

Credit Unions and reducing the poverty premium

Christine Moore, Manchester Credit Union, November 2018

It is widely known that using high cost credit is one of the main factors contributing to the poverty premium. Millions of people on benefits, low incomes or with poor credit struggle to access small affordable loans and end up paying hundreds of pounds in interest for a loan from a doorstep or payday lender. They are also extremely likely to use a rent to own store to buy white goods or furniture, ending up paying three times what the items are worth.

Credit unions in Greater Manchester are keen to meet the demand for loans in Greater Manchester by increasing the supply of affordable credit in the communities we serve and enabling more local people to benefit from our services. There are eight community credit unions across GM as well as credit unions serving Greater Manchester Police, the passenger transport industry and the Co-operative Group.

Credit unions also provide a safe place for members to save, with savings protected by the Financial Services Compensation Scheme (FSCS) and also covered by free life insurance. Saving with your local credit union also helps to support the local economy and keeps more money in peoples' pockets.

Manchester Credit Union and other credit unions in Greater Manchester have a new family loan and savings product which is helping thousands of struggling families across Greater Manchester. Just one £500 family loan from a credit union typically saves a family £360 in interest compared to a loan from a doorstep lender (and even more compared to other high cost lenders). When you consider that most families need to borrow a couple of times a year, that's often well over £600 in interest saved.

The family loans also work on a 'save as you borrow' basis, which means that people save whilst they are repaying their loan, developing good savings habits, and helping to ensure financial resilience in the future.

Credit unions help to improve communities and the lives of people within them by reducing the negative impacts of financial exclusion and high cost credit providers such as doorstep and payday lenders. A conservative estimate is that Greater Manchester Credit Unions (just the community ones) save people over £12million per year in interest, which means more money to live on and to pay essential living costs. This amount of money saved is increasing year on year and is money that stays in the local economy.

We are determined to make a real difference in Greater Manchester and want to reach many more people out there looking for access to affordable credit. We know that the potential to continue with the same level of growth is there, but in order to meet that demand and fulfil this potential we will need support in particular with lending capital.

Manchester Credit Union is calling on stakeholders, partners and local businesses to consider opening either individual or Corporate Membership accounts and depositing excess funds. Credit Unions offer attractive dividend rates and your money is completely safe as it is protected by the Financial Services Compensation Scheme (FSCS).

Written by Christine Moore for Greater Manchester Poverty Action.