



Credit unions – part of the solution

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Tackling Payday Lending and Gambling – Ministerial Summit
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Part of the solution

- **Is there a demand for instant credit?**
- **What's the problem?**
- **Can credit unions help?**

Is there a demand?

- UK payday lending industry worth **£2.2 billion**
- Estimated **over 1 million customers** borrowing regularly
- Turnover of the top 10 lenders grew from **£300m** in 2010 to **£800m** in 2013
- Largest payday lender made **£1.2m profit per week** last year

Is there a demand?

- Consumers expect instant lending decisions
- Must **instant credit** be **short term credit**?

Is there a demand?

- London Mutual Credit Union
 - Payday loan product pilot
 - Offered borrowers option to repay over 1, 2 or 3 months
 - Only 29% chose 1 month
 - 59% chose to repay over 3 months



London Mutual
Credit Union

Good with your money

Is there a demand?

- Clear consumer demand for **instant credit**
- But consumer demand is **not for short term credit**

What's the problem?

- Example:
 - Take-home pay is £1,000 per month
 - Borrow £200 for 7 days
 - On payday, lender takes £220 repayment
 - **You now have only £780 to get through a whole month**

What's the problem?

- The purpose of credit is to spread an expense over a longer, affordable period
- Having the money in your account on payday does not mean the loan is affordable
- Focusing solely on interest rates risks missing the point

Can credit unions help?

327,000 members

Including 44,000 juniors

£388m in assets

43% growth in 5 years

109 credit unions

£335m in savings

354 employees

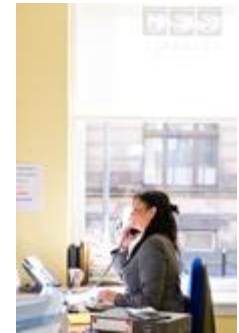
Pre-tax profit of £8.8m

£240m out on loan

400 new members per week

Can credit unions help?

- A financial co-operative owned and controlled by its members
- Volunteer directors elected from membership
- One member, one vote
- Membership based on “common bond”
- From less than 200 to over 30,000 members



Can credit unions help?

- Payday lender
 - needs to make money from lending
- Credit union
 - needs to make money from lending

Can credit unions help?

- Challenges:
 - Availability and accessibility of credit union services
 - Attracting a mixed membership
 - Competing with other financial services providers
 - Meeting consumer expectations of automation and quick decisions

Can credit unions help?

- Not all credit unions have the capacity or the desire to offer quick credit
- Lower value, shorter term loans carry high costs
- “Higher risk” borrowers carry a higher risk!

Can credit unions help?

- Proven track record with DWP Growth Fund lending
 - 400,000 loans worth £175m
 - Vast majority delivered by credit unions
 - Average loan of £428
 - Borrowers saved up to £135m on interest payments to high cost alternatives

Can credit unions help?

- Credit unions upgrading their technology
- Automated lending decision tool developed and in use by Credit Union Expansion Project credit unions
- Credit union interest rate cap has been raised to 3% per month (42.6% APR)
- Partnerships with employers are crucial

Can credit unions help?

- Should credit unions become “good” payday lenders?
 - Instant loan product can attract consumers away from high cost options
 - Gateway to broader range of credit union products and better approach to money
 - Improved financial capability should reduce demand for payday loans



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