

BUILDING AN ETHICAL FINANCIAL SYSTEM: THE ROLE OF CREDIT UNIONS

The Archbishop of Canterbury has expressed serious concerns about the practice of payday lending. In doing so, he has given voice to a growing belief, within the church and wider society, that there is a need for a more ethical and just financial system, and that more should be done to develop alternatives to high-interest lending.¹

Credit unions represent a more ethical, community-based approach to banking. For that reason, the Archbishop has called on churches and church members to support credit unions in their local area, helping the sector as a whole to grow.

This paper gives some background to the issues surrounding payday lending and suggests ways in which churches can get involved with and support their local credit unions.

WHAT IS THE PROBLEM?

The UK payday lending market has grown rapidly in recent years. As a result of stagnant wages, the rising cost of living and the difficulty of accessing mainstream sources of credit, many households are turning to payday lenders just to get through to the end of the month. According to a recent survey, approximately one million UK households take out a payday loan each month, in many cases simply to make ends meet: 38% of loans are used to pay for food or fuel, while 24% are used to repay existing payday loans.²

One of the reasons for this staggeringly high number is the ease with which payday loans can be arranged. Several of the major online operators are able to deposit money in people's accounts just 15 minutes after a request is made via the website or a mobile phone app. Yet the interest rates on these loans are very high – often equivalent to an Annual Percentage Rate (APR) of between 2,000% and 6,000%. It is no surprise that many people, already in a financially precarious position, are unable to meet the repayments and find themselves in a crippling spiral of debt.

"It used to be said in the old days that you could not take away people's beds and cloaks because they were essential for life – that is the Hebrew Scriptures. Today, equivalent things are being taken away as a result of those very high interest rates. It is a moral case, and it is bad for the clients and bad for all of us in this country when it is permitted to happen."

The most Reverend Justin Welby, Archbishop of Canterbury. Quote from House of Lords speech, November 2012.

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According to a recent report from the Office of Fair Trading, there are deep-seated problems with the way the entire payday loan sector operates. Nearly one in three loans are repaid late or not at all, and almost 50% of the sector's revenue comes from loans that are rolled over at least once. The same report expresses concerns that payday lenders are specifically targeting people in financial difficulty and using aggressive debt collection practices when people are unable to repay, including calling people at home and at work up to 16 times a day.³

Tighter regulation is key to eliminating the worst practices of the payday loan industry. This could include the introduction of proper affordability checks, limiting the number of times a loan can be rolled over, insisting on more responsible advertising and adopting measures to stop lenders taking money out of people's bank accounts without their knowledge. Other countries, including the US and Canada, have stronger regulatory systems from which we can learn.

However, we also need to ensure that there are credible alternatives to payday loans and other exploitative forms of lending. At the moment, around seven million people on low incomes are inadequately served by the major high street banks and so struggle to access affordable credit and other financial services. This represents a substantial gap in the market and one that credit unions can help to fill.

According to a recent feasibility study for the government, credit unions offer the best long-term solution to the problem of payday lending.⁵ While they do not generally offer a direct substitute for payday loans (though some now provide low-cost, short-term credit), they make it possible for people to save and borrow responsibly, whatever their income, thus reducing their potential need for payday loans.

That is why the Department for Work and Pensions (DWP) is investing in the credit union sector, making funds available to help it grow, modernise and become financially sustainable. Around one million people are currently credit union members, and the DWP aims to increase this to two million within five years. To make that achievable, credit unions need to become more professional, better known and easier to access. They also need to attract a broader range of members, including people on middle and higher incomes who can save and borrow larger amounts, helping to balance out the smaller, riskier loans.

The story of Lewis

Lewis called National Debtline just over a year after taking out his first payday loan, and by that time he had already taken out a further eight. He is 36 and lives with his wife and two children; until February 2012, he worked as a full time construction worker. His first £200 payday loan was used to replace a broken fridge. He paid it back in full and on time without a problem. But, two months later, his car failed its MOT and he was faced with a large bill for repairs. Again he turned to a payday lender, this time borrowing £400.

When the time came to repay, Lewis didn't have enough money so the lender agreed to roll over the loan for another month, adding further interest and charges. The same happened the following month and Lewis now owed over £1,000.

Lewis then lost his job. Hoping to get back into work quickly, he took out further loans to cover his loss of income. Very quickly, however, the situation spiralled out of control and he was several thousand pounds in debt. The aggressive collection practices of the lenders, and their refusal to freeze interest and charges, have led to his becoming insolvent and the stress has made him physically unwell. This, in turn, has hindered his ability to find new employment.

Story provided by the Money Advice Trust

WHAT ARE CREDIT UNIONS?

Credit unions are not-for-profit, financial cooperatives. They offer similar services to banks but, unlike banks, they are owned and controlled by their members - the people who use them - and run for their benefit. Volunteer directors are elected from the membership and any profits are shared between members. This mutual structure ensures that the emphasis is always on providing the best long-term service for members, rather than maximising the short-term profits for shareholders.

Another unique feature of credit unions, in contrast to banks, is that all members are required to share a 'common bond'. This may be the fact that they all live in the same geographic area or work for the same employer, or a combination of both. These common bonds help to ensure that credit unions take a more ethical, relational approach to banking, since their members have an interest in pursuing practices that are good for the community as a whole.

Credit unions have a number of clear aims and values, including:

- Encouraging members to save, as well as borrow.
- Offering loans at fair and reasonable interest rates, taking into account what people can afford to repay.
- Training and empowering members to make informed choices about their finances.
- Using members' savings efficiently and for the mutual benefit of members and the local community.

Credit unions are authorised and regulated by the Financial Conduct Authority and all savings invested are protected up to a total value of £85,000 per member.

WHAT CAN CHURCHES DO TO SUPPORT CREDIT UNIONS?

The Church of England is well-placed to make a powerful and effective contribution to the transformation of our financial system, by encouraging the growth of the credit union sector. With its physical presence in 16,000 communities, 1.7 million regular attendees, large pool of motivated and skilled volunteers, established local networks and concern for social justice rooted in the Christian faith, the Church could make a real difference.

Many credit unions already receive support from local churches, and several were formed with church links at their heart. Here are five suggestions of how churches can support their local credit union.

Find your local credit union: Over 90% of the British population is able to join a credit union because of where they live, so the chances are that there is at least one covering your parish. If you haven't already discovered one near you, take a look at www.findyourcreditunion.co.uk.

"We would like the churches to encourage their members to join a credit union and become active members, to use their community links to spread the message that the credit union is for all who want to strengthen their local community and make it a better place in which to live and to run a business."

Robert Lock, Director of South Manchester Credit Union

Raise awareness: Only 13% of people on low incomes know about the services credit unions provide but, on learning more, 60% of this group say they could benefit. Within the Church, only around one in five clergy are aware of a credit union covering their parish.

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If they are to thrive, credit unions need a broad range of members, so as not to be seen as the 'poor man's' bank. You can help by making your congregation and the wider community aware of their local credit unions, and explaining the important practical and theological reasons for supporting them. Credit unions are particularly keen to encourage more payroll saving, so think about how you could use the church's networks in the local community to get the word around to local employers.

"We welcome the support of the Archbishop of Canterbury and the Church of England for credit unions. The wide community reach of the organisation and the skills within its congregations can help to raise awareness of the benefits of credit unions and help them to grow."

Mark Lyonette, Chief Executive, Association of British Credit Unions Limited

Join your local credit union: Everyone can benefit from credit union membership. For those on middle and higher incomes, their local, ethical focus can make them an attractive investment for at least part of their savings and the returns can often exceed what is available on the high street. In addition, many credit unions will match bank rates for larger loans and Experian has identified them as the best in the UK market for loans up to £2,000.

For those who are on lower incomes or struggling financially, credit unions provide a much cheaper, more sustainable alternative to payday loan companies, doorstep lenders and other sources of credit. Since most credit unions can now accept corporate members, you could also ask your PCC to consider investing some of the church's money in your local one.⁷

Make your church premises available: Most of the larger credit unions have their own branches, but many use a network of community buildings - libraries, schools, community centres and churches - as access or collection points. If there is no existing access point in your neighbourhood, think about offering your church premises. Ideally, this would be linked to a café or other church-based activities that attract a regular flow of visitors.

Offer volunteers and skills: Members of your congregation may have professional skills - in IT, marketing and communications, fundraising, volunteer management, as well as banking and finance - that could be very useful to the credit union. Becoming an elected director can also help to strengthen the governance of credit unions, something that is vital if the sector is going to compete effectively with commercial financial service providers

FURTHER INFORMATION

This paper has been written for Church Urban Fund by Tom Sefton of the Mission and Public Affairs team of the Church of England. For further information about credit unions and church resources, go to www.churchofengland.org/creditunions.

Endnotes

- 1 Comments made in the House of Lords in November 2012 and in an interview with Total Politics in June 2013.
- 2 Which? survey, June 2013, discussed in the Independent <http://buff.ly/1gjACNJ>
- 3 Payday Lending Compliance Review, Office of Fair Trading, March 2013
- 4 DWP Credit Union Expansion Project, May 2012
- 5 Based on 997 responses to a national survey of clergy and church staff carried out in August 2013.
- 6 Guidance for PCCs is available on the Church of England website: www.churchofengland.org/creditunions

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