



Circling the Loan Sharks

Predatory lending in the recession and
the emerging role for local government

Chris Leslie and Alex Hood



New Local Government Network (NLGN) is an independent think tank that seeks to transform public services, revitalise local political leadership and empower local communities. NLGN is publishing this report as part of its programme of research and innovative policy projects, which we hope will be of use to policy makers and practitioners. The views expressed are however those of the authors and not necessarily those of NLGN.

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Prepared by NLGN
First floor, New City Court, 20 St. Thomas Street, London SE1 9RS
Tel 020 7357 0051 . Email info@nlgn.org.uk . www.nlgn.org.uk

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Summary

When communities develop acute social and economic difficulties, local authorities are at the frontline to pick up the pieces, providing support and assistance to those in greatest need. The current economic downturn is causing unemployment and hardship especially in disadvantaged neighbourhoods – and in acute cases there is evidence to suggest that the pernicious trend of illegal unsecured lending at extremely high rates of interest, or ‘loan sharking’, is making a comeback. We believe that this year will see a significant increase in the numbers of those vulnerable to loan sharking – to over 200,000 people nationwide.

In this short paper we analyse the conditions which suggest loan sharks are likely to thrive in the year ahead. We argue that despite national Government action and charitable hard work, local authorities are best placed to bear down on illegal lending and help their most vulnerable residents escape the dangers of loan sharks. Tackling illegal lending and combating financial exclusion means more than helping the vulnerable and enforcing the law; it also makes sound common sense to ensure that local residents are able to contribute to society in the normal way rather than see their financial difficulties blight the wellbeing of the wider economy.

Local government is well poised to play a role in reducing financial exclusion and the risks from loan sharking, and we identify seven ways in which council leaders and chief executives can actively engage in this agenda. We recommend councils consider:

- 1.** Mapping predatory lending and analysing local need
- 2.** Promoting financial literacy and public awareness
- 3.** Enhancing enforcement against illegal lending
- 4.** Actively supporting Credit Unions and third sector sub-prime lending
- 5.** Identify financial exclusion as a Local Area Agreement priority
- 6.** Using the leverage of the council to persuade their banks to support local lending
- 7.** Proactive Council Banking initiatives including direct intervention

1 *Analysing the problem*

Statistics indicate that a confluence of indebtedness, disadvantage and the diminished availability of regulated sub-prime credit are creating the conditions where a sizeable number of people have little option but to borrow from nefarious sources.

Predatory lending, where unregulated individuals often back up debt collection with threats, blackmail or violence, had become relatively uncommon during times of economic prosperity, when ample availability of regulated legal credit and thriving sub-prime lending gave options to virtually everyone. However, the seismic impact of the credit crunch in 2008 has not only created pain for businesses and mortgagees; it has led to a set of circumstances where exploitative lending can flourish.

According to a study conducted by the Personal Finance Research Council (PFRC) and Policis for the DTI (now BERR) - *Illegal lending in the UK* (Nov 2006), at least 1 65,000 people used loan sharks in the UK. We can expect this number to increase sharply, as we illustrate in this paper.

While the theoretical analysis of this problem is illustrative enough, it is the individual horror stories of real life encounters between desperate people and illegal lenders that paint the strongest picture of the harm that may be on the increase.

CASE ONE

Fear and Harassment

Jill, a mother of a four year old daughter has a series of debt problems, one of which involves a loan shark with a low tolerance for late payment. If payment is delayed by even a day an additional 15% is demanded.

She recently moved in with her mother because her window was smashed by a thrown brick, she assumes from associates of the loan shark. With local stories about substantiating her lender's reputation of 'kneecapping' defaulters, she has resorted to making payments via her friend as a third party, in order to avoid meeting the individual to whom her debt has accumulated.

CASE TWO

Compounding Financial Problems

A single parent of two young children, Joanne is unable to work due to mental health problems, and has priority debts (utilities etc) of £6000 and a further £600 of non-priority debts. Her ex-boyfriend had a debt with what Joanne describes as a 'loan shark', who has transferred pursuit of his debt to her and has been threatening to 'put her windows through' unless payment is made.

In an attempt to resolve the problem Joanne persuaded her ex-boyfriend's parents to contribute £200 per month directly to her bank account so that she could make repayments to the loan shark. However, the Benefits Service discovered these payments and assuming it to be additional income made the decision to reduce Joanne's benefit entitlement and claw back sums considered overpayments.

Joanne is unable to persuade her ex-boyfriend's parents to explain to the Benefits Service why she was in receipt of their money and because she could not get receipts from the loan shark to evidence the debt repayment she has had no choice but to shoulder the reduction in her personal income.

CASE THREE

Isolation and Dependency

John has a history of mental illness and is familiar to the community psychiatric nursing team. He lives with his ex-wife and claims incapacity benefit. He lost his employment as a result of a nervous breakdown and there are concerns about whether he may be at risk of self-harm.

With no income and no assets he decided to sell his home. While waiting for the sale to complete John needed to obtain financial support and was introduced to an unregulated lender who has turned out to be a unlicensed loan shark and who charges extortionate interest rates.

There have been threats to John at his home if repayments are not made in full and on time. Facing difficulties in obtaining capital from a slow sale

of his home, John even obtained a letter from his solicitor to show the loan shark that the sale would happen in order to prove payment would eventually be forthcoming. In the end, John handed all his money over to the loan shark and has been left with nothing to pay his existing £30,000 debt.

John has been paralysed with fear and is afraid to act, worried that he cannot consider bankruptcy because the court will ask about the sale of the house and the proceeds. At present John is living courtesy of his ex wife's generosity.¹

Ensuring that basic living standards can be maintained demands a level of money management which invariably requires basic credit facilities, especially to purchase home essentials such as furniture, kitchen equipment, clothing and bedding. Families face larger 'one-off' costs of equipment for new babies and an ability to borrow small sums on simple terms is a key necessity of modern living, particularly when saving is not always an option.

Estimates suggest that a growing proportion of the population will be excluded from mainstream credit and increasingly running out of legitimate options as the recession continues, and it is this impoverished minority most at risk of extreme deprivation and fertile territory for illegal lending.

¹ Anonymous case studies courtesy of debt advice charities May 2009

2 *Regulated sub-prime lending*

Of the £232bn or so of personal debt in the UK, only £16bn is thought to be sub-prime consumer credit. There are now thought to be ten million people who use ‘non-standard’ or ‘sub-prime’ consumer credit’ in the UK², up from eight million in 2003.³ However, although non-standard credit is more expensive than that found in the mainstream, the regulated and legal market can at least ensure that consumers have some redress, with basic standards of collection and repayment enforceable by law and often policed by local trading standards officers.

A significant proportion of the ten million people who are served by this class of credit are unable to access mainstream financial products from banks or building societies. For example there are currently 2.8 million people living in 1.8 million households that do not have access to any kind of bank account (and beyond this excluded group) and 8% in England are without a current account (with chequebook and overdraft facility) that the majority take for granted.⁴

The UK’s hitherto large ‘door-step lending’ market, built up thanks to comparatively liberal home-credit regulation, is much more able to reach the sub-prime market than is often the case in other European countries. This widespread home-credit availability has historically limited the scope for illegal lending⁵ but where the availability of regulated non-standard credit is scarce there is the greatest risk of people turning to the illicit market.

Atrophy in the wholesale capital markets worldwide has transformed the market for sub-prime credit, causing many lenders to suspend their loan books or employ more discriminatory techniques in order to avoid riskier borrowers or those most likely to default. As a result, an increasing number of home-credit customers have maximised their borrowing line and have turned to pawnbrokers and payday lenders as the next-to-last resort.

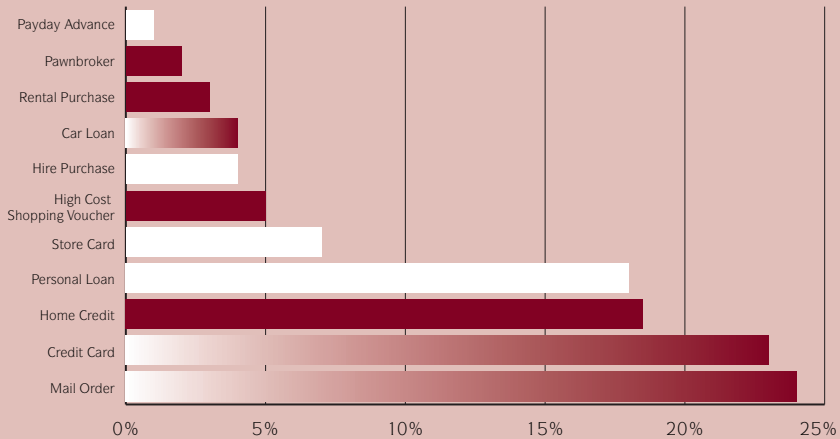
² Provident Financial Annual Report, 2008

³ *UK Non-Standard and Sub-Prime Lending 2003*, preview, Datamonitor, Jan 2003

⁴ Family Resources Survey for DWP 2007/08, p.79 Linked to http://www.dwp.gov.uk/asd/frs/2007_08/frs_2007_08_report.pdf

⁵ *Financial services provision and prevention of financial exclusion* European Commission Report, Mar 2008

Figure 1 Credit method chosen by poorest 20% of population



[Red = Sub-prime; White = Prime]

Source: TNS Research for Policis 2004

As a result of the scaling back of sub-prime lending because of the credit crunch, estimates suggest a further 600,000 to 850,000 will lose access to a line of non-standard, mainly door-step, credit⁶ in the coming year. The majority of these people will be faced with far higher interest rates if they are to get a loan at all – the more credit excluded one becomes, the higher interest rate one pays. Numerous horror stories have been recounted of usurious interest rates racking up in the unregulated market, for instance, York Credit Union reported a rate charged in one case of 2,639,385%.⁷

Nationally, there is an estimated unmet demand for small-scale affordable credit of around £1.2bn per annum⁸ – an amount far from being met by the

⁶ Personal Finance Research Council estimate based on an aggregate of estimates, using confidential information of the cut-back in lending from major doorstep lenders. They are not necessarily completely 'financially excluded' but have lost a credit line they previously relied on and likely to have very limited remaining options.

⁷ *Trust News*, Joseph Rowntree Housing Trust, Winter 2008, p.10

⁸ *Towards a step-change in 3rd sector lending coverage and capacity*, Financial Inclusion Taskforce Working Group estimate, 2008, p.6

established credit providers. HM Treasury's *Financial Inclusion Taskforce* (FIT) has recently identified local government as a crucial stakeholder needed to help deliver solutions across the country.

In their recent report *Mapping the demand for, and supply of, third sector affordable credit* the FIT commissioned a detailed credit analysis and simultaneously studied the market for available sub-prime credit, concluding that there were particular local authorities with an acute mismatch between high demand for credit on the one hand, and a lack of supply of affordable credit on the other. Twenty five local authorities were highlighted in their 'red' alert category – predominantly in the North East, Liverpool, Manchester and East Midlands, with a further 56 classed as 'amber' areas of concern.

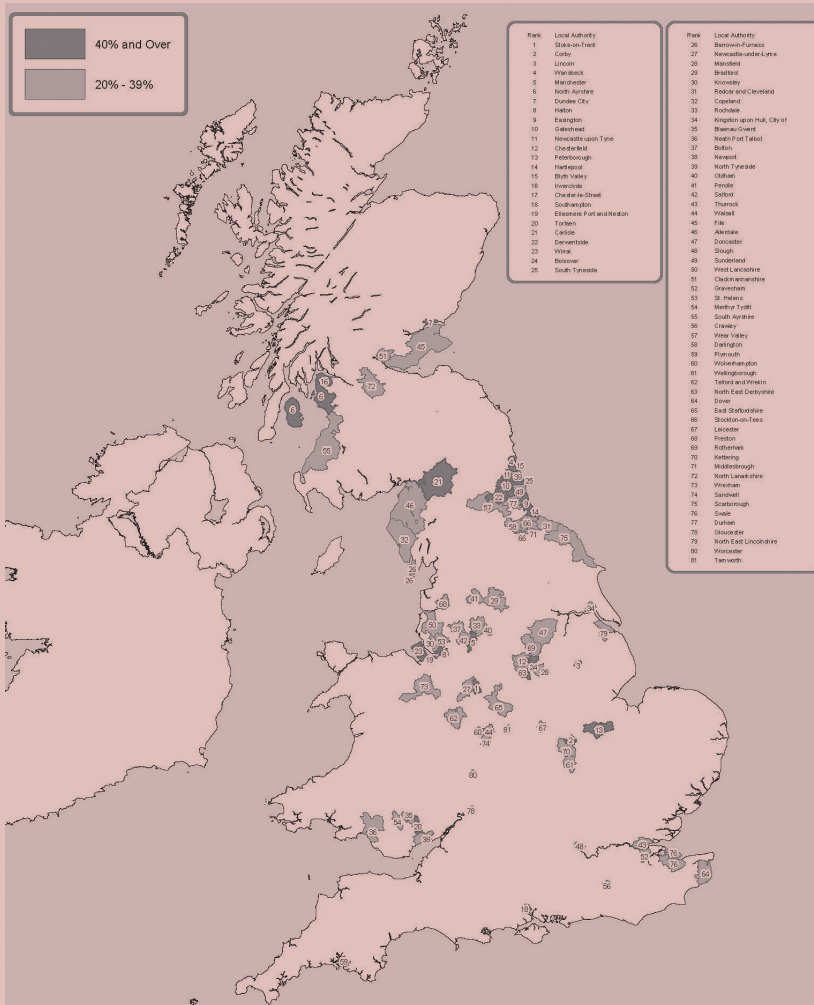
Loan sharking occurs mostly in deprived micro-communities, particularly amongst the 1.4 million that both fall into the poorest quintile of households and the most deprived areas.⁹ In 2005, the DTI (now BERR) estimated the prevalence of illegal lending within this section of the population to be 6%. Following the recent economic downturn, that proportion is liable to increase substantially.

The other 4.1 million falling into poorest 20% and living in the remaining most deprived quintile of areas have an estimated incidence of illegal lending of 2.1% – this too is liable to rise.¹⁰ These estimates of vulnerability to predatory lending suggest that many local authorities will have hundreds of residents suffering stress and potential risk, an issue that cannot go unaddressed.

⁹ As measured by the CLG Index of Multiple Deprivation percentile score of more than 95%, *Illegal Lending in the UK*, 2006

¹⁰ *ibid*, p.98

Figure 2



Source: Third Sector Affordable Credit – Red Alert Mismatch Map by Experian for the Financial Inclusion Taskforce (2006)¹¹

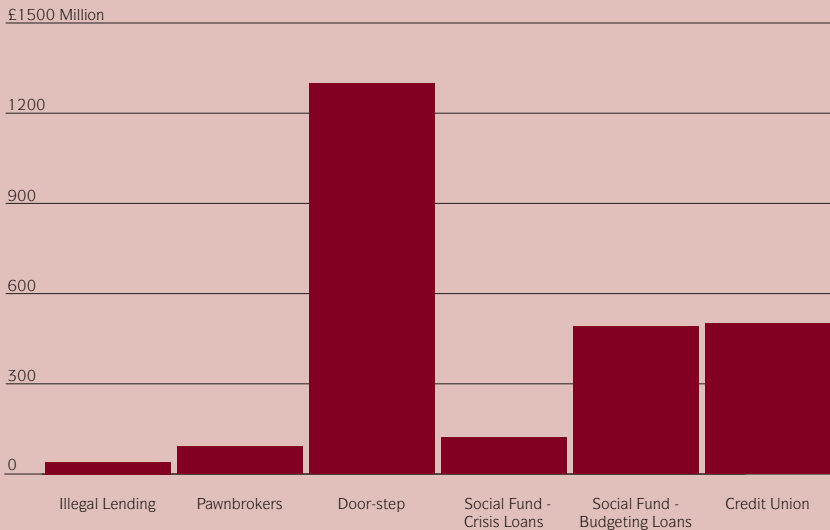
¹¹ Linked to http://www.financialinclusion-taskforce.org.uk/research/third_sector_affordable_credit.pdf

3 Limited choices for the 'sub-prime'

Of the credit mix available to the most financially excluded, the following types are the principle options available, with the most desirable sources (both socially and individually) illustrated towards the right-hand side of the x axis:

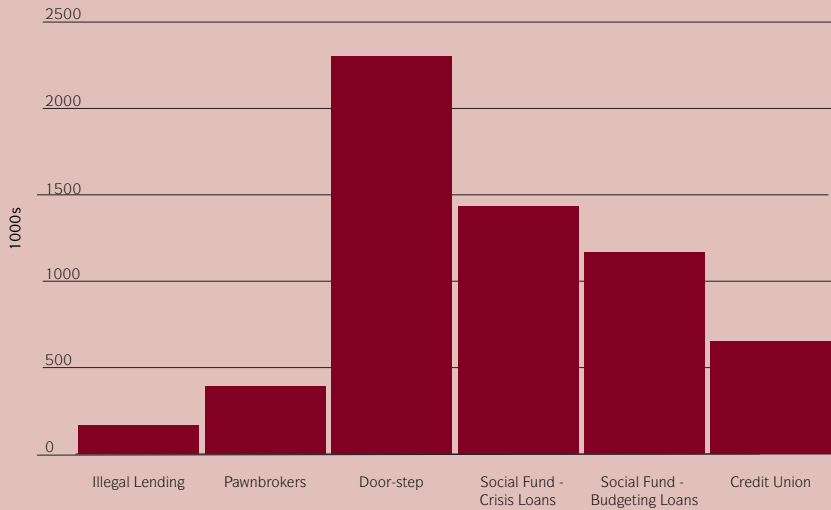
Last resorts...

Figure 3 Lending by key sources



Source: Illegal lending from PFRC, Policis and DTI *Illegal lending in the UK* (Nov 2006); Pawnbrokers figure is an NLGN estimate based on TNS research (2004) that 2% of poorest 20% use pawnbrokers and National Pawnbrokers Association estimate of growth in numbers using pawnbrokers 10% p.a. since 2004 while average pawn is £120, with two items pawned per person p.a.; Door-step figure from Competition Commission Home Credit Investigation (2006); Social Fund figures from Kitty Ussher Hansard 11 Mar 2009; Credit Union figure from ABCUL Annual Report 2007/08

Figure 4 Number receiving loans from key lending sources



Source: PFRC, Policis and DTI *Illegal lending in the UK* (Nov 2006); Pawnbrokers figure is an NLGN estimate based on TNS research (2004) that 2% of poorest 20% use pawnbrokers and National Pawnbrokers Association estimate of growth in numbers using pawnbrokers 10% p.a. since 2004; Door-step figure from Competition Commission Home Credit Investigation (2006); Social Fund figures are NLGN estimate based on initial awards in Annual Report by the Secretary of State for Work and Pensions on the Social Fund 2007/2008 (eventual awards may be greater but offset by awards per person greater than 1); Credit Union figure from ABCUL Annual Report 2007/08

The relative mix offered by these six broad categories of sub-prime credit is crucial. Clearly, the reliance on 'door-step' or 'home' credit is vast. It can be safely assumed that as the sources of preference become exhausted (from right to left in the graphs above), sub-prime borrowers will move increasingly in the direction of illegal lenders and en route will have probably pawned personal goods of value. In the sections that follow, we have gathered evidence that these credit channels are in one way or another undergoing

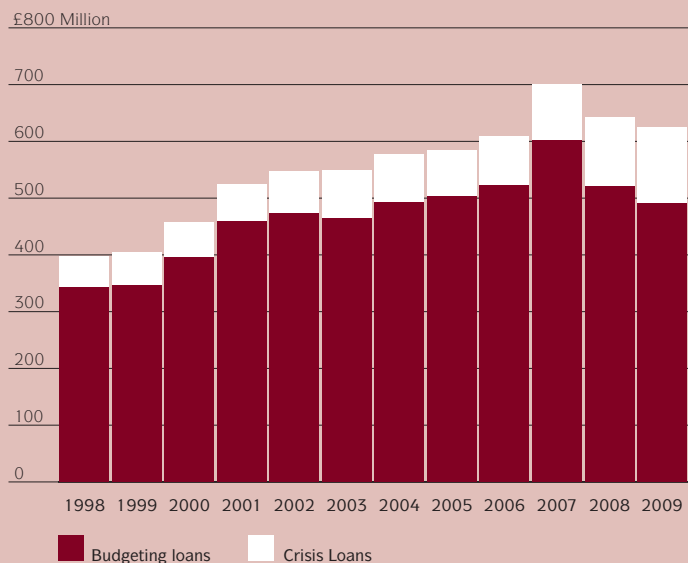
a restriction in the supply of credit, affecting a widening section of the population.

Although there are alternatives open to some – advanced mail order (AMO), rental purchase, credit cards and payday advance – these are not 'last resorts' in quite the same way. In order to better understand the predicament of vulnerable borrowers it is important to see the relative advantages and disadvantages of these broad categories of sub-prime credit.

4 *The National Social Fund option*

The Social Fund offers interest free loans to those in need. It was introduced in 1988 and comprises two distinct parts – one much larger regulated component (sure start maternity grants, funeral payments and winter fuel allowances) and the other discretionary, split into community care grants and ‘budgeting’ and ‘crisis’ loans. Discretionary social fund lending is appealing to those in need, as 0% interest is charged. However the Social Fund is inflexible, as some loans take days to process,¹² qualifying rules have arguably reduced accessibility, while the overall pool of funds has recently fallen at a particularly desperate time.¹³

Figure 5 Social Fund loans in Great Britain



Source: Kitty Ussher, Mar 11 2009, Hansard¹⁴

12 Budgeting loans have a six-day processing target, *Social Fund Annual Report*, DWP 2007/08, p.10

13 An additional £260million over the next two years was announced in the Budget 2009 to meet increased demand, but loans make up only one quarter of the overall Social Fund and this is only ‘additional’ in the light the recent fall in monies. Linked to http://www.hm-treasury.gov.uk/bud_bud09_press01.htm

14 Linked to: <http://www.publications.parliament.uk/pa/cm200809/cmhansrd/cm090311/text/90311w0031.htm>

This has resulted in a marked rise in refusals per annum in emergency loans. For example, initial refusals of crisis loans rose from 316,000 in 2005/06, to 334,00 in 2006/07, to 596,000 in 2007/08. This is a near doubling of a desperate section of the population almost guaranteed to be heavily credit-constrained and a very strong indicator of a growing number at an increased risk of loan sharks.

5 'Home credit' and door-step lending

Door-step lending or home credit is the practice of selling (nearly always very small) loans, often at high annual percentage rates of interest (typically between 180 and 500%), packaged into flexible¹⁵ but lengthy repayment schedules.¹⁶ Typical lending terms are set out below.

Figure 6 Length and amount of the most recent loan

<i>Amount of loan</i>	<i>Percentage of customers</i>	<i>Average term of loan (weeks)</i>
Up to £100	8	26
£101–£250	26	33
£251–£500	36	42
£501–£750	7	50
£751–£1,000	10	52
More than £1,000	8	75

Source: NOP survey in Competition Commission's *Home Credit Market Investigation* (2006)

There are around six million door-step loan transactions annually that take place, with an estimated 2.3 million customers (or 3.8% of the population).¹⁷ Households are paying between £800-1,000 in higher costs for this type of credit¹⁸ whilst 50% of those home credit users are thought not to have

15 Less than 10% always pay on time, Home Credit Market Investigation (HCMI), Competition Commission (CC) Nov 2006, p.2-6

16 Average 43 week repayment term using lenders' data, *ibid*, p. 2-1

17 *ibid*

18 Family Welfare Association

access to mainstream credit.¹⁹ Consumers give very little consideration to the cost of products and there is consequently weak price competition between providers, since reputation, flexibility and a personalised service are the most cherished features.²⁰

Many commentators are of mixed opinion about the function and ethics of door-step lending. At first sight the sheer scale of the rates of interest charged when compared to mainstream credit cause many to question the morality of this type of lending arrangement. However, it may be unfair to judge door-step lending practices by the same standard as prime lenders who transact in entirely different ways.

The labour intensity of door-to-door and frequent repayment collection, based on personal relationships of trust built over longer periods of time, mean that the running costs for home credit are bound to be far higher than mainstream banking. In these circumstances, it can be argued that a straight 'APR' comparison gives a false impression of the utility of this product when lined up against other sources of credit, especially when the risks of non – payment are also factored in. Door-step lending, therefore, may be playing a vital part in oiling the wheels of the basic economy – even if it jars with mainstream expectations of ordinary credit arrangements.

The door-step lending market has undergone a complete transformation since 2005, when the market was dominated by six large players (with 90% market share). Of the six, one of the smallest (Park) was subsumed by the second largest (Cattles) in July 2006, which has since ceased offering new loans because of widely reported financing and capitalisation issues.

¹⁹ TNS research for Policis 2005

²⁰ NOP Home Credit Customer Research (Aug 2005) for HCMI

http://www.competition-commission.org.uk/inquiries/current/homecredit/quantitive_research_by_NOP.pdf

Figure 7 Cattles Home Collected Customers

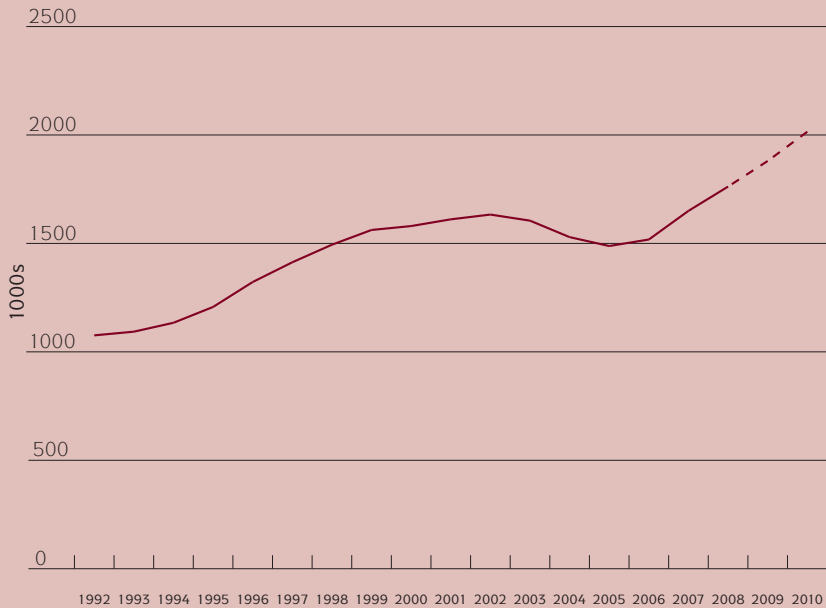


Source: Cattles Annual Reports 2003-2008

The third largest player – London Scottish Bank – that served well in excess of 100,000 customers has also ceased lending having gone into administration, which is likely to result in a further decrease in competition²¹ and a lack of door-step lending coverage.

Only the biggest of the big three providers still exists – Provident Financial – a Bradford based large scale sub-prime lender whose business has increased markedly in recent years, although there are suggestions that it will temper its growth in the future because of the effect of the credit crunch.

21 John Fingleton, Chief Executive of the OFT has launched a consultation on this issue running until 12 June 2009.

Figure 8 Provident Financial Home Credit Customers

Source: Customer numbers reported in Provident Financial Annual Reports 2004-2008

Provident have been responsive, targeting the 'new poor' – the formerly prime market adversely affected by the downturn – where Cattles and London Scottish have vacated the field. At the same time they have introduced sophisticated IT systems to ensure the most financially delinquent are identified and extreme defaulters not offered credit. This means their customer turnover is likely to have risen since 2004²² to perhaps 50% (of its nearly 2 million customers). Of all new applicants, annual reports claim that Provident now rejects above 60% (up from a third in the previous year)²³ – a phenomenal increase. Since there are approximately 1.15 million users of

²² In 2004, the industry average for customers lost as a proportion of those it held at the beginning of the year was 30%, *Customer turnover, multi-sourcing and switching*, Working Paper 1, CC, 2004, p.2

²³ Provident Financial Annual Reports 2007 and 2008

high cost home credit who have no mainstream credit options²⁴, it is hard to see where else these consumers might turn.

Pawnbrokers

Pawnbrokers are available for anyone to use with anything of value. They are used by about 2% of the poorest quintile of the population each year who are required to deposit an item of value as security for a loan – on average £120 over a period of three and a half months. Their rise in use is perhaps an indication of financial desperation and therefore the increase of up to 30 per cent in business across the UK in the six months to June 2008²⁵ is a cause for concern. An estimated 29% of customers fail to recover their goods once pawned – effectively the end of a credit line.²⁶

24 Policis estimates based on TNS research for Policis 2005 on the proportion of home credit customers with no other credit options and CC estimates of numbers of home credit users (CC 2006 report).

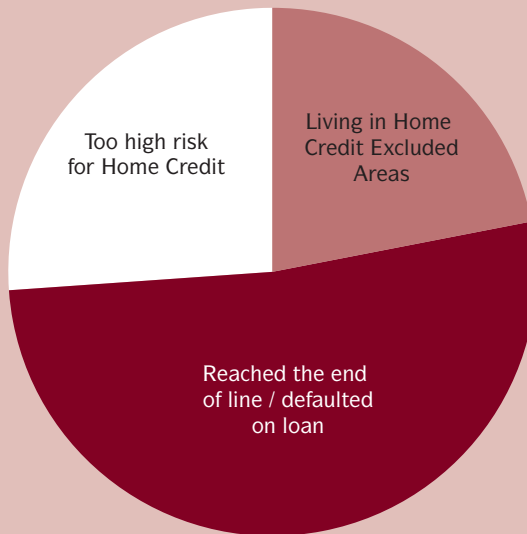
25 Reported in The Daily Telegraph, June 27th 2008 <http://www.telegraph.co.uk/finance/personalfinance/borrowing/2792254/Pawnbroking-goes-high-end.html>

26 *Financial Inclusion the way forward*, HM Treasury (Mar 2007)

6 *Illegal lending and the loan shark*

Illegal lending is likely to grow where an alternative supply of sub-prime lending is not available. If public policy does not ‘step up to the mark’ and ensure other options exist – be they Credit Unions or even home credit companies – illegal lending will in all likelihood take hold. Around half the users of illegal suppliers have used a home credit lender within the past 12 months,²⁷ implying some degree of transferable custom between these two sources. The chart below illustrates the reasons why door-step lending and home credit is not an option for some, suggesting that there are a combination of circumstances where individuals are either turned down by the regulated sector, where they have defaulted and are no longer eligible, or where there is simply no availability of home credit.

Figure 9 Circumstances of Home Credit Ineligibility

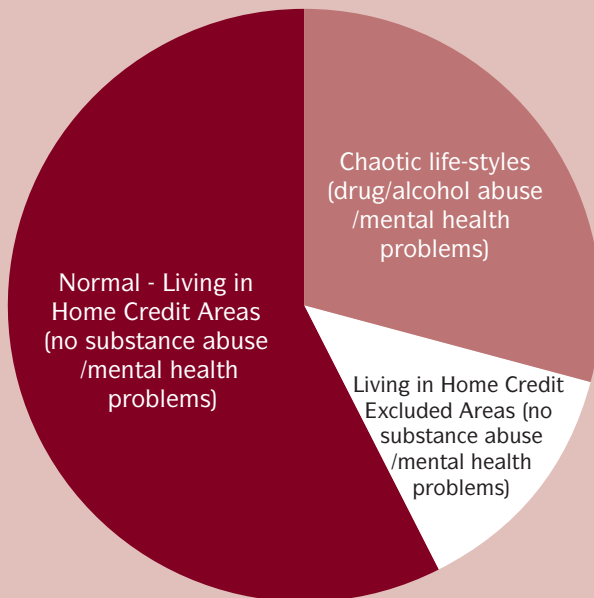


Source: *Illegal Lending in the UK*, PFRC / Policis saturation surveys for DTI, 2006

²⁷ *Illegal lending in the UK*, PFRC and Policis for the DTI (Nov 2006). Linked to <http://www.berr.gov.uk/files/file35171.pdf>

While some illegal lending is highly associated with a chaotic lifestyle - involvement with drugs or mental health problems - a significant number appear to be driven to loan sharks because of inadequate provision of its closest substitute – home credit. The chart below illustrates the best available estimates of the type of individual likely to become a customer of an illegal lender, showing that while chaotic lifestyle and sub-prime loan exclusion are significant, there are a majority who fall victim largely as a result of external economic and social factors.

Figure 10 The background of loan shark customers



Source: *Illegal Lending in the UK*, PFRC / Policis saturation surveys for DTI, 2006

7 *Credit Unions and 'third sector' lending*

Credit Unions are local, ethical financial co-operatives owned and controlled by their members amongst whom there is a 'common bond'. The sharing of a bond is reputed to act as a form of 'moral persuasion', which encourages borrowers to repay money loaned from the savings of neighbours or colleagues.

In practice there is little research to indicate whether the customers of Credit Unions are motivated directly by the altruistic underpinning of these non-profit savings-and-loan vehicles, or are in fact hard-headed customers choosing the most convenient and high value credit or saving scheme.

Whatever the case, Credit Unions are of a scale and nature that merit the advocacy and promotion by public policy-makers concerned to see a flourishing non-profit credit industry and the crowding-out of predatory lenders. Credit Unions have the capacity to promote community cohesion and are highly complementary to the policy and financial agenda promulgated by local government, offering 'a community-owned and community-based solution' and a 'means to ensuring that money stays within the local community'.²⁸ For this reason, and because a financially stable community is a prosperous and flourishing one, local authorities have increasingly felt it part of their responsibility to see the Credit Union movement thrive.²⁹

Unify Credit Union, Wigan

The first Credit Union in Wigan was set up as part of a campaign against loan sharks on a deprived estate. In 2002 the three small Credit Unions based in Wigan - Platt Bridge Credit Union, Pemberton Area Credit Union and North West Wigan Credit Union - joined forces

²⁸ The Association of British Credit Unions Ltd (ABCUL), 2009 <http://www.abc.ul.org/page/about/financialexclusion.cfm>

²⁹ In addition, Community Development Finance Institutions (CDFIs) are also not-for-profit organisations providing lending and investment facilities and competitive rates in disadvantaged communities. Although the majority of CDFI activity is focused on lending to small businesses, there has been a rise in recent years in the level of personal lending and micro-finance lending (the lending of small sums to individuals in order to spur business creation).

to create a single entity - Unify Credit Union - supported, facilitated and promoted by Wigan Council. The common bond was thus expanded to include everyone who lives or works in the Borough of Wigan and Leigh - a field of membership of 350,000. Interest is charged at a very affordable 1% per month on the reducing balance (12.7% APR). It is supported by Makerfield MP Ian McCartney and with the support of Wigan Community Credit Union Development Agency, it acquired a shop-front premises in Ince within the busy Smithy Green Shopping Centre. There are now also nine schools across the borough which operate a Unify First Savers Collection.

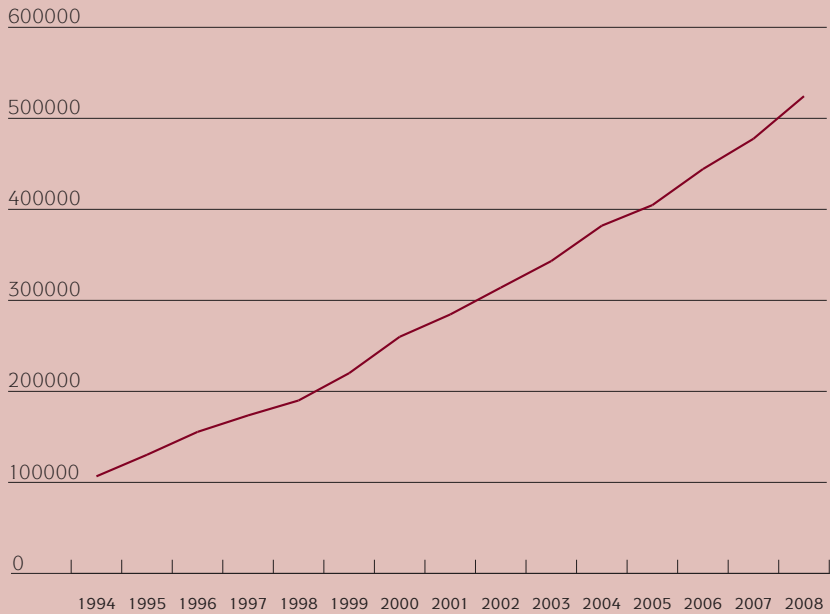
Leeds City Credit Union (LCCU)

Set up in 1987 with grant assistance from Leeds City Council towards start up and staff costs, the original union was exclusively for council employees and called Leeds City Council Employees Credit Union Ltd. In October 1996 the 'common bond' had been extended to several additional city employers, which is when it gained its current name. By 2002, it had become the first Credit Union to offer membership to anyone living or working in the Metropolitan District. The subsequent drive to increase membership has involved considerable support from the Council in the range of premises the union uses where members can access services. There are seven fully functioning branches around the city, many of which are based at local authority One Stop Shops. With a field of membership of 800,000 (the largest ever approved by the FSA), LCCU manages funds of around £30m and has membership of around 20,000 or 2.5% of the population. Despite recent financial assistance offered by DWP of £4m, LCCU maintains its status the UK's largest Credit Union and one of the most robust.

Despite growing prominence, the Credit Union movement still plays a minority role in British consumer finance. In total there were 524,337 ABCUL members and a further 100,000 children and young people saving with ABCUL Credit Unions in 2008. This meant at March 30th 2009, Credit Unions

in Britain were providing services to a total of 638,000 people,³⁰ twice the number in 2000. Although there are positive signs of growth in the Credit Union industry, there remain doubts that at the present level of coverage is sufficient to counteract the looming threat of predatory illegal lending.

Figure 11 ABCUL Adult membership



Source: ABCUL Annual Report 2007/08, p.11

³⁰ 80% of UK Credit Union members are members of ABCUL credit unions, ABCUL Annual Report 2007/08, p.11

8 *An emerging role for local government*

With the Financial Inclusion Taskforce estimating that at least £1.2billion of microfinance demand is unmet by the current offer from the regulated sector, should local government be playing a bigger role in addressing this key element of community need? Local government has historically been at the forefront of new service provision where community need exists. Councils are better placed than central government to drive policy development for a variety of reasons:

- Councils have the advantage of proximity to the front line and prime local knowledge
- Local government has an electoral mandate, authority and relative autonomy to steer its own policy destiny, within the frameworks set out in law
- Crucially, local authorities have existing multi-functional capabilities, an understanding of community need stretching across education, social services, housing and beyond
- The executive leadership that local government can show puts councils in a key position to make a real impact as social and economic problems emerge
- Councils are already a large – if not the largest - economic player in a local economy and have a footprint which should cause many to reflect on the financial circumstances of their residents and workforce
- The 'AAA' credit rating of local authorities, in comparison to a diminished reputation of other financial services providers, may open new opportunities for local public bodies to play a leading role in personal and business finance
- Local authorities have significant latitude to act, no longer as constrained by the culture of 'ultra vires' but able to innovate using, for instance, section 2 powers of community wellbeing or even prudential borrowing powers.

Local authorities are able to play a role in fighting the growth of loan sharking, and we believe there are seven ways in which council leaders and chief executives could actively engage in this agenda.

1. Mapping Predatory Lending and Analysing Local Need

Nationally, there is rich data available for the shortfall in affordable credit provision ward-by-ward, authority-by-authority as can be seen in the map commissioned by the Financial Inclusion Taskforce.³¹ However, there are only a few examples of councils taking a proactive approach to mapping and analysing the extent of illegal lending activities in their own neighbourhoods. Many local authorities have plentiful reports of anecdotal cases of extortion and vulnerability – collected often by customer services centres and benefits advisers. And some local authorities have been prompted by the economic downturn to start thinking about financial hardship and its impact on their policies, for instance - Lambeth's Credit Crunch Taskforce or Islington's Debt Coalition Group. At the sub-regional level, some sophisticated analysis has also been done using advanced software to map the degrees of financial exclusion at the 'lower-tier super output area' (LSOA) level.³² Centrally, the FIT has said it 'will continue to engage with the LGA to raise the profile of financial inclusion for local authorities and develop a robust business case for incorporating financial inclusion into local services'.³³

Nevertheless, local government could do more to understand the scale of their local problem and devise policy solutions to match. Less work has been done on mapping *credit* provision per se locally and developing a sophisticated understanding of the local financial landscape – both the supply of and demand for affordable credit. The responsibility to map and understand microfinance demand and provision falls to local councils especially given the localised scale on which loan sharks, home-credit agents and Credit Unions operate. In addition, because extortionate credit is likely to hamper any effort to alleviate poverty within the authority, and its use

31 *Third Sector Affordable Credit – Red Alert Mismatch Map*, Experian for the Financial Inclusion Taskforce, 2006

32 For example Rocket Science UK, a public sector consultancy, has produced such a report for East of England Development Agency (EEDA) http://www.eeda.org.uk/files/Financial_inclusion_East_of_England.pdf but could equally, perhaps better be done at the LA level.

33 *Financial Inclusion: More important than ever*, Financial Inclusion Taskforce response to HMT Budget 2009 (Apr 2009). Linked to http://www.financialinclusion-taskforce.org.uk/documents/papers/taskforce_report_for_budget09.pdf

is highly associated with those reliant on benefits or low wages, there is a common sense policy imperative to foster a local financial landscape that protects those consumers, eradicating the wider consequences of financial exclusion. Local authorities should have an understanding of the benefits that affordable local credit provision can. In turn, Government has signalled its enthusiasm for local government to take a lead through new initiatives to combat social and financial disadvantage.

2. Promoting Financial Literacy and Public Awareness

With some studies indicating that there are five million UK adults with the literacy standards expected of an 11 year old,³⁴ it is not surprising that the ability of a sizeable minority to navigate and assimilate often complex personal finance details is exceptionally low. One of the objectives of a Credit Union, as set out in the 1979 Credit Unions Act, is the education of their members in the wise use of money, known as Project DELTA (Development, Education & Learning Through ABCUL).

The Government and the Financial Services Authority have invested in several ways to improve general financial literacy. But there is still insufficient attention to this 'life skill' and need for learning, from the curriculum in schools, in the transition to work and right through into adult and family living. So far, as part of the £130m Financial Inclusion Fund (FIF) set up in 2007 to last until 2011 in order to build 'financial capabilities' for those who struggle to cope, £85 million is to be spent on free, face-to-face money advice. Furthermore, the 'Now let's talk money' project is building awareness amongst 2,500 organisations with regular contact with financially deprived people including local authorities. On another front, the FSA's 'Money Made Clear' also promotes good financial management.

Despite this national action, there remains concern that a top-down approach to improving financial literacy may be less able to reach the parts that frontline agencies – and local authorities – have an ability to reach. Some local authorities have been developing their work in this arena. Credit Action for example, a debt management charity, have offered a session to staff at Bexley Council (and others) so that they are trained in providing debt-related advice and teaching better money management. In so doing, councils can

34 *The Challenge*, The Financial Inclusion Centre, Linked to: <http://www.inclusioncentre.org.uk/3.html>

combine their existing counselling services with a debt advice service attuned to the local circumstances. Local authorities should consider whether their customer service and advice facilities are up to speed on credit and personal finance basic advice, without obviously getting into the regulated terrain of financial product advice.³⁵

The fact is that those who are disadvantaged need to be better-prepared and financially astute to lead a healthy financial life. Education for good financial management practices can be started at a young age - for example, North Tyneside Council is trying to encourage good financial habits in the consumers of the future by hosting more than two hundred 15-16 year olds taking part in a council-sponsored money management conference. Mandy Johnson of Carlisle Credit Union, which has over 1,000 members says “it is vital to get the kids involved. I think if you can instill the importance of saving in them, even if it’s just a couple of pounds here and there, it will make a massive difference. Looking after your money is so important and the younger you start, the better.”³⁶

3. Enhancing enforcement against illegal lending

Loan sharking is illegal under the 1974 Consumer Credit Act. Yet the British Crime Survey currently classifies loan sharking as an ‘other offence’ and so only very hazy data is available regarding the prevalence of loan sharking and any trends nationally. However, because loan sharking is a crime intrinsically tied to a locality, it makes sense for local authorities to be part of the enforcement process. Unless illegal practice is tackled head-on and rooted out of communities, residents may feel unconfident about shifting to safer, regulated sources of credit.

Despite the dearth of crime data and historic lack of prioritisation by policing authorities, for the first time, following two local pilot schemes overseen by BERR (then DTI), there are practical examples of how concerted efforts can reduce the incidence of loan sharking. The BERR pilot schemes reportedly made significant headway in Birmingham and Glasgow³⁷ and now their model

³⁵ Renfrewshire in Scotland has set up an advice line which points people towards the correct advice in partnership with DWP ‘Now let’s talk about money’. Linked to www.renfrewshire.gov.uk/nltm..

³⁶ *Credit Where Credit’s Due*, BBC Cumbria (29 Jan 2009) http://www.bbc.co.uk/cumbria/content/articles/2009/01/27/credit_union_feature.shtml

³⁷ *Evaluations of the illegal money lending pilots*, PFRC and Policis for the DTI (Feb 2007)

has been rolled out across six additional English regions: the North East, East Midlands, South West, London, Merseyside and the North West. Indeed, the signs are that the BERR teams are beginning to roll out even further to give nationwide coverage. BERR had previously identified the following specific areas as places where the incidence of illegal money lending is likely to be particularly high:

South West: Bristol, Plymouth

London: Hackney, Tower Hamlets, Newham

South East: Southampton, Portsmouth, Hastings

East of England: Lowestoft, Great Yarmouth, Peterborough

North East: Newcastle, Tyneside

East Midlands: Leicester, Nottingham, Derby

Yorkshire and Humber: Leeds, Sheffield and Bradford

North-West: Liverpool and Greater Manchester³⁸

BERR has established a national hotline to encourage the reporting of allegations and have also developed projects to convey the message that illegal lenders have no rights to enforce the paying back of the loans. Prosecutions are often difficult to sustain especially given the wider witness requirement and the difficulties persuading victims to come forward to testify. Illegal lending cases can range from simple individual matters to complex extortion, money laundering or drug trafficking related offences. We believe that a firm message needs to be sent by the criminal justice system – both in terms of sentencing for illegal lending – and in order to encourage the reporting and giving evidence against this crimes. To support this we recommend that there should be an automatic assumption that court hearings pursuing cases of illegal lending allow witnesses to appear protected by the ‘special measures’ available in other cases where there are risks of vulnerability or intimidation.

We believe that further efforts involving local authorities could see a coalition of agencies work more closely to detect and enforce the law – in tandem with trading standards officers, the Local Criminal Justice Boards and Crime & Reduction Partnerships. Local authorities should consider using their existing staffing and community networks to encourage the reporting of illegal

³⁸ *Illegal Money Lending Project*, BERR. Linked to <http://www.berr.gov.uk/whatwedo/consumers/consumer-finance/lending/Illegal%20Lending%20Project/page37542.html>

lending, including the anonymous reporting of allegations. We recommend that local authorities ensure that where the DWP have supported new 'financial inclusion champion' posts, that these must be fully integrated into local authority strategic working and available to other authorities to provide advice and assistance.

Trading Standards teams, as the focal point for both local and national enforcement leadership, are key. Local authority staff could be particularly helpful in providing local knowledge to enforcement officers with regards to the financial landscape and the needs of their neighbourhoods. In this way they can offer extensive knowledge of deprivation, exclusion and the extent of alternative micro-credit in the borough to support Trading Standards teams and the Police. Local authorities could also be central in promote a climate of anti-loan shark sentiment in which the general public feel more comfortable reporting and resisting such lenders.

4. Actively supporting Credit Unions and third sector sub-prime lending

As described previously, Credit Unions are inherently part of the community and voluntary sector, tied to a locality by the 'common bond' with their field of potential membership. We believe that these laudable institutions are critical to the provision of carefully assessed sub-prime lending and are the key to crowding out disreputable loan shark practices. If they are to succeed, Credit Unions need continuous commitment and strong relationships with their local authorities.

HM Treasury's 'Growth Fund', set up by HMT, is currently the primary avenue for financially supporting third sector lenders such as credit union and Credit Unions who are then sufficiently capitalised in order to make affordable loans to people on low incomes. To date the fund Growth Fund has contributed over £40m to third sector lenders, supporting 46,500 individual loans totalling £20.4m. It's budget now stands at £80 million,³⁹ with an additional £18.75 million announced in the 2009 Budget that will allow an extra 85,000 loans to be made over the next two years. The target is for £60 million per annum to be lent to 150,000 financially excluded clients per

39 Nearly half-funded through the Financial Inclusion Fund, which has a budget of £130m 2008-2011, to ensure everyone has access to appropriate financial services.

year by 2011 through Credit Unions and **Community Development Finance Institutions**. It is the Financial Inclusion Taskforce's view that local authorities have an especially important role in supporting the essential networks and partnerships which link third sector service providers together.⁴⁰

Rather than passively supporting though, we believe it is essential that local authorities take a proactive approach in directing working with third sector organisations to the neediest and the neediest to the third sector organisation to maximise the outreach of regulated available microfinance and the use of this Treasury resource. For example, Gateshead Council are working with Credit Unions to gain access to central government the 'Growth Fund' to help make emergency loans to families in dire need in their vicinity.

Local authority policies in respect of Credit Unions should include:

- **offering premises, training staff, sharing facilities and marketing support.** For example, Welcome Credit Union is based at Wigan's council tax offices in Whelley, while a partnership between Lambeth Customer Services and the Lambeth Savings & Credit Union, starting April 2008, provides advice and practical support to residents at a weekly surgery at the Brixton Customer Centre. Visitors to the centre are offered information and advice on the various savings accounts and loans available at the credit union. In Cumbria, the Credit Union does a weekly session at Harraby Community Centre. Birmingham City Council is leading the way in a campaign aimed at raising the profile of community credit unions for those who struggle to get mainstream loans. The Financial Inclusion Partnership, led by the city council and comprising housing associations, Citizens Advice Bureau, credit unions, Department for Work and Pensions and other partners, is also running the campaign alongside BRMB (a local radio station).
- **offering financial support to provide adequate capital enabling affordable credit.** For example North Yorkshire Credit Union, now open to anyone who lives or works in the county, was considering whether providing a £200,000 start-up loan, which would facilitate

immediate lending to the neediest within the county.⁴¹ The county council also allocated £174,000 cash in development funding and the county's seven district councils supplied another £10,000 each with an extra £105,000 coming from three local housing associations.

We recommend that the Government consider clarifying the law to encourage councils to financially support Credit Unions even where there is no 'co-terminosity' between the authority boundary and the 'field membership' of the Credit Union common bond. Some local authorities have reportedly been advised against investing in Credit Unions on the grounds that it may be ultra vires and outside the scope of their permitted powers to provide potential help to residents who live outside their council borders. We believe that this anomaly is preventing sensible joint working between councils and Credit Unions and Government should clarify this urgently. There are cases where consortia of local authorities are pooling their efforts, for example Surrey Save Credit Union was created by local authorities within the county in response to the credit crunch.⁴² In addition, Staffordshire Credit Union is the result of collaboration between all the main agencies in Staffordshire – some thirty organisations, including Stoke City Council, Staffordshire Moorlands District Council, Newcastle-under-Lyme Borough Council, local housing associations and the local Citizen's Advice Bureaux. If local authorities take bold action and can show that the Credit Union movement is permanently supported by their local mandate, residents will be encouraged to trust them as a savings vehicle rooted in the community and borrowers will have confidence that they can get small loan support when needed.

- **establishing new Credit Unions and acting as a catalyst where third sector lending is insufficient.** ABCUL are keen for local authorities to take a leading role in prompting the creation of new Credit Unions,⁴³ while the Growth Fund exists to support

⁴¹ *County ponders start-up loan for new credit union*, Darlington & Stockton Times 24 April 2009. Linked to http://www.darlingtonandstocktontimes.co.uk/news/cleveland/4318107.County_ponders_start_up_loan_for_new_credit_union/

⁴² *Local Support for Surrey Save Credit Union*, Woking Borough Latest News 13 May 2009 <http://www.woking.gov.uk/news?item=00004A0A87B3.C0A801BA.000022FD.001E>

⁴³ *Setting up a credit union*, ABCUL, Linked to: <http://www.abcul.org/page/about/settingup.cfm>

Credit Unions so they can achieve financial viability. West Sussex County Council has been targeting support at the most financially vulnerable by backing the creation of a new Credit Union in recent months. North Yorkshire County Council is supporting a project to extend the common bond of York Credit Union to cover a wider area. Manchester City Council and Manchester Credit Union have recently announced plans to promote the Credit Union to council employees, direct deduction from payroll and the opening of a collection point in Manchester Town Hall.

- **advocating Credit Unions as a sound and reliable facet of the banking system.** The financial services industry, once rooted in community building societies and local banks, became disconnected from the basic savings-and-loan model of the early twentieth century, merging and gravitating to the capital and then mixing commercial and investment activities on a global scale. The credit crunch has radically undermined confidence in the global banking system and there are sound reasons to believe that a return to a more modest scale of core commercial banking practices – anchored again in face-to-face relationships at the local level – will prove more popular with banking customers. Local authorities are therefore well placed to support the Credit Union movement as a deliberate matter of policy, ensuring that they thrive through the promotion of their common bond, enabling lower borrowing costs as a result of the mutual reliance between saving members and the lenders with whom the Credit Union does business. Ethical and smaller scale⁴⁴ institutions are likely to find favour with local residents until the confidence in the wider banking system returns.

5. Identify financial exclusion as a Local Area Agreement priority

In an effort to streamline centrally defined target-setting and foster improved partnership working between Whitehall and local authorities, the pursuit of Local Area Agreements (LAAs) as mutually agreed priorities between the centre and localities have been a widely welcomed development. LAAs see 35 of the 198 National Indicator Set jointly agreed between Ministers and

⁴⁴ Savings up to £50,000 are protected under Financial Services Compensation Scheme

the Council. However, there is not presently a National Indicator specifically on tackling financial exclusion or combating illegal lending. While we believe there is a strong case for such a target to feature in the National Indicator Set, it should be possible for local authorities to embed policies which promote financial inclusion within their plans for already adopted targets and indicators.

For example, NI30 in respect of reducing reoffending, NI141 regarding vulnerable people achieving independent living, NI121 dealing with anti-social behaviour and crime issues and even NI119 as a self-reporting measure of people's overall health and wellbeing, are all indicators that could incorporate facets of financial inclusion policy.

Nevertheless, some local authorities have been determined to show their commitment to reducing financial exclusion by supplementing their LAA commitments with their own local measures against which they intend to be held accountable. Barnsley Metropolitan District Council has supplemented its set of 35 nationally agreed targets with its own local commitment to promoting financial inclusion, to be measured as the number of new members recruited to Barnsley Credit Union. Indeed, they go further and are currently reviewing this proxy measure with other ways of judging success, including recording new bank account creations in the most deprived parts of the community.

The fact that local authorities like Barnsley and others recognise the importance of this issue should prompt the Government and LGA to consider substituting other indicators for one explicitly aimed at reducing financial exclusion. We believe this would help raise the importance of these issues not only across the local government community but across Whitehall as well.

6. Using the leverage of the council to persuade their banks to support local lending

Having set out earlier the strategic role that the local authority might play as a major economic actor within its community, we also feel that local councils could exploit their powerful position as a major investor and depositor having strong relationships of their own with the major commercial banks. Local authorities hold over £30billion of reserves across the banking sector and money markets and therefore hold considerable sway as customers of

the financial services industry. We believe that local authorities – far from continuing as passive and dormant customers – should assert their leverage over the banking sector and insist that as a condition of their continued custom, they would like to see the banks offer greater support to the most disadvantaged residents in their vicinity.

In particular, the prevalence of loan sharking thrives where mainstream credit is withheld from residents with less than ‘prime’ credit ratings. Councils should consider negotiating with their banks arrangements where banking support is extended more widely, crowding out more expensive and predatory lending practices.

There are also arguments to suggest that councils could use their leadership of a town or city to encourage major businesses, institutions and philanthropists to pool their efforts and offer support for vulnerable residents. In a recent publication⁴⁵ former Home Secretary David Blunkett MP highlighted the need for local coordination to tackle financial exclusion and loan sharking. He pointed to examples such as the Sheffield Investment Bond programme, where local residents and businesses were encouraged to invest sums in bonds giving a modest rate of return, whose funds were in turn used to provide small scale loans to local residents and businesses in need. By mid 2006 around £750,000 had been raised in this scheme.

7. Proactive Council Banking and credit availability initiatives, including direct intervention

Combating predatory lending must involve a combination of factors and close working in partnerships which can drive out the practice in areas prone to loan shark activity. But there are also direct ways in which local authorities have an opportunity to play a role, supplementing the good work of Credit Unions, the national financial services policies and the law enforcement agencies.

We believe that the early signs of local authority interest in ‘Council Banking’ are a natural response to the anxieties and problems caused by the economic downturn and credit crunch. Local government, rather than merely waiting for national intervention to trickle down to grassroots level, has been determined to take proactive steps to provide real help where it is most

45 *A Ladder Out of Poverty: From State Dependence to Self Reliance*, David Blunkett MP, 2009

needed. Several local councils – Essex, Kent, East Sussex and Birmingham – have been at varying stages of developing basic local ‘banking’ activities, including offering micro-credit to small and medium sized enterprises facing cashflow problems. Other local authorities have been looking at intervening to help residents facing mortgage difficulties or the threat of repossession.

We recommend that the local government community also give serious consideration to direct microfinance support for their vulnerable residents, especially where unemployment is most prevalent. Although sub-prime lending places greater risks against recouping loans, if small scale and perhaps with conditions attached, including signing up to mainstream bank accounts at Credit Unions, local authority small loans could entice residents into functional financial activity.

One option could be for local authorities to support some form of direct door-step lending, but on a non-profit basis, thereby building relationships with their local residents and a stronger picture of social and economic exclusion – while offering tangible help directly. The Joseph Rowntree Foundation has recently undertaken a feasibility study of a not-for-profit third sector home credit service, concluding that with a nationwide £18 million subsidy, the APR on an average 56-week £288 loan would be 123% (compared with 183% commercially), bringing customer savings of £50 when compared with commercial door-step lending. This study innovatively builds upon those aspects of the home credit service that are most appreciated (personal service, flexibility of repayment), whilst adopting a broader social aim. It may be possible for non-profit door-step lending to become a feasible prospect if local government support went hand-in-hand with national Government intervention and resourcing. This concept merits further consideration. There are precedents for this; currently, Carlisle and District Credit Union hold a number of collection days around the city and on weekly afternoons based at Carlisle Housing Association. This kind of contact between Credit Union and residents provides a springboard from which local authorities could be active in channeling affordable credit provision.

We also believe that councils could consider supplementing the DWP nationwide Social Fund with their own ‘Local Social Fund’ arrangements, augmenting the national scheme with benefits that reach beyond the limitations of the basic welfare provision. Such a Local Social Fund could even

make a strong case for taking over the administration of the national scheme, removing the need for millions spent on an Independent Review Service arbitrating borderline cases in a relatively detached way and obsessing over a national level-playing field. As local authorities already experience 'displaced costs' as a result of the national Social Fund,⁴⁶ increased local authority action may actually reduce overall costs. At the moment, the Social Fund is administered by Jobcentre Plus, under the authority of DWP, but is coming under increasing capacity pressure to deliver more loans. For a Local Social Fund to function effectively therefore, it would have to piggyback on to an existing financial relationship its recipients are likely to have with the council in order to ensure decent repayment collection rates.⁴⁷ A connection with housing benefit or council tax benefit may therefore be worth exploring. Local authorities should learn the lessons of the personal connections established by the home credit industry, proactively reaching residents and establishing connections with those in most need.

Sheffield City Council is working with DWP and Jobcentre Plus undertaking home visit benefit checks for its most susceptible citizens. It is important that there are positive and supportive personal relationships between providers who understand and empathise with the social and economic situation of low-income communities if they are to become financially involved with third sector organisations.⁴⁸ This lesson holds true for any outward-facing council staff too.

A return to this prominent financial role in consumer markets might start by being sensitive to resident needs and offering the products already available. For example, in Cornwall, the council became aware that when new tenants moved in, they tended to have large costs in essential items, making them ideal targets for loan sharks. The council now arranges for a Credit Union to meet the new resident on the day they move in to preclude any possible loan sharking activity.

⁴⁶ The recovery rate is currently 97% for budgeting loans and 92% for crisis loans. *The Social Fund and Local Government*, Local Government Association, Jan 2006

⁴⁷ *The Social Fund*, Resolution Foundation, Feb 2007, p.1

⁴⁸ *Credit Union and CDFI Training and Development Needs Analysis* Jones P.A and Goggin N. 2007, DWP, Newcastle, in ABCUL Credit Union Current Account, p.62

9 *Conclusion*

The nature of loan shark activity makes it difficult to pinpoint the precise volume or intensity of illegal activity – but a combination of anecdotal evidence and an awareness of the state of the credit market suggests that during this recession the problem is beginning to raise its head again.

Local authorities must show strong leadership in a range of ways and this short paper aims to explore ideas which we hope the local government community will consider. With the likelihood that the availability of sub-prime credit will become ever more scarce over the next couple of years, we predict that illegal lending could grow from around 165,000 cases to over 200,000⁴⁹ cases unless alternative credit options are accessible for those most exposed to loan sharks. The consequences in both social and economic terms of such a rise in this problem would be great – and would ultimately fall to the taxpayer to pick up the pieces. Local government's intervention is widely recognised as the crucial next step, and we look to strong leadership from the sector at a time of great urgency.

⁴⁹ see Appendix

Appendix Calculation of Vulnerability to Loan Shark Practice 2009

Category of the population	Population falling into category ⁵⁰	Policis/PFRC estimates of incidence of loan sharking (2006) ⁵¹	Policis/PFRC estimates of users of loan shark users (2006) ⁵²	Likely incidence of loan sharking by end of recession	Likely number of loan shark users by end of recession
Most deprived estates as measured by IMD ⁵³ percentile above 95%	1,400,000	5.6%	77,400	5.6% (constant) ⁵⁴	77,400
Other most deprived 20% of areas as measured by IMD between 80% and 95%	4,100,000	2.1%	87,400	3% (0.9% rise)	123,000
Total	5,500,000	-	164,800	-	200,400

55

Using the frame of analysis of the most recent national report into illegal lending, NLGN here presents a case that the number resorting to loan sharks is likely to rise above 200,000⁵⁶ over the course of the recession.

Looking exclusively at the most acutely deprived wards, it would appear on close inspection of updated CLG deprivation figures (IMD), there is not much change in relative deprivation since 2004. It is therefore plausible

50 Rounded to nearest 100,000.

51 Taking account of sampling biases in the saturation surveys conducted in deprived estates and in national surveys and rounded to one decimal place

52 Figures take account of rounding errors in population sizes and estimates of incidence.

53 Index of Multiple Deprivation measured by Department for Communities and Local Government in 2004.

54 The Index of Multiple Deprivation has been reanalysed since 2004 in 2007 – after the original illegal lending report was published. Updated figures linked to: <http://www.communities.gov.uk/communities/neighbourhoodrenewal/deprivation/deprivation>.

55 All methodology and estimates are adapted from *Illegal Lending in the UK*, PFRC and Policis for DTI (Nov 2006)


56 Figure is UK wide

that the opposing effects that the economic crisis and the recently focused government enforcement efforts will have on loan sharking in these already infected areas, will off-set each other.

In the remainder of the most deprived *fifth* of the country, we have ample reason to believe that credit exclusion will result in a marked increase in the incidence of loan sharking given that it arises in a vacuum of alternative supply. Considering the recent cessation of lending by two of the three largest home credit lenders, an increase in refusals by Provident - the market leader - from a third to above 60% in the past two years, an increase in Social Fund 'crisis' loan refusals from 316,000 to 596,000 in the same period and a likely ulceration of localised worklessness and exclusion to previously prosperous areas, an increase of 0.9% is a very conservative estimate.

This would result in an incidence of loan sharking in excess of 200,000; indeed the conditions are ripe for a much larger increase.





When communities develop acute social and economic difficulties, local authorities are at the frontline to pick up the pieces, providing support and assistance to those in greatest need. The current economic downturn is causing unemployment and hardship especially in disadvantaged neighbourhoods – and in acute cases there is evidence to suggest that the pernicious trend of illegal unsecured lending at extremely high rates of interest, or ‘loan sharking’, is making a comeback. We believe that this year will see a significant increase in the numbers of those vulnerable to loan sharking – to over 200,000 people nationwide.

In this short paper we analyse the conditions which suggest loan sharks are likely to thrive in the year ahead.

Local government is well poised to play a role in reducing financial exclusion and the risks from loan sharking, and we identify seven ways in which council leaders and chief executives can actively engage in this agenda.