Executive Summary

The Impact of Credit on the Financially Excluded

Affordable credit is in the news. The aftermath of Farepaks collapse has brought attention to the pressures facing those who need to borrow but whose only recourse is often to use doorstep lenders at exorbitant rates. The House of Commons adjournment debate on 5th December highlighted yet again the evils of doorstep lending and the way in which those who can least afford it, have to pay the highest rates. Part of the solution is to expand the role of Credit Unions and Community Development Finance Institutions (CDFIs) as locally based not for profit organisations offering affordable credit. But how effective are they as an alternative to predatory lending?

The Bill Sargent Trust commissioned WM Enterprise Consultants to carry out a study of the impact on customers borrowing from both types of organisation operating in the Portsmouth area. The study canvassed the views of a large sample of the existing customer bases of South Coast Money Line (SCML) and Portsmouth Savers Credit Union (PSCU) to gather information around the circumstances which led them to seek help and the impact on their lives as a result of the support received.

SCML was established in 2000 as the first CDFI and has now lent around 2m to over 2,000 people. Although based in Portsmouth, it now operates along the central south coast. PSCU began trading in 2001 and since then over 4,200 people have opened accounts. PSCU has lent a total of over 2m to local people

Completed in October 2006, the study looked at the longer term impact of their lending on the lives of over 300 of their customers. Over 80% of customers surveyed felt that receiving loan finance had had a positive impact on their lives in terms of being able to afford to live. Over 65% of customers considered that their experience of borrowing money from these organisations had increased their confidence in applying for future finance.

The study has also looked at how these two types of organisation differ. Do they each have a distinct role and how effective are they at overcoming the barriers which many people face when trying to accessing finance?

The research analysed the customer profiles for the two organisations. Although broadly similar, there was a clear difference in that SCMLs customers included higher proportions of: borrowers who are female; people who were unemployed; people claiming benefits; and people not using any other financial services. Also, SCML customers were more likely to have experienced barriers in accessing finance.

The study also looked at the experience of a sample of over 80 people who have used doorstep lenders. Their main reasons for using doorstep lenders were: convenience, needing money quickly, and not knowing where else to go. Just over half felt that this loan had had a positive impact on their life, a considerably lower proportion than those receiving loans from PSCU and SCML.

Overall, the study findings highlighted:

- the wide ranging benefits of community based lending by credit unions and CDFIs
- the need to further promote these as an alternative to
- doorstep lending.
- the challenges as well as opportunities for these organisations marketing strategies
- the need for collaboration with social landlords to promote their services.

The study findings were discussed at a seminar of 30 organisations local to S E Hants. The seminar recognised that local agencies providing different services to people who are financially excluded were generally good at signposting customers to appropriate sources of help. However, there was clearly a need for a more rigorous feedback mechanism that would track the progress of clients from each referral organisation in acquiring loan finance. This would require more effective referral protocols between local agencies. This will now be followed up through the recently launched South Hampshire Community Banking Partnership (CBP).

The seminar also confirmed the studys conclusion that there is a lack of provision of debt & money advisors. The Community Banking Partnership has already succeeded in drawing in funding to extend the provision through the local CAB. However this is a long way short of the potential demand and a further task for the local CBP will be to secure funding to extend these services.

The Bill Sargent Trust carries out research on issues relating to poverty and homelessness in the SE Hants area. It aims to influence policy at both the local level and wider. It operates as a member of Portsmouth Housing Association Group and is named in recognition of one of the associations founders.

The Trust has carried out research into a range of topics over the last ten years. This has included studies into the health needs of homeless people; hidden poverty in areas of affluence; housing and related needs of asylum seekers, and pressures on affordable housing in the local housing market.

The Trust has also held a series of Bill Sargent Memorial Lectures. Rev David Hope gave the first lecture in 2001 when he was Archbishop of York and he spoke about the church's engagement with social issues. The second lecture, by Ted Cantle, discussed social cohesion and its relevance to communities such as Portsmouth. The third lecture by Bob Paterson in 2004 identified financial exclusion as a significant social challenge for the 21st Century and sowed the seeds for the most recent research project.