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Gaining Interest: A New Deal for Sustained Credit Union Expansion in the UK

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Executive Summary

Key findings

A new spotlight has been shone on the UK credit union industry in recent years. Credit unions have enjoyed a surge in perceived popularity as a result of high-profile advocacy by the Archbishop of Canterbury and other notable figureheads, and the perception persists that they might eventually become a viable competitor against the payday loans industry[1]. As government regulations tighten on their rather unscrupulous lending methods, payday lenders are beginning to leave the market and credit union optimists are anticipating that they might be in a position to fill that gap.

However, credit unions still have a long way to go. While the number of credit unions in the UK have grown significantly since the 2008 financial crisis, more than doubling membership to over 1.5m and penetrating a larger proportion of the UK consumer credit market, the sector is still rather small compared with its counterparts abroad. Judging from the evidence and contrary to prevailing opinion, it is likely that the growth experienced in recent years cannot continue at the same pace without further eroding the financial health of credit unions.

This report sets out recent troubling developments in the UK credit union sector including:

- Recent growth in the credit union sector intensifies the split occurring among credit unions and puts financial strain on the sector;
- Media (and government) attention and scrutiny exacerbates this split by positioning credit unions as an alternative to the payday lending sector; and
- Legislative and regulatory developments have supported changes to the sector thus far, but questions over the ability of credit unions to enter the payday lending business persist.

The discussion will provide evidence showing that, whilst credit unions were able to expand substantially, this expansion came at a financial cost: income is under stress and the quality of loans advanced to members is declining. Because of this, it is doubtful that credit unions will be able to compete payday lenders out of business alone, or indeed plug the gap that has come about as a result of well-needed tighter regulations over high cost credit. We find that in doing so would further increase doubtful loans for credit unions while limiting additional income which ultimately could put existing members at financial risk.

[1] In 2013, it was widely reported in the UK that Justin Welby, the Archbishop of Canterbury, after meeting with Errol Damelin, the then chief executive of payday lender Wonga.com, said: “we [the church] are trying to

Recommendations

This report outlines several recommendations that might assist credit unions in improving their future viability. They are, in brief:

1) **Produce an effective referral system.**
   Improved interconnected links between credit unions would assist members who are relocating or falling outside the common bond as circumstances change. A system of referrals and asset movement would provide continuity and improve member retention.

2) **Find new sources of income.**

   Credit unions need to find new sources of income. This can be achieved through partnerships within the common bond, or through the offer of new financial products such as payday lending.

3) **(Partial) funding for payday loan initiatives provided by mainstream banking.**

   In the US, mainstream banks fund credit union activity in neighbourhoods in which they are unable to provide services. In the UK, pressure from the Church of England and the government could be placed on mainstream lenders to help support the campaign to alleviate poverty by enabling credit unions to offer alternatives to high-cost payday loans.

4) **Strengthen ties with CDFIs.**

   Partnerships with CDFIs provide financial incentives for both, while particular sections of society are better served by more appropriate financial products and improved financial education.

5) **Create a market for credit unions and CDFIs to jointly fund payday loans.**

   With two or more companies involved in one or multiple loans, credit unions and CDFIs can join forces to tackled over-indebtedness by reducing the costs of payday loans for those who need them the most.

Introduction

Credit unions are mutual financial institutions that offer services such as loans and savings accounts to their membership, with a particular emphasis on serving local communities. They are not-for-profit organisations based on the principles of co-operative finance, and as such are owned and controlled by their members. Credit unions have a common bond that determines the principles upon which someone can join, such as living or working locally. The common bond may be geographical (where all members live in the same local area), associational (where members belong to a particular group such as a Church or trades union) or occupational (where members work for the same employer)[2]. Interest can be charged on a loan from a credit union. From April 2014 the monthly interest rate for a loan from a credit union was raised from 2% to 3%. Interest may be paid to savers in the form of a dividend. While successive UK governments have often recognized the positive contribution credit unions make to society, (particularly in their efforts to ensure low-income households are not resigned to high cost and/or predatory loans), this is especially true today in the wake of the growth of the unscrupulous payday lending industry and other forms of expensive consumer credit that have recently caused policymakers significant concern.

In light of the recent developments in, and the expansion of, the credit union sector in the UK, this report will explore how this impacts on the ability of credit unions to serve their original purpose to provide reasonably priced lines of credits for local communities. First, the report will revisit the idea of a sustainable expansion of the sector and highlight its limits. Second, the discussion will demonstrate how recent legislative changes and more general ambitions of actors within the sector have diluted the original purpose of the credit union movement and effectively split the sector into two camps with different visions as to the future of the sector. Third, we will argue that this confusion is further exacerbated by a new industry narrative created externally to the effect that formerly prudent attitudes to savings and loans will be accompanied by more contemporary demands to challenge high cost lending. Finally we bring the discussion together by setting out the potential impact on more credit unions entering the short-term credit market in relation to the previous chapters looking at sustainable expansion and the pressure to compete in a new market, and how the impact could be mitigated by key organisational changes.

[2] www.parliament.uk/briefing-papers/sn01034.pdf

Section 1: The "Rise" of Credit Unions

Credit unions in the UK have grown significantly since the financial crisis, more than doubling membership to over 1.5m, though the number of actual credit unions has dropped in part due to consolidation in the sector. Very few new branches have been established since the crisis and the sector is still rather small, despite managing to penetrate a larger proportion of the UK consumer credit market. Contrary to prevailing opinion, it is likely that the growth experienced in recent years cannot continue at the same pace without further eroding the financial health of credit unions.

Credit unions in the UK have grown significantly since the financial crisis, doubling membership to over 1.0m and assets to £1.2bn between 2008 and Q3 2014 (Table 1); including in Northern Ireland, where credit unions are historically stronger, figures rise further with membership at almost 1.6m and total assets at 2.6bn[3]. Total capital held by credit unions has also increased substantially from below 10% of total assets in 2005 to above 12% in 2014[4], in line with ambitions to shore up retail banking markets from future crises. Aggregate data for all UK credit unions (incl. NI) suggest that this growth has been achieved in a sustainable fashion, with sector wide profits declining slightly to £9.4million and loans in arrears rising by £1million to £53.8million in Q4 2014 (BoE 2014[5]).

Table 1: Basic Credit Union statistics for selected years

					including Northern Ireland	
	2005	**2008**	**2012**	**2014**	**2012**	**2014**
Number of credit unions	568	520	421	362	595	523
Number of V2 credit unions	11	13	10		19	
Adult members at year end (000's)	530	659	918	1,047	1,406	1,564
Total Assets in £000s	466,728	595,142	956,614	1,237,979	2,178,246	2,619,628
Gross loans in £000s	341,152	441,694	605,787	687,783	1,103,907	1,198,039
Total capital in £000s	45,779	69,718	116,970	134,652	270,154	323,470
Loans as % of total assets	73%	74%	63%	56%	51%	46%

Source: BoE (2014)[5] and Edmonds (2015)[6]

At first glance, these figures appear to offer encouraging news for proponents of credit unions. Still, these figures, used by ABCUL and other public bodies to underline the recent prominence of credit unions in the UK only show one side of the coin. Examining the figures

[3] http://www.ft.com/cms/s/0/d3ee121a-af76-11e4-b42e-00144feab7de.html#axzz3cHOC83aH

[4] In line with regulatory requirements for credit unions to shore up capital, of particular concern to V2 credit unions which must maintain "a risk-adjusted capital-to-total assets ratio of at least 8%; V1's are required to only hold 3% (http://fshandbook.info/FS/html/handbook/CREDS/5/4)

[5] http://www.bankofengland.co.uk/pra/Documents/regulatorydata/creditunionquarterlybalancesdecember2014.pdf

[6] http://researchbriefings.files.parliament.uk/documents/SN01034/SN01034.pdf

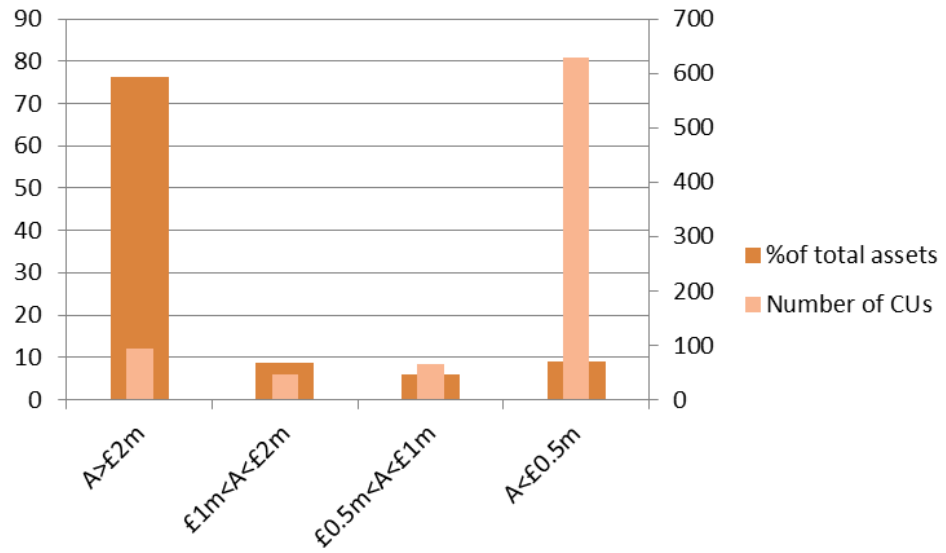
more closely and in context, it is clear that the recent growth has introduced and sped-up a number of developments that provide for a mixed outlook.

First, the number of credit unions is declining year on year. In 2001, there were 835 credit unions operating in the UK (including NI) compared to 523 in 2014 with numbers of authorised CUs falling across the UK. To some extent consolidation, which was needed to ensure the commercial viability of credit unions in the future, can answer for some of these changes driven. A second driver can be linked to ambitions to create a number of larger *"challenger"* credit unions that can compete with high-street banks and building societies alike by offering consumers similar products and services.

To illustrate this, Glasgow CU, the largest in the UK (excl. NI) has 32,000 members and assets over £100 million, that is roughly 3% of members and just under 10% of sector assets in Great Britain (excl. NI).

Indeed, figures paint an all too familiar picture that mirrors developments in the building society sector (albeit on a much smaller scale): consolidation and the concentration of activity and assets in a selected few. Historically, the size of individual credit unions has been very polarised, or unequal, for some time as illustrated by Goth et al (2006: 6)[7] using data for 2001 (Figure 1): approximately one-tenth of the market participants are larger players that combined hold approximately three-quarters of total credit union assets and nine-tenths of the market participants holding less than one-quarter of total assets. This gulf between small and large credit unions has further increased following the introduction of Version 1 and 2 credit unions (additional discussions below).

Figure 1: Assets distributions for UK credit unions by number and % of total assets (2001)



Source: Goth et al. 2006

[7] http://www.jrf.org.uk/system/files/9781861348302.pdf

Second, and crucially, in spite of their proclaimed emergent status as alternatives to high-street banks, it is quite surprising to see that very few credit unions have been established in the post-crisis era (Table 2). Even more precariously, yearly new credit union authorisations have plummeted from a peak of 14 in 2006 to 1 in 2012, with newer data being unavailable[8]. This clearly shows that the vitality of the sector as presented by the media (discussed in section 3 in more detail) is somewhat over-estimated and suggests that the demand for new credit unions is low and/or, that the authorisation process for new societies may be too complex and drives interested parties away. On a positive note, it also appears that the rate by which credit unions are cancelled is in decline, indicating that a) less credit unions exit the market for various reasons (no regional demand; financially unsustainable) and b) the consolidation of the sector is slowing down.

Table 2: Credit union authorisations and cancellations in GB 2004-2012[9]

	2005	2006	2007	2008	2009	2010	2011	2012
Authorised in period (total)	9	14	5	3	2	n/a	3	1
In England	6	13	3	3	2	n/a	2	1
In Scotland	-	1	1	-	-	n/a	1	-
In Wales	3	-	1	-	-	n/a	-	-
Authorisations cancelled in period (total)	36	28	27	18	17	n/a	13	11
In England	31	25	21	13	14	n/a	12	10
In Scotland	3	3	4	4	1	n/a	1	-
In Wales	2	-	2	1	2	n/a	-	1

Source: BoE 2013[10]

Third, international comparisons often acknowledge that the UK credit union sector is small. Table 3 highlights this: both credit union assets as percentage of total bank assets and penetration are significantly lower in the UK compared to other countries[11], especially when compared to the co-operative bank systems of Germany and the Netherlands (Tischer 2013[12]). Regulatory restrictions and a weaker link between communities and often voluntarily-run credit unions are often cited as reasons for the sectors' lack of development (Goth et al. 2006; Lyonette 2012[13]).

One key advantage held by members of the German co-operative sector is that customers are captured within the system despite the local nature of member banks – i.e. if customers move, they can easily transfer assets to a locally operating co-operative bank and access similar (if not the same) services and products. This ensures that customers do not convert their business back to the private or saving banks, so long as they are satisfied by the services they receive from the co-operative bank. A system like this could help British credit

[8] The BoE has stopped publication of credit union authorisation cancellations after 2012.
[9] Northern Ireland has been removed from this table as it has only been included in these figures in 2012
[10] http://www.bankofengland.co.uk/pra/Documents/regulatorydata/creditunionannualstatistics2013.pdf
[11] The penetration figure for India is low because of the general lack of access to banking facilities.
[12] Tischer, D. (2013) *The Embededness of Ethical Banking in the UK*. PhD Thesis, University of Manchester
[13] Lyonette, M. (2012). Recognising the Potential of Credit Unions. Policy Network, 06 June 2012.

unions to retain members at a sector level, given that jobs are frequently changed and moving across regions has become more prevalent. This could be useful in retaining young savers who move away for university and need a bank account too often provided by big banks (who incentivise students to use overdraft facilities). Pre-emptive financial education by credit unions could for example, reduce student debt issues in the future, especially in situations in which credit unions partner up with universities.

Table 3: Size of credit union sector in selected countries, 2011 data[14]

	Total Credit Union Assets (TCUA) in US$bn*	Total Bank Assets (TBA) in US$bn	TCUA as % of TBA	Members in 1000's	penetration[x]
Ireland	17.4	1495	1.16%	3070	72.20%
Canada	270	3355	8.05%	10605	45.50%
United States	982	12639	7.77%	93933	44.90%
Germany	913	7995	11.42%	17000	40.48%
Australia	84	2727	3.08%	4504	30.60%
Netherlands	915	3547	25.80%	1800	23.54%
India	52	1219	4.27%	20000	2.60%
United Kingdom	1.1	13965	0.01%	983	2.40%

Source: Tischer 2013

More problematic is that the ability of credit unions to generate income from loans has worsened since 2005 with loans as percentage of assets declining from 73% to 56% in 2014 in England, Wales and Scotland – and even lower when including Northern Ireland (Table 1). While this may be sustained for now, it questions the ability to grow assets further at the level of the sector. With it being aggregate data, it is likely that some credit unions are less affected by this, but vice versa, others may find themselves in increasing financial difficulty. Given the fact that income will cover dividends paid on savings products, a lack of income would also have serious repercussions for attracting savings, thus potentially threatening the survival of a substantial number of credit unions affected by this.

This situation is worsened by the low yields earned from investing in government bonds and other available financial instruments invested in by credit unions. And since base rates are likely to remain at record-low levels until well into 2016, those investments will continue to offer low rates in return. Therefore, credit unions need to find new sources of income to strengthen their financial health, and since regulation restricts the type of financial products that credit unions can offer, this may be a tricky situation to come out of. Drawing on the American example, where credit unions have a significant share in car loans, remains of limited applicability as regulation in the UK is more restrictive and could see credit unions having to cover additional costs in the longer term if traders refuse warranty etc. Moreover, since credit unions in the UK are small, funding car loans may not be an option for those as it would concentrate assets in few loans, thus baring an increased risk profile. Moreover, expertise in this area is limited.

[14] Data from WOCCU 2012; * data for total bank assets from Austrade, ECB, FDIC, PWC & Reserve Bank of India; [x] Calculated by members / economically active population

When looking at the evolution of credit unions within the UK some post-crisis trends emerge quite clearly, that is:

- The number of credit unions is in decline, though this, in some part, is explained by consolidation in the sector;
- Credit unions, by doubling their membership during the financial crisis, have managed to penetrate a larger proportion of the consumer credit market;
- Total assets held by credit unions has increased, yet loans as percentage of assets have declined substantially, questioning the ability of credit unions to generate income to cover the cost of attractive rates on savings products.

Fourth, what is less clear is the underlying distribution and dynamics within the UK, however, as shown in Table 4 below, credit union dynamics differ across UK countries. In Northern Ireland, for example, almost 30% of the population are members of a credit union, considerably higher than in England, Scotland and Wales. This can be explained with its historical proximity to Ireland in which credit unions are much more prominent players in the market. Scottish credit unions reach almost 6% of the Scottish population, more than three times the penetration achieved in England (1.3%) and Wales (2.0%). In some respects, data suggests that collectively, Scottish credit unions are more established compared to their English and Welsh counterparts. In particular, credit union numbers decline at a slower rate than in England and Wales, and whilst membership expands less quickly in percentage terms, assets grow at a similar pace. Moreover, average assets per member are >£3000 at Glasgow Credit Union, yet at London Mutual Credit Union, (London's largest and most prominently featured in the media as it counts The Duchess of Cornwall and Ed Miliband among its members), merely holds £900 assets per member.

Table 4: Developments in UK regions[15] 2004-2012[16]

	Number of credit unions	members	Assets held	Penetration in 2012
England	-51%	54%	132%	1.30%
Scotland	-37%	20%	108%	5.80%
Wales	-43%	60%	126%	2.00%
Northern Ireland				28.60%

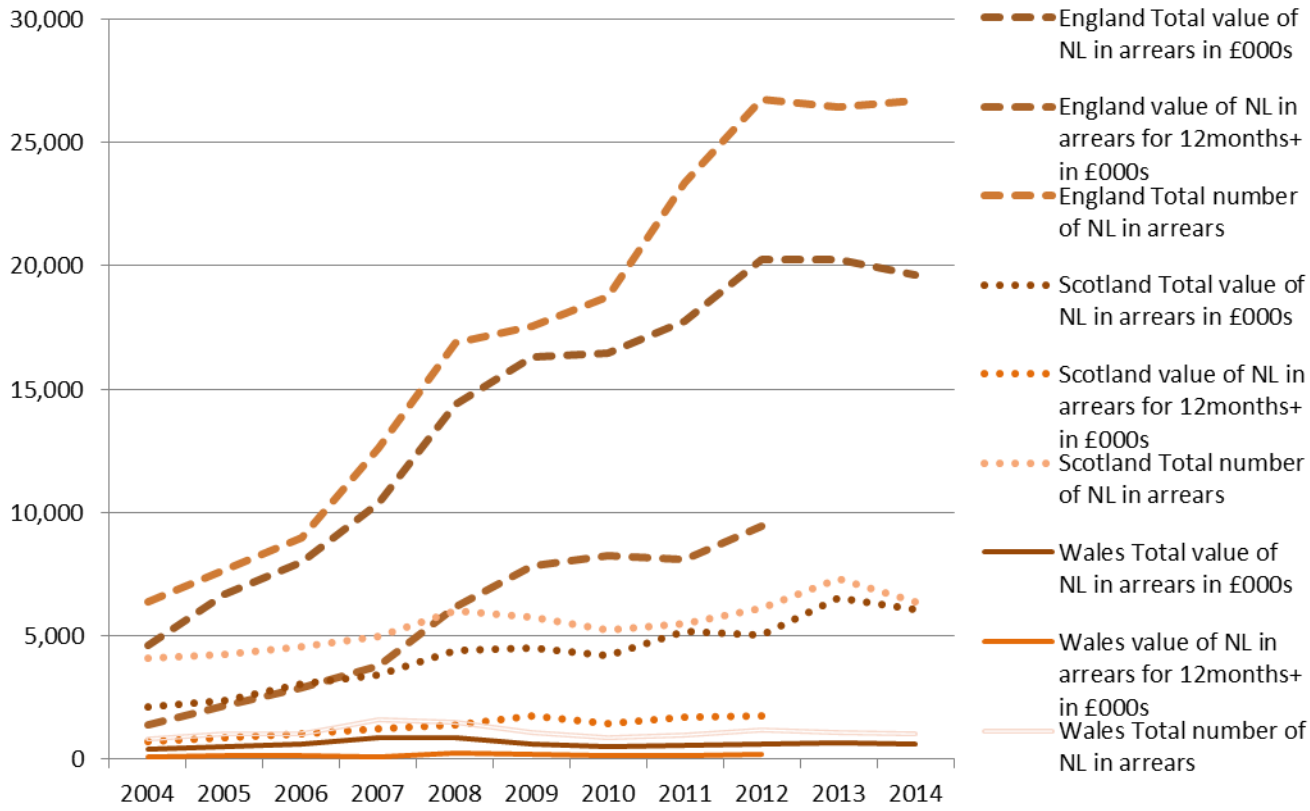
Source: BoE 2014

Moreover, it appears that the substantial growth in credit unions in recent years has left its mark on the quality of the loan book with number and value of loans in arrears increasing (Figure 2). The growth of net liabilities (NL) in arrears is particularly strong in England with NL in arrears quadrupling since 2004 and doubling since 2007, whereas NL in arrears

[15] Some data unavailable for Northern Ireland
[16] Calculated as members divided by population of the UK countries

declined since the peak in 2007. Loans in arrears for 12+ months similar increase, particularly in England.

Figure 2: Credit union net liabilities (NL) in arrears for each British region (2004-2014)



Source: BoE Sep 2014 and 2013

Figure 3: number of loans in arrears as % of total loans

Source: BoE 2013

Whilst some of this can be expected given the recent rapid expansion, Figure 3 underlines the fact that the quality of loans in English credit unions is in decline based on the total number of outstanding loans, increasing from below 7% in 2004 to 12.5% in 2012. Crucially, as shown earlier in Table 1, the percentage of loans against total assets has declined substantially since 2005, indicating that credit unions are already lending less to customers to not further decrease the loan quality. However, this puts credit unions under serious cost pressures.

Hence, the intervention by Ainsworth (2013)[17] pointing out that "serious growth will take ten years" is a plausible one and matches the data.

Lending less as percentage of assets means that credit unions will receive less income from those loans while at the same time having to pay more interest to members on the increased assets held. On top of that, loans in arrears further erode the income base and increases potential write-offs. Even a recent increase of the maximal interest chargeable on loans to members from 2% to 3% would only soften the impact of further expansion triggering an increase in non-performing loans.

Given this evidence, it is likely that the growth experienced in recent years cannot continue at the same pace without further eroding the financial health of credit unions. This fact is generally ignored by those drawing up a new credit union deal that positions them to become the nation's payday lender to members of the public that big finance has left behind.

[17] http://www.thirdsector.co.uk/analysis-credit-unions-serious-growth-will-ten-years/finance/article/1210742

Section 2: Recent Legislative Reforms

Credit unions have been subject to various regulatory changes over the years, the most significant being the decision made in 2012 to raise the interest rates on which a credit union could charge interest from 2% to 3%, following a change in 2005 to raise interest from 1% to 2%. While these changes have widened the scope and scale of credit unions what has resulted is a two-tier credit union system with some more capable than others of competing on a level playing field with other providers of financial services.

The recent developments discussed in Section 1 link to changes in regulation since 2000. Essentially these changes can be summarised as follows: all regulatory changes and government sponsored activity has had the sole aim of scaling up and professionalising the credit union sector so that the sector can provide alternative services to the public in an effort to increase competition in the landscape of UK retail banking.

Legislative and regulatory changes occurred in three steps (Goth et al 2006 & LRO 2012[18]):

1. The 2000 Financial Services and Markets Act and 2003 Regulatory Reform (Credit Union) Order with the aim to enable the expansion of credit union activity in the UK by relaxing the conditions for the common bond; removing the membership limit of 5,000; extending loan periods; enabling credit unions to borrow from other credit unions and banking institutions and allowing credit unions to charge for ancillary services.

2. The transfer of regulatory authority from the registry of Friendly Societies to the FSA which further widened the ability of credit unions to lend, yet professionalised the sector[19]. In addition, credit unions were categorised in Version 1 and 2, with the latter having to keep higher capital, but as a result saw a further relaxation of rules to be found constraining. Pushing for expansion, the FSA encouraged application for Version 2 status of larger credit unions by regulating those that hold capital over a certain limit like those that have Version 2 status. The official justification for this step was the increased risk associated with size; yet it suits those in the sector that sought to encourage the expansion of ancillary services that required Version 2 status, for example mortgage lending (Edmonds 2014: 19).

3. The Legislative Reform (Industrial and Provident Societies and Credit Unions) Order 2011 (LRO) further relaxed the common bond criteria allowing more than one group of people to be members of a credit unions, allows credit unions to serve community groups, businesses and co-operatives (lending up to 10% of the outstanding loan balances to all members), gives permission to pay interest on savings instead of

[18] http://www.publications.parliament.uk/pa/cm201012/cmselect/cmdereg/1564/1564.pdf
[19] Credit unions are to be run by approved people, introduce accounting systems and have adequate capital

dividend payments and permits members to continue to receive services from the credit unions if moving jobs or home.

Related to these, the following statutory instruments came into force on April 6, 2014:

1. The Industrial and Provident Societies (Increase in Shareholding Limit) Order 2014 (SI 2014/210)

2. The Co-operative and Community Benefit Societies and Credit Unions (Investigations) Regulations 2014 (SI 2014/574)

3. The Industrial and Provident Societies and Credit Unions (Arrangements, Reconstructions and Administration) Order 2014 (SI 2014/229)

4. The Industrial and Provident Societies and Credit Unions (Electronic Communications) Order 2014 (SI 2014/184)[20.]

All these changes aim at widening the potential scale and scope of credit union activity. Yet at the same time, they have also produced a two-tier credit union system, in which a few credit unions (those meeting the conditions for Version 2 status) are allowed to undertake additional operations that enable them to compete with other providers of financial services more effectively. This move suits government ambitions and is supported by ABCUL, the UK's largest credit union association, and some of its members. The ability to provide larger loans over longer periods, pay variable dividends on different savings accounts more often than once a year, and their ability to borrow and invest over longer periods do not only enable them to compete with building societies and high-street lenders, it also gives them a competitive advantage over other credit unions that are more restricted and offer only traditional services such as savings, loans and certain other ancillary activities. Ergo, the growth ambitions for the sector in post-crisis Britain have turned into a growth for the selected few.

A further recent change to credit unions is the rise in the monthly interest credit unions may charge on loans from 1% to 2% in 2005[21] and a further increase to 3% announced in 2012[22]. Whilst government promoted this as a necessary step towards future-proofing credit unions by ensuring they can be financially sustainable providers of short-term loans, allowing credit unions to do so may increase the cost of loans for credit unions customers more generally. To some extent, this move challenges the objective of credit unions to provide cheaper loans to the financially excluded; yet on the other hand, it paves the way for credit unions to enter the payday lending market and make loans in this segment more affordable, an objective that has been fiercely debated recently in the media (see discussion in Section 3).

[20] http://www.fca.org.uk/firms/firm-types/mutual-societies/industrial/legislative-changes
[21] The Credit Unions (Maximum Interest Rate on Loans) Order 2006 No1276
[22] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/221917/credit_union_maximum_interest_rate_cap181212.pdf

Whilst changes to legislation has paved the way for some of these developments to occur "naturally", a more recent intervention by government has been to award a £38m "Credit Union Expansion Project" grant to ABCUL in order to "modernise and grow the credit union industry" as suggested by the government[23]. ABCUL has stated that as part of the expansion project it would wish to see membership of a credit union in the UK double.

A likely outcome of this intervention is a further acceleration of uneven growth of the credit union sector, particularly given that ABCUL has, and continues to, pursue(d) a strategy of scaling up credit unions, thus benefitting V2 credit unions that seek to further expand products and services. In addition, this investment could benefit smaller credit unions that express ambitions to scale up operations. On the other hand, the grant also has the goal of developing shared platform products and services, potentially enabling economies of scale and scope to be realised, even for smaller credit unions.

Ultimately however, there is a chance that small, local credit unions with limited services will receive limited benefits from this type of government sponsored expansion project. In addition, the recent introduction of current accounts to the credit unions system will further add to the divide between those who see credit unions as community based savings and loans associations and those who want to operate on a large scale, making it increasingly difficult to develop the sector coherently.

The split in the way credit unions think about themselves is nicely summarised in the outcome document to the recent consultation of credit unions at 50[24] (page 7 – 2.3; emphasis added):

> "A few large credit unions suggested that the current objects are too restrictive. They proposed that tiered legislation which reflects the differing size and sophistication of credit unions would be a viable alternative. One think tank suggested a two-tiered system allowing credit unions content with the existing structure and objectives to continue operating within this environment, while allowing ***credit unions which wish to expand and operate under a significantly looser legislative framework to do so under the status of a 'Community Bank'.*** They suggest that this new classification of financial institution would have greater operational freedoms in return for greater regulatory oversight."

Moreover, the cultural divisions within the sector are effectively maintained by the multitude of credit union associations that operate in the UK[25]:

- ABCUL: The Association for British Credit Unions, the main trade body in Great Britain

[23] https://www.gov.uk/government/news/credit-union-38-million-expansion-deal-signed
[24] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/389657/credit_unions_response_to_call_for_evidence.pdf
[25] http://www.creditunionresearch.com/keycode/

- UKCU: UK Credit Unions, formerly AICU, a co-operatively run association
- SLCU: The Scottish League of Credit Unions, which is growing strongly in Scotland representing small to medium-sized credit unions
- UFCU: Ulster Federation of Credit Unions, operational in Northern Ireland
- ILCU: Irish League of Credit Unions, operates in Ireland and Northern Ireland

As summarised by Goth et al. (2006):

> "… there are essentially two opposing views with respect to the ethos of credit union development and support emanating from trade associations."

First, there are trade associations including UFCU, SLCU and UKCU that seek to maintain the view of credit unions as locally focused, poverty-alleviating organisations. Here credit union growth is limited to organic expansion within the common bond with an emphasis on community development and self-help (Sibbald et al 2002[26]). Second, ABCUL and ILCU favour credit unions becoming scaled-up and expanding their common bond to serve a larger group of customers. Success is measured with emphasis on economies of scale and scope, the introduction of new product lines and the professionalization of the sector away from voluntarily-run operations.

This produces a sector that is "somewhat dichotomised"[24] making it, as suggested above, increasingly difficult to introduce regulation that provides a legislative framework that provides an effective environment for this diverse set of institutions. And this is accentuated in the categorisation in V1 and V2 credit unions promoting different regulatory environments.

Clearly then, and as outlined above, there is a need to fundamentally overthink regulation of the sector as considering the increasing gulf between small and larger credit unions. Adjusting legislation if and when problems occur through reform orders will only add to the confusion as to the future of the sector and not alleviate it.

[26] http://onlinelibrary.wiley.com/doi/10.1111/1467-8292.00198/pdf

Section 3: New Ambitions for the Sector: Credit Unions in the Media

Media coverage has helped CUs, positioning them as an ethical alternative to banks at a time when "banker bashing" became popular, and through the endorsements of media-friendly key figures such as the Archbishop of Canterbury and the Duchess of Cornwall. This has subsequently resulted in very high ambitions for UK credit unions. It has also highlighted some of the reasons why the credit union sector in the UK is very small, which include legislative restrictions imposed in the 1970s, a flawed developmental model arising in the 1980s and 90s, and a lack of products that meet the needs of more consumers.

Extensive media coverage of the perceived failings of the banking sector in the aftermath of the financial crisis (for example "banker bashing") clearly benefitted credit unions, by 1) informing the public about their existence in general, and 2) positioning them as an alternative to mainstream finance. Alongside media attention, campaigns such as Move Your Money[27], added additional publicity for ethical banks, including credit unions.

The crisis-effect: Credit Unions as alternative to the mainstream[28]

Figures 4a and 4b clearly demonstrate that credit union coverage across the left- and right-wing (*The Guardian* and *The Times*) and specialist press (for example the *Financial Times*) has increased significantly from 2005 through to 2013[29]. Whilst the Factiva search does not pick up on key organisations and people within the credit union sector (for example "Mark Lyonette" (ABCUL); "ABCUL" or "Glasgow Credit Union") it appears that the coverage situates credit unions as the antidote to scandal-ridden mainstream banks (Figures 4c and 4d) and called for credit unions as a sector to be developed. One of the key story lines in the post crisis period until mid-2013 asked for credit unions to be given access to the UK's Post Office branches to reduce the cost of providing financial services to local communities.

[27] http://moveyourmoney.org.uk/

[28] This analysis focuses on the dates between 01 Jan 2005 and 29 June 2013

[29] Note that the search only includes the period 01.01.2013 – 29.06.2013 to illustrate the shift between the pre- and post-announcement by Justin Welby in support of a church-backed credit unions to outcompete payday lenders.

Figure 4a: Press coverage featuring "credit union" in the UK media

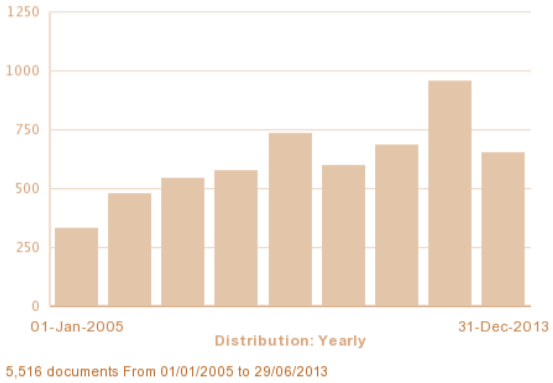


Figure 4b: Sources of credit unions media coverage in the UK

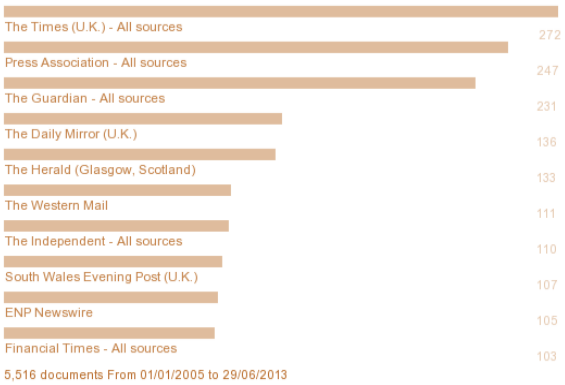
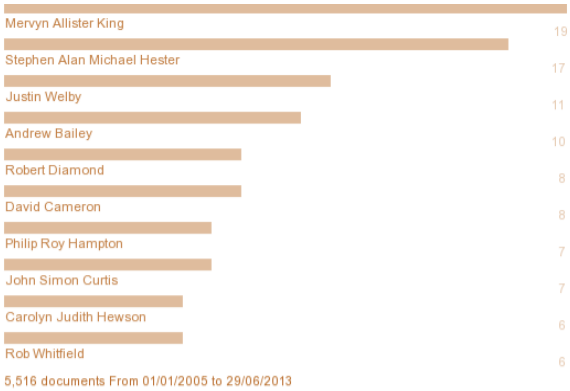


Figure 4c: Most mentioned "Companies"

Figure 4d: Most mentioned "Executives"



Sources: Factiva search on "Credit Unions" in the UK (with US excluded)

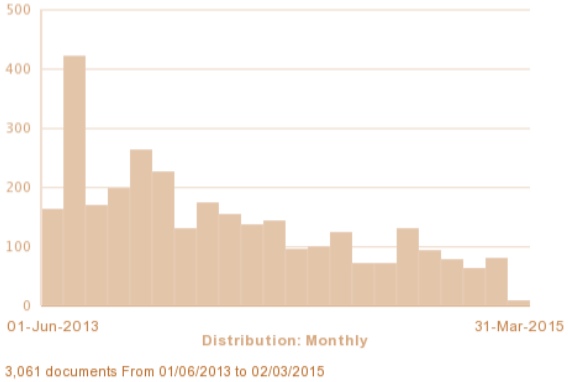
Post-Welby: Credit Unions as an alternative to payday lenders[30]

More recently, media coverage has moved on from simply parading credit unions as the remedy for problems in UK retail banking. The new narrative evolves around the possibility of a continued expansion of credit unions in light of the ambitions voiced by the current Archbishop of Canterbury, Justin Welby, who on 30 June 2013, outlined new ambitions for credit unions to out-compete payday lenders across the UK. On the back of the Archbishop's announcement that the CoE itself will enter the CU market to serve the 1.4 million financially excluded who are currently without access to suitable financial products (House of Commons 2012[31]).

[30] Data analysed in this section includes the dates 30.06.2013– 02.03.2015

[31] http://www.publications.parliament.uk/pa/jt201213/jtselect/jtpcbs/c804-ii/c80401.htm

Figure 5a: Press coverage featuring "credit union" in the UK media



Whilst this announcement has prompted wider coverage of credit unions in the news, with over 400 stories breaking in July 2013 alone (Figure 5a), it also shifted the debate from one focussed on financial exclusion, to one specifically dealing with the growth of payday loans. This shift placed particular emphasis on two key figures: Justin Welby and Errol Damelin, the now former CEO of Wonga, Britain's most prominent payday lender (Figure 5b). Figure 5c underlines this paradigmatic shift of the focus away from a more traditional understanding of the role of credit unions in the UK towards payday lending.

Figure 5b: Sources of credit unions media coverage in the UK

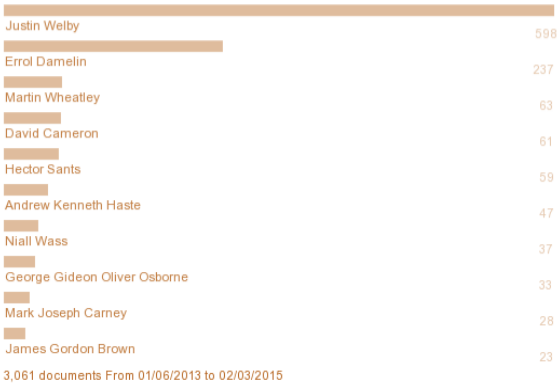
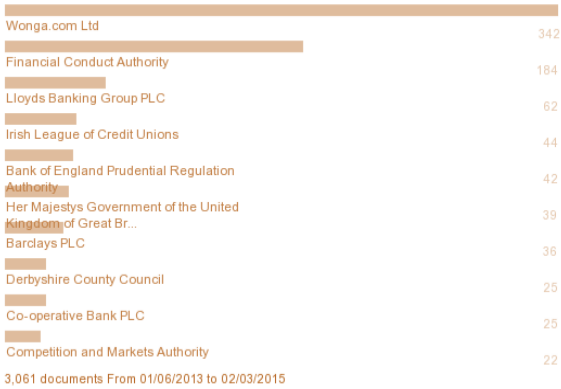


Figure 5c: Most mentioned "Companies"



Undoubtedly the significant increase in press coverage credit unions are currently experiencing represents a positive development in the sense that it puts them on the public's radar. Yet as this is orchestrated by parties outside of the movement, it suggests a new appropriation of the sector as challenging payday lending, creating further confusion about the role credit unions play in the UK.

Part of this discussion can be illustrated by looking at coverage in *The Guardian*. A first article published in Oct 2014 suggested that the lack of credit unions being able to compete with payday-lenders is merely linked to an image problem with credit unions being viewed

as a "poor person's bank"[32], and one published three months later acknowledged that in fact, credit unions are not in the financial position to do so[33]. Competition with payday lenders then is a contested idea and moving into payday lending might strengthen that image – making them less attractive propositions for the middle-classes. The divergent views of the purpose of a credit union is thus one that needs to be kept in mind when discussing the ability, and/or, intentions of different credit unions in participating in particular activities, like the out-competing of payday lenders.

Moreover, the divide of the credit union sector increasingly generates confusion about the role credit unions should play in the UK. For example, Angela Clements, former CEO of Birmingham's City Save Credit Union, has highlighted[34] that in the past, the key function of credit unions was to serve working class people in employment. Yet she questions the extent to which credit unions can be active in the market for payday lending given the limited resources most credit unions (with the exception of a few larger ones) have to accurately price risk. Furthermore, as credit unions are member-owned, the additional risk of payday lending must also be accepted by those members, ultimately putting their financial interest on the line.

Indeed, the ethos of credit unionism has long been subject to debate. Goth et al (2006: 7), argues that the credit unions in the UK are essentially split into two camps. One camp views credit unions as local initiatives to alleviate poverty by providing access to savings and loans to those excluded from mainstream providers. Here, growth in the credit union sector is driven by the idea of new credit unions being established with some expansion coming from individual unions within their local area. The other views credit unions as something altogether different: achieving scale, scope, professionalization and new product lines are considered essential features to ensure credit unions can compete with other providers.

Credit union associations are central to maintaining these different views but more recent changes in congruence with the latter view (expansion of credit union services and scaling up of individual unions) is preferred by government as it suits their view of financial services as a competitive sector. Thus having more competition by scaling up credit unions is viewed as beneficial (even though it does not change how things are done in retail banking) and causes the sector to shrink in numbers of active organisations due to ongoing consolidation and a shift from credit unions as supporting each other, to now competing with one another, for example, employer-based credit unions in serving the transport and police sectors.

Crucially, the division between the two views is observable in the actions of the most powerful credit union association – in a 2013 presentation Mark Lyonette (2013, slide 9),

[32] http://www.theguardian.com/sustainable-business/2014/oct/20/credit-unions-edging-alternative-banks-payday-loans
[33] http://www.theguardian.com/society/2015/jan/14/credit-unions-viable-alternative-payday-lenders
[34] Clements, A. (2014) Credit Unions – Part of the Community Solution

CEO of ABCUL, said that the reasons for why the credit union sector in the UK is so small is to do with[35]:

1. Legislation in place from 1979 but restricted and little real regulation;

2. Flawed development model in 1980s / 90s – focus on anti-poverty, use of volunteers and investment in development workers, not CUs;

3. Lack of products and services to meet consumer need.

For those focusing on an US-style expansion of credit union activity, these objections by Lyonette make sense. However, it is equally important to discuss the worries of smaller credit unions of being able to sustain their local focus in a market that is becoming more dominated by larger credit unions. Given this divide, it is not surprising to see government seeking to accommodate both visions of credit unions in the UK.

The more recent developments illustrated by the shift in the media coverage adds to the complexities of the sector. Given the cultural divide between those credit unions (and their trade bodies) that seek scale and professionalization, and those that prefer to retain a local focus on poverty alleviation, the idea of actively engaging in the payday markets is controversial. First, smaller credit unions who seek to counter financial exclusion are likely to be smaller institutions with limited financial strength and effective risk-assessment tools to serve, what is in effect, a high-risk borrower. Likewise, larger credit unions, who may have the financial means to enter this market, may find doing so to be of limited attractiveness, given the risk profile and limited returns. Still, given the need to develop new markets and thus sources of income, and the strong new narrative of the sector presented in national media, it is important to consider the options for this in more detail.

[35] http://www.saos.coop/wp-content/uploads/2012/07/M-Lyonette-SAOS-Conference-January-2013.pdf

4: The future of the sector: credit unions, community finance or payday lender?

Some credit unions have taken to the task of out-competing payday lenders by offering a payday loan-styled product, designed as a short term credit product to smooth over incomes that is also a cheaper alternative to payday lenders in the market. One way of doing this has been to call for a higher subsidy to increase lending to low-income consumers, and to encourage more partnership working between credit unions and community development finance initiatives (CDFIs). Another has been for credit unions to be more responsive to local lending data published by the British Banking Association (BBA) and the Council of Mortgage Lenders (CMLs), to find unmet need in the local community. Further still is for mainstream financial organisations to refer those customers who are unserved or underserved by them to a credit union.

Growth in the credit union sector, consolidation, and capped interest rate rises for loans, coupled with a desire to see credit unions outcompete other areas of the financial services industry, not to mention rising degrees of personal debt and consumers in hock to predatory lenders on the high street and online, has resulted in a rush of optimism that credit unions can be an immediate and appropriate match for consumers formerly taking out payday loans.

However given the findings in our research and our analysis of them, the question that remains is the following one: are payday loan-styled products a financially sustainable activity for credit unions?

Whether or not credit unions are financially able to engage in payday lending (PL) activities is an important and contested question as the rolling out of payday lending could have serious financial implications for members that could put credit unions and their members at undue risk.

One recent key resource discussing the financial viability of credit unions moving into short term loans in competition with payday lenders is a 2013 Transact report[36] looking at a London Mutual Credit Union (LMCU) pilot scheme – specifically the payday loan styled product 'CUOK', first introduced on the market in February 2012. The report finds that credit unions will struggle to offer short term loans in competition with high cost credit lenders, to scale, and in-keeping with the relative low cost of its products. Even with a raising of the statutory interest rate, which as previously mentioned was raised from 2% to

[36] http://www.transact.org.uk/library-media/documents/Can-payday-loan-alternatives-be-affordable-and-viable-Final-Report.pdf

3% in April 2013, the assumption that credit unions would struggle to serve such loans are justified.

Transact case study:

Whilst it would be wrong to say that the assessment has shown that payday loan styled products are a financially viable option for credit unions, it draws out a series of important issues:

1. It encouraged new members to join LMCU (331 in total);
2. PL activities alone were loss-making at the 2% a month interest cap, both for existing members and new members, with losses made on each PL loan made to new members, being approximately three times the size of those made to existing members (£13.21 versus £3.25)
3. However, when including income generated from new members from additional longer term lending, the loss was reduced from £20,016 to £6,725;
4. This suggests that PL activities could be profitable for the credit union if cross-subsidies from the profitable activities to new members are taken into account.

A subsequent report from the Centre for Responsible Credit, which looked in some more detail at the figures given in the Transact report, supposed that with a combination of higher rates and some form of subsidy:

> *"credit unions would be able to provide an alternative payday product to deliver savings to the borrower. In our view a subsidy of £20 per loan of £277.50 would be more than sufficient at the current maximum of 26.8% APR and would negate the need for administration charges for instant payment to be paid by the borrower."*[37]

However, cross-subsidies may be avoided if the new maximum interest of 3% is charged on PL loans, reducing the loss made on these loans to £3,981. Taken cross-subsidies from profitable activities sold to new members into account, PL activities made a profit of £9,311. Thus, under the new rules, and charging a slightly higher monthly interest rate, which crucially is not estimated to have significant impact on delinquency rates "because the change in the repayment amount is minimal that it is unlikely to make a significant difference" (Transact 2013: 47), payday lending could be profitable. Still, the cross-subsidisation is problematic as they may not be realised for other credit unions that are less well established. Moreover, the cost of producing a PL loan may be higher for smaller credit unions with less efficient back-office functions.

Still, assuming delinquency rates to be as low as in the LMCU pilot study ignores that loans in arrears extended by credit unions, especially in England, have been increasing since the

[37] http://www.responsiblecredit.org.uk/uimages/File/Tackling%20the%20high%20cost%20credit%20problem,%20importance%20of%20regulatory%20databases%20final.pdf (p.70)

financial crisis. Moreover, the delinquency rate might vary considerably depending on the locality. In particular, given that 12% of credit union loans are in arrears in England according to BoE data (Table 6) and 28% of payday loans across the industry are in arrears (OFT)[38], the fact that only 6.3% of all PL loans advanced[39] in the LMCU/Transact pilot study are in arrears seems remarkable and may highlight that PL activity was particularly cautious and selective. Clearly, payday lending through credit unions brings with it considerable upsides and as suggested by ABCUL's[40] response to the consultation of the introduction of a price cap on high-cost short-term credit, high delinquency rates of payday loans advanced by payday lenders could be at this high level precisely because of the additional fees and irresponsible interest rates charged.

However, it remains questionable whether the additional risk taken on by offering payday lending is adequately priced. Indeed, considering that the interest income per three month loan given in the example is only £18, it would require more than five performing repayments to pay for the losses of one default half way through the loan period (Table 5).

Table 5: Illustrative cost-comparison of three month PL loan provided by credit union and payday lender (without additional charges)[41]

	Credit union	Payday lender
Loan outstanding	200	200
Loan duration in months	3	3
Maximum interest rate per month	3%	24%
Total cost of loan	218	344

Credit Union and CDFI partnerships:

Tim Hall[42] has highlighted that credit unions and CDFIs increasingly engage in partnerships. Leeds City Credit Union (LCCU) has a sister organisation "Headrow Money Line"[43] which is a CDFI expanding its market reach – similarly New Central Credit Union works with Heart of England Money in Coventry[44].

CDFIs are a middle ground in terms of cost of credit – above CUs but way below that of doorstep lenders and payday lenders.

[38] Office of Fair Trading (2013) *Payday Loans*. OFT 1481, London: http://webarchive.nationalarchives.gov.uk/20140402142426/http://www.oft.gov.uk/shared_oft/Credit/oft1481.pdf
[39] The amount of loans in arrears increases to 12% for new members
[40] http://abcul.org/filegrab/documents/4813d25186186418f50966aa46838d44/fca-hcstc-cap-proposals-response-from-abcul-280814.pdf
[41] Maximum interest rate for payday lender is based on 30 days at the maximum rate of 0.8% per day
[42] Dr Tim Hall, principal lecturer at the School of Law and Social Sciences, University of East London, and affordable credit campaigner.
[43] http://democracy.leeds.gov.uk/documents/s102547/High%20Cost%20Lenders.pdf
[44] http://www.newcentralcu.co.uk/partnerships/

Table 6: Illustrative cost-comparison of small loans at 1, 3 and 6 months

		Credit union		CDFI		Payday lender	
Loan		£500.00		£500.00		£500.00	
Interest rate per annum		42		100		292	
admin fees		2		20		20	
total repaid	1 month	£519.50		£561.67		£641.67	
	3 months	£554.50		£645.00		£885.00	
	6 months	£607.00		£770.00		£1,000.00	
TCC (%)	1 month	£19.50	3.9%	£61.67	12.3%	£141.67	28.3%
	3 months	£54.50	10.9%	£145.00	29.0%	£385.00	77.0%
	6 months	£107.00	21.4%	£270.00	54.0%	£500.00	100.0%

Note: Loans are capped at 100% of initial loan value; hence payday loans Total Cost of Credit (TCC) is lower ca £200 (or 40%) lower than it would be without the cap

The relationship is one that is required, because CU legislation limits interest rate charges to 3% a month which limits CUs ability to lend and adequately reflect risk – thus CDFIs can, and usually are being approached (by CUs) once lending at CU is out of the question. The relationship is mutually beneficial: borrowers get access to reasonably priced products; CDFIs get referrals from CUs and jointly CUs and CDFIs can push out PLs locally.

There are key differences between CUs and CDFIs:

- CDFIs, unlike CUs, do not have members and are run exclusively by members of staff not volunteers
- CDFIs cater for businesses as well as individuals
- Many CDFIs have been developed in partnership with housing providers or otherwise with a significant investment from the housing sector
- CDFIs are not limited to the interest that they can charge on loans unlike credit unions which are currently limited to interest rates charges of 42.6%.

Evidence that there is a need for community finance, in some way, has been quite forcefully made. The Community Development Finance Association (CDFA) has previously estimated that there is an annual demand for community finance of at least £3 billion from 8 million consumers.[45] Given the figures for how many Britons are either unbanked or under-banked (one estimate is 1.4 million and 4 million respectively[46]), and the estimate that some 7 million Britons consider payday lending businesses the lender of last resort[47], it is apparent that the stock of community finance is not yet enough to service the demand or need, despite the recent growth.

[45] http://www.cdfa.org.uk/wp-content/uploads/2013/01/Mind-the-Finance-Gap-summary-report.pdf
[46] ibid
[47] ibid

As noted previously in this paper, there has been an increased expectancy that credit unions fill a gap in ethical provision for consumer credit. This has most recently been made again in the aftermath of the cap on the cost of a payday loan which came into force on January 2, 2014. The Financial Conduct Authority conservatively estimated that around 160,000 customers previously serviced by the high cost credit industry would, as a consequence of tougher enforcement rules on the fair lending criteria that payday lenders have to submit to, find restricted access to such loans. A concerted effort by campaigners to advocate a build-up of community finance, including notably from credit unions, is in effect. A 2015 call by the campaigns organisation Citizens UK for example has suggested using fines from financial services institutions by the FCA to partly fund the advocacy and operations of community finance.

The challenge for credit unions is finding the ability to "scale up" and build up enough resource to service an increased demand for its loans products. This could pose significant difficulties given the way in which credit unions currently operate, particularly in the context of low-income communities. One credit union feasibility study found that in 2011 and 2012 around 12% and 15% of credit union loans, respectively, were made to low income borrowers, totalling less than £100 million to low income consumers over that period[48]. Another initial challenge therefore for credit unions is to operate more similarly to community banks or CDFIs, rather than informal loans and savings institutions.

This still leaves the problem of how credit unions tailor their service to underserved consumers in the areas they operate. This has become easier in recent times by the government's move to publish local lending data in 10,000 postcode areas. The UK Treasury announced in 2013 that it would be publishing the local lending data in agreement and partnership with the British Bankers Association (BBA) and the Council for Mortgage Lenders (CML). Sissons et al (2014), looking at the data being published, found that total personal lending tends to decline as the area's deprivation level increases (once adjusted for population size), while median personal lending per head of the adult population across Postcode Sectors in Great Britain in 2013 was £602, with lending per adult in the lowest 10 per cent of Postcode Sectors at around two-thirds of this figure or less. However on the actual data itself, the research concluded that there are "current limitations that substantially constrain analysis of area-based lending patterns"[49].

One major problem is that the data release as it currently stands is voluntary. The participating lenders for the first year, which include Barclays, Lloyds Banking Group, HSBC, RBS, Santander UK, Clydesdale & Yorkshire Bank and Nationwide Building Society, made up only 60 per cent of unsecured personal loans, and 30 per cent of the total national unsecured credit market – which demonstrates the need for more financial institutions to be brought in as participants of data disclosure. Pressure should be put on the BBA and CML

[48] http://www.miningtheseem.org.uk/wp-content/uploads/2013/07/credit-union-feasibility-study-report.pdf

[49] Sissons et al (2014), 'Tackling Financial Exclusion: Data Disclosure and Area-Based Lending Data', Coventry University. Available at: http://www.coventry.ac.uk/Global/08%20New%20Research%20Section/Researchers/CCSJ/FINAL_Full%20Report.pdf

to tighten their rules for disclosure and a concerted effort should be underway to invite more financial institutions to be transparent with their lending data in order that smaller financial institutions, better able to serve low-income communities, have an opportunity to identify unmet need in the local community.

Another measure to consider is a more formal referral system between banks, credit unions, and CDFIs. In 2013 it was stated that the British Banking Association was developing such a system[50], but additional pressure needs to be put on banks to devise a formal referral system which operates on the basis that when/if a bank doesn't wish to serve a particular consumer or feels they would be better serviced by a smaller institution for loans and savings products, a formal route to seeking out a credit union or CDFI is offered as an alternative. Such a system could be achieved voluntarily, where we leave it to the particular bank's discretion whether or not to carry out referrals and act as an conduit between the consumer and the community financial institution, or it could be statutory as with the letter of the law of the Community Reinvestment Act or Responsible Banking Ordinances in the US.

[50] http://www.civitas.org.uk/pdf/CreditUnions.pdf (p.25)

Introduced in 1977, the Community Reinvestment Act (CRA) was established upon the realisation that many banks had been indirectly discriminatory towards certain communities populated with low-income and/or large numbers of ethnic minorities by underserving them – a practice known as redlining. Under the CRA banks were encouraged to help meet the needs of borrowers in all parts of their communities, and still are, including among low-income households and areas of depravation, while failure to do so from 2002 could result in the Office of the Comptroller of the Currency (OCC) doing one or both of the following: a) ordering that a bank's interstate branches be closed down, b) not permitting the bank to open a new branch in that state unless it was proven and demonstrated to the OCC that it will meet the needs of all in that community (though enforcement of these rules have come under scrutiny). Following on from the CRA, Responsible Banking Ordinances are a specific evaluation guideline which banks must complete in order to make their investment in a local community more transparent in the cities where this has been adopted, including Boston, San Diego, Los Angeles, Dayton, New York, Philadelphia, Pittsburgh and Cleveland. The information that needs to be disclosed in full, from all banking firms operating in a given City, are the following:

- Residential lending information;
- Small business lending information;
- Community development loans and investments;
- Branches and deposits information;
- Consumer loan data;
- An affidavit by an authorised officer;
- A CRA evaluation;
- Copy of branch closing policy;
- Information regarding number of minorities, females and city residents employed by the depository as loan officers/senior staff etc; and
- Any additional information requested at a local level.

Clearly these are measures that require more government intervention to achieve them, and such measures certainly shouldn't be ignored. But waiting for coordinated legislation for the betterment of community finance is only one option. What the future of credit unions needs is an approach taken by credit unions themselves, as well as their advocates inside them, via trade associations, and externally with supporters and campaigners for alternative financial services. The final part of this report will discuss what more can be done by credit unions themselves to improve their situation.

Section 5: Recommendations: What can credit unions do?

Apart from the legislative and regulatory reforms that are required to safeguard the future of credit unions, there are some things a number of credit unions and/or the sector can do collectively to improve their situation. Below we are listing a selection we think could provide momentum for the sector:

1) Produce an effective referral system.

Situations of credit unions members change – they may move geographically or change jobs which means they may fall outside the common bond. Instead of asking them to find a new credit union themselves, it would make sense for credit unions to recommend possible options (that should ideally offer similar services and terms) and then to move assets across in a more automated fashion. Doing so would retain credit union members at the level of the sector securing its long-term sustainability. Given the fact that the "new" credit union will financially gain from such a move, a referral fee could be awarded to the "old" credit union to cover costs and incentivise those referrals.

2) Find new sources of income.

Given the declining loan to asset ratio across the sector, credit unions need to find new sources of income. One way of doing this is by building up partnerships with key organisations operating within the common bond, as recently happening with universities in London and Northampton. Alternatively, payday lending may prove a useful avenue to increase the level of lending locally if this can be done in a sustainable fashion (see the next three points).

3) (Partial) funding for payday loan initiatives provided by mainstream banking.

This idea follows the American example in which mainstream banks fund credit union activity in neighbourhoods they do not provide services in. Given the fact that mainstream banks financially exclude those on low or now income in the UK in a similar fashion, the likes of Barclays, Lloyds and others should be held accountable. The Church of England's public profile could support this endeavour very effectively. One way of doing so is asking them, or even legally requiring them, to support the campaign to alleviate poverty by enabling credit unions to offer alternatives to high-cost payday loans. Funding could be awarded to cover shortfalls (this needs to include a mechanism to control for moral hazard) and/or to implement "sophisticated" credit rating tools that can be applied in bank, taking into account financial and non-financial circumstances.

4) Create a market for credit unions and CDFIs to jointly fund payday loans.

By creating a market in which credit unions and CDFIs can syndicate on lending to (higher) customer groups, they would be able to more effectively tackle over-indebtedness by reducing the cost for those requiring payday loans. Doing this as a syndicate (two or more companies involved in one or multiple loans) would allow financial gains and risk to be shared across a number of institutions. Moreover, it would enable credit unions with a common bond that has little requirement for those products to tap in the market, whilst enabling those operating in areas where there is high demand to up-scale their involvement and cater for the need, whilst limiting exposure. Clearly, appropriate ways of assessing mechanisms to limit risk taking and thus prevent reckless lending would need to be developed. An additional upside could lie within financially educating repeat customers, thus over time, potentially reducing demand for high-cost short-term loans.

5) Strengthen ties with CDFIs.

The link between credit unions and CDFIs should be an option that could prove lucrative for both parties involved. Not only could they serve a particular section of society based on their risk appetite by effectively recommending high-risk borrowers to CDFIs; but CDFIs could likewise recommend customers to join credit unions, giving them access to effective finance and building up their financial literacy over time. Both moves are likely to increase the profile over time, whilst keeping activity within the remit of the organisation's expertise.

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The report's publication is part of a series of activities designed to bring academics, think tanks, civil society and activists together to develop viable solutions to craft an alternative politics of debt across the UK. The endeavour is funded through the Economic and Social Research Council (ESRC) with the intent of mobilising different forms of expertise to facilitate new forms of social innovation.

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