



## **Community Banking Partnership**

A joined-up solution for financial inclusion

How credit unions and the community finance sector, together with banks and money advice agencies can co-deliver 'one-stop' services to the financially excluded.

“The problem of financial exclusion exacerbates the debt problems of the most vulnerable. Government will work in partnership both with the financial services sector and with voluntary and community bodies to achieve:

- dramatic reductions in the 3 million households without a current account and the 1.5 million households without an account of any kind;
- a significant increase in the availability of affordable credit for those on the lowest income; and
- a step change in the availability of free debt advice for those who need it.”

HM Treasury  
Budget 2004 – Prudence for a Purpose



## Community Banking Partnership: an integrated delivery model

Over a quarter of British households aren't able to use mainstream financial services and have no savings to meet future needs. These are the poorest households. This 'financial exclusion' means that they are often charged excessive rates and penalties. A high percentage of them must pay a typical charge of 8–10 per cent commission to cash cheques at 'money shops'. And the sky is the limit on interest for small loans. Over three million households use doorstep lenders with charges from 160 per cent to 1,500 per cent APR. There is no statutory ceiling on interest rates, and profitability is high for these lenders. New lenders from abroad are now entering this lucrative market. There is an urgent need for alternative and affordable sources of credit.

With escalating property prices, lower income households have virtually no chance to build personal assets through home ownership. Whilst credit unions offer some encouragement to save, most people trapped in the cycle of costly credit find it hard to divert spare cash into these products.

The government recognises that financial literacy is fundamental to reducing the use of extortionate credit. But whilst an understanding of APR rates is important, the key concern for the financially excluded is to secure a loan, often 'at any cost', so long as they think they can afford the repayments. Sheer desperation and lack of choice fuel the ongoing increase in predatory lending. Money advice agencies and Citizens' Advice Bureaux receive far more enquiries about money and debt problems than they can cope with. But few of these organisations have resources for preventative work. Even with better funding to provide guidance and advice, there are few alternative sources of credit to which they can refer their clients.

“Basic bank accounts are helping to tackle financial exclusion, but the Community Banking Partnership uniquely enables affordable credit and money advice to be delivered together for the first time in Britain.”

**Tim Holbrow, Financial Inclusion Manager, Lloyds TSB**

Despite providing simple and affordable products, the credit union industry has struggled to gain a market share of this business. With their interest rates restricted by law to below 12.68 per cent APR, credit unions are unable to charge the margins needed to compete in this higher risk area of the market. Some of the new community development finance institutions (CDFIs) have begun to provide personal credit at rates of about 25 per cent APR and are proving that low-cost alternatives can be developed.

The banking sector has never provided credit for households on the lowest incomes, and currently loses money on the new basic bank accounts promoted through the Post Office network. They nevertheless recognise that this gap in the market is increasing. What they do have, however, are the technical resources and expertise that credit unions and CDFIs need to achieve their social justice objectives. Brought together, these resources and institutions could meet the needs of the financially excluded for low-cost and robust alternative products and services.

The Community Banking Partnership approach is simple: it proposes to join up all the different players in this jigsaw to deliver a one-stop-shop approach to community finance.

### Community Banking Partnership: key features

A flexible model sensitive to local needs is what's required. The Community Banking Partnership (CBP) approach is to select the best team players able to respond to long-term demand within their specific local market, while simultaneously delivering the maximum social benefit in each different urban or rural sub-region.

The CBP aim is to provide financially excluded households with a seamless service offering savings facilities, affordable loans, access to basic banking services, bill and debt repayment systems, money advice and support.

The CBP will be operated through a unique, local partnership structure that brings together for the first time the best practice of both community development finance institutions and credit unions, alongside the technical expertise of the banks and building societies.

The CBP model provides the community finance partner organisations with a pathway to sustainability by building up a critical mass of activity which can be delivered in a cost-effective way to customers currently outside the loop of mainstream providers.

The CBP staff team will deliver an affordable range of community banking services to low-income households through a holistic approach, which incorporates and enhances the existing services of community finance providers, advice agencies and the high street banks.

### The Community Banking Partnership model: essential principles

CBP brings together both credit union(s) and a Community Reinvestment Trust whose members jointly form a Charitable Trust. The roles, aspirations and needs of the members drawn from the savers and the general public is crucial in cementing the processes and practices of the CBP in its day-to-day operations.

For regulatory accountability, the credit union will retain its distinct identity, either within a permissible group structure or in a close working partnership with the CDFI and the charity. Separate arrangements will ensure that the sovereignty of the credit union as a member-led organisation is maintained.

The charitable company (or possibly in future a 'community interest company') in the group will enhance the ability of both the credit union and the Community Reinvestment Trust to service new target markets through attracting additional charitable funds and grant aid. The charitable company will also enable educational and advisory services requiring some level of grant aid, such as money advice and start-up business advice, to continue to be supported by donations.



Photo: ©Martin Gleadow

### Community Banking Partnership: Structure

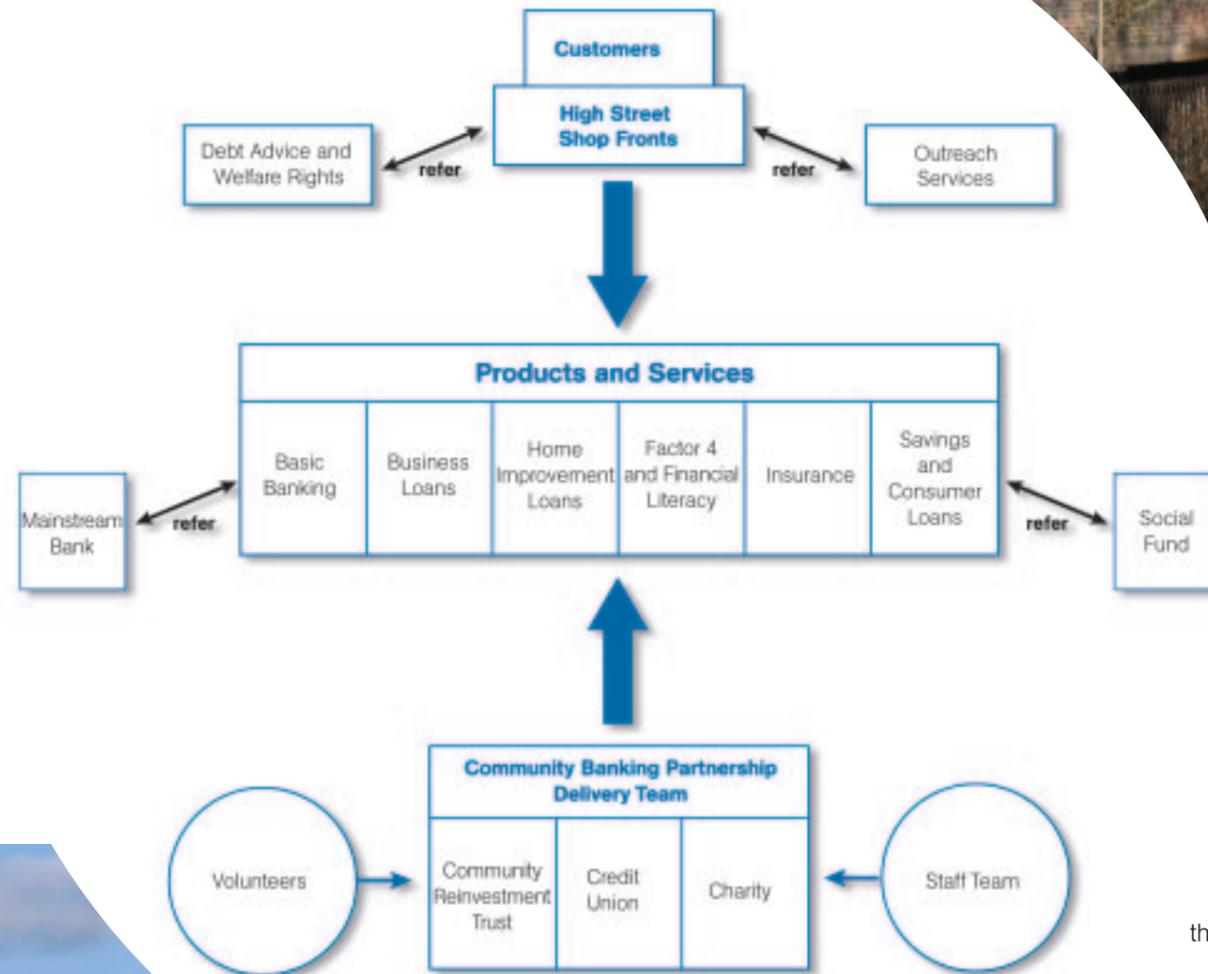


Photo: © Martin Gleadow

### Community Banking Partnership: origins of the model

Research conducted by nef (the new economics foundation), NACUW (the National Association of Credit Union Workers) and the National Consumer Council (NCC) has identified innovative practices developed by credit unions and money advice agencies in Ireland, and by Community Development Credit Unions in the USA. In different ways, both tackle the inherent transaction cost problems in the delivery of financial services to the poor. Community Finance Solutions at the University of Salford has been developing Community Reinvestment Trusts in rural and urban regions to suit a variety of local economic demands. The CBP model combines lessons of good practice from this international experience and from the British credit union movement. In combination this expertise has been adapted to the UK context and its regulatory environment.

### Community Reinvestment Trusts in the UK

Whilst credit unions have been operating for over 25 years in Britain, Community Reinvestment Trusts (CRTs) are comparatively new. CRTs are non-profit organisations providing loans and other financial services to small businesses, community enterprises and individuals in under-served communities.

Four CRT projects are now in business: South Coast MoneyLine, Salford MoneyLine, East Lancashire MoneyLine (ELM) and Derbyloans. To take just one example, ELM based in Blackburn has assisted more than 2,000 financially excluded households in its first two years of operation and has already advanced over 1,800 affordable loans. Together, these four CRTs have lent £3 million to date through a range of products – personal loans, business start-up loans, Fresh Start (consolidation loans) and home improvement loans. Among ELM customers 95 per cent were indebted to sub-prime lenders when help was sought, 89 per cent had no savings, and 40 per cent had no bank account. ELM regularly helps customers open up basic bank accounts. Other CRT and community finance initiatives are being developed in London, Blackpool and Preston. A rural version of the CRT, the Community Asset Reinvestment Trust (CART) is being piloted in Wessex, Cumbria and Suffolk.

“I was desperate to get the car back on the road to drive 25 miles to work, but hadn't got any savings. I knew the 'Provy' would help out as we'd used them before. We knew it would cost a lot. But where else could we go?”

Rural family, Mid Wales



**Community Development Credit Unions, in the USA**

In the USA, Community Development Credit Unions (CDCUs) have, with the assistance of the federal government, also considerably widened access to affordable credit in the past ten years with a creative approach called the Credit Path model. This model reveals a weakness in conventional approaches, which have not, to date, enabled American households on the lowest incomes to join credit unions in large numbers. CDCUs have also pioneered alternative products to 'pay day' and other predatory loans that do not require savings before loans can be made. Interest rates are, however, higher than those applicable to standard credit union loans, but the extra margin for higher risk and costs fills a missing entry point for lower-income households, offering them an opportunity to access affordable credit union services for the first time. In 2003, CDCUs provided over \$1 billion of new loans to low-income communities in urban and rural America.

**Money Advice and Budgeting Service, in Ireland**

In Ireland, the Money Advice and Budgeting Service (MABS) supported by the Irish government has developed a 'local partnership model' to deliver core services to low income households, including: savings, free money advice, bill and loan payments and affordable credit. Over the past ten years, MABS has become a nationally recognised service and has recently been selected as one of eight exemplar initiatives by the European Union to demonstrate how to engender social inclusion.

**Credit Union Best Practice, England and Wales**

Research by the development partners for CBP has been undertaken nationally among credit unions in England and Wales over the past eighteen months. This reveals a growing diversity of new initiatives ranging from MABS projects on Merseyside and South Tyneside to emerging partnerships between credit unions and CRTs in London and East Lancashire. Also mergers are rapidly taking place to enable credit unions in urban and rural areas to build a stronger asset and membership base to take on the challenges of CBP. More than 100 credit union and community finance practitioners in England and Wales have attended regional training seminars in 2004 and have endorsed the CBP approach.

"We've always felt that credit unions and CDFIs needed to find ways of working together. In a local, hands-on partnership, so much more can be achieved."

**CRT Manager in the North of England**



Third Birmingham Community Credit Union shop opening in Handsworth, Birmingham in June 2004

"Our goal over the next five years is to provide £14 million of affordable credit through our four high street shops and additionally to save low income households over £2 million of excess interest currently paid to predatory lenders."

**Jim Dearlove  
Birmingham CBP Manager**

**Community Banking Partnership – Measuring Success**

A key performance target for each CBP will be to capture up to six per cent of the local market from high-cost doorstep lenders into credit union membership. Compared to a typical rate of 177 per cent APR, the savings in interest charges to 1,000 low-income households would amount to £678,000. This level of wealth retained in each pilot region represents a 200 per cent return on the average investment needed to establish each CBP. In April 2004 the first CBP Pathfinder was launched in Birmingham. Core investment funding for this CBP has been provided by Barclays and Esmee Fairbairn Foundation..

**Birmingham Community Banking Partnership – First Pathfinder Project in Britain**

With 28 credit unions, over 22,000 members and £20 million in assets, Birmingham represents the largest concentration of credit union activity in England and Wales. With inspiration from the success of Money Advice and Budgeting Service (MABS) in Ireland, Birmingham credit unions have developed a fully integrated package to tackle financial exclusion. This approach provides low-income households with the four key 'Factor 4' services:

- (i) Money and Debt Advice
- (ii) Bill payment and debt repayment services
- (iii) Energy Advice and Assistance to claim Warm Front and energy efficiency grants
- (iv) Access to affordable credit from a credit union and a Community Reinvestment Trust.

South East Birmingham Community Credit Union is at the forefront of the Birmingham developments and was awarded the first CDCU funding nationally from the Adventure Capital Fund, Barclays Bank and RBS NatWest. The development work in Birmingham has brought both Factor 4 and the CDCU pilot services together as the first Community Banking Partnership.



Photograph: Martin Neeves

# Community Banking Partnership: the Pathfinder approach

The CBP model has been developed with the funding support of Lloyds TSB. In order to road test the Community Banking model and CDCU techniques, **nef**, NACUW and the University of Salford are working with charitable foundations, banks and Government bodies to implement a national demonstration project, to set up a minimum of six pathfinder community banking partnerships across England and Wales. The total cost of the project is £2 million over the period 2004–2007. The National Consumer Council (NCC) will carry out an independent evaluation of performance and impact. Founding investors include: Lloyds TSB, Barclays Bank, Royal Bank of Scotland/NatWest Bank, the Esmee Fairbairn Foundation, the Monument Trust, the Adventure Capital Fund, Tudor Trust and the Northern Rock Foundation.

## The Community Banking Partnership Team

**nef** (the new economics foundation) is an independent think-and-do tank, which aims to improve quality of life by promoting innovative solutions on economic, environmental and social issues. As a 'do' tank **nef** designs and runs practical initiatives that involve people more directly in tackling their own problems and needs. **nef** works in partnership with academia, civil society, government and business, in the UK and internationally.

**NACUW** (the National Association of Credit Union Workers) is the professional association for credit union workers and volunteers. NACUW members have supported the majority of credit unions in Britain today and it is the movement's lead organisation for delivering accredited training. NACUW works with all trade bodies, providing advice to government and the FSA on improvements to regulations and legislation.

**CFS** (Community Finance Solutions) is a self-funded unit within the School of English, Sociology, Politics and Contemporary History of the University of Salford. CFS promotes, develops and supports Community Reinvestment Trusts and other community finance initiatives that tackle financial exclusion.

### Development Managers

**Pat Conaty** is a Senior Research Associate of **nef** and a co-founder of National Debtline and CDFIs in urban and rural England.

**Mick Brown** is Projects Manager for NACUW. Currently based in Wales he has worked in the credit union movement for over 12 years.

**Bob Paterson** is a Senior Research Fellow at the University of Salford and a founder of Community Finance Solutions.

**Whitni Thomas** is head of the Access to Finance programme at **nef**.

**Cliff Rosenthal** is Executive Director of the National Federation of Community Development Credit Unions in the USA.

## Community Banking Partnership: Community Reinvestment Action

- One-stop financial services for disadvantaged communities
- Delivering affordable products to low income households
- Tapping into the resources and expertise of banks and building societies
- Growing credit unions and community development finance providers
- Offering a viable alternative to predatory lenders
- Retaining wealth in the local economy
- Providing value for money to public sector investors and charitable institutions

## Interested? What to do now

If you think CBP is the solution towards achieving financial inclusion in your area, you can obtain further information from: **nef** (the new economics foundation), 3 Jonathan Street, London, SE11 5NH, tel: 020 7820 6300, fax: 020 7820 6301 email [info@neweconomics.org](mailto:info@neweconomics.org)

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