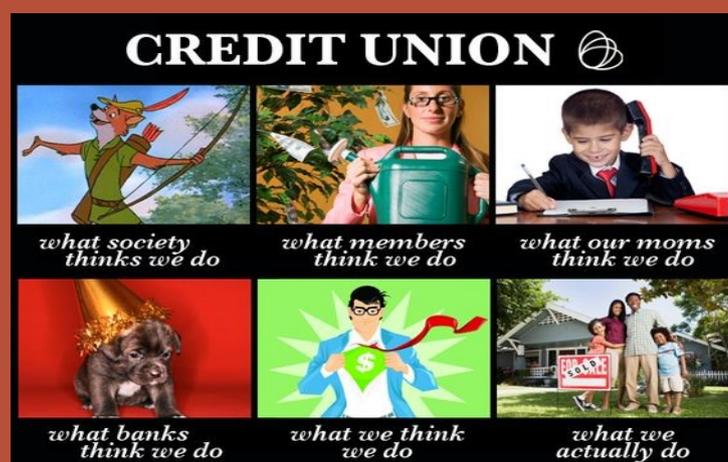


CLAHRC Research Summary

Credit unions: reducing vulnerability to debt



How effective are credit unions at reducing vulnerability to debt and promoting financial security?

A review of the evidence

Context

There is considerable debate about the contribution credit unions (CUs) can make to reducing vulnerability to debt, particularly among those struggling with problematic debt.

CUs are viewed by some policy-makers as potentially an effective vehicle to offer affordable credit (especially short-term loans) to people who are financially vulnerable.

In doing so, CUs provide an alternative to the high cost payday loan market, reliance on doorstep lenders or unscrupulous illegal forms of lending (e.g. loan sharks), which have been attributed with causing high levels of problematic debt in the UK.

What was the aim of the project?

In 2015 the CLAHRC NWC Public Health Theme conducted an evidence review on the topic of addressing vulnerability to debt. The review had a dual

purpose: to contribute to local decision-making about the design of the Neighbourhood Resilience Programme operating in ten disadvantaged neighbourhoods across the North West Coast area; & to support a programme of capacity building in research for our Council partners' staff.

What we did

A joint team of academics & local authority staff extensively searched the Web of Science databases & utilised Google Scholar & other search engines to identify literature sources relevant to our subject area. A broad range of academic & 'grey' policy literature was extracted & reviewed by the joint team.

Our approach to the evidence review was pragmatic: we were not aiming at a comprehensive review due to time constraints & limited staffing resources. Instead we aimed to be systematic in the sense of being transparent about what we did &

how we did it.

How did we involve people?

Local authority staff participated in the review & developed new skills. The information from the review has already been used in neighbourhoods to identify & develop local resilience actions.

What we found and what does this mean?

Despite the claim that CUs are an effective mechanism to provide affordable credit, the evidence is mixed.

Hartfree & Collard (2014) quote research which shows that only a tiny proportion of low income households have used a CU.

The Poverty Alliance/EPIC (2013: 3) notes that "in Scotland the evidence base for credit unions significantly affecting financial exclusion is small".

Low usage of CUs by deprived populations has been attributed to low levels of public awareness of CUs (FCA, 2014).



CU lending criteria (e.g. members must have a regular income or be savers for at least a year) means they are not “appropriate for everyone - including potentially some of the most financially excluded, such as casual workers and disabled people” (Salter, 2014: 95).

Ryder (2002) and Wilson & McKillop (2011) argue that the association between CUs & serving poorer, high-risk borrowers could inhibit the growth of the sector. This ‘image problem’ as a ‘poor persons’ bank’ may hinder participation of those with higher disposable incomes.

CUs find it difficult to compete against payday loan companies especially online lenders, who have the capacity to rapidly process loan applications & quickly make lending decisions (Gathergood et al, 2014).

However, primary research by Salter (2014) found that CU loans had the least detrimental impact on lenders, & CUs were praised for mitigating the impacts of social stigma & personal stress associated with debt.

Bristol CU has developed a Rent Direct Account for members “into which benefit income can be paid directly, with rent payments then sent directly to landlords”. This has helped develop sustainable tenancies (Nationwide Foundation, 2014).

Lincoln City Council provided new tenants with a Credit Union account with an incentivised £10 deposit to encourage saving

(Derbyshire County Council, 2015).

CUs’ initiatives have traditionally been targeted at the financial education of adults. Salter (2014: 96) argues that the dual role of CUs as both a lender & advice provider make them “well placed to change people’s habits and behaviour toward money and saving”.

Research by ABCUL (2010: 3) found that “Credit union projects are shown to be viable and worthwhile in secondary schools, with promising evidence of positive outcomes of pupils’ money management, confidence and communication skills.”

Ayre et al. (2014) found that school savings clubs with CUs is an effective method of introducing children to finance and debt issues before they enter the financial market place, by enhancing their practical experience of managing money.

What next?

This research summary will be used by residents & stakeholders to inform the development of resilience actions in NWC neighbourhoods.

References

ABCUL (2010) Encouraging saving in secondary school - Supporting Financial Skills Education. ABCUL: Manchester.

Ayre, D., Stillwell, S. & Royston, S. (2014) Supporting young savers: The case for savings clubs in schools.

Derbyshire County Council. Review of Credit Unions in Derbyshire. Cabinet: 14 April, 2015.

Financial Conduct Authority (2014) Consumer credit and consumers in vulnerable circumstances. FCA: London.

Gathergood, J., Wildman, A. & Papamanci, L. (2014) Climbing the Credit Ladder: Short-term loans as a path to long-term credit. ResPublica: Lincoln.

Hartfree, Y. & Collard, S. (2014) Poverty, debt and credit: An expert-led review. University of Bristol: Bristol.

Wilson, J.O.S. & McKillop, D (2011) Credit unions: a theoretical and empirical overview. Financial Markets, Institutions & Instruments, 20 (3), 79-123.

Nationwide Foundation (2014) Tackling private tenants’ financial exclusion.

Ryder, N. Credit unions and financial exclusion - the odd couple? The Journal of Social Welfare & Family Law 2002; 24(4): 423-34.

Salter, J. (2014) The borrowers. Demos: London.

The Poverty Alliance/EPIC (2013) Welfare reform and financial exclusion in Scotland Summary. The Poverty Alliance: Glasgow.

What is NIHR CLAHRC NWC?

The Collaboration for Leadership in Applied Health Research & Care, North West Coast is a partnership between universities, NHS, councils, other stakeholders & the public.

Find out more

glenn.simpson@liverpool.ac.uk

<http://www.clahrc-nwc.nihr.ac.uk/index.php>