Briefing on disclosure of data by the British Bankers' Association, the Council of Mortgage Lenders and high street lenders.

A briefing from the Community Investment Coalition

Background to data disclosure

Bank disclosure means providing information about a range of bank activities in defined geographical areas. The data provides information about the ways that banks invest the money the public deposits with them. Disclosure can also provide an opportunity to deepen understanding of market trends and to refine products and services to better serve local markets. It can also be used to compare the performance of different banks in a transparent and verifiable way to reward top performers and penalise those who fall short.[1]

Moreover, data disclosure highlights whether the main high street lenders are concentrating the provision of credit in certain areas leaving other areas to become 'credit deserts' with businesses and consumers struggling to access affordable credit. It is a major step forward in terms of transparency. This new data will allow businesses and the public to see clearly how the banking and building society sectors are serving the wider economy, and in what areas of Great Britain there is less lending. Publishing data in such a detailed way will assist competition, allowing new entrants to identify where there is unmet demand and to pursue new business in these areas.

The move to encourage banks to disclose their lending habits has roots in the United States. Through the 1977 Community Reinvestment Act (CRA), its aim was to "encourage depository institutions to help meet the credit needs of the communities in which they operate, including low- and moderate-income neighbourhoods, consistent with safe and sound banking operations."[2]

The CRA requires that that each insured depository institution's record in helping meet the credit needs of its entire community is to be evaluated periodically. That record is then taken into account in considering an institution's application for deposit facilities, including mergers and acquisitions.

[1] *Full disclosure: why bank transparency matters'*, (2006), New Economics Foundation: http://s.bsd.net/nefoundation/default/page/-/files/Full_Disclosure.pdf

[2] http://www.federalreserve.gov/communitydev/cra_about.htm

For instance, work by the University of Massachusetts Boston[3] highlighted the substantial discrepancies in the lending behaviour of financial institutions in the city of Boston, for Greater Boston, for Massachusetts, as well as for each of the state's fourteen counties and each of its thirty-three largest cities and towns.

Using data sourced by the federal Home Mortgage Disclosure Act (HMDA) along with population and income data from the US Census Bureau, it was found that not only were Black and Latino borrowers less likely to be granted prime home-purchase loans, but were also respectively 3.1 times and 2.5 times more likely than their white counterparts to receive high- APR loans[4].

It is therefore argued that a similar strategy can be devised in Great Britain, using income levels as a substitute for race and ethnicity.

Why has the Community Investment Coalition (CIC) campaigned for it?

The need for disclosure of lending data is central to CIC's campaign for access to affordable finance.

The New Economics Foundation (NEF)[5], a partner of the CIC, has noted the following advantages of the banking sector disclosing lending data publicly:

- The availability of banking services in deprived communities can be clearly identified.
- Full disclosure means that it is possible to identify who the banks are actually reaching, and who remains outside of the banking system.
- Financial exclusion is often localised, meaning that banks need to disclose information on a local-area basis that is consistent with measures of deprivation.
- Banking transparency is a powerful tool that can ensure the effective targeting of scarce resources to deprived areas.

[3] J. Campen, (2010), *'Changing Patterns XVI: Mortgage Lending to Traditionally Underseved Borrowers & Neighbourhoods in Boston, Greater Boston and Massachusetts, 2008'*, Gastón Institute Publications. Paper 106: http://scholarworks.umb.edu/gaston_pubs/106/

[4] Defined as home-purchase loans that charge annual percentage rates (APRs) at least three percentage points higher than the current interest rate on long-term U.S. Treasury bonds.

[5] *'Full disclosure: why bank transparency matters'*, (2006), New Economics Foundation: http://s.bsd.net/nefoundation/default/page/-/files/Full_Disclosure.pdf

- Without area-based bank disclosure, communities are left in the dark on how their savings and resources are being invested.
- Transparency can also highlight the positive contribution banks make to deprived communities and can facilitate working partnerships between banks, third sector lenders, and other community-based initiatives to build new products and operating models.

The voluntary framework used for data disclosure

The British Bankers' Association (BBA)[6] and the Council of Mortgage Lenders (CML)[7] have jointly published aggregated data on bank lending disclosure, and will subsequently repeat this on a quarterly basis, detailing the outstanding stock of lending that has been committed to customers across three categories:

- loans and overdrafts to SMEs
- mortgages
- unsecured personal loans (excluding credit cards)

Each postcode will be broken down by category to show the exact lending being made to each.

The figures will fluctuate over time for a number of reasons including:

- new borrowing agreements
- customers repayments, either in part or in full
- existing agreements mature
- borrowers move location
- borrowers switch into or out of alternative finance products
- borrowers switching to a different lender

In particular, it highlights those more deprived areas where larger banks are often not willing to lend. This will enable those looking to improve access to affordable financial services to more

[6] *'Lenders set out levels of borrowing from across the country'*, 8th April 2014: https://www.bba.org.uk/news/statistics/postcode-lending/lenders-set-out-levels-of-borrowing-from-across-the-country/#.U0PxVv6PJbQ

[7] *'Mortgage lending by postcode: updated data published today'*, 8th April 2014: http://www.cml.org.uk/cml/media/press/3871

effectively intervene. It could also allow alternative community finance providers, such as CDFIs, to expand their activities.

The British Bankers Association has published aggregated data for participating lenders here. Individual lenders will publish consistent data relating to their own customers' borrowing. The datasets include data from seven major lenders:

- Barclays[8]
- Clydesdale and Yorkshire Banks[9]
- HSBC[10]
- Lloyds Banking Group[11]
- Nationwide Building Society[12]
- Royal Bank of Scotland[13]
- Santander UK[14]

Methodology used for data collection

This exercise centres on the postal addresses represented by Royal Mail postcodes, which is maintained periodically by the Office for National Statistics (ONS). The figures cover Great Britain only (thus exclude data from Northern Ireland, the Isle of Man, Jersey and Guernsey).

The data published reflects borrowing in 'live' postcodes (according to the list published by the Royal Mail in August 2013), and is therefore an up-to-date picture of its geographic distribution across Great Britain. There are around 1.8 million full postcodes, 10,000 sector postcodes, 3,000 districts and 120 postal areas.

In order to safeguard customer confidentiality and satisfy all relevant data privacy, competition and other laws, the BBA, CML and individual lenders have applied a number of redaction filters to the raw lending figures reported by lenders.

[8] 'Barclays publishes lending data across UK postcodes to provide greater transparency', 8th April 2014: http://group.barclays.com/news/news-article/1329931624616
[9] 'Clydesdale Bank PLC - Postcode reporting', 8th April 2014: http://www.cbonline.co.uk/media/results-financial-information/postcodelending
[10] 'Postcode lending data', 8th April 2014: http://www.hsbc.co.uk/1/2/about-us/sustainability/postcode-lending-data
[11] 'Data for SME, Personal and Mortgage Lending', 8th April 2014: http://www.lloydsbankinggroup.com/media/postcode-lending-data/
[12] 'Nationwide lending activity by postcode sector', 8th April¨2014: http://www.nationwide.co.uk/products/mortgages/service/lending-by-postcode
[13] 'Postcode Lending Data', 8th April 2014: http://www.rbs.com/news/2014/04/postcode-lending-data---rbs.html
[14] http://www.aboutsantander.co.uk/search.aspx?q=postcode&p=1

These filters/rules are:

- Borrowing stocks in a sector postcode is not disclosed where customer confidentiality would be compromised (i.e. where fewer than 10 borrowers exist in the sector or where borrowing is highly concentrated in a small number of the largest borrowers in the sector).

- Individual lenders are not obliged to publish borrowing at sector level if they hold less than 10 per cent of SME borrowing, 3 per cent of mortgages or 3 per cent of personal loans in a sector.

Typically, the total value of lending redacted in this way is relatively small, and spread thinly across a number of sector postcodes. The aggregate figures reported here therefore do not always represent the absolute sum of borrowing from all participating lenders. While this means that aggregate figures may not be exactly comparable across different sector postcodes, in most cases the borrowing amounts not included will be fairly small.

Wherever possible, any figures for an individual lender which either could not be attributed to a specific sector postcode, or had to be redacted for data privacy or other reasons have been added into the area totals shown. In a small number of instances, data privacy reasons prevent the attribution of specific amounts to certain postal areas. This means that aggregate figures may not be exactly comparable across different postal areas. Therefore, sector postcodes do not necessarily map across readily or exactly to alternative geographic classifications.

Use of data

We expect a wide range of different organisations to use this data. This will include universities and academics working on financial exclusion issues; local authorities and Local Enterprise Partnerships (LEPs) looking to extend access to affordable credit to support economic growth; policy and decision makers developing effective approaches to support innovation in the supply of affordable credit and provision of financial services to all communities and businesses. Birmingham City Council has already analysed the data to identify geographical gaps in the supply of personal lending. They are now working with partners to fill these gaps, for example by supporting the development of local credit unions and community development finance institutions (CDFIs). You can read its report here.[15]

Notes:

Personal loan figures are based on Bank of England reporting classifications, and will reflect unsecured borrowing my individuals and households.

Personal loan figures for participating lenders together represent fewer than 30 per cent of the total national unsecured credit market and an estimated 60 per cent of all personal loans. It is therefore important to take considerable care in interpreting local-level figures, as they will not necessarily be truly representative of the picture for unsecured credit as a whole.

SME lending figures relate to borrowing through loans and overdrafts ONLY. Other forms of finance (e.g. business credit cards or asset-based finance) are used by SMEs, but not included here.

SME loans and overdrafts for participating lenders together represent about 60% of the total national market of all lending to SMEs by banks and building societies. It is therefore important to take considerable care in interpreting local-level figures, as they will not necessarily be truly representative of the picture of SME finance as a whole.

Mortgage figures are based on Bank of England reporting classifications, and will include most buy to let activity, as well as borrowing by home-owners.

Participating lenders together represent about 73% of the total national residential mortgage market. It is therefore important to take considerable care in interpreting local-level figures, as they will not necessarily be truly representative of the picture for the mortgage industry as a whole.

For more information

For more information, please contact Jennifer Tankard, Community Development Foundation (CDF) on 020 7812 5430 or jennifer.tankard@cdf.org.uk.

[15] http://www.communityinvestment.org.uk/?page_id=341

About the Community Investment Coalition

The Community Investment Coalition is a partnership of national organisations including financial providers, charities, trade associations and academic bodies. Our mission is to promote access to affordable finance for families, businesses and communities.

CIC campaigns for:
Increased transparency and public accountability of financial service providers to support consumer choice and allow effective intervention in under-served markets.

Increasing diversity of providers and choice for consumers in the financial services sector, with more providers offering a wider range of fair and affordable products to households, individuals, communities and businesses.

More innovation in the financial services sector so that affordable financial products are delivered accessibly to all communities.

Sustainable local economic growth with a greater share of locally generated income remaining within communities.

Improvements in financial literacy for all sections of the community.

We do this by:

- Collecting and sharing evidence and knowledge through research, conferences and dialogue;
- Campaigning for a regulatory system which helps not hinders community investment;
- Speaking with a unified voice on issues facing the sector; and
- Building the capacity of the Community Investment Sector through infrastructure and collaboration.

CfRC centre for responsible credit · nef economics as if people and the planet mattered · Local Trust creating lasting change · CCLA · cdfa · community development foundation

Partners include the following organisations:

The Centre for Responsible Credit (CfRC) is a dedicated unit established within the Centre for Economic and Social Inclusion to: monitor the development of credit markets; research models of responsible provision and promote policy responses which protect the long term interests of households.

The New Economics Foundation (nef) is an independent think-and-do tank that inspires and demonstrates real economic well-being. We aim to improve quality of life by promoting innovative solutions that challenge mainstream thinking on economic, environment and social issues. We work in partnership and put people and the planet first.

CCLA manages money for more charities than any other fund manager in the UK and we are owned by our not-for-profit clients. We engage with the banking sector every day on behalf of our charity and local authority clients, who are concerned with issues that may affect shareholder value, but also wish to see account taken of their ethical investment concerns. CCLA is ranked top manager of ethical and responsible investment funds in the UK by assets under management.

Local Trust delivers the Big Local programme with an investment of over £200m from the Big Lottery Fund. Big Local is happening in 150 communities across England over the next 15 years. It provides residents in each community with at least £1m and a range of other support and funding to develop ways of making their areas even better places to live.

CDFA's mission is to support the development of thriving and sustainable community development finance (CDFI) sector that provides finance for disadvantaged and underserved communities and, as a consequence, contribute to the increasing prosperity of these communities.

The Community Development Foundation (CDF) is a social enterprise passionate about helping communities. We have unique expertise in using community development to strengthen local voices, improve people's lives and create better places to live. Our vision is for successful lives in flourishing communities.