

Memo

To: Breckland District Council – Scrutiny and Overview Committee
From: Chris Mole – Chief Executive
CC:
Date: 16/11/2022
Re: An introduction to Credit Unions and ESLCU


Introduction

Credit Unions are volunteer led membership cooperatives that have the primary purpose of promoting saving and to provide an alternative source of credit for people at risk of borrowing from high-cost lenders.

Credit Unions are not charities but are profit sharing social enterprises. We have a commitment to being ethical, responsible, and committed to furthering the interests of our members.

A typical community credit union loan would be £500 lent at 3% per calendar month on the declining balance of the loan over a 52-week term at £11.49 per week. Interest charged on this loan would be £97.19.

Below is a chart showing some of the current alternative providers.

Company	ESLCU	Morses Club	LoansatHome	Loan Shark
				
Loan	£500	£500	£500	£500
Term	52 weeks	52 weeks	34 weeks	unspecified
Repayments	£11.49 pw	£18.75 pw	£25.00 pw	No written agreement.
APR	Max 42.6%	475.00%	466.40%	Who knows?
Interest	£97.19	£475.00	£350.00	An arm and a leg
Total Repayable	£597.19	£975.00	£850.00	Cost to your family: could include physical threats and intimidation
How much more!		£377.81	£252.81	

Wider Picture

The credit union movement is global with millions of members worldwide and very high levels of membership in the Caribbean, Australia, North America, and the Republic of Ireland. For example, in Canada, 75% of citizens are members of a credit union and the credit union sector holds assets of \$160 bn.

United Kingdom

In the UK penetration is just 3% of the population. Here, as elsewhere, credit unions fall into two groups: employer-based credit unions and community-based credit unions. Some community credit unions have payroll members, and some employer-based credit unions have widened their common bond to encompass local communities.

Credit Unions vary significantly in size from small credit unions with 500 or fewer members through to the UK's largest which is Glasgow Credit Union with 55,000 members.

Credit Unions are regulated by both the Financial Conduct Authority and the Prudential Regulation Authority, and all are required to be members of the Financial Services Compensation Scheme.

Credit Union legislation was introduced in the 1970s as the Credit Union Act and was updated by the Cooperatives and Community Benefit Societies Act 2014. One of the main features of the legislation is to limit the maximum interest the credit unions can charge to 3% per month (APR 42.6%).

Credit unions were originally only able to charge a maximum of 1% interest monthly, which was increased to 2% monthly around 2010. Larger and employer-based credit unions often still charge lower rates of interest as their membership is typically in stable employment and there is a reduced incidence of default by borrowers. Most credit unions will offer a range of interest rates depending on the size of the loan.

The largest credit unions sometimes offer a wider range of savings and loan products including ISAs and Mortgages.

All credit unions are required to maintain a minimum capital to asset ratio for the protection of members' assets and this is 3% for smaller credit unions and 10% for those that are larger.

The number of credit unions reporting to the Bank of England is falling due to a mixture of failures and mergers. It is mostly smaller credit unions that are struggling with regulation and the recruitment of directors that either withdraw from the sector or become insolvent. Smaller credit unions do not always have the capacity to adapt to the digital agenda.

Most credit unions are members of one of three trade bodies, the largest being the Association of British Credit Unions (ABCUL).

Eastern Region

Credit Unions developed later in the Eastern Counties than other areas, most being formed around the end of the nineties and early in the new millennium.

There are three credit unions in Norwich, two in Ipswich and none are based in Cambridgeshire. There are also credit unions in Essex, Hertfordshire and Bedfordshire. Eastern Savings and Loans is the only credit union which covers more than one county, and we have members in Norfolk, Suffolk, Cambridgeshire and North and Central Essex. There are members of some employer credit unions in the region, for example many police officers are members of either Serve and Protect CU or Number 1 Copper Pot CU.

Eastern Savings and Loans Credit Union

Eastern started life as Ipswich Credit Union in 2002, becoming Ipswich and Suffolk CU 5 years later. In 2104 we merged with Cambridge City Credit Union and the following year with Norfolk Credit Union.

We currently have 3,700 members, £1.7 million on deposit and a loan book of £825k. Our capital to asset ratio is 9.3% and we declared a surplus of £42k on the year ending 30th September 2022.

We have 7 volunteer directors and a staff of 6 offering 9.30 to 16.30 telephone access and fully online loan application and membership application processes. We have found that members increasingly choose to access their accounts online and initiate their own transactions. We are currently investigating the deployment of a mobile phone app.

90% of our lending is small loans of around £500 to individuals who would struggle to secure credit elsewhere. Most high street banks are not enthusiastic about lending sums below £2,000 and when they do their rates of interest increase significantly.

Last year we received over 4,000 applications and approved 1,243 of these. Our ethical approach to lending requires us to consider the affordability of loan repayments and we look closely at the applicant's income and expenditure (mostly using Open Banking). We also look at an individual's credit history (we use TransUnion) and will not lend to individuals who are overindebted, who have Individual Voluntary Arrangements, Debt Relief Orders or who are recent bankrupts. We do however lend to individuals with low credit scores if there is evidence they are making efforts to pay off their existing debts.

ESLCU is also able to offer Pay-As-You-Go accounts and debit cards. The Engage card is a product provided only to credit union members and we have around 300 members using this facility. This is a financial inclusion tool as many of our Engage users are unable to open even a basic bank account and with this service, they are able to use a contactless enabled card, in shops and online. The account enables them to manage direct debits and standing orders if they wish.

In their formative years credit unions often operated volunteer outreach "Collection Points" as a means for the collection of small deposits and repayments. This service has faded due to lack of use with many volunteers finding they regularly had no visitors. These have been replaced by PayPoint cards which members can use in Post Offices and shops.

We have taken paper out of our processes by using Open Banking to replace paper copies of bank statements and payslips and we use electronic document signature to replace wet signatures on Loan Agreements. This digital approach to our services is popular with people who undertake most of their transactions through their mobile phone and 98% of our loan applications are submitted through our web forms. We offer paper-based forms on request.

Partnerships

Most credit unions have partnerships with local authorities and other public bodies.

Credit unions provide their partners with the ability to offer credit for the purchase of goods and services where the third party client (usually a tenant or resident) does not have the funds to cover an essential purchase at a particular time. Examples include Rent-in-Advance and tenancy deposit schemes and home energy generation and conservation schemes. These schemes are usually underwritten by a grant to provide a loan fund and/or grants for the reduction of the rate of interest to be charged on a loan.

ESLCU currently has partnerships with Broadland District Council for RiA and Deposit and we have recently offered loans for Solar Together. In Suffolk we have offered 'Green Loans' for nearly a decade. We previously had a Rent Deposit and a small loans scheme, but these did not secure a high level of take up.

Credit unions struggle to maintain some of these partnerships due to changes in personnel in partner organizations.

Credit Unions have a long history of working with the Illegal Money Lending Team (England) and are seen as the best alternative in areas where loan sharks have been operating.

Summary

There are credit unions already providing services in Norfolk; the sector is consolidating, and few new credit unions have come into being in the past few years.

Credit Unions provide an essential alternative to high-cost lenders, although the number of legal alternatives is reducing due to regulation.

The digital agenda is critical to meet current member expectations and online marketing is essential to raising awareness of credit unions.