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TO YOUR CREDIT

THE COMMUNITY FINANCE FOUNDATION:

A PROPOSAL PAPER

The Community Finance Foundation: a proposal paper

Building household financial resilience and helping people avoid problem debt will be major public policy challenges for the next UK Government, whatever its make-up. With 8.8 million people over-indebted, and little prospect of household budgets becoming significantly easier to manage over the next five years, innovative and sustainable solutions are urgently needed to enable people to build savings and access responsible and affordable credit¹.

That's why Citizens UK has worked with partners to develop this proposal for a Community Finance Foundation. The prime purpose of the Foundation is to support the growth of community finance organisations, which in turn will deliver the following outcomes over the course of the next Parliament:

- Help over **500,000** people avoid high-cost credit, saving them **£200m per year**
- By preventing those people from falling into problem debt, save the UK **£1.4bn** in economic and social costs
- Help **250,000** people develop savings for the first time

Community finance in the UK

Community finance means not-for-profit organisations, primarily credit unions and CDFIs (Community Development Finance Institutions), which seek to provide affordable and ethical products to all, including those unable to access mainstream financial services. Although growing, the community finance sector remains small relative to retail banks, and it is generally acknowledged that it falls far short of its potential. In Canada, America and Australia over 30% of the population are members of credit unions, whereas in the UK credit union membership is under 2%².

The key challenge for the community finance sector is to transition from reliance on previously-available revenue subsidies towards more sustainable and professional business models which can exist and grow independently of grant support. Despite the efforts of past Governments, the majority of community finance organizations are grant dependent and operate with unsustainable business models. This has to change.

Scaling up community finance

Whilst there are signs of progress in the community finance sector, there is more to be done to mainstream changes in business model and culture. In particular we need to:

- Support new technology, develop lending infrastructure and gain new and improved routes to market which can lead to the the scale necessary to reach sustainability
- Improve access to appropriately priced and structured capital which could leverage in more social and private investment
- Harness the power of civil society, for example by improving the quality of community finance governance and brokering relationships with employers to set up payroll savings schemes.

1. <https://www.moneyadvice.service.org.uk/en/static/indebted-lives-the-complexities-of-life-in-debt-press-office>

2. See <http://www.neweconomics.org/publications/entry/credit-unions-international-evidence> for how the UK can learn from credit union sectors around the world.

Examples of the capacity of community finance to make a difference when these steps are taken are provided by **Fair Finance** (a CDFI) and **London Mutual Credit Union**.

London Mutual Credit Union

Established in 1982 to provide services to employees of the London Borough of Southwark, London Mutual has since merged with 6 other credit unions. Now it is the only credit union in Southwark, Lambeth, Westminster & Camden providing a wide range of products and services including the innovative CUOK payday loan at less than 43% APR. By focusing on strong governance, professional operations and high-quality products, London Mutual has become the largest community credit union in London, with over £18million in assets and over 20,000 members. Although it continues to attract some grant funding it is not dependent on them for sustainability.

Fair Finance

Since launching in 2005, Fair Finance has been working to tackling financial exclusion by offering a range of financial products including personal loans, business loans and debt advice. By demonstrating strong governance and building a 5 year record of transparent lending data, Fair Finance has been able to attract a variety of investors. Social investment has effectively provided a first loss position and been used to leverage senior debt from large banks including Santander, BNP Paribas and Société Générale, approved through credit departments on commercial terms. Fair Finance has since moved into profitability and lent £8m to 10,000 people who were previously financially excluded. It is now entirely self-sustaining.

The Community Finance Foundation

The Community Finance Foundation would be an independent charitable trust designed to support and champion sustainable growth in the community finance sector. It would be designed to address the major barriers to growth and sustainability, and have two key elements:

- 1. A grant fund.** The Foundation would award grants for investment in infrastructure, research and initiatives to harness the resources of civil society in support of this sector. We estimate an annual demand of approximately £5m. This could be achieved with the establishment of a £100m endowment fund to be invested for return, in order to generate roughly £5m per year on an ongoing basis.
- 2. A strategic investment fund.** This fund would lend to community finance organisations to help meet their growing capital requirements. This could be to meet new capital adequacy requirements, the loan book and development. We recommend a fund of £100m be established. Loans would be priced in such a way as to maintain the fund.

This funding requirement of around £200m could be funded **by fines levied over the next Parliament by the Financial Conduct Authority**. This would ensure that the proceeds of the misdeeds of banks and payday lenders are used to solve the problem of a highly concentrated and often dysfunctional financial sector which is failing to meet the needs of a significant segment of society.

Next steps

We believe that the Community Finance Foundation will be a sustainable, transformational and cost-effective solution to the time-bomb of problem debt in Britain today. We will be putting this proposal to each of the major political parties in advance of the 2015 General Election, and will be discussing it with key stakeholders and policy makers in the coming months.

For more information, please email Emmanuel Gotorra at emmanuel.gotorra@citizensuk.org.

HENDON SCHOOL NOAM & MAROM FINCHLEY REFORM SYNAGOGUE AYESHA COMMUNITY SOMALI BRAVANESE WELFARE ASSOCIATION THE ORION PRIMARY SCHOOL FINCHLEY CATHOLIC HIGH SCHOOL FINCHLEY PROGRESSIVE SYNAGOGUE CREST ACADEMY ARK ACADEMY AL KHOEI FOUNDATION LONDON INTEFAITH CENTRE NEWMAN CATHOLIC COLLEGE MY ROMANIA GROUP QUEENS PARK COMMUNITY SCHOOL BRAZILIAN CHAPLAINCY MARIA FIDELIS CONVENT SCHOOL LA SAINTE UNION CATHOLIC SCHOOL PARISH OF OLD ST PANCRAS HAMPSTEAD PARISH CHURCH ST DOMINICS PARISH UCL THE BARTLETT DEVELOPMENT PLANNING UNIT ST MICHAEL'S C OF E SCHOOL ST IGNATIUS CHURCH STAMFORD HILL ALEXANDRA PARK SCHOOL RAINBOW CHURCH HIGHGATE WOOD SCHOOL ARTS COLLEGE THE WILLOW PRIMARY SCHOOL HOLY TRINITY PRIMARY SCHOOL HOLY TRINITY CHURCH ST JOHN VIANNEY CHURCH ST JOHN VIANNEY SCHOOL HIGHGATE SCHOOL ST ANNE'S CATHOLIC HIGH SCHOOL FOR GIRLS ST MELLITUS CHURCH ST LUKE'S PAROCHIAL ISLINGTON CONGOLESE CATHOLIC CHAPLACY MUSLIM WELFARE HOUSE ST MARY MAGDALENE ACADEMY ST MARY MOOREFIELD AND ST JOSEPH'S CHURCH CITY AND ISLINGTON COLLEGE CENTRAL FOUNDATION BOY'S SCHOOL TOLLINGTON PARISH CITY UNIVERSITY LONDON STUDENTS' UNION ST ANDREW'S RC CHURCH ST. 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