

Housing Practice

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Working in partnership with credit unions



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Working in partnership with credit unions

In recent years, work designed to help tenants to manage their money better and to access affordable credit has become an increasingly important activity for most landlords. However this work is now taking on even greater importance in light of the economic downturn and the government's proposed welfare reforms.

Under the reforms many households in social housing will experience a reduction in their Housing Benefit, potentially leading to financial problems and making them vulnerable to high cost door step lenders and loan sharks. For landlords, there could also be a threat to their rental income.

Ultimately the government intends to integrate Housing Benefit into a new, single Universal Credit. This process will begin from 2013. It is the government's intention that for most households Universal Credit will be paid to the recipient on a monthly basis, to bring it into line with the way salaries are paid. This will end the current practice of Housing Benefit being paid direct to the landlord on a fortnightly basis, further increasing the importance of work to help low income households access financial advice and services.

One way in which housing providers can begin to prepare for these changes is by working in partnership with a credit union.

What are credit unions?

Credit unions are non profit making financial services co-operatives set up by members for members. All the directors of a credit union are volunteers, and some are run exclusively by volunteers, whilst others have a mixture of volunteer and paid staff.

Credit unions are part of the co-operative movement which was founded on the principles of self help, equality and solidarity. In fact the credit union movement could be seen as one part of the original 'Big Society'.

There are currently nearly 600 credit unions in Great Britain. They vary greatly in size, coverage and the types of products and services they offer. However despite the differences, they share some common features which determine how they are run and who can join.

Who can join?

Credit unions have to have a pre determined membership criteria referred to as a 'field of membership'. Often these are related to living or working in a specific area or working for one employer. However, in 2012 these rules are expected to change allowing credit unions to include other categories of members. For example a credit union could decide to accept membership from all residents of a particular housing provider, irrespective of where the residents live.

What do credit unions offer?

Credit unions are individual organisations and offer different products but all credit unions encourage saving and offer affordable loans. Additionally some offer current accounts, pre payment cards, junior savers accounts, ISAs and insurance. Some credit unions have also worked in partnership with housing providers and local authorities to offer niche products such as new tenancy furniture loans and Local Housing Allowance rent payment schemes.

Savings are covered by the Financial Services Compensation Scheme which offers the same safeguards to credit union members as those with deposits in UK banks or building societies.

Interest may be paid to savers in the form of a small dividend and borrowers pay interest on their loans at a rate fixed by law at no more than 2% per month on the receding balance of the loan. From 2012 it is expected that credit unions will have the option to offer interest instead of a dividend.

Credit unions are intended to finance themselves by investing members' savings in loans and charging interest on the principle. The amount paid in dividend or retained to build financial reserves varies. Operating costs are often low for the typically smaller credit unions as they tend to use volunteers and share premises with others, and some get space rent free.

Traditionally members are assessed on their savings record before a loan is made. Loans can be made for small amounts and for variable periods: options not generally provided by mainstream credit institutions. Loans are made at rates which are competitive compared to the rate that members could obtain elsewhere, and this helps people with low credit profiles who have difficulty obtaining credit from mainstream sources.

In 2007 the government made funding available to some credit unions to enable them to offer instant loans. Known as the 'Growth Fund', this meant that new members did not have to save before they could apply for a loan. This made affordable credit more accessible and reduced the need for households on low incomes to use high cost credit such as door step lenders and rent to buy schemes. It is estimated that the total investment of £98 million resulted in a saving of £177 million in interest for low income customers.

What is the difference between a credit union and Community Development Finance Institution (CDFI)?

CDFIs were originally set up to offer affordable loans available to individuals, small and medium businesses and social enterprises. Unlike credit unions, CDFIs do not have members and are usually run by paid staff. CDFIs cater for individuals and businesses. Mainly offering loans, they also help people to access other financial services such as savings and bank accounts.

Some CDFIs have been developed in partnership with housing providers or with significant investment from the housing sector.

Unlike credit unions, CDFIs are not limited in the interest rate they charge so their interest rates are usually higher than those for credit unions. However CDFIs often also cater for a customer base with a less favourable credit rating and no record of savings.

Is the government investing any more funds in credit unions?

Building on the Department for Work and Pensions' (DWP) Growth Fund (which ended on 31st March 2011), support for credit unions may continue for up to four years through the new modernisation and expansion fund of up to £73 million.

The objectives of the new fund are:

- To enable delivery of financial services, such as bank accounts, a bill payments service and credit and savings products to financially excluded people and people on lower incomes
- To support the expansion and modernisation of credit unions to the point where they are able to become financially sustainable within 4 or 5 years.

During April to September 2011 a feasibility study, conducted by the DWP, examined the scope and options for the modernisation and expansion of credit unions, including the readiness of credit unions to expand as described.

Following feasibility testing, decisions will be made on the way forward and a further announcement will be made in the Autumn of 2011.

Why work in partnership with a credit union?

Improving the availability of low cost credit is an important way of helping people on lower incomes avoid high cost lenders and loan sharks. Most credit unions also promote savings alongside borrowing by encouraging members taking out loans to pay a slightly increased loan repayment in order to build up a small savings pot whilst paying off the loan.

The benefits of a partnership

An effective partnership between a housing provider and a credit union will benefit residents, the wider community and help both organisations meet their business objectives. Working with a credit union can help providers meet their financial inclusion targets by enabling them to offer residents access to:

- Savings products
- Affordable loans
- Transactional banking
- Home contents insurance
- Financial education and support with money management.

Members of a credit union generally appreciate the face-to-face service, availability of support and advice, and that there is no 'hard sell' to buy financial products or take on additional loans that they can't afford. Many may previously have had bad experiences managing traditional current accounts which have resulted in bank charges and expensive unauthorised overdrafts.

For providers, tenants choosing some methods of payment, such as Post Office giro or cash, will result in increased transaction and rent collection costs. Working with a credit union who offer cheaper products, support tenants in managing their money and give them the opportunity to save and access affordable credit can help to reduce this.





How housing providers can work in partnership with a credit union

Credit unions are also increasingly offering new financial products aimed at supporting tenants in managing their money. Housing providers and local authorities could consider buying or subsidising these products on behalf of their tenants.

With the expected end of direct payments of Housing Benefit to landlords and the introduction of Universal Credit, with a possible switch to monthly lump sum payments for many households, providers should be actively considering the type of products and services that would support tenants in managing their money and help safeguard rent payments. For example, in the future, credit unions may be able to offer 'Jam Jar' accounts which help tenants manage their money by creating accounts that divide the balance into separate 'pots' and allow tenants to spend money from one pot, whilst saving in another.

As well as promoting credit union services to their residents, many housing providers already support local credit unions both financially and by giving support in kind. This could include offering:

- Premises
- Staff time
- Back office support.

In some cases senior housing staff have also become credit union board members offering specialist expertise with business development.

Housing providers have also promoted credit union services to their own staff as well as residents. For example, many pay the membership fee as a joining incentive and also offer a small opening balance as a savings incentive.

How far can I go in promoting a credit union's services? Could I risk breaching financial regulations?

The Financial Services Authority have developed a set of guidelines specifically for housing providers around working with financial institutions and promoting financial products and services. This can be found on their website at:

www.fsa.gov.uk/pubs/guidance/guidance9.pdf

In future, legislative changes will also allow housing providers to use credit union services for some of their own business transactions and to invest in credit unions through the purchase of 'deferred shares' which would be held by the credit union and provide it with additional lending capital.

Top tips for effective partnership working

1. Understand the needs of your residents and the services currently available in the area, particularly regarding saving, banking and access to affordable credit. Understand what the credit union currently offers and their current capacity.
2. If the credit union doesn't currently have capacity to meet the expected needs of your residents you could support them to develop by:
 - Offering premises or administrative support
 - Joining their board
 - Offering support with marketing or HR
 - Promoting membership to your own employees.
3. Consider the business case for investment in a credit union.
 - Would subsidising or paying for money management accounts lower future transaction cost as well as helping to ensure rent is paid?
 - Is long term investment possible to help support credit union activities in the form of deferred shares?
 - Could the credit union be used to provide a part of your business banking?
4. Incorporate credit union services in to your other financial inclusion or worklessness activities.
 - Promote credit union membership and services to tenants and residents as an integral part of day-to-day engagement
 - Offer incentives to residents to join the credit union and keep saving with them
 - Offer residents training placements at the credit union
 - Support or co-fund financial capability work.
5. Ensure that mechanisms are in place for effective communication, monitoring and feedback.

Practice Example Charter Housing Association

As part of its community investment work, Charter Housing has been involved in supporting credit unions for over 12 years. It does this in a number of ways including by promoting membership of credit unions to its tenants with its voucher scheme. This scheme enables tenants who join the credit union in their area to get a £10 voucher to pay for the £1 share membership and the balance to open the new account. It has also provided credit unions with funding to produce information leaflets, websites and marketing.

Charter is part of the Seren Group of companies which employs almost 1,000 staff and it promotes credit union membership to all staff through payroll deduction and through its staff benefits scheme.

Charter has been particularly involved with Newport Credit Union. It was part of the

group that set up the credit union in north-west Newport, later expanding to cover the whole city. Over 10 years it has supported the credit union with funding bids, being lead partner for the Welsh Government funded feasibility study to expand the credit union and writing the European Objective 2 funding bid which enabled the expansion to take place.

Key areas of support have been in mentoring staff and Board members, management development, HR and Finance with senior management staff from both Finance and Housing sitting as Board members at various times. Charter is helping to develop new services and expand the expertise of the Board. Some of the services the credit union provide include both general loans linked to savings and unsecured 'fastrac' loans for new members which are up to £300 and available within 48 hours. Junior Savers and Child Trust Funds are also standard. Loans for white

goods packages will shortly be promoted through the Charter tenants' magazine and in lettings packs.

Charter Options is Charter's social lettings agency managing and letting properties owned by private sector landlords to supplement the homes available to people on low incomes in Newport. It is working with the credit union to develop Local Housing Allowance direct payments to reassure landlords that letting to people receiving benefits is a less risky option.

Other initiatives have included joint events with the credit union to support financial inclusion, such as road shows to estates and tenant fun days to promote saving and debt management or when Charter is targeting areas where there are high numbers of doorstep lenders.



Practice Example Bolton at Home

Bolton at Home has helped and supported the credit union by:

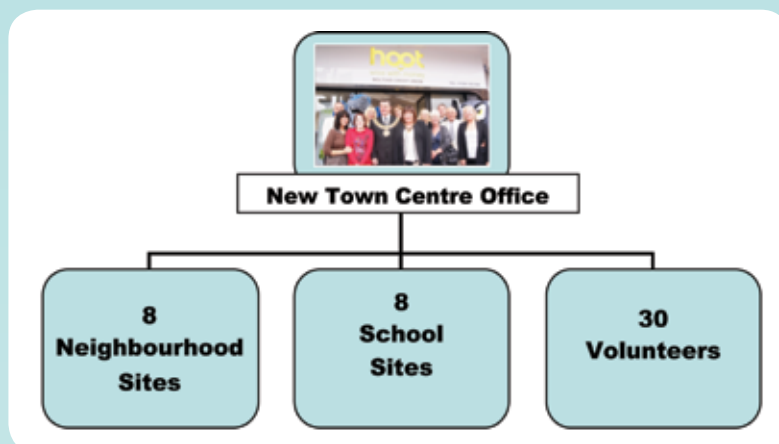
- Employing and seconding staff over to the credit union on Bolton at Homes Terms and conditions
- Providing governance support and training
- Enhancing products and services
- Providing business and finance support, for example business planning
- Helping to integrate this work into Bolton Councils' Financial Inclusion Strategic Action Plan.

In addition, Bolton at Home continue to co-fund the credit union along with Bolton Council via grant contributions.

In 2008, Bolton at Home entered into a partnership agreement with Bolton Credit Union and Bolton Metropolitan Borough Council to provide Bolton's credit union with advice, support and resources, after it became clear that the credit union was facing a potential funding crisis.

In order to provide access to more people within Bolton, Bolton at Home realised that it needed to take its services into local community areas. In 2009 the credit union was re-branded and became Hoot - Wise with Money! In 2010, Bolton at Home won a funding bid from Barclays Community Finance Initiative which provided the credit union with funding and a volunteer coordinator to develop the project.

Bolton at Home continued to work with the credit union's Board of Directors to develop a more sustainable model of the credit union services for the whole of the borough. A new working model was developed:



The credit union now has 8 established collection points and 8 schools participating within the Bolton Borough which is supported by a strong volunteer workforce.

One of those offices is the Brightmet Urban Care and Neighbourhood Office (UCAN), which was established in September 2010 as a Hoot community collection point. Today, this is one of the most successful community points within Bolton. This is due to a successful marketing campaign but also how Bolton at Home engaged with Hoot, other service providers and members of the community.

Prior to 2010, Hoot tended to market itself as simply a loan provider, however, with the appointment of the volunteer coordinator, work commenced in Brightmet to attract both savers and those seeking loans. The initial marketing strategy was to promote Christmas savings accounts. It was through a successful campaign of attracting savers that enabled the UCAN to establish itself as a regular contact point for Hoot.

Volunteers were recruited to run a weekly 'cash collection' facility to enable a safe environment for customers to make saving or loan repayments. Since September 2010, Hoot has collected over £8,000 in savings and loan repayments, attracted over 100 new members and serviced 50 loans via the UCAN.

Brightmet UCAN management team is very successful and proactive in engaging with members of the public and other service providers. This has also helped to establish Hoot within the centre. The UCAN now provides regular weekly sessions with Hoot, Money skills and Citizens Advice to offer a full debt and welfare service to compliment Hoot.

It recognises that residents who are on low incomes are quite often excluded from mainstream financial products, have poor financial literacy and as a result are more likely to be in debt. Whilst there are services within Bolton that deal with this, the UCAN has worked hard to establish itself as a provider of all these services within the one location.

Not only will those who are in serious debt be able to access debt and welfare advice but they will also be supported to improve their financial literacy and given support to access more mainstream forms of affordable credit via Hoot.

At the same time customers will be able to access the service before their debt problems become impossible to manage. It is the range, flexibility of service and the cross referral between services that makes this project a success.

Credit unions and the private rented sector

A number of credit unions have developed private sector rent payment schemes to assist tenants in private rented accommodation pay their rent. In one scheme in Port Talbot and Port Neath Wales the landlords agree to receive 95% of the Local Housing Allowance with 2.5% going to the tenants in the form of a savings scheme and 2.5% being retained by the credit union as an administration cost.

Practice Example Bristol Community Housing Foundation

The partnership between Bristol Community Housing Foundation (BCHF) and Bristol Credit Union (BCU) started in 2002. BCHF provides space for BCU to have weekly sessions for customers, inputs skills through the Board and publicises BCU to tenants. BCU provides financial services to BCHF tenants which includes saving accounts, access to affordable credit and the Credit Union Current Account.

The two organisations work closely on strategic areas of mutual benefit, for example on funding bids for financial inclusion work and on developing products such as ring fenced 'Jam Jar' accounts designed to secure Housing Benefit payments.

The benefits for BCHF include good publicity, strong arrears performance and increasing development links, while BCU have benefited from increased membership and associated money and the input of financial expertise at Board level. The tenants have increased access to services which increases their chances of avoiding financial exclusion.

Useful links

- Association of British Credit Unions Limited: <http://www.abcul.org/home>
- Two regional online and telephone projects, London Money and Northern Money, have recently been set up to give information on what credit unions can offer, and help people to find their nearest one:
- Northern Money: <http://www.northernmoney.org.uk/home>
 - London Money: <http://www.londonmoney.org.uk/What-is-a-Credit-Union>



78% of housing providers are **worried** about increased rent **arrears**

We can help.

Building on the success of our financial inclusion projects, CIH has launched a new national support service, focusing on income management to help you overcome the economic challenges facing the sector.

The CIH Income and Inclusion Service is made up of specialists who can provide strategic and operational support for your organisation to help maximise your income collection and improve your tenants' wellbeing.

We provide expert policy advice, support, research and training tailored to the needs of your organisation.

For more information on how the CIH Income and Inclusion Service can help your organisation, contact the Income and Inclusion team on 024 7647 2720.

CIH can:

- Provide expertise on skills, practice and policy for your income and inclusion services
- Provide executive briefings on financial and economic inclusion
- Carry out health checks and service reviews for your Income Management teams
- Deliver in-house training, business case and IT support for Income Management systems
- Support development of feasibility studies, strategies and grant applications
- Facilitate partnerships between housing providers and finance and charitable support institutions

Source: CIH UK Housing Panel, September 2010

