THE UNIVERSITY OF SALFORD

Community Finance Solutions

Update on Community Finance Solutions

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Pompey Pride

Portsmouth has become the first city in Britain to develop a community based financial institution based on the model developed by Bob Paterson at the University of Salford. The organisation known as Portsmouth Area Reinvestment Trust (PART) was launched by Stephen Timms MP, Financial Secretary to the Treasury, on the 7 July. The goal of PART is to provide mainstream financial services to disadvantaged and low income groups who may otherwise resort to high cost providers, such as cheque cashing shops and 'loan sharks'.

Minister Wants More!

Speaking at the launch Stephen Timms emphasised the importance of affordable credit and praised the creation of PART. 'Access to finance allows local communities to foster a culture of enterprise and entrepreneurship and individuals to seize opportunities for employment and independence. I welcome the launch of PART and hope the model will be developed in other area across the country'.

Bank Chips In

Not only is PART the first initiative of its kind in the UK providing a new model of community finance to combat financial exclusion. It also has been developed in a unique partnership with the local authority, housing associations and Lloyds TSB bank. The bankís role has been crucial in ensuring the success of PART. As well as providing rent-free premises and cash support, Lloyds TSB seconded senior manager Anthony Salt to establish PART. Anthony worked on overcoming the myriad legal and regulatory hurdles and designed the operating guidelines for PART.

Lloyds TSB do not see their involvement as philanthropy. Speaking in their house magazine (Frontrunner) Geron Walker, project director, argues that 'it makes long term, commercial sense for us to assist people on the first steps of the ladder towards mainstream finance and in doing so, help regenerate the disadvantaged communities in which we operate.'

Helping Real People

According to Godfrey Doyle, PART's manager, since starting trading PART has 'helped a single parent to buy shoes and a school uniform for her daughter.' Whilst the Portsmouth News reported that Richard Bailey of Hayling Island had used a £300.00 PART loan to pay for an MOT for his car which he says is his lifeline. He said 'Since my serious illness I have been out of work and the £300 from PART has helped me carry on with my everyday life'.

Further information on PART is contained on page 5.

The creation of PART is now available in print entitled 'PART From Dream to Reality - a report on how the project went from concept to reality' and is available from Portsmouth Housing Association 02392 892300 price £25.00 inc p+p.

As from 1 September 2000 Community Finance Solutions is the new name of the Forum for the Development of Community Based Financial Governance and Institutions. The contacts and addresses will remain the same.

Community Finance Initiatives:
The business case for housing association involvement

Purpose

This paper argues that housing associations should become involved in providing solutions to the financial exclusion faced by individuals, organisations and communities - an activity which falls within the aim shared by charitable associations of 'providing associated amenities for people in necessitous circumstances'

It outlines the current European and UK context and looks at work in progress with the local Community Reinvestment Trust model. Most importantly, it explains how housing associations can take a central role in tackling financial exclusion.

Context

A growing number of Community Finance Initiatives (CFIs) is being developed, among them:

- Credit Unions
- National bodies such as the Local Investment Fund & Street UK
- Local bodies, including the Aston Reinvestment Trust and Portsmouth Area Regeneration Trust.

There is a great deal for these organisations to do. Financial and social exclusion are inextricably linked. In the words of Prime Minister, Tony Blair: 'In too many areas it is hard to get building societies and banks to lend money or offer credit. Financial institutions are understandably nervous because they have had their fingers burned when people simply vanish without payment of their debts. But the result is that many people are trapped on welfare that could be making a decent living. Many are trapped in a cash economy which means depending on loan sharks charging extortionate rates of interest. This is simply unacceptable'.

Financial exclusion is faced by individuals, organisations and communities. Some help is offered by Credit Unions, mutual self-help organisations which can improve access to finance, particularly in socially and economically excluded communities. However, they can only support their members and generally do not provide consolidation loans, cash cheques or make loans in advance of employment.

Micro-businesses, voluntary organisations and co-operatives find it difficult to raise finance. A lack of credit worthiness dogs many of these organisations who desperately need financial instruments which are flexible, responsive, transparent and simple to sustain enthusiasm.

New Agenda

A new financial infrastructure is needed to support the growing emphasis on grass-roots solutions to exclusion, where local people are the key agents of change and local employment initiatives a credible and sustainable source of job creation. The belief is growing that disadvantaged and excluded communities must play a major part in their own re-engagement - but they can only do so where they have relevant and responsive support.

The vision of Community Economic Development as a powerful force for social and economic inclusion and as a source of job creation is moving up domestic, European and international agendas.

However, it must be buttressed by the parallel development of a new financial infrastructure.

New flexibility in the application of European Structural Funds has blurred the unhelpful distinctions between social and economic interventions. The emergence of capacity building (Objective 2, Priority 4 and Objective 3, Priority 4), which proposes that people in communities are the primary agents of change, has produced a new way of thinking about local economic initiatives for which the old systems and arrangements are inappropriate, particularly those to do with funding.

The exploration of new financial instruments which support enduring community investment is a priority on this agenda. Local economies and communities will survive and thrive only if a more responsive and flexible range of financial 'products' can be made available at the local level.

Community Finance Initiatives

Community Finance Initiatives (CFIs) are financial intermediaries providing a bridge between conventional sources of finance, such as banks and building societies, and those people and organisations who need affordable credit. They provide business start-ups loans, loans for the repair and improvement of private-sector homes and the provision of consumer credit to meet items of household expenditure.

CFIs are promoted nationally by central government and locally by community groups and local authorities with the aim of revitalising communities through a combination of social purpose and business enterprise. Typically, they combine private sector capital from mainstream institutions with money from socially concerned individuals and organisations to provide reasonably priced credit for individuals and businesses.

Existing intermediaries include national bodies, such as Industrial Common Ownership Finance and local organisations such as Credit Unions and the New Horizons Savings and Loans Scheme. A national initiative is being promoted at the University of Salford where a new form of financial intermediary is being developed - Community Reinvestment Trusts (CRTs). Research at the university[1] revealed that rebuilding communities and making loans to people with no credit history required more than simply providing access to conventional loans.

To meet the needs of poorer communities, lending institutions must be flexible and adapt their guidelines to the needs of borrowers. They need to accept unconventional collateral for loans, and to provide education, training and assistance to potential borrowers. The University of Salford is developing a new type of vehicle to deliver this service, which is adapted from the ground-breaking work of the Aston Reinvestment Trust[2].

Six pilot projects are in development. They are locally focused, community driven and operated through partnerships.
First off the ground is the Portsmouth Area Regeneration Trust (PART)[3] another in Salford – Salford Money Line - follows close behind. Most are being developed in conjunction with housing associations and mainstream financial institutions.

Community Finance Initiatives: The business case for housing association involvement

Why housing associations should get involved

Registered housing associations in England house about 1.5 million people, many of whom are on a low income and/or in receipt of benefits. The associations have collective property assets of £43.7 billion and have combined surpluses of £2.7 billion that have been built up over the years[4].

Social housing landlords are obliged to address their long-term business objectives. In doing so, they balance conflicting demands to provide new affordable housing, to repair and improve existing homes, to contribute to sustainable communities and to manage risk. Despite a trend towards tighter margins in the core business of social housing, most social landlords have the capacity to invest in the development of community finance initiatives.

Indeed, it has been argued that housing associations need to diversify rapidly, if they are to survive the loss of income that will inevitably result from rent control schemes. Experts[5] are advising associations to "reinvent themselves and get involved in setting up bakeries and cafes under the New Deal'. This suggestion follows the Housing Corporation's relaxation of the diversification rules, allowing up to 49 per cent of an association's business to be non-social housing. Most housing associations have received large amounts of public money. In many localities they have become the main social housing providers and the main source of accommodation for the socially excluded. Indeed, the Housing Green Paper, published in April 2000, proposes that associations should become the dominant social housing providers by 2004.

Although the state plays the central role in regeneration, it needs local partners. In many impoverished communities, housing associations are among the largest not-for-profit stakeholders and are well placed to address cross-cutting issues such as social and financial exclusions. In addition to providing housing, most housing associations are committed to improving social-economic conditions in disadvantaged neighbourhoods.

This shift in undertaking a more diverse range of activities combined with new opportunities for Housing Associations to use their surpluses could substantially influence the development of CFIs.

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Case Study 1: Portsmouth Area Regeneration Trust

The Portsmouth Area Regeneration Trust (PART), set up to provide affordable loans to people on low incomes and to small businesses, was officially opened on the 7th July 2000 by Stephen Timms Financial Secretary to HM Treasury.

Within 12 months the not-for-profit organisation aims to be making at least 1,000 affordable loans a year and employing the equivalent of 2.5 full-time staff. By 2006, PART hopes to achieve a loan book of £4 million and employ 4 or 5 full-time staff.

PART charges the same rates of interest as high street banks. It offers an alternative to expensive legal and illegal money-lenders. In Portsmouth alone, it is estimated that 7,000 households are paying 80 per cent interest on loans from money-lenders. The activities of loan-sharks, who charge as much as 60,000 per cent interest (with menaces) on their loans are more difficult to plot. But they flourish in Portsmouth and all areas of social and financial exclusion.

PART offers:

- Loans to meet domestic emergencies, e.g. to buy a refrigerator or children's shoes.
- Financial advice.
- A cheque-cashing service, as an alternative to cheque-cashing agencies who charge their customers without bank accounts as much as 10 or 15 per cent of the value of the cheques they handle.

Community Finance Solutions

Case Study 1: Portsmouth Area Regeneration Trust

- Direct debit services, giving its customers access to cheaper gas and electricity prices, for instance.
- Loans and business and financial advice for small businesses in the city.
- Repair and improvement loans to low-income home-owners.

PART is funded by private investors and from public sources including the EU Social Fund, the Single Regeneration Budget, Hampshire TEC, the City Council, Portsmouth Housing Association and Lloyds TSB. Customers are directed to its door in the city's High Street by Citizens Advice Bureaux and other advice centres, church organisations and voluntary agencies.

It has three legal components. It has been registered as an Industrial and Provident Society, which will be the engine room of the organisation. A charity will run alongside it to liberate funds and funders. Finally, a limited company will act as a guarantor for the scheme with loans raised from banks and building societies.

Customers can make weekly repayments, and are offered a Christmas break in their repayment schedule. The service is run by a retired bank manager.

PART works across the Portsmouth (PO) post code area, which has a population of about half a million people. It hopes to help up to 4000 people during the next five/six years and provide the springboard for community led regeneration. PART's offices are being shared with the fledgling Portsmouth Savers Credit Union and the Enterprise Agency. PART will to pass its customers onto the credit union when they achieve financial stability and for, small business loans, receive referrals from the Enterprise Agency.

Community Finance Solutions

Community Finance Initiatives: The business case for housing association involvement

The business case for housing association investment in CRTs

(1) Reducing rent arrears and avoiding empty homes

Social housing landlords are probably the largest providers of credit to poor people through the provision of unpaid rent - rent arrears for which no interest is charged and considerable revenue costs are borne. Many housing association tenants find themselves in multiple debt, facing eviction or seeking the crippling help of loan sharks to pay off their debts.

A better solution for tenants and associations would be the creation of a money advisory service that would negotiate the reduction of non-priority debts with a tenant's creditors. A similar service has proved very successful in Ireland (See Case Study 2). Housing associations could also sell their rent arrears debt at a discount to the CRT, which would refinance the tenant's remaining debts as part of a 'fresh start' loan package. Such a service would be available only to those tenants who genuinely cannot pay rather than those who will not pay. The considerable resources spent chasing rent arrears, evicting tenants and filling the resulting empty homes would be better spent tackling tenants' debts and their causes.

(2) Creating stable communities and protecting the value of assets

Making credit available for private sector housing repair would aid the creation of stable and sustainable communities and help housing associations protect the value of their assets. Where neighbouring privately owned properties fall into disrepair and dereliction through a lack of investment, housing association homes can become harder to let and rental income falls. In the long run, associations could be left holding assets with little value. This nightmare scenario has already occurred in pockets in the North of England, and the situation may spread if associations do not act now.

CRTs could make a significant contribution to stopping the decay by providing grants for owner occupiers and reputable private landlords. Many housing associations provide home improvement advice through Care & Repair and Staying Put schemes and are well placed to co-ordinate a comprehensive approach to private-sector needs.

(3) Expanding business development activity

Many associations have established fruitful working relationships with banks and building societies, and the support of these mainstream lenders in cash and kind is central to the development of the new financial initiatives. In the final analysis both parties have a common interest to promote and protect the housing assets. Some banks have shown the way by making finance available and by seconding senior staff to help with the development of CRTs. As substantial borrowers, associations have significant clout when negotiating for private finance. They should make the most of it on behalf of the communities where they work. Furthermore, they should be encouraging banks and building societies to address the issue of financial exclusion.

Housing Associations are experts in raising resources from public, private and charitable sources. This expertise could be put at the disposal of emerging CFIs by identifying potential income streams, eg Single Regeneration Budget and European Structural Funds. Associations are ideally placed to adopt a 'promote and float' policy, holding the initial revenue income, carrying out the development and passing on the ownership and management to the CRT - perhaps retaining some central support responsibilities.

Business experience is a scarce resource in many communities. Housing associations have it in abundance, and can help emerging community businesses, such as CRTs, develop business plans and strategic thinking. This will not only bring in an income to the association, but will also provide necessary skills to fledgling businesses and community enterprises.

(4) Raising the profile in the community

Housing associations are seen generally as housing providers and managers and not as social entrepreneurs. Increasingly, professional and organisational boundaries are being broken down through collaboration and partnership working; housing associations thus have an opportunity to expand upon their position whereby it is not just "their" activity but is part of a "joined up" response. Associations will raise their profiles by becoming a promoters, developers and/or investors in CRTs

(5) Mitigating risk

In the current environment of regulation, Housing Associations are getting to grips with assessing and controlling risk. By becoming pro-actively involved in the development of CRTs they are, in fact, mitigating risks in their core businesses by directly supporting the well-being of their customers and the communities they live in, as well as promoting the improvement of the physical fabric.

Case Study 2: Money Advice and Budgeting Service (MABS)

The number of money lenders in Tallaght, Dublin, was more than halved from 150 to 70 in three years by the work of the local credit union and the debt advisory agency, the Money Advice and Budgeting Service (MABS), who work together to free local people from the grip of usurers.

Generally, the financial advice offered by MABS is similar to that available from Citizens Advice Bureaux and other advice agencies in the UK. However, the Irish organisation is empowered to negotiate with creditors on their clients' behalf.

The service is able to consolidate debts, because registered lenders in Ireland, including money-lenders, risk losing their credit licence, if they refuse to co-operate. Following negotiation with the creditors, the consolidated debt is turned into a single loan for the debtor. Often, MABS is able to negotiate a final figure lower than the original debt.

The creditor is paid off immediately, with funding received from the state. MABSí bulk income is kept on deposit with a local credit union. The whole scheme is underwritten by a government-operated loan fund.
A percentage of the loan fund is transferred to the debtorís credit account with the credit union as savings. In most cases, this is a new account, and the credit union gains a member and the interest on the loan.

MABS, which is a charitable foundation, keeps any interest on the bulk deposit. The government believes that the economic and social benefits outweigh the costs.

In Tallaght, the local MABS has £IR100,000 on deposit with £IR30,000 on loan. After the first three years of lending 12 per cent of the bulk deposit had been written off. During this period more than 100 people were given assistance.

How housing associations can become involved

CRTs, which will provide 'hand-ups' rather than 'hand-outs', will be set up as group structures each with an Industrial & Provident Society (IPS) and a registered Charity. The IPS, which will issue withdrawable share capital, is the most appropriate mechanism for a housing association to become involved.

This would be a 'risk' investment and not a donation and is in keeping with the ethos of the many partnerships established by associations, particularly in their regeneration work. It is within the powers of housing association to make such investments, and given their objects of relieving poverty such activity could be considered as part of their principle business. A lower than market rate of return may be justified as an investment, if the difference is "made up" by meeting the relief of poverty object.

In practical terms the investment would stand in the books at par and would be subject to audit at the year end to confirm its value. Should the investment need to be written down for any reason this would be a charge against the income and expenditure account, as would the foregone interest. This hybrid solution recognises the principle of the investment while providing for the loss of income against the permitted objectives of an association.

Housing associations are also ideally placed to act as social entrepreneurs, business developers and partners in the creation of new CFIs. Staff in Portsmouth Housing Association's Business Development Unit assisted with the development of PART, securing and managing development funding and obtaining core operational funding. The association has acted as host organisation for the project and has provided a base for a seconded manager from Lloyds/TSB. This new institution was created with support from a wide number of individuals and organisations for which the association has acted as co-ordinator. Continuing support will be supplied by the association's staff, administering funders' requirements, seeing the business into operation and co-ordinating the supporters' structure.

In practical terms housing associations can get involved in different ways depending on the local circumstances. They are well placed to respond to the needs of the communities they work in and to support the development of Community Finance Initiatives. It is also in their own self-interest to promote affordable loans for their tenants and their neighbours when these are not otherwise available. The potential for associations to help build sustainable communities through this work is enormous, but it will require a long-term commitment to ending the scourge of financial and social exclusion.

References

1 Investing in People and Places, price £15.95. Contact Jennifer Powell, University of Salford. Telephone 0161-295 4454, E-mail j.e.powell@salford.ac.uk

2 Aston Reinvestment Trust (ART) was founded in 1997. It is a local social investment fund for Birmingham especially the inner city. Its purpose is to help finance regeneration, creating jobs and opportunities. ART does this by lending money at commercial, but affordable, rates to these businesses and voluntary sector organisations which find it difficult to access conventional funding.

3 PART will be based in the Centre of Portsmouth but will service other travel-to-work areas in SE Hampshire, using community surgeries and links to agencies such as credit unions to reach potential clients. Initially customers will be referred to PART via social support agencies, debt counsellors or community centres.
(See Case Study 1 for further detail).

4 National Housing Federation, 1999 Global Accounts of Housing Associations, May 2000.

5 HACAS group managing director Derek Joseph at the HACAS conference in London May 2000.

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