

Big Local social investment guide to personal lending



Welcome to the Big Local guide to personal lending!

This is one of four publications that provide more information on topics that we introduced in the Big Local guide to social investment. We encourage you to read the general social investment guide before tackling these more detailed versions.

There are four main types of social investment that Big Local areas can consider. These are:

- personal lending
- microfinance lending
- small business lending
- civil society lending.

This guide focuses on personal lending. It looks at:

- What is personal lending (using social investment)?
- Why is personal lending part of Big Local?
- What are the risks of personal lending?
- How does personal lending work and who administers the loans?
- Next steps.



You can download the Big Local guide to social investment as well as the four supplementary guides at:

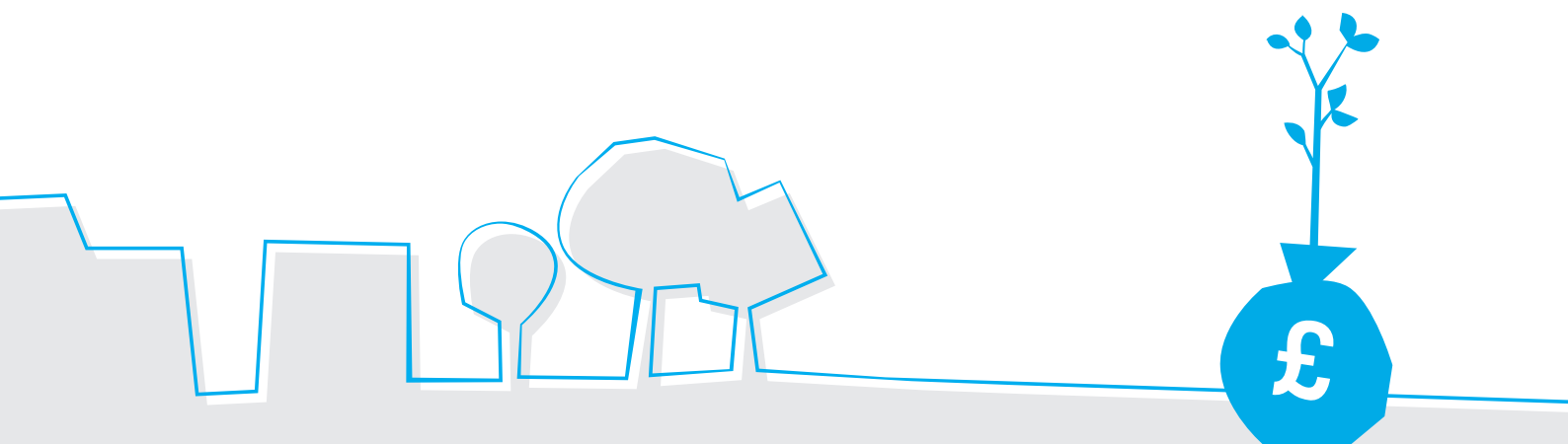
www.localtrust.org.uk/biglocal/resources

What is personal lending (using social investment)?

A social investment is a loan or other financial investment that aims to make a positive economic, social or environmental impact in a community, as well as earning income. Within social investment, personal lending means making small loans available to people who cannot borrow money from traditional banks. In fact, if someone can get a loan from a high street bank, they should not be given a personal loan supported by Big Local money.

The average social investment personal loan is around £500 borrowed for a year with an average interest rate of 26 per cent annual percentage rate (APR).

Using social investment to support personal lending can help make your area an even better place to live and it can also improve life for the borrowers, their families and communities. For example, you might use social investment to support community finance organisations (see further in this guide for an explanation of what they are), to offer loans to parents to help pay for school uniforms, to families to make their homes more energy-efficient and reduce their heating bills, or to help someone escape the trap of loan sharks and learn to manage their money better. Applicants will normally be helped to put together a budget, looking at their personal finances, to show that they are able to afford the loan repayments over time.



Why is personal lending part of Big Local?

Personal lending, using social investment, is an important option for Big Local areas to consider. Making personal lending available to your local area may help you tackle particular problems and achieve the vision for your area. Some of the problems that personal lending can help to address include:

- doorstep and internet lenders and payday loan companies charging interest rates starting at 150 per cent and, in some cases, rising to over 4,000 per cent, which means simply accessing the cash they need is really expensive and often makes financial matters worse for people
- older home owners paying far too much for heating their homes, because they cannot afford to insulate their houses, which would save money on their heating bills
- unemployed people who could work if they could afford a car, car insurance or a train season ticket and access to a more affordable loan might just be the break someone needs
- people moving into their own accommodation for the first time, needing furniture and white goods such as fridges and washing machines
- if local people are paying out too much money to legal or illegal lenders, personal lending through social investment can keep more money in their pockets.

Personal lending, using social investment, can offer other benefits to your local area and your local partnership:

1 Impact.

Social investment can have a positive impact because the loans are designed to create economic, social and environmental benefits for your area.

2 Make your money go further.

Each time a social investment loan is successfully repaid, the money can be used to make another social investment. Over time, this means that you may be able to do more with your money and make a bigger impact. You may also earn interest on the loans.

3 Empowering and strengthening communities.

Understanding and managing social investments are very valuable skills. Many people in local areas have never had the opportunity to learn them. By identifying local needs and taking action through social investment decisions, your area can make positive changes to strengthen the community.

What are the risks?

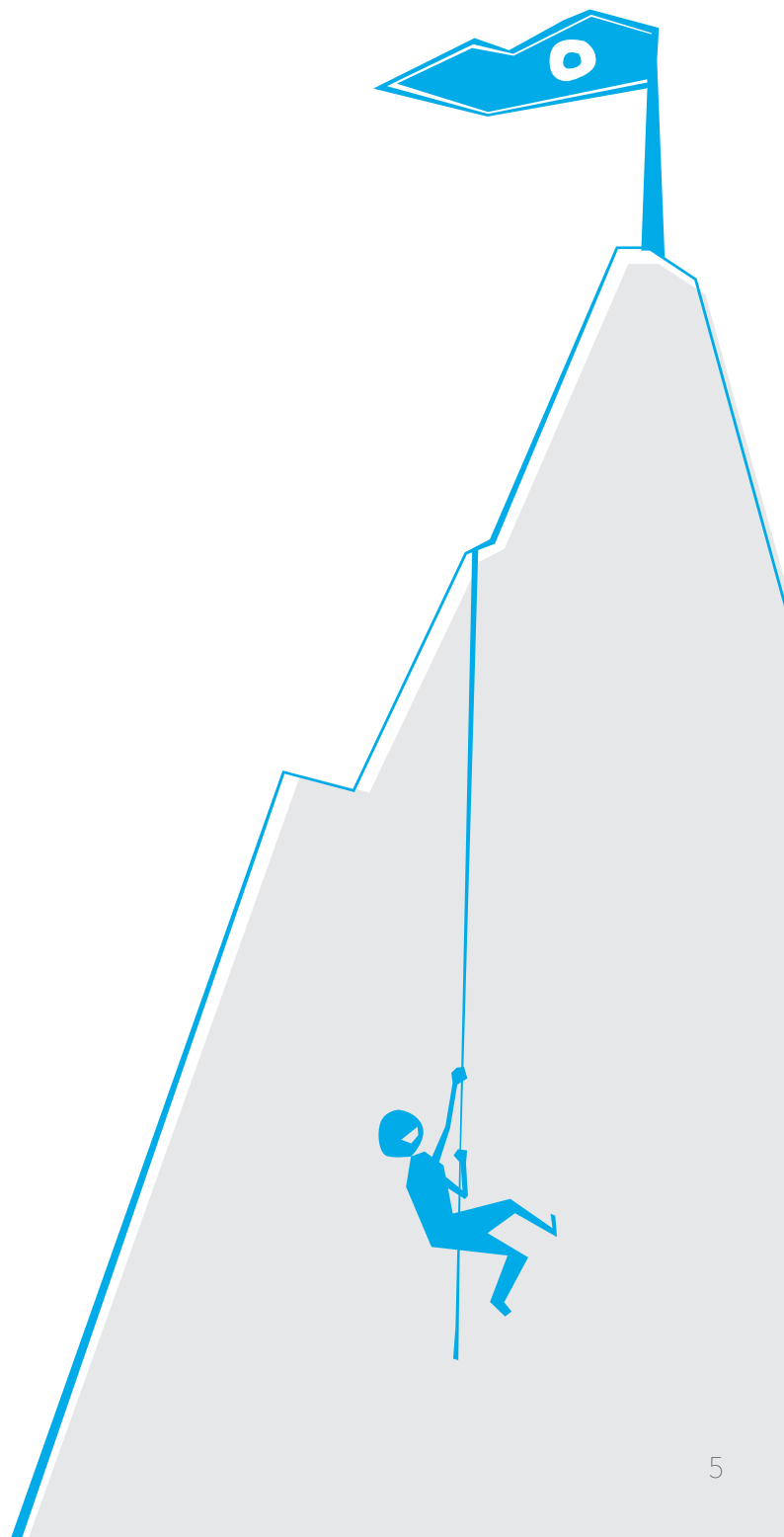
Sometimes, personal lending is not the right answer. If someone needs money now and there is no real chance that they can generate social or environmental return, or save or receive enough income to repay a loan, they need another form of financial support.

People who take personal loans and are unwilling to repay them may feel resentful if the lender takes action against them.

There may not be local demand for personal lending, so your social investment will not deliver the improvements to your area that you hoped for.

As with any financial investment, social investments can be risky. Whether a loan or a grant, there is no guarantee you will achieve the results you are aiming for. You must review your plans and be clear about how much risk you are willing to take on and how you will learn from the successes and failures of your investments.

Some people or local areas may object to lending on moral or religious grounds. We will only work with reputable, community-based lenders such as CDFIs and we will do our best to make lending available that complies with ethical and religious principles.



How does personal lending work (who administers the loans)?

If your local area is interested in offering personal lending using social investment, you will need to work with an institution that is legally able to provide different types of loans. There are two main types of community finance institution that can provide personal loans through social investment.

Credit unions: these are run by their members for their members and offer savings accounts, loans and other financial services. They serve everyone, but they often have a special mission to serve low-income communities. They are regulated by the Financial Services Authority and are members of the Financial Services Compensation Scheme. Credit unions are member-owned co-operatives and any profits are shared by their members or re-invested in the credit union.

Community development finance institutions: (CDFIs) lend money to individuals and businesses that struggle to access finance from high street banks and loan companies. They help deprived communities by offering loans and support at an affordable rate to people who cannot access credit elsewhere. CDFIs' aims are not to make a private profit but to support communities by providing affordable finance that would not otherwise be available.

Credit unions and CDFIs provide a range of different personal loans for different reasons:

- loans to buy larger items such as furniture, fridges, washing machines or cars
- home improvement loans, for example to insulate the homes of older home-owners who repay the loans from savings on their energy bills
- debt management, helping people escape from the trap of very high interest rates charged by payday and doorstep lenders
- minor household upgrades, repairs and maintenance.

How do we select a community finance organisation to work with?

If your local area wants to fund personal lending using social investment, Local Trust can help you to select a credit union or CDFI to manage the lending on your behalf. In the coming months Local Trust will create a detailed Big Local guide to help local areas select a community finance organisation to work with.



Social investment loans are just one way that Big Local areas can spend their £1m – areas can also make grants, and purchase services.

MORE INFO

For more information on social investments, grants or services, talk to your Big Local rep. Alternatively, you can talk to the staff team at Local Trust by ringing 0207 812 5456, or emailing: info@localtrust.org.uk.

This document will be developed over time with input from the people using this material. If you have thoughts on how this document can be made more useful for you, particularly if you live in one of the Big Local areas, please let us know.

Local Trust

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If you need this document in other formats or a community language please get in touch with Local Trust and we will help you.

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