

164 ESSEX SAVERS NET CREDIT UNION

The Committee welcomed Alison Davies, who was in attendance to present information on the Essex Savers Net Credit Union. A welcome was also extended to Russ McLean of the STaR Partnership who was able to relate working experience with Credit Unions.

The presentation covered the background and nature of Credit Unions and how a Credit Union might be developed and resourced within the Rochford District. During the presentation reference was made to the possibility that involvement with a Net Credit Union could assist the authority in endeavouring to reduce social isolation within the community.

Responding to questions, Alison Davies advised that:-

- The Essex Services Net Credit Union was at formation stage and had yet to develop a financial track record. Detailed information on financial plans/projected operating costs would be left for Members. It was anticipated that a dividend of approximately 2% would be payable in the first year.
- Any loans would represent a multiple of an individual's savings (two or three times initially). Loans could be up to a value of £10,000 although Unions frequently offered sums in the region of £80-£100. Approximately 6% of the population did not use traditional banking facilities and one in five could not obtain credit. General speaking, individuals needed to save for at least two months before they are able to be considered for a loan. Unions can accommodate individuals who have been refused credit by the banks.
- There is a legal requirement for Credit Unions to set a bad debt provision of 2%.
- Credit Unions do not automatically assume bad debts. All debts are pursued. Credit Unions had a good record on a debt in part because they were serviced locally.
- Money loaned out has been provided by savers with the Union.
- The Essex Savers Union was hoping to spread costs across the County via approaches to each District/Borough. Whilst Unions were traditionally staffed by volunteers the business plan for the Essex Savers Union included the appointment of some staff.
- Dividends are taxable.

- Credit Union loan facilities are not only for individuals who cannot obtain loans elsewhere. Unions look for individuals who are happily banked elsewhere to invest some money to support the Union for the community. Unions can help poorer members of the community access the type of facilities often taken for granted, such as the paying of utility bills by standing order.
- The Union had calculated that a figure of £½ million is required to cover infrastructure arrangements for the whole of Essex. It was envisaged that banking facilities would be available at a number of locations within the community (libraries, church halls, etc). The Union worked in partnership with the Co-operative Bank.

Russ McLean referred to the value of Credit Unions in providing an alternative to "loan sharks" and associated problems. Whilst the quality of the service offered by Unions could vary, the key feature of the Essex Savers Union was that it had be modelled on Financial Services Authority recommendations. There was general support from Housing Associations to the Credit Union concept.

During debate, Members observed that a Union loan annual percentage rate of 12.7% was relatively high when compared with some unsecured loan facilities offered by high street banks/building societies. Reference was made to a change in bankruptcy arrangements that took affect on 1 April, whereby the period after which an individual could be discharged from bankruptcy was now less than 12 months. This change could, potentially, make it more difficult to collect bad debts and lead to well-meaning depositors losing out. It was observed that mutual sector organisations were experiencing problems coping with debt without access to capital markets. It was also observed that a Credit Union may be more likely to experience bad debt if the customer base comprised of many individuals with poor credit histories. It could be recognised that the type of facility offered by Credit Unions was well suited to localised arrangements able to demonstrate some local knowledge of customers.

The Committee concurred with the view of the Chairman that the question of setting up a Union would benefit from more in-depth review and it was:-

Resolved

That the question of setting up a Credit Union partnership within the District be referred to the Finance and Procedures Overview and Scrutiny Committee for in-depth review. (HFS)