

PAYDAY LONDON

An eight point plan to
tackle debt problems and
boost credit unions
in the capital

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Introduction by Stephen Knight AM

Reports of payday loan usage and industry malpractice, rising levels of debt and real-life accounts of financial trouble due to high-cost credit have featured frequently in the press and public debate since the financial crash. However it is only in recent months that government, and potential industry competitors, have come forward with steps to alleviate the problem.

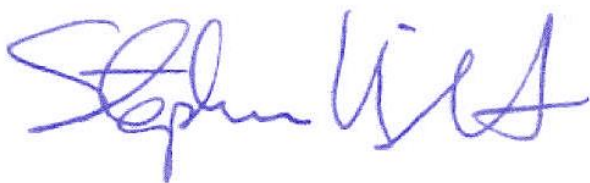
Recent government reform of the industry is welcome. But for many it will be too little, too late. Last year the debt advice charity StepChange found London to be the city in the UK whose residents suffered the biggest rise in average payday loan debts, with the average payday loan debt of the charity's clients in the capital rising from £1,296 in 2011 to £1,859 in 2012.

Problems experienced by payday loan borrowers have shone a light on credit unions: community-owned financial institutions which promote saving and debt management and whose interest rates are capped.

Across the UK, there is wide all-party support for the credit union sector. The Conservative/ Liberal Democrat coalition in Westminster has boosted funding to the sector, as has the Labour government in Cardiff. The SNP government in Edinburgh has launched a campaign encouraging credit union membership. And numerous local authorities of all colours across the country have long supported their local credit unions.

Unfortunately London's credit union sector has received no such support from its Mayor and yet it is in London where the sector is struggling the most. Credit union membership in London is half the rate of the rest of the country's and even further behind the rates of other large urban areas such as Glasgow or Merseyside. The Mayor's support for the sector has been at best tokenistic and very far behind the levels of support and promotion that governments in Westminster, Edinburgh and Cardiff have undertaken.

This report makes a number of recommendations to the Mayor about how to alleviate problems caused by payday lending and boost London's credit union sector. It is high time the Mayor understood and monitored problems caused by payday lending in the capital and invested in and promoted credit unions as ethical, community-focused financial institutions for Londoners on all incomes.



Stephen Knight AM
Liberal Democrat London Assembly Economy Spokesperson

Low-Income Borrowing in London

Borrowing is a reality of life for people on a low income and for many it is the only way of managing cash flow and funding major purchases.

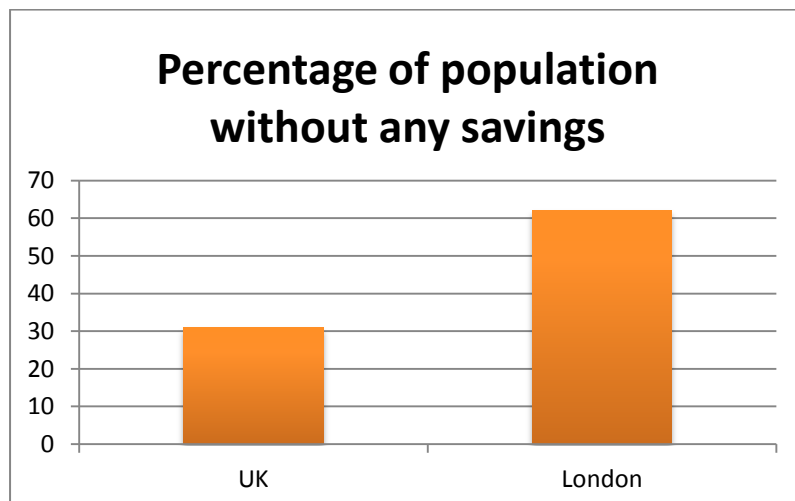
While 31% of the UK population¹ has no savings, this figure almost doubles in London to 61%.²

57% of low-income Londoners³ are credit users. Three quarters of Londoners would find it difficult or impossible to raise £200 – £300 in an emergency without borrowing.⁴ Compared to the rest of the UK, low income Londoners are more reliant on borrowing from friends and family (at 19%), which is almost as popular as overdraft finance (22%) and credit cards (21%).⁵

From 2006-2011, 39% of low-income Londoners, rising to 45% of BAME Londoners, used no credit, compared to 27% in the same income range in the national population.⁶ However research suggests there is a significant unmet need for credit among low-income Londoners. A quarter of these non-credit users claim to have had a credit application refused.⁷ A quarter also claims to have at least an occasional need to borrow, with these borrowers being primarily younger and more likely to have children.⁸

There are approximately 250,000 low-income Londoners⁹ with a need to borrow who are unable to do so. Combining this figure with all users of high cost credit in the capital, it has been estimated that the potential total need for affordable credit in London amounts to 750,000 individuals – 30% of low-income Londoners and 42% of social tenants in the capital.¹⁰

***“A quarter of a million Londoners
need to borrow money but are
unable to do so”***



Illegal Lending in London

The unmet need for credit is reflected in illegal money lending. There has been an increase in illegal money lending since the supply of legitimate credit has shrunk following the financial crisis, particularly in the most deprived communities.

The cost of credit from such lenders averages more than three times that of the highest cost legitimate credit.¹¹

One in twenty low-income borrowers who have been refused credit have turned to a loan shark.¹² 12% of low-income Londoners are aware of illegal money lending in their own community.¹³

However the patterns of illegal lending arrests and the distribution of victims suggest that many of the illegal lending operations in the capital are concentrated within BAME communities in East and North London – precisely where credit exclusion is greatest.¹⁴

“Illegal lending thrives where credit exclusion is greatest”

The Payday Loan Industry

Representatives of the payday loan industry have claimed it provides a vital service for the low-paid, who would otherwise be financially excluded or pushed into the hands of illegal lenders.¹⁵ It is indeed correct that payday loans have thrived in recent years by filling a vacuum which more traditional forms of credit, such as bank overdrafts and credit cards, previously filled.

Between 2006 and 2011 payday loan companies only increased gross lending by 6%, but in the same period of time the total amount of gross unsecured lending by banks and building societies dropped by over 21%.¹⁶ According to Which? half of all payday loan borrowers have previously been rejected for more formal means of credit.¹⁷

Fees and interest from rolling over loans generate roughly half of the industry's revenue.¹⁸ One fifth comes from the 5% of loans which are rolled over or refinanced four times or more.¹⁹ In 2011/12 the market was worth over £2 billion - up from £900 million in 2008/09.²⁰

Wonga, the market leader which exists only online with no high street storefront presence, has an annual percentage rate (APR) of 5853%.²¹

The average payday loan is around £270 borrowed over 30 days.²² Research suggests the typical borrower of a payday loan is a young, unmarried man with no children, earning over £1000 per month, living in rented accommodation.²³

In September 2012 Comres found that the majority of payday loan customers used a loan to meet everyday expenses or pay utility bills. It also found that over 42% prioritised paying back their payday loan over buying either food or clothes, or paying for utility bills, transport or indeed paying another loan or credit card.²⁴

According to the Consumer Finance Association, over 40% of borrowers said payday loans had trapped them into a cycle of borrowing, with 60% saying it was too easy to take out a payday loan.²⁵

In the first quarter of 2009/10 only 1% of Citizens Advice Bureau debt casework clients had at least one payday loan. In the same quarter of 2012/13, 10% had at least one payday loan.²⁶

Similarly, in November 2012 the debt charity StepChange reported that the proportion of their clients with payday loan debts had increased from 3.7% in 2009 to 17% in 2012. In June 2013 StepChange also found London to be the top city in the UK where residents have experienced the biggest rise in average payday loan debts in the last two years. Between 2011 and 2012, the average payday loan debt of the charity's clients in London rose by £563, from £1296 to £1859.²⁷

“Londoners are struggling the most with payday loan debt compared to the rest of the UK”

Credit Unions

There are over 40,000 credit unions in around 80 countries around the world. In the US and Canada around 40% of the population belong to a credit union. That figure rises to 65% in the Republic of Ireland.²⁸

However credit unions in the UK are a lot less established, coordinated and popular, with less than 2% of the population affiliated to one. In London that figure drops to just 1%.²⁹

To join a credit union you must meet its common bond criteria, which might be working or living in a certain area, working for a certain employer, or belonging to a particular organisation such as a trade union or housing association.

For example, anybody living, working or studying in Barnet, Camden, the City of London, Hackney, Haringey or Islington is eligible to join the London Capital Credit Union.

On the other hand there is more than one credit union for London-based taxi drivers and their families, as well as the National Fire Savers credit union for firefighters and service staff across the UK, which began in London.

Credit unions are financial cooperatives, owned and democratically controlled by their members. They promote responsible lending and can give members access to current accounts, savings accounts, affordable loans and insurance, as well as money advice and financial education. Credit unions distribute their profits to members in dividends which means the money stays in the community rather than going to faceless shareholders.³⁰ Savings of up to £85,000 are protected by the Financial Services Compensation Scheme.³¹

“A credit union is owned by its members and any profit is either reinvested in the credit union or given back to its members – not faceless shareholders”

Credit Unions in London³²

Credit unions are growing in London faster than they are in the rest of the country. From 2005 to 2009, credit union assets have grown by 92% (national increase, 44%), loans by 70% (national increase, 36%), savings by 79% (national increase 39%) and membership is up by over 90% (national increase, 39%).

Since 2005, membership in London has been growing at around 18% per annum. However even with this very high growth, credit union membership in the capital remains modest compared to other large urban areas. It represents around 1% of the London population, compared with 3% in Merseyside and over 5% in Glasgow.

At borough-level, membership is strongest in Southwark, Tower Hamlets, Newham, Greenwich and Lewisham. Overall, but with some exceptions, the credit unions that have grown most significantly in London are those that delivered the government's 2006-2011 Financial Inclusion Growth Fund. This fact is a double-edged sword however: while it shows that government investment does work, it also demonstrates a sector which is far from self-reliant.

London presents a mixed picture for the credit union sector. Hackney Credit Union, a high profile institution launched in November 2005 with significant support and financial backing, was declared in default by the Financial Services Compensation Scheme in June 2010 due to rising bad debts, poor management and the ending of external subsidies from the local authority.

Also in 2010, Deptford and New Cross Credit Union and Harp Credit Union had their regulatory permissions to continue the business withdrawn by the Financial Services Authority. The former went on to merge with the Lewisham Plus Credit Union. Since 2002, nine London credit unions have been declared in default by the Financial Services Compensation Scheme and have closed.

62% of low-income Londoners who have a need to borrow and who have no source of credit say that they are not aware of credit unions, with a further 8% saying that they would not know how to go about getting a credit union loan.

***“Credit union membership in London
is half the national average”***

Government Action³³

Through the Financial Services (Banking Reform) Act 2013 the coalition government introduced a number of measures to regulate and reform the payday lending industry. As of April this year, responsibility for consumer credit will pass from the Office of Fair Trading (OFT) to the Financial Conduct Authority (FCA): a new regulator created by government to have more powers over the industry.

The FCA has announced it will:

- require all lenders to undertake affordability checks on potential borrowers
- ban payday loan adverts it deems to be misleading
- ensure advertising carries risk warnings
- limit to two the number of times a payday loan repayment can rollover
- limit to two the number of attempts a payday lender can take money from a borrower's bank account using a Continuous Payment Authority

However the headline reform of the industry takes the form of a cap on the total cost of a payday loan. That includes not only interest, but also arrangement and penalty fees. The Financial Services Act puts a duty on the FCA to begin the process of researching and consulting on the nature of a cap with a view to enforcing it once decided upon. Given the length of time this consultation process is expected to take, it is unlikely any cap will come into force any time this year.

As well as further regulating the payday lending industry, the coalition government has provided a financial boost to the credit union sector. The £38 million Credit Union Expansion Project will help credit unions reduce their running costs and become more financially sustainable, as well as enabling them to provide a wider variety of financial services. The Association for British Credit Unions (ABCUL), which will administer the funding, aims for the sector to serve one million more people nationally by 2019.

Along with this package comes the raising of the maximum monthly interest rate cap on credit union loans from 2% to 3%, coming into effect in April this year. This works out at a rise in the maximum annual percentage rate (APR) for a credit union loan from 26.8% APR to 42.6% APR.

Under the current cap, credit unions frequently make a loss on small, short term loans. These losses are part of the reason why eight credit unions go under each year. This change enables credit unions to reduce their losses, making the sector more stable and less reliant on government support. It also means that low income consumers will have greater access to reliable and affordable credit without having to resort to payday lenders or illegal lenders.

It was also recently announced that payday lenders will now receive daily, as opposed to monthly, information on applicants' financial history.³⁴ The credit reference agency Callcredit will be providing this information and Wonga is among the lenders to have signed up. The out-of-date financial history backing up payday loan applications has been part of the reason why many have been afforded credit when they should not have been. This is an issue which the government has pressed the industry on and it is hoped the measure will result in sounder lending.

In the summer of 2013 the OFT referred the industry to the Competition Commission, which is scheduled to publish its final report at the end of this year.³⁵

Credit Union Payday Loans³⁶

Credit unions have been promoted as ethical alternatives for those who had previously turned to payday lenders. However recently, some credit unions have taken the comparison a step further.

London Mutual Credit Union (LMCU) launched a one year pilot scheme, funded by the Friends Provident Foundation and the Barclays Community Finance Fund, to deliver an affordable payday loan product. The automated online application and assessment infrastructure replicated the ease and instantaneousness of a payday loan, but within the loan pricing structure of a credit union loan charged at 26.8% APR.

The pilot resulted in 2,923 payday loans with a value of £687,757 being distributed to 1,219 different borrowers. While 29% of applicants wanted to borrow over the usual one month term, 59% opted to repay over three months. Two thirds of applicants said the main reason for borrowing through LMCU was the low cost compared to other payday lenders. Others liked the fact that it was offered by a credit union, as well as the flexibility of the longer repayment option.

Just over a quarter of all those borrowing during the pilot were new members, specifically attracted into the credit union by the payday loan product. New members did go on to utilise and benefit from accessing other financial services offered by the credit union such as savings and longer term loans. Over two-thirds of surveyed users would be unlikely to borrow from other payday companies again.

By borrowing through LMCU instead of high cost payday lenders, the 1,219 who borrowed during the pilot collectively saved a minimum of £144,966 in interest charges alone, equivalent to almost £119 per borrower.

LMCU now offers its 'CUOK' payday loans for people who live or work in Southwark, Lambeth, Westminster or Camden.³⁷ A same-day payment of £400 borrowed over one month will cost an extra £19, compared to an extra £127.15 from Wonga – a saving of £108.15. LMCU offers the option of repayment over three months, and an £11 fee comes off the price of the loan if payment is not required on the same day. Moreover LMCU does not hit customers with late payment charges, only the interest accumulates for every day unpaid. As part of the application process, most applicants receive a phonecall for further information.

Recommendations

1. The Mayor to undertake research into payday loan use in London

There is an absence of up-to-date, London-specific data on payday loan use and its effects. For example, as the London Assembly Economy Committee observed in its *Open for Business* report, there is no data available on the presence of payday loan stores on high streets.³⁸ The Mayor should examine and monitor payday loan use in the city and take into account the income levels, ethnicities, ages and debt levels of borrowers. The research should explore differences and similarities between online borrowers and those who have visited a shop offering a similar service. The research should also address the impact on living standards of those managing payday loan debt and establish whether or not they are receiving sufficient support.

2. The Mayor to encourage government to let local communities decide whether or not to allow payday loan shops on high streets

As part of the research for its March 2013 *Open for Business* report, the London Assembly's Economy Committee received numerous complaints about the proliferation of payday loan shops on local high streets. As recommended in the report, the Mayor should lobby the government to amend the Town and Country Planning (Use Classes) Order 1987 to make payday loan shops *sui generis* for planning purposes, requiring specific planning permission.

3. The Mayor to conduct a review of recent government legislation on payday loans and credit unions to assess the effects in London

Recent government action on payday lenders and credit unions is welcome. But for the most vulnerable people in the most deprived areas of the city it might come as too little, too late. After one year of the new measures coming into force, the Mayor must ensure they are working for Londoners and push for further measures if they are found to have been ineffective.

4. The Mayor to actively encourage Londoners to join a credit union

The Mayor should mount a campaign to encourage Londoners to join a credit union, taking inspiration from the Scottish government's current campaign.³⁹ The campaign should increase awareness of the sector and encourage low earners or those struggling with saving or debt to join. However the campaign should be aimed at all income levels: the credit union sector requires mainstreaming as a sensible financial option for savings and loans with competitive rates. If credit unions were to become more popular across all income levels they would be better able to serve their more vulnerable members.

5. The Mayor to open a credit union savings account, with a £5 deposit, for every secondary school starter

Every secondary school in London should be linked to their local credit union. A savings account for every secondary school starter in London will encourage a savings culture and promote awareness of credit unions among younger generations and their families. This measure has already been introduced by Glasgow City Council and may well be taken up across Scotland.⁴⁰

6. The Mayor to allocate further funding for London's credit unions

The government's £38 million boost to the sector is welcome. However this funding must be shared nationwide. The Mayor should be a serious and proactive supporter of London's credit unions and invest further in the sector. The Welsh government has done so for Welsh credit unions⁴¹ and the Mayor should do the same for Londoners.

7. The Mayor to organise a summit to tie in major banks to better contribute to the expansion of London's credit unions

Banks can further invest in the sector by, for example, helping credit unions access cheaper payment systems to reduce operating costs, employing experienced staff, upgrading IT systems or contributing to advertising costs. The Barclays Community Finance Fund is an example of such existing investment.

8. The Mayor to re-establish a strategy group to tackle debt problems in London

In 2009 the Mayor's office established the London Debt Strategy Group. It brought together debt advice providers, charities, Citizens Advice, NHS London, the British Bankers' Association and others to discuss debt problems in the capital and to formulate solutions. Its last report was published in May 2011.⁴² A similar group should be re-established to facilitate and coordinate London-wide multi-stakeholder dialogue on debt, how to alleviate the problem, identify who can make a difference and lobby them to do so. The group would also undertake high-level research to ensure discussion is up-to-date and evidence-based.

London's Credit Unions⁴³

Credit Union Name	Geographical Membership Criteria	Phone	Website
Credit Union for Brent and Ealing Ltd	Residents & workers in Brent, Ealing, Barnet, Camden or Hammersmith & Fulham	02087563864	www.ealingcreditunion.org
Croydon, Merton & Sutton Credit Union Ltd	Residents & workers in Croydon, Merton and Sutton	02087605711	www.croydonsavers.co.uk
Greenwich & Bexley Credit Union Ltd	Residents & workers in Greenwich and Bexley	02088554344	www.greenwichcreditunion.co.uk
Hillingdon Credit Union Ltd	Residents & workers in Hillingdon	01895250958	www.hillingdoncu.co.uk
Kent Savers Credit Union Ltd	Residents & workers in Bexley	03333219050	www.kentsavers.co.uk
Lewisham Plus Credit Union Ltd	Residents & workers in Lewisham and Bromley	02087784738	www.lewishampluscu.co.uk
Lewisham workers Credit Union Ltd	Workers in Lewisham	02083148855	www.crownsavers.co.uk
Liberty Credit Union Ltd	Residents & workers in Havering and Barking & Dagenham	01708741899	www.lcu.org.uk
London Capital Credit Union Ltd	Residents & workers in Barnet, Camden, City of London, Hackney, Haringey or Islington	02075611786	www.credit-union.coop/index.asp
London Community Credit Union Ltd	Residents & workers in Tower Hamlets, Hackney, City of London, Newham, Waltham Forest, Islington or Haringey	02077299218	www.londoncu.co.uk
London Mutual Credit Union Ltd	Residents & workers in Southwark, Lambeth, Westminster or Camden	02077870770	www.creditunion.co.uk
London Plus Credit Union Ltd	Residents & workers in Hammersmith & Fulham, Kensington & Chelsea, Wandsworth, Hounslow or Westminster	02074712620	www.hfcu.co.uk
M4 Money Credit Union Ltd	Residents & workers in Harrow and Hillingdon	02087563866	www.mformoneycreditunion.org
My Community Bank Credit Union Ltd	Residents & workers in Brent	02073890910	www.mycommunitybank.co.uk
Newcred Community Credit Union Ltd	Residents & workers in Newham	0208555388	www.newcred.co.uk
North London Credit Union Ltd	Residents & workers in Barnet, Enfield, Haringey or Waltham Forest	02083668244	www.northlondoncommunityfinance.org
SurreySave Credit Union Ltd	Residents & workers in Kingston	01932339290	www.surreysave.co.uk
Thamesbank Credit Union Ltd	Residents & workers in Hounslow, Richmond, Wandsworth or Kingston	02087563865	www.thamesbank.org
Waltham Forest Community Credit Union Ltd	Residents & workers in Waltham Forest	02085208740	www.wfccu.org
Your Credit Union	Residents & workers in Kensington & Chelsea	02076056341	www.yourcu.co.uk

Credit Union Name	Non-Geographical Membership Criteria	Phone	Website
Bakers Food & Allied Workers Credit Union Ltd	Members of the Bakers, Food & Allied Workers union	01707259455	www.bfawu.org/bens_cu.php
Croydon Caribbean Credit Union Ltd	Those of Caribbean origin living in Croydon	02086885000	www.westthornton.org/cccu.html
London Adventist Credit Union Ltd	Members of the Seventh Day Adventist church	02082169895	www.lacu.co.uk/default.asp
LTD Credit Union Ltd	London licensed taxi drivers and their household family members	02072660101	http://ltdcu.co.uk/index.php
National Fire Savers Credit Union Ltd	Firefighters or staff working in any fire and rescue authority nationwide	02079287774	www.firesavers.org.uk
NFRN Credit Union Ltd	Membership of or working for the National Federation of Retail Newsagents and their immediate families	02083938941	www.nfrncreditunion.com
PCS Credit Union Ltd	Public and Commercial Services union members, staff, retirees and their household family members	02079242727	www.pcs.org.uk
Pentecostal Credit Union Ltd	Those of Pentecostal faith and their families	02086732542	www.pcuuk.com
Plane Saver Credit Union Ltd	Staff of British Airways, Air Canada and other air transport companies	02086075020	www.planesavercu.co.uk/
Polish Credit Union UK	Members of the Association of Polish Engineers	02087990309	www.polishcu.co.uk/index.html
Radio Taxicab (London) Credit Union Ltd	Drivers and staff of Radio Taxis Group Limited, its subsidiary companies and their household family members	02075615131	www.radiotaxis.co.uk/credit-union/
RENCAM Credit Union Ltd	Those of Cameroonian origin	07869126965	http://rencam.co.uk/
RMT Credit Union Ltd	Members of the National Union of Rail, Maritime & Transport Workers	02075298835	www.rmt.org.uk/about/credit-union/

¹ <http://www.theguardian.com/money/2013/feb/25/millions-britons-without-future-savings>

² Paul A. Jones & Anna Ellison, *Community finance for London*, Faculty of Health and Applied Social Sciences, Liverpool John Moores University (2011), p. 7

³ Ibid.

⁴ Ibid.

⁵ Ibid., p. 8

⁶ Ibid.

⁷ Ibid., p. 24

⁸ Ibid.

⁹ Ibid., p. 8

¹⁰ Ibid.

¹¹ Ibid., p. 24

¹² Ibid.

¹³ Ibid.

¹⁴ Ibid., p. 25

¹⁵ <http://www.paydayloansdigest.com/2013/09/27/payday-loans-are-vital-for-the-low-wage-earner/>

¹⁶ <http://www.ft.com/cms/s/0/fc906960-2019-11e1-8462-00144feabdc0.html#axzz2rc0GnaxL>

¹⁷ <https://press.which.co.uk/whichstatements/which-response-to-announcement-on-payday-loans/>

¹⁸ Office of Fair Trading, *Payday Lending Compliance Review: Final Report* (2013), p. 2

¹⁹ Ibid.

²⁰ Ibid., p. 9

²¹ <https://www.wonga.com/>

²² Office of Fair Trading (2013), p. 9

²³ <http://www.bbc.co.uk/news/business-16067283>

²⁴ http://www.comres.co.uk/polls/Personal_Debt_Snapshot_results_1st_Oct_12__Sig.pdf

²⁵ <http://www.cfa-uk.co.uk/information-centre/payday-facts-and-research/payday-facts-and-research/>

²⁶ http://www.citizensadvice.org.uk/export/index/sitehelp/press_20121126

²⁷ <http://www.stepchange.org/Mediacentre/Pressreleases/Paydayloanflashpoints.aspx>

²⁸ <http://www.abcul.org/credit-unions/history-world-facts>

²⁹ Jones & Ellison (2011), p. 8

³⁰ <http://www.abcul.org/credit-unions/history-world-facts>

³¹ <http://www.bbc.co.uk/news/business-23448990>

³² Information in this section from Jones & Ellison (2011)

³³ Information in this section from www.gov.uk

³⁴ <http://www.bbc.co.uk/news/business-25743517>

³⁵ <http://www.ofc.gov.uk/news-and-updates/press/2013/20-13#.UuaPOBDFLcs>

³⁶ <http://inclusioncentre.co.uk/wordpress29/wp-content/uploads/2013/09/Can-payday-loan-alternatives-be-affordable-and-viable-Summary-Report.pdf>

³⁷ <http://www.cuok.co.uk/>

³⁸ London Assembly Economy Committee, *Open for Business* (2013)

³⁹ <http://www.abcul.org/media-and-research/news/view/398>

⁴⁰ <http://www.abcul.org/media-and-research/news/view/408>

⁴¹ <http://www.abcul.org/media-and-research/news/view/409>

⁴² London Debt Strategy Group, *Treading Water* (2011)

⁴³ Partially compiled by the Association of British Credit Unions Limited