority needs to conduct an analysis into how well competition is working within the financial services sector to meet the needs of lower income households; and
- Local authorities need to do more to engage the main retail banks in strategies to address the problem of local debt 'hot spots'.

'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, it does show 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's disclosure framework is useful, the existing data sets need to be strengthened and broadened. This would allow detailed and insightful analysis of which of the UK's communities are underserved by the 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 communities struggling to access affordable credit, it is necessary to expand the data release to include the following 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).

We also believe that it is important to:

- Release the lending and deposit to different forms of organization, 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).

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

[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://responsiblefinance.org.uk/wpcontent/uploads/2016/05/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*
http://responsiblefinance.org.uk/wpcontent/uploads/2016/05/FINAL_Full-Report.pdf

There are also a number of 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. Therefore, we recommend the Introduction and reporting of a common system of cell 'markers' across reported datasets to identify reasons for blank or missing data.

- The accompanying notes to the data should be expanded upon to provide details of the coverage and data construction process across all participating lenders for each data release. This should allow like-for-like comparisons of data cells across lenders and data releases as much as possible.

- An additional technical report on dataset construction should be provided, 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 improvements in 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, **Responsible Finance,** on 020 7430 0222 or j.tankard@responsiblefinance.org.uk.

About the Community Investment Coalition

The Community Investment Coalition (CIC) 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. The 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.

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.

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.