



RURAL CREDIT UNION PROJECT

Summary

May 2017

Tackling rural poverty through improved access to fair finance.
A partnership of Germinate: Arthur Rank Centre; the Plunkett
Foundation; the Church of England; and the Association of
British Credit Unions Ltd.

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Introduction

The work has been conducted by Janet Wilkinson, independent project consultant working for Germinate: The Arthur Rank Centre (G:ARC) and the preparation of the report has been overseen by Jerry Marshall, CEO, G:ARC.

This project has been steered by G:ARC (Jerry Marshall), Plunkett Foundation (Aimee Evans), the Archbishop of Canterbury's Task Group on responsible credit and savings (Tom Sefton and Polly Taylor), The Association of British Credit Unions (ABCUL) (Matt Bland) and Toynbee Hall (Rebecca Simpson) with backing from the Methodist Church and United Reformed Church.

G:ARC is committed to helping create sustainable, vibrant rural communities and has considerable concern for the 900,000 rural households living in poverty, those who feel isolated, and families experiencing difficulties. The centre offers support directly through innovative training programmes and free written resources and works to equip the UK's 13,000 rural churches to bring physical, social and spiritual transformation to communities. The Church of England, Methodist Church and United Reformed Church are all partners of the G:ARC.

The Plunkett Foundation has, since 1919, been helping rural communities take control of the issues affecting them and sees self-help as the most effective way to tackle rural needs, create social change and enrich life in the countryside. The Foundation's main focus is to support communities in establishing a wide range of co-operatives and community-owned enterprises.

The Church of England has the largest following of any denomination or faith in Britain, with a physical presence in 16,000 communities and 1.7 million regular attenders. The Church is very concerned about the social and emotional burden of debt in the UK and is supporting and promoting the work of credit unions which encourage more responsible borrowing and saving.

ABCUL is the largest credit union trade association in the UK providing support, information and services directly to its members, working with the Department of Work and Pensions to increase access to credit unions through the Credit Union Expansion Programme and providing representation to governments, regulators, the media and other stakeholders on behalf of the UK credit union movement.

Toynbee Hall works to relieve need and to address the causes of poverty and distress with a special focus on the East End of London and a leading UK-wide approach to building financial capability and access to fair financial services.

Funding for the project was provided by Comic Relief, Faith in Action and G:ARC and their supporters.

Project summary

This research project aimed to find ways to help tackle rural poverty through improved access to fair finance and through education. A key hypothesis was that one possible solution would be the provision of low cost physical access points to credit unions through volunteer run services through rural churches, community shops or other community groups.

The initial research found that:

- Very few use these services where they have been tried, for a range of reasons especially visibility
- Where they exist they tend to be better at generating savings rather than borrowing while many Credit Unions have a particular need to find borrowers rather than savers
- Credit Unions only provide one part of the needed spectrum of financial provision; there is a need for fair short term ('payday') finance with quick access and long term finance.

Overall, the project had eight key findings, each with related action recommendations.

1. There is a clear target audience for providing direct help in rural areas.
 - Families should be the prime target audience for support
2. High cost finance needs to be better understood to provide alternative solutions.
 - A range of alternative solutions to high-cost credit needs to be provided in rural areas.
3. There is a low awareness of existing sources of help.
 - Existing sources of help need clearer signposting and promotion.
4. Credit unions play a part in offering fair financial services in rural areas but do not offer alternatives for all types of high cost lending.
 - There needs to be access to other fair finance options in addition to credit union products to provide a complete solution to rural needs.
5. Credit union technology and increased banking facilities at Post Offices in 2017 will both increase rural access to fair financial services.
 - The need for volunteer led physical access points in villages is declining and a different approach is needed.
6. Rural Post Offices provide fair financial products and banking services, accessible to the great majority of rural locations.
 - Clearer signposting and promotion is needed.
7. Alternatives to high cost lenders are starting to emerge.
 - Local collaborations as well as new national offerings are starting to tackle some of the key areas of high cost credit.
8. Gaps in rural access to fair financial services remain and will not necessarily be met by physical rural service points.
 - Rather than wholesale credit union rural access points there is a need for online access to a complete range of services promoted in rural communities.
 - There is potential to use the Sheffield Money platform to develop a national 'Rural Money' offering.

Background to the project

In the current economic climate households nationwide are finding it more difficult to manage their finances with increased costs and stagnant wages. Research by the Children's Foundation in 2016 found that over 62,000 families in England and Wales are spending more on overdue bills than on food¹. Just one unexpected cost can push families into problem debt; 46% of families who had their car, central heating or appliances break down in the last 12 months had to borrow money to pay for a repair or replacement.

People in rural areas experience the same financial pressure as their urban counterparts including hidden poverty and financial exclusion. Many imagine rural living to be idyllic, but over 1.3m people live in poverty, often hidden with predominantly wealthy areas. Rural poverty is often hard to escape due to higher living costs, lower wages and fewer permanent jobs.²

Financial exclusion to mainstream financial services is also commonplace. Like their urban counterparts, rural residents are often turning to payday loans and high-cost credit to fund emergency needs and day to day living³. Payday loans are expedient but expensive. Advertised interest rates are typically around 1,750% APR and amongst other concerns payday loans can feature disproportionate charges relative to the sum borrowed, a lack of transparency regarding fees, insufficient affordability assessment and the use of rollover where borrowers are encouraged to extend the term of their loan⁴.

Project aim

This purpose of this project was to research, examine and test ways in which credit union services could be extended into rural areas through partnership working to provide greater access to the fair financial products and financial education. Learning from a number of pilot activities could then be shared with rural communities across the UK to increase access to fair financial services rurally.

Credit unions can be one long term alternative to high-cost credit as they offer products suited individual needs with more affordable interest rates; credit unions are not for profit businesses offering savings and loans; they are set up, owned and controlled by co-operative communities. The Department for Work and Pensions has been directly and financial supportive of credit unions in the UK as they see credit unions as a key way to help those on low incomes⁵.

¹ <http://www.childrenssociety.org.uk/news-and-blogs/press-releases/60000-families-spending-more-on-repaying-problem-debts-than-on-food>

² Department for Environment, Food and Rural Affairs (National Rural Proofing Guidelines, July 2013)

³ Consumer Finance Association (Credit Crunched: A commentary on the UK's changing attitude towards borrowing and spending, May 2013)

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/362689/Problem_debt.pdf

⁴ See: <http://www.which.co.uk/money/credit-cards-and-loans/guides/payday-loans/>

⁵ Department for Work and Pensions (DWP Credit Union Expansion Project, Feasibility Study, May 2012)

Context for the project

A key framework for the first phase of the research was to understand the context of rural UK to examine practical solutions that had the potential to work in all types of rural settings. Rural locations are defined as populations up to 10,000 ranging from hamlets (clusters of houses without a church) to villages of a few hundred to several thousands and administrative centres in small rural towns⁶. Rural life is not homogenous; the experience of someone living in a rural town of 10,000 with potential access to health, education and financial services is significantly different to someone living in a hamlet or small village of 500 people or less. Life in rural Cumbria, Cornwall, Norfolk or the Scottish Highlands and Islands may see a profusion of services aimed at second home owners and visitors in high season but may provide little in the way of day to day resources for year-round residents.

Some larger rural locations have access to banks, building societies and support facilities such as health centres, supermarkets, libraries, food banks and the Citizens Advice Bureau although it is recognised that large organisations such as financial and health services have reduced their rural presence in the last 20 years. In smaller rural areas communities work together, often on a volunteer basis, using community (and church) buildings to provide central services and facilities for all residents; these may include grocery and general shops, a Post Office, village pub, community cafes and doctors' surgeries but, equally, all of these services can be missing from a rural location, particularly in sparsely populated areas of the UK and those rural areas on the fringes of urban conurbations.

At the start of the project it was anticipated that rural churches and community cooperatives (typically village shops and pubs) had the physical space and location in village and small town locations to offer credit union service points in standard and innovative forms.

The project had two core questions from the start that have run as themes through all phases of the work and have aided decision making regarding pilot activity and eventual recommendations for next steps.

*Who exactly is this project trying to help?
What it is that we want to help rural residents with?*

Rather than see extension of credit unions into rural environments through access/service points as the sole answer to these questions, across a number of phases this project looked at the different aspects of rural life and types of high cost finance that individuals were accessing, considered who was accessing these products most often and looked at ways in which lower cost alternatives could be provided (some of which could come from credit unions).

⁶ <https://www.gov.uk/government/collections/rural-urban-classification>

Findings

High cost lending is not homogenous. Types of borrowing (rurally and in urban areas) can be broken down into a number of different areas:

	Short-term 1-30 day loan	1 – 12 month loan	12m – 5 year loan	5+ year loan	Purchase of high ticket domestic goods
Typical amount of loan	Small loans typically <£300	Small loans From £100 - £1000	Medium sized loans From £750 to £7,500	Larger loans – typically over £5000	Small loans £300 - £500
Typical purpose of the loan	Covering an emergency or a gap between expenditure and expected income	Covering irregular or annual expenses – Christmas, school uniforms, unexpected funeral travel, holidays	Dealing with a bigger expense – funeral costs, replacement or second vehicle purchase needed for work, replacement of kitchen, Debt consolidation	Home improvements, replacement purchase of a vehicle, Debt consolidation (usually loans up to £25,000 without requiring security over property)	Replacement of existing white goods or purchase of new ones. Purchase of baby durables.
Higher cost credit	Pay day lender	High cost lender	High cost lender	Loans not usually offered over this time period	Rent to buy stores:
Lower cost credit	Savings, Credit card (can be at low rates or with interest-free periods) Overdraft facilities	Savings Credit card (can be at low rates or with interest-free periods) Overdraft facilities	Savings Bank or financial services company loan Credit Union loan (can be at low, base rate linked rates)	Savings Bank or financial services company loan	Savings Credit card Overdraft In store finance and 'interest-free' credit options
The need: avoiding high cost lenders	<i>Lower cost short term loans that cover the costs of making the loan and help the borrower to repay and build their credit rating.</i>	<i>Lower cost short term loans that cover the cost of making the loan and help the borrower to repay and build their credit rating.</i>	<i>Lower cost medium term loans that enable individuals to have the opportunity to repay and repair their credit status.</i>	Not a key requirement for those who are financially excluded	<i>Lower cost short term loans that cover the cost of making the loan and help the borrower to repay and build their credit rating.</i>

Summary of eight key findings and action points

	Key finding	Action point	Summary of key points
1	There is a clear target audience for providing direct help in rural areas	Families should be the prime target audience for support	<ul style="list-style-type: none"> ◦ Whilst not all families are financially excluded many are feeling financial pressure and accessing high-cost credit; families are likely to experience a drop in household income after the birth of a child at the time of increased expense. ◦ Rural families have additional pressures from added transport costs and infrequent public transport associated with living rural locations. ◦ Families are easily identifiable in every rural location with the opportunities to work with community leaders and organisations to identify those who specifically need help.
2	High cost finance needs to be better understood to provide alternative solutions	A range of alternative solutions to high-cost credit needs to be provided in rural areas	<ul style="list-style-type: none"> ◦ High cost finance is not homogenous; there needs to be wider understanding of the different types of high-cost credit and the niche/segment each occupies to understand how spiralling debt arises for individuals. ◦ Highly commercial operators in this market are clearly differentiated and each focuses on a particular approach to recruiting new borrowers. ◦ There is learning from high-cost lenders approach to providing fair alternatives. They are clear about target demographics, advertising location/intensity and delivery channel mechanisms and this must be embraced by fair finance alternatives to be effective.
3	There is a low awareness of existing sources of help	Existing sources of help need clearer signposting and promotion	<ul style="list-style-type: none"> ◦ Considerable financial education exists at the moment in online and media form from a variety of government agency sources, through the BBC and press. ◦ There is a lack of direct 1-1 help and where this exists it is often accessed at points of crisis. ◦ There is no specific form of financial education or commentary that speaks an understanding of life in rural locations.
4	Credit unions play a part in offering fair financial services in rural areas but do not offer alternatives for all types of high cost lending	There needs to be access to fair finance options in addition to credit union products to provide a complete solution to rural needs	<ul style="list-style-type: none"> ◦ Credit unions provide alternatives to <i>some forms</i> of high cost lending but not all; financial sustainability for most credit unions comes with loans that they make between £750 and £2000 over 12 – 36 months. ◦ Many credit unions provide smaller loans to new and existing members (at a loss) and allow re-borrowing part of the original sum several times a year once the loan is partially paid off; other credit unions require savings prior to borrowing and to partially secure borrowing. ◦ Many are happy to offer consolidation loans to those experiencing debt at significantly higher levels of interest to save the borrower money and help them become financial more secure.
5	Credit union technology and increased banking facilities at Post Offices in 2017 will increase rural access to fair financial services	The need for volunteer led physical access point in villages is declining and a different approach is needed	<ul style="list-style-type: none"> ◦ It is often uneconomic for Credit Unions to provide face to face services in rural locations; each of the 325+ credit unions have a different approach and strategy to providing services in rural areas within their common bond. ◦ From 2017 the Credit Union Expansion Project will provide many credit unions with the IT infrastructure to expand their digital/internet based offerings to rural areas. ◦ From Q1 2017 the Post Office has made it possible to carry out a wider range of banking transactions in all rural Post Office branches.
6	Rural Post Offices provide fair financial products and banking	Clearer signposting and promotion is needed	<ul style="list-style-type: none"> ◦ The Post Office is already a provider of fair financial services in rural locations and plays a central role in access to cash and banking transactions in those areas for individuals and businesses. ◦ The Post Office offers fairly priced loans from £1000 at 17.9%.

	Key finding	Action point	Summary of key points
	services, accessible to the great majority of rural locations		<ul style="list-style-type: none"> 90% of the UK population live within 1 mile of the Post Office.
7	Alternatives to high cost lenders are starting to emerge.	Local collaborations as well as new national offerings are starting to tackle some of the key areas of high cost credit	<ul style="list-style-type: none"> Fair for You provides a direct, fairly priced, not for profit alternative to rent to own retailers available across to all rural locations across the UK. Responsible Finance are a membership organisation providing a searchable online database of fair and affordable loans UK-wide as alternatives to high-cost lenders. Sheffield Money acts as an intermediary for a range of providers offering lower cost alternatives to high-cost credit and has saved residents >£20m in interest since launch.
8	Gaps in rural access to fair financial services remain and will not be met by physical rural service points	Rather than wholesale credit union rural access points there is a need for online access to a complete range of services promoted in rural communities. There is potential to use the Sheffield Money platform to develop a national 'Rural Money' offering	<ul style="list-style-type: none"> There is no rurally focussed alternative to high-cost lenders that understands the differences of rural life: increased transport and living costs, reduced local employment opportunities and possible seasonality of income. <i>Lower cost</i> alternatives to <i>all</i> high-cost credit types are available in the UK; some may be limited to urban areas and awareness of them can be low. Those organisations, churches and individuals who work 1-1 with others report a high degree of success in helping people manage debts and borrowing from high-cost lenders and there is scope to offer a higher level of 1-1 help to those experiencing financial difficulty.

Rural Money

There is potentially considerable synergy from a partnership between The Arthur Rank Centre and Sheffield Money to create a 'Rural Money' (RM) platform to offer a range of fair financial products to those in rural areas. The end product would meet much of the original needs of the rural credit union project, i.e. providing easy and discreet access to a range of fair financial products while offering education, guidance to the most appropriate product, and sources of help where required. The Sheffield Money experience suggests that even the most disadvantaged groups are able to access the services provided over the Internet especially if there is telephone support.

Sheffield Money are interested in expansion to reach sufficient scale to be sustainable, are able to provide a unique internet platform and already have many of the partner organisations in place (though others will need to be added). The Arthur Rank Centre is committed to supporting flourishing rural communities, has unique access to rural networks through 20,000 churches in the UK, through G:ARC eNews and magazine subscribers; and through a wide range of partners including rural agencies and organisations such as Farming Community Network, Plunkett Foundation, National Farmers Union, Tennant Farmer Association, the Royal Agricultural Society of England, the Rural Coalition and Rural Services Network, Rural England, ACRE, LEAF, Addington Fund, Churches' Rural Group and church denominations.

We therefore propose, as a main outcome from this research project, that the G:ARC and Sheffield Money work together to set up a "Rural Money" (working title) web site with a rural branding and 'front end' and essentially the existing 'back end,' together with additional partners offering a national fair finance product where required, to create a service specifically targeted at the rural community.

This service would be part of the Sheffield Money holding company, Finance for Sheffield Ltd (a Community Benefit Society) which is to be renamed to indicate the wider remit (for example, Finance for Communities). A rural network would be formed by the G:ARC, to provide a solid basis of support and publicity. This network could help promote the service and refer potential users without the large advertising and promotions budgets of commercial high cost lenders; and provide financial education on what high cost lending actually is and the benefits of alternatives such as Rural Money. The network would agree members of a Rural Money Advisory Board, who would work with the holding company.

Sheffield Money would develop the website front end, find appropriate partners in order to offer the range of products required, including savings products. The web site would also be a vehicle for publicising debt advice and sources of help for those with debt problems requiring intervention.

There is an initial one-off cost for this development, after which the expectation is that Rural Money will be self-financing. A detailed costed proposal has been prepared and funding is to be sought.