Personal lending: tackling financial exclusion through social investment

This is a guide to personal lending. It looks at:

1. What is personal lending (using social investment)?
2. Why is personal lending part of Big Local?
3. What are the risks of personal lending?
4. How does personal lending work - who administers the loans?
5. How do we select a community finance organisation to work with?

1. What is personal lending?

Through social investment, it is possible to make personal loans. This means making small loans available to people who cannot borrow money from high street banks. In fact, if someone can get an affordable loan from a high street bank, it probably isn't appropriate to give them a personal loan supported by Big Local money.

The average social investment personal loan is around £450, borrowed for 11 months, with an average interest rate of 67% annual percentage rate (APR). As a comparison, Provident Personal Finance is charging 272.2% APR for a similar loan, and Wonga charges a typical APR of 1,509% APR.

Using social investment to support personal lending can help make your area an even better place to live. It can also improve life for the borrowers, their families and the communities in which they live. For example, you might use social investment to support credit unions to offer saving and lending services to local residents. These can help parents to pay for Christmas or other festivals, help families to make their homes more energy-efficient and reduce their heating bills, or help residents escape the trap of loan sharks and learn to manage their money better and keep more in their pockets. And social investment often involves some help budgeting as well.

Case study
Fair Share Credit Union is working with two Big Local areas (Three Parishes and Brookside) to build credit union membership among residents, increase savings levels, provide debt counselling and save people money by charging lower interest rates. They will also support school-saver clubs for children in local schools and offer loans to small businesses and community organisations.

2. Why is personal lending part of Big Local?

Supporting personal lending in your area may help tackle particular problems and achieve your shared vision for the area. Helping people to understand and manage their money develops valuable skills which many people have never had the opportunity to learn. Unmanageable debt can cause damaging stress, and we know that people feel empowered when they manage their own money better.

Some of the problems that personal lending can help to address:

- High interest rates charged by doorstep and internet lenders and payday loan companies, starting at 150% and, in some cases, rising to over 2,000%
- High heating costs for older home owners, who cannot afford to insulate their houses
- Lack of transport that prevents people from working, when a car, car insurance, a train season ticket or access to a more affordable loan might be the break they need
- Setting up house - white goods such as furniture, fridges and washing machines for people moving into their accommodation for the first time.

Personal lending, using social investment, can offer other benefits to your Big Local area. Each time a personal loan is successfully repaid, the money can be used to support other people. Over time, this means that you may be able to do more with your money and make a bigger impact.

Case study
In Rochdale, the Kirkholt Big Local partnership is exploring links between mental health and financial resilience, bringing together the council, public health and clinical commissioning groups and the community. The Big Local social investment rep says. "*Where communities are under pressure due to debt, and when incomes are squeezed further by low wages, welfare reforms and debt, then mental health problems are made much worse. There is a good case for investing in projects to boost local financial resilience and working in partnership with Big Local areas as part of tackling health inequalities*".

3. What are the risks?

Sometimes personal lending is not the right answer. For example, if:

- someone needs money now, and there is no real chance that they can generate social or environmental return, or have enough income to repay a loan
- people take personal loans they cannot repay, and feel resentful when the lender takes action against them
- there is no local demand for personal lending, so your social investment will not deliver the improvements to your area that you hoped for.

As with any financial investment, social investment can be risky. Whether it is a loan or a grant, there is no guarantee that you will achieve the results you are aiming for. You must review your plan and be clear about how much risk you are willing to take on and how you will learn from the successes and failures of your investments.

4. How does personal lending work (who administers the loans)?

If your Big Local area is interested in offering personal lending using social investment, you will need to work with an institution that is legally able to provide different types of loans. There are two types of community-finance institutions that provide personal loans through social investment: credit unions, and community development finance institutions.

Credit unions are run by their members for their members and offer savings accounts, loans and other financial services. They serve everyone, but they often have a special mission to serve low income communities. They are regulated by the Financial Conduct Authority and are members of the Financial Services Compensation Scheme. Credit unions are member-owned co-operatives and any profits are shared by their members or re-invested in the credit union.

Case study
Winterton Big Local is working with North Lincolnshire Credit Union to reach agreement on an investment and grant. Small Change carried out a due-diligence check to ensure North Lincolnshire Credit Union is a good organisation for Winterton to invest in. This check is carried out on all credit unions and community development finance institutions before an investment is made.

Community development finance institutions (CDFIs) lend money to individuals and businesses that struggle to access finance from high street banks and loan companies. They help deprived communities by offering loans and support at an affordable rate to people who cannot access fair credit elsewhere. Community development finance institutions do not aim to make a profit but to support communities by providing affordable finance that would not otherwise be available.

Credit unions and community development finance institutions provide a range of loans for:

- buying larger items such as furniture, fridges, washing machines or cars
- home improvement, for example to insulate the homes of older home-owners who can repay the loans from savings on their energy bills
- debt management, helping people escape from the trap of very high interest rates charged by payday and doorstep lenders
- minor household upgrades, repairs and maintenance.

Case study
North West Ipswich Big Local decided to work with East of England Savings and Loans. They agreed to give a grant of £5,000 and to make a social investment of £20,000. In return, the credit union has agreed to set up junior savers' schemes in local schools, and to help residents join the credit union (saving £30,000 a year in interest), and open ‘jam-jar’ budgeting accounts.

5. How do we select a community finance organisation to work with?

If your area wants to fund personal lending using social investment, Big Local social investment reps and Small Change can help you to select a credit union or community-development finance institution to manage the lending on your behalf.

More information

For more information on social investment talk to your Big Local social investment rep. Or you can talk to Local Trust by ringing **020 3588 0565** or emailing: info@localtrust.org.uk.

This document will be developed over time with input from the people using this material.

If you have thoughts on how this document can be made more useful for you, particularly if you live in one of the Big Local areas, please let us know.

Local Trust

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The endowment for the Big Local programme is held by the Big Local Trust and overseen by Local Trust. The Big Local Trust was established by the National Lottery Community Fund with a National Lottery grant of £196,873,499.

If you need this document in other formats or a community language please get in touch with Local Trust and we will help you.

Published by Local Trust, July 2015

Local Trust company no. 7833396, charity number 1147511

Big Local Trust charity number 1145916