



MUCK, BRASS AND CREDIT
Financial Exclusion and the
Debt Crisis in Yorkshire and
the Humber

4th EDITION

Revised May 2009

Introduction

Previous editions of 'Muck, Brass and Credit' offered a developing account of measures to combat financial exclusion in the Yorkshire and the Humber Region. There is much to celebrate in recognizing the improvements that have been made. However, global problems in financial markets mean that we are now confronted not just by issues of inclusion, but by a full-blown debt crisis that is significantly affecting life at all levels of community. This fourth edition reflects the continuing role of the Churches Regional Commission for Yorkshire and the Humber (CRC) in the region in equipping churches in their efforts to address financial inclusion and debt in society.

Access to affordable credit and good financial advice are important factors in the quality of life and social inclusion of all people. On the other hand, unsustainable debts have the capacity to burden, impoverish or even enslave individuals and their families. Led by its Social Inclusion Task Group, CRC is urging: a) regional partners to recognise this in strategy development and build on existing local initiatives; and b) financial institutions to consider carefully their policies of corporate social responsibility. In regeneration terms, credit extortion causes tens of thousands of pounds in interest payments to leak out of our most deprived communities each week. In more general terms, the current credit crunch and the recession is leaving growing numbers of people vulnerable to predatory lenders.

Since CRC's first seminar on Financial Inclusion in October 2004, there has been much regional progress. Important initiatives in Leeds, Sheffield and other parts of South Yorkshire have been repeated elsewhere in the region. As a result, we are better equipped to meet the increasing need for debt advice than we would otherwise have been.

However, the present debt crisis creates a need for even more to be done. This paper highlights implications and recommendations for the financial sector and policy makers as well as for the church which plays an active part in local initiatives and responses in many parts of the region. The local initiatives we wish to encourage include low interest loan organisations, credit unions, money education and advice, and school savings schemes.

The main text of this revised briefing paper provides background information on financial exclusion in the region, and the implications of the credit crunch and recession for people with debts.

The boxes below record contributions made by the key individuals and institutions that address financial inclusion and debt in the region.

The main message of this briefing remains that financial exclusion is widespread in the region and there is a need for concerted action by the public, private and voluntary sectors to tackle it. The current economic downturn and credit crunch make the issue of indebtedness a critical priority.

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As with all CRC briefing papers, we welcome contributions and comments to the CRC office (details above).

West Yorkshire Church Leaders' Statement on Debt in Society: Ash Wednesday 2009 *Forgive us our debts, as we also have forgiven our debtors*

At this time of unemployment and economic crisis, we express our

- belief that our churches have an important role in upholding compassion and justice
- concern for the plight of each person who is trapped in debt
- commitment to a stable, sustainable, low-debt future

We now challenge ourselves, our churches, policy-makers in government and business, to work together to uphold those in need, to address the failed values and practices of the past, and to strive towards sustainable living.

Mufti Yusuf Akudi, Islamic Adviser, Al-Hikmah Centre, Batley **on Muslim perspectives on finance**

Sharia law prohibits the payment of interest and speculative gambling. Muslims believe that usury is the cause of many problems in the world.

Muslims recognise that the Government and the financial institutions are now helping the development of home ownership arrangements and current accounts that are consistent with sharia law. But there is much more work to be done in this and other fields, including pensions.

What is financial exclusion?

Financial exclusion can be defined as: 'banking practices and traditions that exclude disadvantaged people from financial services including access to low price loans.' 'Financial exclusion' takes a variety of forms:

- geographical exclusion e.g. red lining or exclusion by postcode
- access exclusion e.g. for lone parents or ethnic minorities
- condition exclusion e.g. for Muslims who cannot accept interest rates
- price exclusion e.g. cost of interest too high.

Consumers' financial needs have been defined by the Consumer Association¹ as follows:

'decent, secure and sustainable retirement incomes; protection against lifetime risks (income, health); decent long-term and social care; access to fair and affordable banking services; affordable home ownership; fair and affordable borrowing; short term savings; saving/ investing for future events; and insurance for possessions/lifestyle. These are underpinned by the need for objective financial advice and guidance'.

In the last few years, there has been mounting concern nationally about problems of debt and access to credit affecting those living on benefit, on low incomes or with a poor credit history. Paradoxically, the poorest people pay the most for credit. Stephen Nickell, a leading economist, has said that one of the characteristics of poverty in the UK is 'the most fantastically expensive credit.'² In addition, levels of financial literacy are low and not enough financial information and advice are available for those who need it.

People on low incomes may need credit urgently to pay for such items as school clothing, cost effective heating appliances or a new refrigerator. They may be unable to obtain it from the Department of Work and Pensions' Social Fund or from the clearing banks or other mainstream financial organisations. As a result, they rely on sub-prime forms of lending. Interest rates are sometimes difficult to calculate because of additional charges and insurances but APRs as high as 500% are not uncommon. At worst, people borrow from illegal lenders who have been known to charge APRs in the 000's of percent and collect on their loans with menaces.

In recent years there has been a significant increase in extremely expensive forms of credit targeted at low income groups:

- Payday lending – accepts post-dated cheques as security for loans of up to one month, often charging in excess of 1000% APR.
- Auto-title loans, which takes car log books as security and charges 370-430% APR for longer loans up to 18 months.
- Home Credit – door to door collection of loans with charges between 180-1500% APR.
- Rent to Own Stores (e.g. Brighthouse) – advertise goods for rent with a final purchase option. Typically APR is shown as 29.2% but insurances and other fees make loans more expensive and the price of goods are marked up from the cash price to bring the APR down artificially.

A Government publication³ commented:

'Some people take out very expensive credit. It's a decision which can affect their lives for years to come, sometimes resulting in even deeper debt and more stress. Doorstep lenders are successful because they meet a need among low income groups for loans at a low weekly cost. However, a six-month loan from a doorstep lender can typically have an annual percentage rate of 200 per cent.'

Sarah, a single mother in Sheffield, on her problems with debt.

Her problems started when she moved into her Council House with her one year old daughter after she had split up with her partner. He kept everything. Her family helped but she was very short of money. Christmas was coming. Loan companies came with vouchers that you could spend in the High Street so she borrowed £50 worth of them. They charged her £25 but there were no credit checks. Then she moved on to £100 loans and kept borrowing more and more until she until she owed nearly £1,000 and was borrowing from five companies. By this time she had lost track of her situation. She hesitated to open the door. She was scared as the lenders were pressuring her all the time. She managed to get £400 from DSS at one fifth of the interest rate charged by the doorstep lenders. Then she got back on her feet with the help of the local credit union, which she now helps to run.

Concern about these issues has been expressed by the Debt on our Doorstep campaign supported by a wide range of voluntary bodies. A leading think tank and Citizens' Advice have called for further development of financial inclusion agencies at local level⁴.

The Scale and Effects of Predatory Lending

Defining Predatory Lending

There is no consensus between regulators and the finance industry to define “predatory lending”. Some legal door step lenders argue that because their collection costs are expensive and their clients high-risk then interest rates need to be well above industry norms. At the other end of the scale, “loan sharks” lend illegally at ultra high rates and also intimidate their borrowers. In between these extremes, unscrupulous practices often confuse or pressure the vulnerable. For the purposes of this document, we understand loans with APRs that would commonly be regarded as excessive to be predatory. Such a definition would include all doorstep lenders, even those regarded as benign by borrowers.

Loan Sharks

Illegal lending in the UK is widespread but small scale and concentrated in deeply deprived social housing estates, particularly in northern England and Scotland. It is estimated that 165,000 households use illegal money lenders. Loan sharks damage both individuals and communities. Because loans are not governed by any legislation, it is often impossible to predict how much borrowers will ultimately have to repay. When it proves impossible to keep up with repayments, victims are often drawn into stealing, drug-dealing or prostitution. Illegal lending stimulates criminal activity, therefore, though there is no evidence that it is run by organised crime.

High Cost Home Credit

2.3 million people in the UK use high cost home credit, compared with just 0.8 million people who use credit unions. However, the higher cost forms of lending are expanding in the UK at the moment, and are set to grow further as credit becomes harder to access from mainstream lenders. During the last recession in 1990/91, large numbers of people were effectively ejected from the financial services mainstream, leaving them vulnerable to predatory lenders. At the moment, credit unions provide in the region of £400m of new loans each year. It is estimated that a further £1.2bn of affordable loans are needed to provide a genuine challenge to the high cost credit market.

The Causes of Debt

- Low income to include a change of circumstances leading to low income – which in the current economic climate is becoming an increasingly important factor. Low paid workers and families are faced with “credit dependency” on

predatory lenders – there are no alternatives, especially so in the current credit crunch which is squeezing the availability of affordable loans for people with poor credit histories.

- The behaviour of creditors – a large number of whom suggested further borrowing as a response to indebtedness
- Mental health problems
- The behaviour of borrowers – who often seek advice only when the problem has become so acute as to be an absolute crisis.

The Effects of Predatory Lending

- There is a strong link between low income and debt
- Debt adversely affects people’s well-being, particularly in terms of stress – in extreme cases leading to depression or even suicide
- Once repayments take up a large proportion of household income there is little option but for households going without other important items
- At the same time, servicing high cost loans sometimes means that arrears are built up in other areas of the household budget – rent, council tax, etc – which sometimes has negative consequences for the funding of public services.

Ameliorating the Effects of Debt and Predatory Lending

- Support of family and friends is a significant help to people in debt
- It is far easier to resolve debt problems when they are caught at an early stage
- It is often only the intervention of a third party that begins to turn things around
- Greater promotion of debt advice services and a widening of provision is critical to helping people to access advice before a debt problem becomes a crisis
- Two key principles need to be adopted:
 - Increased access to affordable credit products – in order to allow households to restructure their current liabilities and avoid credit dependency
 - Firmer action to prevent predatory forms of lending. Trading Standards in the UK and the Yorkshire Region have recently expanded services directed at removing loan sharks from communities, with much success. Government funding for this provision, however, is set to expire in March 2011.

Government Response

In recent years, there has been increasing recognition by Government agencies of the gravity of these problems. The key policy response has been the provision of debt advice by not-for profit organisations.

In the **2003 White Paper on Consumer Credit**⁵, DTI explained that it had decided for the time being against a statutory ceiling on interest rates, although such a ceiling exists in many European countries and in some states of the USA and existed in the UK up to the 1970s. Research into the ceilings in other countries suggested that a ceiling might restrict the availability of legal forms of credit and drive borrowers into the hands of loan sharks. However, Debt on our Doorstep campaigners argued that the research was misleading and too narrowly based.⁶

Following the **National Consumer Council's** 'super-complaint' in 2004 to the Office of Fair Trading (OFT)⁷, the Government's Competition Commission recently concluded that a lack of competition in the home credit market means that customers have been overcharged to the tune of £500 million over the past 5 years.

In 2004, the **Office of the Deputy Prime Minister** issued a folder entitled 'Action on Debt' pointing out that more than half the households with serious debt problems are in the very lowest income groups – less than £7,500 a year – and suggesting action to alleviate the problem. The booklet stated that 'Predatory lending is stripping out money from poor communities' and encouraged Local Strategic Partnerships and local authorities to address these issues.

In the **2004 Comprehensive Spending Review**⁸, the Treasury noted that the Child Poverty Review 'highlights the need to improve financial inclusion as a way to tackle child poverty'. The Treasury proposed among other things the establishment of a Financial Inclusion Fund to support work that addresses issues of financial exclusion.

The **Financial Inclusion Fund** amounted to £120 million nationally from 2005-2008. This Fund was split into separate elements allocated by different Departments, including:

- DTI for money advice: £45m
- Dept of Work and Pensions for 3rd sector lenders: £36m
- Legal Services Commission: money advice outreach: £6m.

An additional £130m was allocated to the FIF for 2008-2011, including £85m for free face to face money advice.

The **Child Trust Fund** became fully operational in April 2005, intending to promote a savings habit that creates a financial asset for all children when they reach the age of 18, regardless of family background. It will be used as a focus for financial education in schools.

Ofgem's 2005 review, **Preventing Debt and Disconnection**, highlights the connection between **debt and fuel poverty**. In 2005, 1½ million people were repaying debts to their fuel supplier. Higher fuel prices and the current recession make the problem of debt-related fuel poverty more acute. The review sets out good practice for suppliers in the area of billing, flexible approaches to debt recovery, and sustainable solutions to cases of extreme hardship.

The **Consumer Credit Act 2006** was fully implemented on October 1st 2008. The Act aims to improve transparency and protection for consumers in credit transactions. Lenders are required to provide borrowers with more regular and better information about their accounts. Debt Administration and Credit Information service providers are now under OFT regulation and need a consumer credit licence. Consumers can now go to the courts to ask for longer to pay back their loan (a time order) when they receive an arrears notice, rather than when they have received a default notice.

Financial Capability: the Government's long-term approach was published in January 2007. It established: the need for all adults to have access to high quality generic financial advice; the introduction of financial education into the secondary school curriculum.

The Dept of Work and Pensions is delivering the "**Now Let's Talk Money**" campaign that seeks to provide hard to reach excluded consumers with information about debt advice, affordable credit and basic banking. The campaign includes radio and other direct advertising to encourage people to get the help they need. It also runs a free-phone contact centre and website to signpost people to the help they need.

Judicially, the Government's strategy is to improve court practices and products with a view to allowing those in debt to resolve their problems without the need for going to court. Individual Voluntary Arrangements (IVAs) were originally aimed at professionals and traders. Over 80% of IVAs are now non-trading consumer debtors often with a steady income stream and, sometimes, with equity in property. IVAs are regarded as an effective means of dealing with debt but key areas are still emerging where industry protocols are required. The OFT has been involved in warning some financial management businesses that promote IVAs that their adverts may be misleading.

The **Tribunals, Courts and Enforcement Act** was passed in Summer 2007. This reforms the current county court Administration Order System that covers long term debt management arrangements managed by the courts. It also introduces **Debt Relief Orders** which came into force on 6th April 2009. These are aimed at people who owe very little, but are also on very low incomes and have little prospect of repaying their debts on a reasonable timescale. Their effect is to prevent enforcement of the debts, which will be discharged after 12 months. The Act also introduces **Enforcement Restriction Orders** which will stop enforcement for up to twelve months of those who are temporarily unable to repay loans because of a sudden change in financial circumstances. There are calls to bring these in ahead of their scheduled introduction date of 2010 because of the current rapid increase in redundancies and unemployment.

There have been recent appeals by MIND, for the Government to build on the Tribunals, Courts and Enforcement Act to better protect those with mental health problems who are in debt. The link between **mental health and debt** is well-recorded. Debt often creates mental stress; people with mental health problems are also three time more likely to be in debt. Bailiffs are bound by the **Disability Discrimination Act** in dealing sensitively with people with mental health problems. But MIND believe the legislation that regulates bailiffs needs enhancing to ensure that safeguards are being applied properly.

At the time of writing, the most interesting and up-to-date analysis of the impact of the recent debacle in the banking system, comes in the form of **Protecting Low Income Borrowers in the Credit Crisis** (Dec 2008) by Rt Hon Ian McCartney MP and Damon Gibbons, Chair of Debt on our Doorstep. The report recognizes the increasingly likelihood in a Recession of low income families becoming credit dependent on the only form of finance available to them, high cost loans. The authors urge the government towards: a) widening access to “responsible credit products”; b) firmer action to prevent harmful forms of lending, unfair pricing, and predatory practices. They also advocate the use of an annualized TCC (Total Cost of Credit) per £100 borrowed as a means whereby loans can be compared more easily. This would take account of various charges and premiums that lenders often use as a way of disguising and reducing the true APR of a product. The report then recommends setting a cap on this annualized TCC per £100 as a way of limiting the rates that can legally be charged to borrowers. The Government is likely to take some account of this paper when setting future policy. The Churches Regional Commission would wish to support and advocate the report’s conclusions.

Situation in the Region

Substantial debt and poverty in the region, has created problems of financial exclusion. In 2004, 5.5% of Yorkshire households lacked a bank account of any kind; 8% had a basic bank account⁹. More significantly, the region has 24.9% of households with children living in poverty, compared with 20.5% of households in England as a whole¹⁰. 13.2% of working age people live in households where no one is at work.¹¹ People in this situation have the greatest difficulty in obtaining affordable credit and are most likely to face chronic indebtedness.

The biggest single lender in the home credit market in the region is the **Provident Financial** which has its HQ in Bradford. Nationally, it comprises 50% of the home credit market. Its operations are well adapted to its market. Its agents, usually women, may be based in the housing estates from which its customers come and seen as friends of the family. It is flexible in its repayment policies, allowing customers in difficulties temporary suspension of repayments. It charges heavily for credit, generally around 177% APR and justifies this on grounds of high costs and risks and on the argument that APRs are not meaningful for short-term loans. Research suggests that on average its loans last 36 weeks and that customers may not realise how much they are paying for credit.¹²

Financial exclusion is not confined to towns. It also arises in **rural areas**. CRC's Report 'Sowing the Seed' drew attention to rural poverty (now available online at www.crc-online.org.uk). The closure of many banks and post offices has limited access to financial services. The Commission for Rural Communities indicate that: only one in eight banks and building societies are based in rural areas, though a fifth of the population lives there; under a tenth of cash points are in rural areas and less of them are free to use than in urban areas; 300,000 people in rural areas do not have a bank account.

One response to all this has been the *Quids In* project which aims to support credit unions working in rural areas with people on low incomes. If two pilot projects in Cumbria and Shropshire are successful, this may well be developed in other regions too.

The 2007 report **Promoting Financial Inclusion in Rural Areas** recognizes the importance of the local post office as one of the only accessible sources of face to face advice for rural communities and bemoans the recent programme of closures. At the same time, there are encouraging examples of rural self-help, such as Bradfield Parish Council's purchase of the local post office, which is now a business and community focal point.

Rev Elizabeth Clark, CRC Commissioner and Rural Officer, York and Hull District of the Methodist Church

Rural poverty is exacerbated by many factors including the high cost of housing, an often low wage economy and poor access to services. Fuel poverty is also rising with lower income households spending 50% of their income on fuel. Only 42% of rural homes are connected to mains gas, leaving them dependent on electricity, oil or liquid gas for heating which is often more expensive.

There are special problems of financial exclusion for the region's large **Muslim population**. Islam forbids usury and interest. This means that most products from the financial services industry are not acceptable to Muslims and can lead to excessive dependence on finance from within family or community groups. On 22 September 2004, a new Islamic Bank, approved by the Financial Services Authority, opened its first branch in Edgware Road, London. There have also been moves by financial institutions such as HSBC, Lloyds TSB and West Bromwich Building Society to introduce financial products that can be reconciled with Sharia principles.¹³ Lloyds TSB held a roadshow about its Islamic banking services in Bradford in February 2006. The UK now has five fully Sharia-compliant banks and another 17 financial institutions have set up special branches or firms. They include the Qatar Islamic Bank (QIB), and the Islamic Bank of Britain, which has headquarters in Birmingham. In 2007, Gordon Brown called for the UK to become the global centre for international Islamic banking.

Regional bodies devote considerable resources to the **regeneration of deprived areas**. But the amount of money flowing out of these areas in interest repayments may

well exceed the money coming in for regeneration. A survey in one Council estate in Meadowell, North Shields, by the Cedarwood Trust, found that, of 142 households surveyed, 87% were paying doorstep lenders an average of 33.5% of total income. For families this amounted to £66 a week out of £200. Interest rates varied between 33% and 2000%.

The region has a range of community finance initiatives (see Useful Information at the end of this paper). These include the **Credit Unions**. Figures from the FSA show a 61% increase in credit union

Chris Smyth CEO

Leeds City Credit Union (LCCU)

LCCU offers savings accounts, affordable credit, bill payment services, money advice, debt counselling and debt adjustment. It benefits from payroll deduction from 28 employers. It has pay points at local shops and garages as well as 10 branches, thanks to cooperation with LCC.

It can handle tax credits and benefits plus accounts. Its lending is extremely beneficial as compared with the interest rates doorstep lenders charge. In Dec 2005 the Treasury announced that credit unions would in the future be able to charge up to 2% per month on a reducing balance of a loan, an increase on the previous statutory limit of 1% a month. LCCU was fortunate to win a large contract with the DWP allowing us to introduce our affordable credit project. Since the start of the project LCCU has given out over £5,000,000 in loans which has made a massive saving in high interest payments by the people and communities of Leeds.

LCCU has introduced savings clubs into more than 60 primary schools. We also have a presence in 19 children's centres across the city giving general information about credit unions and what they can offer.

We have a debt management project at Leeds Prison, which will run initially for 3 years. This project offers offenders and their families debt advice and money management.

Financial Services Compensation Scheme guaranteed the first 50,000 pounds of each saver's deposits in credit unions, in line with the guarantee for UK banks and building societies.

Credit Unions have an important part to play in efforts to tackle financial exclusion as they offer local opportunities for people to build up savings and obtain credit and can also give money advice.

Credit union members in Leeds, Hull and East Yorkshire and Wakefield can use ATM machines and direct debits from late 2006 under a new scheme launched by ABCUL and The Co-operative Bank. They can offer their members their own current accounts with a debit card which can be used in shops and to withdraw money from cash machines. Although there are no chequebooks or overdrafts, accountholders can set up standing orders and direct debits. It is hoped to roll this out to other credit unions throughout the UK in 2007.¹⁵ Importantly for the region, the new North Yorkshire Credit Union was open in May 2009.

The main source of financial advice is through **Citizens' Advice Bureaux** which have trained debt counsellors in many parts of the region. In the year 2003/04, CABs dealt with 125,000 consumer debt cases in Yorkshire and the North East, up 1.4% on the previous year.

Importantly, the CAB issued a national briefing in February 2009, **A Life in Debt**, which profiled their debt clients for 2008. It highlighted increasing problems with fuel poverty in addition to the new issue of water poverty for those who spent more than 3% of their income on water. The CAB offered a positive view of the new Debt Relief Orders that will give a third of its clients the opportunity for a fresh start in the face of debts that they have no realistic prospect of ever repaying.

In the region, Citizens' Advice and the independent advice sector made a successful bid for a share of the DTI's £45 million two-year programme, funded by the Treasury's Financial Inclusion Fund (see page 5 above). This bid is enabling the recruitment of about 65 debt advisers at a cost of £5.76m. The aim is to help people get their debts back under control. The bid covered Bradford, Barnsley, Doncaster, Kingston upon Hull, Rotherham, Sheffield, York, Scarborough, NE and N Lincs, Kirklees, Calderdale, Wakefield and Leeds Metropolitan District.

membership in the region between 2000 and 2004 to a total of 44,000¹⁴. (The UK increase in this period was only 46%). Figures for 2008 are likely to show a continued upsurge in credit union membership. In October 2008 the

**Dianne Lyons, CEO Leeds
Citizens Advice Bureau (CAB)**

Leeds CAB is finding that the pressure of debt work is driving out other work. In Leeds, some 50,000 people are in need of debt advice – far more than the advice sector can help. Leeds has 13 additional debt adviser posts funded under the Financial Inclusion Fund, but this will be insufficient to meet the need. Nationally, the debts owed by CAB clients would on average take 77 years to repay in full. In view of the magnitude of debt problems, CAB debt advisers are turning away from advising pro-rata repayments to creditors since bankruptcy is increasingly a better option for many clients. The debt advice provided by CAB is independent and follows nationally recognised good practice. Credit unions made a great contribution to helping people with their financial problems but were not the total answer. As regards the private sector, CABs hear of people wanting basic bank accounts being turned away. For the overall situation to be improved, there is a need (a) to reduce poverty by reforming the DWP Social Fund and by raising the National Minimum Wage and benefit levels; and (b) to impose tougher constraints on irresponsible lending and marketing by the financial sector.

Other important new developments have been occurring in the region. In **Sheffield**, work by IMPACT, a community organising body, in co-operation with the City Council, the Sheffield Credit Unions Development Agency (SCUDA) with additional financial support from Barclays Bank, etc. led in 2004 to the establishment of new financial inclusion institutions.

During 2005, Sheffield First Partnership **strategy for Sheffield**, agreed an overall **financial inclusion** development led by a Consortium, which combines representation from FISY, the advice centres, the City Council and other bodies. £700,000 from the Financial Inclusion Fund has been obtained for additional debt adviser posts in the city.

**Eric Thompson, CEO Financial
Inclusion Services Yorkshire (FISY),
currently seconded full-time as the
DWP Strategic Financial Inclusion
Champion for South Yorkshire**

Eric has headed up FISY, Moneyline Yorkshire and Sheffield Credit Union since they were launched in September 2004. To meet various legal requirements, three organisations had been set up, but they operate under the same management and from the same premises in Sheffield. FISY is a registered charity which provides services to compliment the work of the other partners including money advice, financial capability and work in schools. Sheffield Credit Union combines all but 1 of the former credit unions in the city and has a common bond embracing the whole of Sheffield. Moneyline is an ethical and affordable not for profit loan company. As well as traditional credit union loans based on saving first they also provide loans to those without previous savings, though it gives advice first and will only lend to those with the ability to repay. Since opening for business they have provided over 6,000 of these instant loans totalling £2m. Clients are also encouraged to begin saving and move to cheaper credit union loans. The profile of clients is that 91% are from the poorest areas of the city, 77% are female, 88% come from social housing and 17% are from ethnic minorities. Sheffield Credit Union's membership has increased from 600 to 5,000, plus 2,000 junior members. FISY also plays a key role in developing financial inclusion activity across the city as Co-chair of the Sheffield Financial Inclusion Consortium and as a key partner in the city successful award of Beacon status for 'Promoting Financial Inclusion and Tackling Over-indebtedness' and most recently was awarded the contract by DWP to deliver the Government's Financial Inclusion Champions Initiative across South Yorkshire. Overall, the greatest challenge remains the massive demand for help and the need for substantially more resources particularly in the current economic climate.

Leeds Financial Inclusion Steering Group recently commissioned Salford University to carry out research into poverty and financial exclusion. (See box).

Dave Roberts, Economic Policy Team, Leeds City Council

The Council's consultants had shown that 30% of those in disadvantaged areas of Leeds had no bank account and that many were borrowing money to pay off debts or for day to day living. There was now a broad based steering group which was tackling three issues: affordable credit, debt advice and financial literacy. One of the most promising developments was the growth in the number of credit union branches in the Council's one-stop centres. There were now 10 branches compared to the 2 which existed in 2005.

Successful bids to the Governments financial inclusion fund has resulted in an increase of 140% in the numbers of face to face debt advisors and the launch of an affordable credit scheme run by the credit union. The affordable credit scheme loaned £3.6M to low income families in its first year of operation providing an overall saving to these families of £1.8M compared to the costs of doorstep loans.

Financial literacy packages for young people including an inter-active game have been developed. Consultants are currently carrying out research to assess the economic impact of financial inclusion initiatives. The results of this work will be announced at a national conference in June 2009.

One of the major successes of the Leeds project is the cross agency network of partners who actively support the work in addition to the cross political party support which the project enjoys. The work is supported by various institutions, including regeneration agencies, banks, public utilities and social housing providers who are all collaborating to tackling financial exclusion.

From November 2006, the Department of Work and Pensions (DWP) began work on a Financial Inclusion Fund initiative to promote the availability of affordable lending, face to face advice and help to open a bank account. Stakeholder managers with relevant experience have been seconded to DWP to work with key intermediaries, such as housing organisations, the community and voluntary sector, local and central government in order to raise awareness and facilitate access to affordable lending, face to face advice and help opening a bank account. Core campaign activities are focused in locations which experience high concentrations of financial exclusion.

One of the more recent developments in the region has been the funding of three **Financial Inclusion Champions**, for East, South and West Yorkshire:

Financial Inclusion Strategic Champion for West Yorkshire is Ehjaz Gull
tel no 01274 767803
email ehjaz.gull@accentgroup.org
Based in Bradford

Financial Inclusion Strategic Champion for South Yorkshire is Eric Thompson
tel no. 01142760787
email ericthompson@fisy1.co.u.k
Based in Sheffield

Financial Inclusion Strategic Champion for East Yorkshire is Joanne Foster
tel: 01482 383107
email joanne.foster@sanctuary-housing.co.uk
Based in Hull

It is encouraging that financial inclusion developments are also taking place in Barnsley, Doncaster and Rotherham, involving local authorities, credit unions, CABs, churches and a variety of other local bodies.

Implications for Regional Policy

Regional partners are committed in the Regional Economic Strategy 2006-2015¹⁶ to 'sustainable communities':

'The whole renaissance approach is about what the Government describes as 'sustainable communities'. This idea runs right through this Strategy. It is about making places and neighbourhoods that have good quality of life. – encompassing access to jobs and opportunities, housing and the physical environment, facilities, transport, green spaces and play, and a sense of security and community.'

CRC considers that access to affordable credit, financial literacy training and good financial information and advice are important factors in quality of life for people in the region. Without them, there is no hope of a sustainable community. The present debt crisis makes these issues even more critical for the future well-being of the region. There is a need for regional partners to review their strategic planning and monitoring, with a view to:

- a) recognising financial inclusion as an important factor in quality of life; and high levels of personal debt as being debilitating to health and well-being.
- b) considering the regional implications of the initiatives being taken by central Government (see page 5-6); and
- c) supporting the initiatives being taken in Sheffield and Leeds and elsewhere (see page 7-10) and promoting the development of financial inclusion resources elsewhere in the Region.

Implications for the Financial Sector

The mainstream financial sector has an interest in avoiding a situation where there is a section of the population whose poverty is intensified by financial exclusion and debt burdens, affecting their ability to pay regularly for their rent, for public utilities and other vital household expenditure. Leeds is among the most

important financial centres in the UK. Many financial institutions have carefully considered policies of corporate social responsibility. Lloyds TSB and HSBC have developed new products for Muslims. The CRC urges financial institutions to lead the way in reviewing their policies in relation to providing affordable credit and other help to those on low incomes. It also requests that financial institutions deal compassionately and fairly with those struggling to repay debts in the present economic climate.

Implications for the churches

Churches are increasingly recognising the priority that the Bible gives to listening to, and responding with, the poor. In our society, this implies support for policies that tackle social exclusion (e.g. through organisations like Church Action on Poverty) and active involvement in local anti-poverty and regeneration efforts. More specifically, some churches are directly involved in financial inclusion through support for credit unions.

Jackie Berry, The Community Money Advice Centre, New Life Church, Hull

Jackie Berry has a passionate desire to help people in debt. She opened the Community Money Advice Centre in Hull almost 8 years ago, after receiving the encouragement and support of the New Life Church to which she belongs. The Centre has gradually grown to the point where it now involves 26 volunteers working 2 hour shifts to the drop in/appointment service that operates from 9am to 9pm each Wednesday. Advisors help clients with financial statements and negotiated settlements with creditors. The credit crunch has seen increases in the number of people seeking help, and Jackie hopes that other churches in the region might rise to the challenge in similar ways.

The following are some **action points** for churches and the voluntary sector:

1. Support collaborative action between church organisations and individuals concerned with financial exclusion.
2. Encourage churches to provide ready access to information about credit unions and debt advice agencies.

3. Encourage each local authority and strategic partnership to develop a strategy for financial inclusion.
4. Secure effective credit unions and low interest loan organisations across the Yorkshire and Humber region.
5. Secure effective money advice in each locality through liaison with local CABs.
6. Encourage schools and colleges to provide financial education and access to savings schemes.

David Wilford, CEO, Holme Christian Community, Bradford.

Holme Wood Outreach Advice Service was started by Holme Church in 1986. It is set in the Holme Wood estate of Bradford, one of the most deprived areas in the UK. We operate an independent advice service as part of Bradford Community Legal Advice Service Partnership (CLASP), which kitemarks our work. 4 advice workers deliver the service at drop in sessions on different days of the week, two at GP's Surgeries and four at Community Centres. We also offer a home visiting service for people with disabilities. We offer Independent, Impartial and Confidential advice across Welfare, Debt and Benefits and have recently been commissioned to deliver specialist debt work in a children's setting.

Debt is becoming ever more complex and solutions become more difficult as creditors take a harder stance. The work load has tripled in the last 2 years and lack of capacity is a real issue. We are funded through contracts with BMDC, tPCT and small grants. Our social return on investment for income generation has a ratio of 20:1 ie £20 for £1 of investment.

We are also pioneering some financial literacy training courses with the Local Authority.

Useful Information_

Sources:

Tackling Over-Indebtedness: Action Plan 2004.

Available as a pdf document from the DTI website at:

<http://www.dti.gov.uk/ccp/topics1/pdf1/overdebt0704.pdf>

Profiting from Poverty 2002

Available as a pdf document from the New Economics Foundation website at:

<http://www.neweconomics.org/gen/uploads/Profiting%20from%20Poverty.pdf>

Exclusion to Inclusion

Research into Financial Exclusion in Leeds and a study of alternative community based credit and savings systems by Salford University for Leeds City Council. Available from

http://www.leeds.gov.uk/files/Internet2007/2007/week32/inter_159fc532-92af-44ad-aa36-79485d2f2050_0ab3b03e-8944-4eb6-8ca3-7db2b8c05680.pdf

Promoting Financial Exclusion

HM Treasury Pre-Budget Report Dec 2004 available from [http://www.hm-](http://www.hm-treasury.gov.uk/d/pbr04_profininc_complete_394.pdf)

[treasury.gov.uk/d/pbr04_profininc_complete_394.pdf](http://www.hm-treasury.gov.uk/d/pbr04_profininc_complete_394.pdf)

Tackling Over-Indebtedness: Annual Report 2007

<http://www.berr.gov.uk/files/file42700.pdf>

Promoting Financial Inclusion in Rural Areas (Nov 2007)

A Report for the Commission for Rural Communities

<http://www.ruralcommunities.gov.uk/files/Promoting%20Financial%20Inclusion%20in%20Rural%20Areas.pdf>

Transitioning High Risk Low Income Borrowers to Affordable Credit (Aug 2008)

Detailed BERR report dealing with more recent strategies for financial inclusion

<http://www.berr.gov.uk/files/file47405.pdf>

Cold Comfort: A review of coping strategies employed by households in fuel poverty (Aug 2008)

http://www.infohub.moneyadvicetrust.org/content_files/files/cesi_cold_comfort_report.pdf

The Long Term Impact of Debt Advice on Low Income Households (2008)

First year report of a three year project funded by Friends Provident Foundation. Final report due in 2010. From [http://www2.warwick.ac.uk/fac/soc/ier/research/current/debt/wp2-](http://www2.warwick.ac.uk/fac/soc/ier/research/current/debt/wp2-the_year_1_report_-_executive_summary.pdf)

[the_year_1_report_-_executive_summary.pdf](http://www2.warwick.ac.uk/fac/soc/ier/research/current/debt/wp2-the_year_1_report_-_executive_summary.pdf)

Protecting Low Income Borrowers in the Credit Crisis (Dec 2008)

A report by Rt Hon Ian McCartney MP and Damon Gibbons, Chair of Debt on our Doorstep

http://www.debt-on-our-doorstep.com/files/Protecting_low_income_borrowers_in_the_credit_crisis.pdf

West Yorkshire Ecumenical Council – A Statement on Debt (Feb 2009)

http://www.wyec.co.uk/index.php?section=page&page_seq=23

A Life in Debt (Feb 2009)

Citizen's Advice Bureau briefing, profiling CAB debt clients in 2008

http://www.citizensadvice.org.uk/a_life_in_debt

Organisations:

Church Action on Poverty

A national ecumenical Christian social justice charity, committed to tackling poverty in the UK. It works in partnership with churches and with people in poverty themselves to find solutions to poverty, locally, nationally and globally. Also publish 'Your Key to Successful Lobbying', particularly useful for local church groups who want to make a difference in relation to both domestic and international poverty issues at UK and European Union levels. Priced £2.50. t 0161 236 9321 e info@church-poverty.org.uk w www.church-poverty.org.uk.

Debt on our Doorstep

Debt on our Doorstep is a national campaigning organisation which aims to end extortionate lending and ensure universal access to affordable credit and other financial services.
w www.debt-on-our-doorstep.com

The Consumer Credit Counselling Service

A registered charity whose purpose is to assist people who are in financial difficulty by providing free, independent, impartial and realistic advice. FREEPHONE helpline is open from 8am to 8pm Monday to Friday t_0800 138 1111 e contactus@cccs.co.uk
w www.ccs.co.uk

Credit Action

Aim to helping people manage their money better. Our passion is to help people stay in control, rather than let money control them and disrupt their lives through over indebtedness.

t **01522 699777**

e office@creditaction.org.uk

w www.creditaction.org.uk

Citizens Advice Bureau

CAB helps people resolve their legal, money and other problems by providing free, independent and confidential advice, and by influencing policymakers. Find your local office by visiting www.citizensadvice.org.uk/index/getadvice t 0207 833 2181

Financial Inclusion Services Yorkshire (also Moneyline Yorkshire and Sheffield Credit Union)

Unit 6, The Gallery, Castle Market Building, Exchange Street, Sheffield
S1 2AH. t 0114 2760787 e enquiries@fisy1.co.uk.

Credit Unions

Financial co-operatives owned and controlled by their members. They offer savings and great value loans plus they are local, ethical and are also often linked to many local advice centres. Find your nearest office at www.abcuk.org.uk or t 0113 2448324 (Yorkshire Chapter of Credit Unions)

Leeds City Credit Union Ltd.

Westminster Buildings, 31 New York Street, Leeds LS2 7DT.

Tel: 0113 214 5252

e-mail: services@leedscitycreditunion.co.uk

website: www.leedscitycreditunion.co.uk

National Debtline

Free, confidential and independent service funded by the DTI and the credit industry Helpline open Monday - Friday 9am-9pm and Saturday 9.30am - 1pm t 0800 808 4000

w www.nationaldebtline.co.uk

Age Concern

The Age Concern Information Line provides a service to older people and their relatives and friends, as well as professionals and carers which includes money matters. Fact and information sheets also available online. t_0800 00 99 66 (open 7 Days a Week, 8AM - 7PM) w www.ageconcern.org.uk

Christians Against Poverty

Aims to relieve poverty through debt counselling, advice and practical help and to demonstrate God's love in a practical way. Also provides support for churches setting up a local centre.

t 01274 760720 e info@capuk.org w www.capuk.org

Now Let's Talk Money Campaign

Dept of Work and Pensions website for hard to reach excluded consumers

<http://www.nowletstalkmoney.com/>

Notes

¹ Which Report to Treasury Selection Committee on Financial Inclusion 9 January 2006.

² Presidential address to the Royal Economic Society on 8 April 2003.

³ Office of Deputy Prime Minister: 'Action on Debt' 2004.

⁴ 'Beyond Bank Accounts: Full Financial Inclusion' by Sue Regan and Will Paxton. IPPR and Citizens' Advice. 2003.

⁵ DTI: 'Fair, Clear and competitive: the Consumer Credit Market in the 21st Century'. Dec 2003.

⁶ DTI: Press Notice of 26 August 2004 'No interest rate ceiling – for now'. See also Policies Report for DTI: 'The effect of interest rate controls in other countries' on DTI website and commentary on Debt on our Doorstep website.

⁷ See National Consumer Council website: www.ncc.org.uk/moneymatters/home_credit.pdf. A 'super complaint' is a complaint that 'any feature or combination of features in a market in the UK is or appears to be significantly harming the interests of consumers.'

⁸ See paras 5.24-5.28 of Budget Report on Treasury Website.

⁹ Family Resources Survey 2004-05. Table 5.1. DWP website.

¹⁰ Progress in the Region 2006. page 152.

¹¹ Ibid page 134.

¹² NCC paper (see 7 above) and R Murphy: 'The case for an interest rate cap in the UK'. Debt on our Doorstep. 2003.

¹³ www.islamic-banking.com and www.amanahfinance.hsbc.com

¹⁴ Figures from the Yorkshire Credit Union Project, which ran from 2000-2004. This project ended in 2004 and unfortunately no one now keeps figures of total regional credit union membership. , embracing both ABCUL and non-ABCUL members.

¹⁵ Press Notice of 22 May 2006 on ABCUL website.

¹⁶ Regional Economic Strategy for Yorkshire and the Humber Summary 2006-2015, page 15.