Borrowing from a Credit Union: Messages from Members

A think/do research paper

CFCFE
Centre for Community Finance Europe

Paul A. Jones and Nick Money

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By Paul A. Jones and Nick Money

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Contact: Dr Paul A. Jones, Director of Research, p.a.jones@cfcfe.eu
www.cfcfe.eu

Table of Contents

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Borrowing from a credit union: messages from members

Key learning outcomes

- Members who borrow from a credit union generally express high satisfaction with the credit union as an organisation.
- However, many of these borrowing members, as well as members who do not borrow from the credit union, are meeting some or all of their borrowing needs at other credit institutions.
- These members are in general not checking the terms and conditions of a credit union loan before going to another provider.
- Price is an issue for one of the two groups of members researched, but the messages are less clear for the other group. Price is a factor in accessing credit, but it is not the only factor. Other non-price factors influence members when taking out credit.
- Members who borrowed from other providers are often attracted by the speed and convenience of their credit administration, as well as the efficiency of their online delivery channels (including mobile apps).
- Many members who borrow from other providers are also attracted by the revolving credit facility of credit cards and overdrafts.
- A large number of younger people are attracted to the ‘bank of mum and dad’.
- Members said that they expect their credit union to offer a modern, convenient and efficient financial service, including high-quality online facilities. Modern online access is particularly stressed by younger people,
- Personal contact through branches and phone is still seen as important by a significant number of people. The personal and friendly service they receive through the credit union remains highly valued.

1. Introduction

Over the last 18 months, two of the CFCFE's credit union members have invested in major research studies into the views of their members:

- Capital Credit Union in Scotland addressed member and non-member perceptions of the credit union, and in particular views on borrowing. This project completed in July 2018.

  Capital is a 20,000-member community credit union based in Edinburgh and with a common bond across eastern Scotland.

- Core Credit Union in Ireland looked at member borrowing and satisfaction rates, including a by-branch view. This project completed in June 2017.

  Core is a community credit union with 31,000 members and seven offices concentrated in south east County Dublin around Dun Laoghaire.

Further information on these credit unions is included in the Appendix. CFCFE is grateful to Capital and Core for supporting the production of this briefing paper for the wider CFCFE membership and the movement as a whole based on their research findings.

The paper brings together the key findings of these studies in relation to the borrowing needs of adult members. These findings are augmented by several mini-case studies of credit union lending growth, to inform thinking around lending practice. Given the research studies were undertaken by different organisations[1], the questions and analysis do not match directly, but this briefing brings the salient points together.

[1] Capital Credit Union research was performed by the Centre for Community Finance Europe, Dublin (cfcfe.eu); Core Credit Union research was done by Franklin Research, Dun Laoghaire (franklin.ie). Intellectual property from the research outcomes is owned by the respective credit unions.

2. Research study objectives and methodology

Credit union	Objectives	Methodology
Capital	1. To provide a data-based insight into the borrowing needs and preferences of members 2. To provide the marketing team with useful insights and messages 3. To provide an important input into board planning	• 110 completed surveys (83 by telephone, 27 online[2]) • Six participants in a focus group • Surveys conducted April-June 2018
Core	1. To estimate the value of loans members are taking out with banks and other institutions 2. To measure member satisfaction and perceptions of Core Credit Union	• 402 surveys completed by telephone • Minimum of 50 surveys in each of Core's seven branches • Surveys conducted May-June 2017

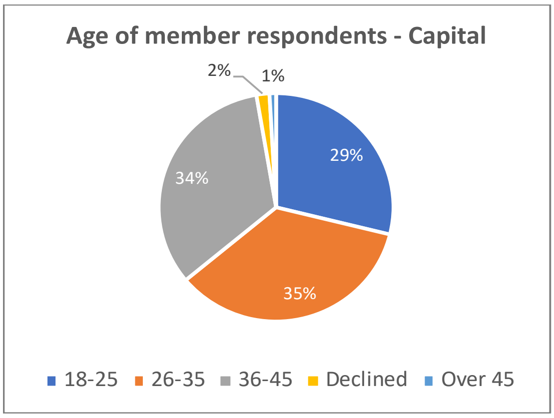
3. What did participating members look like?

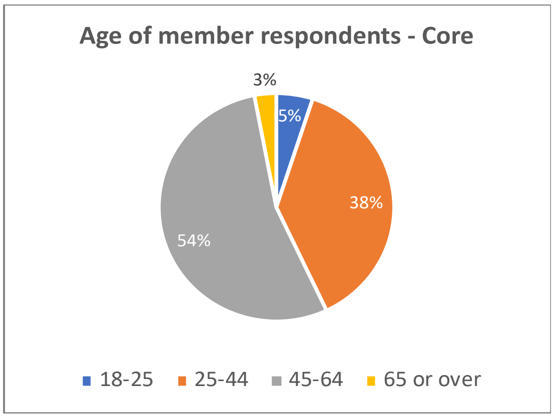
It is useful to understand who participated in the research for two reasons. First, it is the necessary context for the findings that will be presented in sections 4 to 6. Secondly, the methodology may inform other credit unions embarking on this or other forms of member engagement.

Capital respondents were 55 per cent female and 45 per cent male, while Core's were 64 per cent and 36 per cent respectively.

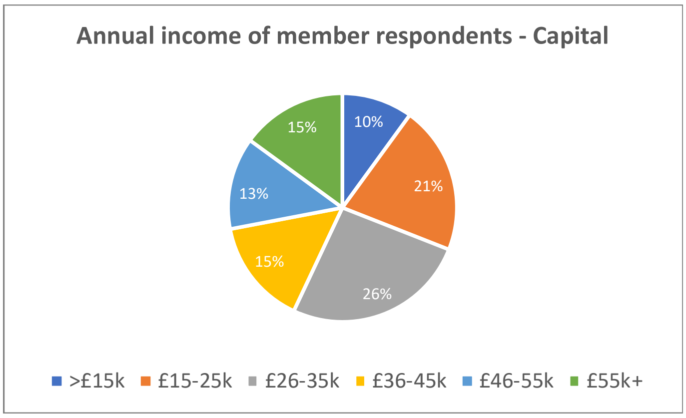
[2] Telephone and online surveys asked the same questions. Members selected the channel through which they preferred to respond.

Capital's research was focused on members aged under 45, with broadly balanced numbers across the range 18-45 years (online respondents were generally younger). The average age of Capital members in general is 47. Core's research respondents were drawn from the whole membership and were mostly older than the general average of 45 years. The proportions are shown below.

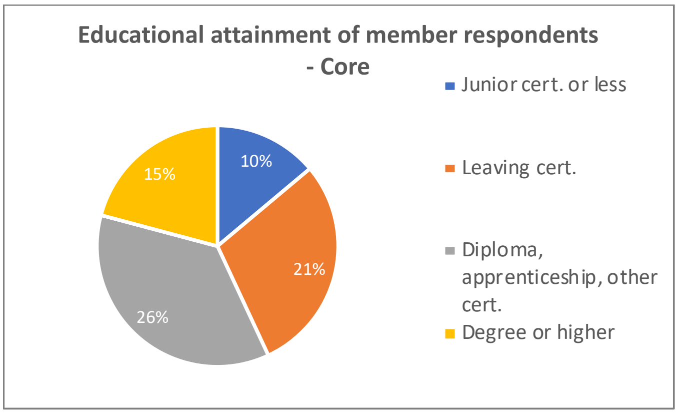




Capital's members were spread across the income range in Scotland.[3]

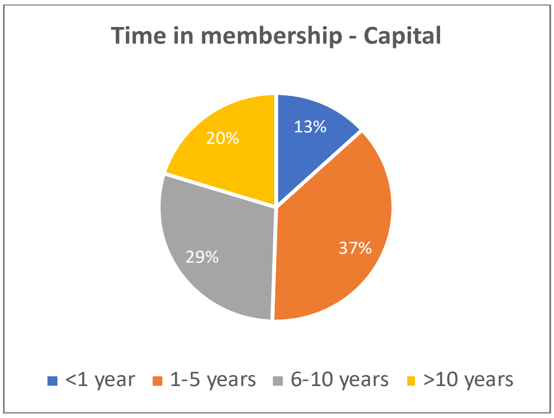


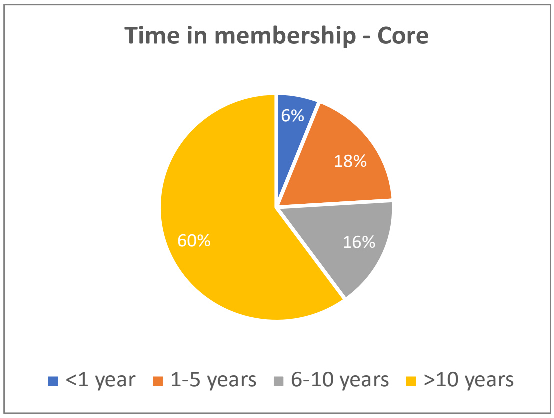
Core did not investigate income, but rather looked at level of education (not explored by Capital), with the following results:



[3] The median for Scotland is £28,500. Annual Survey of Hours and Earnings (ASHE), Office for National Statistics, 26 October 2107, London

Both credit unions identified the length of membership of their respondents.





Capital's research targeted members in employment, and only one of the respondents was not employed. For Core, 75 per cent were employed, 10 per cent looking after family members, 4 per cent unemployed, 4 per cent in education and 7 per cent retired or acting as carers.

4. Members borrowing elsewhere

Many members are borrowing elsewhere

The majority of Capital's respondents, 55 per cent, were borrowing elsewhere than in the credit union, rising to 81 per cent of the online respondents who were largely younger. At Core, 19 per cent of members had at least one loan product somewhere else.

Where are members borrowing, and which products?

Core members using other credit providers were mainly borrowing from banks for personal loans, home improvement loans, car loans and education loans and using overdrafts. They were also using store credit and car dealership finance. Although the CORE survey did not ask directly about credit cards, previous research by CFCFE has shown that credit cards are the source of most revolving credit in Ireland, so this too is likely to feature strongly in Core members' borrowing.[4]

32 per cent of the Core respondents, by far the largest group, had a degree or equivalent education level, which could imply these members were able to make

[4] P A Jones, N Money, R Swoboda (2018) The Revolving Credit Opportunity for Credit Unions, Centre for Community Finance Europe, Dublin.

better comparisons with the market through a wider choice due to higher income.

The main source of credit for Capital members spoken to on the telephone was not personal loans (only 16 per cent) but revolving credit - credit cards (64 per cent) and overdrafts (51 per cent). Interestingly, Capital's online respondents – who were on average younger than the telephone respondents – were also oriented to revolving credit (30 per cent), bank loans were popular at 30 per cent but family and friends (the 'bank of mum and dad'?) were a source for 52 per cent. 53 per cent of Capital respondents did not pay off the credit card balance in full each month.[5]

Both providers had members with mortgages elsewhere, which is less surprising given the shorter history of these products with both credit unions.

Payday loans and home credit providers did not feature prominently in either membership's responses.

Why are members borrowing elsewhere?

Common to both these groups of members was the fact that most members did not check with the credit union before borrowing elsewhere (77 per cent Capital, 84 per cent Core).

Core members who did not enquire with the credit union before borrowing elsewhere (the vast majority, as shown above) cited as the main reasons: better rates (32 per cent), the fact they already had a loan with the credit union - so presumably felt they would not get additional credit - (21 per cent), and not being aware the credit union did loans as large as they needed (16 per cent). Although online facilities with quicker approval were identified by only 11 per cent, there were several individual comments regarding the better online experience offered by the banks.

At Capital, there were various reasons given for not asking the credit union, but high among them were a range of factors related to convenience, the minimal paperwork required, online access, and access on a mobile phone

For Capital members who borrowed on revolving credit (credit cards and bank overdrafts), the overwhelming consideration was convenience, stressed by 84 per cent. 60 per cent of the members who were looking for change in the credit union, including all the respondents in the 18-25 age group, said that having a credit limit up to which they could borrow through revolving credit would encourage them to be loyal borrowers from the credit union.

For those Capital respondents borrowing on other forms of credit, primarily bank

[5] CFCFE's report on revolving credit (footnote 4 above) provides further analysis and discussion of revolving credit usage in Britain and Ireland.

loans, convenience and ease of application were cited by 50 per cent, followed by the ability to apply online and speed of decision-making by 35 per cent, and speed of receiving money (30 per cent).

Interviewees were asked to suggest changes that would encourage them to make Capital their primary source of credit: 69 per cent of those on the phone asked for reduced paperwork and increased efficiency of administration, 64 per cent overall cited the enhancement of online applications for loans, and 53 per cent the development of a mobile app.[6]

Overall, the importance of the ease and speed of the credit application and granting process, which could be inferred to be online but can definitely be expressed as customer experience, showed up as a critical message at Capital.

Employment status

Although not emerging as significant in terms of number of responses, it is interesting to see that in both pieces of research, there was an observation regarding employment status and risk. At Core, a member noted that because they were on a term contract as opposed to permanent employment, they were not approved for a loan, while at Capital it was perceived that the loan application process for self-employed members was onerous and risk averse. With trends in both Ireland and Britain suggesting permanent employment is growing less quickly than temporary or self-employment, credit unions may wish to review their credit policy in this area.

5. Member views on credit union loans

Awareness

A majority of members at both Capital and Core understood the terms and conditions of the loan products offered by their credit union. At Core, 68 per cent disagreed that the credit union was for small loans only, and 52 per cent were aware that large loans were available, but 15 per cent thought the credit union was for savings only. The main loan products had an awareness of 60 per cent plus at Capital. There were significant minorities in both credit unions who clearly were not fully aware of the credit unions' lending offer.

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[6] The respective functionalities of online and mobile facilities, and the differences between them, were not explored in the research. It was clear, however, that Capital members wished to apply for and service loans quickly, simply and conveniently

Members who borrow appear satisfied

88 per cent of Capital members who had borrowed from the credit union were satisfied or very satisfied. Core*'s* research did not ask directly about borrowing satisfaction but found a net promoter score of 81 per cent for the credit union as a whole.

Or maybe not?

Despite the positive response above, 42 per cent of borrowers in the survey at Capital suggested they may not borrow from the credit union again. The reasons given included the perceived inefficiency of online technology, inconvenience, the lack of access to a mobile app, the higher level of paperwork and documentation required and the speed of delivery of funds. 16 per cent of this group of borrowers said cost was a possible reason for not borrowing from the credit union in the future.

Price

Competitiveness on price was clearly an issue for Core members - as noted above, a third of those borrowing elsewhere identified this as the reason, and there were several comments that reinforced this statistic.

The picture was less clear at Capital, where only 8 per cent of all responding members thought the credit union was more expensive than the banks for loans. Yet a small majority (58 per cent) said that lower rates would make borrowing from the credit union more attractive. In addition, 30 per cent of those taking loans out elsewhere said that the ability to use price comparison sites was an attraction.[7]

Inferences from and for channel

Core's research was broken down by branch, and responses showed a considerable variation in borrowing demand across the Core network.

Similarly, as noted above, the response channel for Capital (telephone and online) generated slightly different member profiles and notably different emphases, with the younger online respondents being more orientated to borrowing elsewhere, and from family, friends and banks.

88 per cent of Capital respondents confirmed that payroll deduction would encourage them to borrow from the credit union via the credit union's employer partners.

[7] In focus groups, it was suggested that an advantage of price comparison sites was not having to re-enter personal details once they had been captured the first time, so this preference may include an element of convenience

6. Non-borrowing messages arising from the research

Two specific findings may be of interest to other credit unions, relating to the use of branches and the role of co-operative values:

- The majority of Core's respondents (58 per cent) visit a branch rarely - only once every few months or less
- However, 42 per cent of Core members do visit a branch at some point, so there are still times when face-to-face service is valued
- Only 12 per cent of Capital respondents said they joined the credit union because of its values, and the research overall suggested that the co-operative and ethical nature of the business was not a decisive factor in purchasing.

7. Findings from other credit union case studies

The Capital research drew on mini-case studies from three British credit unions, and they are reproduced here, along with two more from Irish credit unions. All five of these credit unions are members of CFCFE.

Altura Credit Union - consistently high loan-to-share ratio

Altura Credit Union has a common bond across County Wexford and extending into County Wicklow in Ireland, with 28,000 members. Its loan-to-share ratio (LTS) of 43 per cent has remained consistent over recent years and compares positively with the national average of 27 per cent. Currently, 27 per cent of Altura's members are borrowers, but CEO Barry Monaghan is targeting 30 per cent.

Barry describes the current business model for Altura as being based the traditional one, with several additional services bolted on. Barry considers it a struggle to sustain lending growth sufficiently to keep pace with shares. He identifies three critical steps Altura has taken to support member borrowing:

- Year-round reward to borrowers through very competitive pricing, with even banks having to lower prices to keep pace.
- Well-trained staff (all frontline staff are Qualified Financial Advisers) providing well-informed service to members.
- Effective investment in marketing, including use of a skilled third party to undertake member database analysis to provide demographic, geographic and other insights, and an increasing role for social media.

Altura plans further development to its loan business by investment in and collaboration with other credit unions on a shared service platform. One key objective is to achieve faster and more convenient application processes. Barry notes that Allied Irish Banks (AIB) approves loans within three hours.

Commsave Credit Union – lending growth driven by analysis and products

Commsave is an employee credit union with over 21,000 members, based in Northampton, England. It serves 76 companies, two trade unions and 51 government departments. Commsave has been a consistently effective lender, with its LTS currently at 82 per cent.

The CEO, Amanda Ivey, points to a number of activities that contribute to sustained lending performance:

- Commsave uses membership analysis to segment the members and offer the right products to the right people.
- Recent launch of a consolidation loan product without the need to build up savings has been very popular, however very resource-heavy.
- Revolving credit has been very important, now representing 10 per cent of the loan book at £3.7m; it takes very little to manage once set up.

Future plans include: straight through approvals, for automated lending of smaller loans; further developing the revolving credit product; expanding on loan and debt consolidations; and exploring instant text loans.

Health Services Staffs Credit Union (HSSCU) – process improvement and product extension

HSSCU's roots are in the greater Dublin region, but it has grown to 42,000 members since expanding its common bond nationally in 2006, following the consolidation of regional health services in Ireland. As the result of several inbound transfers of engagement over the last five years, HSSCU has expanded its common bond to other sectors. Those include An Post in Munster and CIE employees in Cork, Galway, Midlands, Dundalk and Dublin; HSSCU also has a community component in Dublin.

Although the mergers have put a strain on lending growth, its LTS remains very healthy at 62 per cent. The CEO, Sean Hosford, highlights three areas that have supported the credit union's lending success:

- HSSCU is seeking continually to make its member-facing processes as fair, fast and simple as possible. It has introduced effective telephone and online services, and has developed a reputation with its members for convenience.

- This is one reason for a tradition of strong member advocacy in heartland areas such as large hospitals, ensuring new starters in employment are encouraged to join the credit union by existing members.
- HSSCU has moved beyond standard personal loans by testing new products such as mortgages, secured loans, green loans and education loans. Not all have driven significant volumes. But the credit union learns by evolving product features, such as loan size and loan-to-value criteria, to find out what works best.
- The staff of HSSCU personally test products from other financial institutions to evaluate potential new initiatives.

HSSCU plans to appoint a marketing manager to undertake more detailed analysis of its member base. The goal is to better understand how to meet member needs, such as addressing the borrowing needs of the many payroll deduction savers.

Hull & East Yorkshire Credit Union (HEYCU) – lending growth based on persistence paying off

HEYCU is an English community credit union originally established to serve the employees of Hull City Council. It now has a diverse membership of 13,000, well-balanced across socio-economic groups. HEYCU had for several years struggled to drive improvements in the volume of lending, but from a low base of 23 per cent LTS in December 2016 it achieved an uplift to 35 per cent a year later. The CEO, John Smith, is clear that these are early days and that lending remains below where it needs to be, but nevertheless this 52 per cent growth rate in one year is impressive.

The key reasons are:

- Persisting with investment in marketing campaigns, including 'loan sales'.
- Proactive outbound calling and emailing from member services officers to members, to ensure they are aware of the credit union's products, loans in particular.
- Prompting members at the conclusion of a loan to remember the credit union should they need a further one.
- A successful employer partnership with the Government's Department for Work and Pensions, where the contribution of the employer (e.g. enabling intranet promotion) has been so effective that HEYCU now requires new partners, such as North East Lincolnshire Council, to commit to certain levels

of co-operation, and is seeking to freshen up older partnerships too.

- The introduction of new products, including revolving credit (for payroll members only – an 'exclusive' offer) and a child benefit loan and savings plan.

Manchester Credit Union (MCU) – lending growth based on enhanced online facilities, and effectively meeting the borrowing needs of low income members

MCU has 23,000 members, many of whom come from economically challenged areas within the credit union's extensive common bond around Greater Manchester in England. Lending was growing modestly for a number of years prior to 2016, but in 2016-17 growth increased by 35 per cent, and from October 2017 to July 2018 it jumped a further 70 per cent.

In order to support this upsurge in lending, MCU is adding a focus on attracting savings deposits, as liquidity is becoming a critical challenge. The CEO, Christine Moore, attributes the lending success to two initiatives in particular:

- Implementing the capability for online application for membership and loans as part of the same, single process
- Introducing a child benefit loan and savings product, which has delivered 50 per cent of the loan balance growth. This product requires a 'wet' signature, but members can do the rest of the process online, which is considerably more convenient.

These actions have been supported by persistence with payroll partnerships; introducing an online top-up facility; and the awareness and visibility generated by Manchester's Credit Union Awareness Week, coinciding with the BBC's 'A Matter of Life and Debt' series.

It is worth noting that MCU aims to ensure that lending in the low-income market is income-generating and not dependent on cross-subsidy from lending to moderate income members.

Appendix - Pen portraits

Capital Credit Union

Capital Credit Union was established in June 1989 and is one of the largest credit unions in the UK. Offering a range of ethical and fair financial services, anyone living or working in Edinburgh, the Lothians, the Scottish Borders, Falkirk, Clackmannanshire, Fife, Angus and Dundee, as well as organisations in these areas, can benefit from Capital's services.

The credit union now has 23,000 members, over £30 million on the balance sheet and more than 65 employer partners. It offers savings, personal loans (including revolving credit), mortgages, a pre-paid debit card, and a payroll deduction scheme.

Members of Capital have access to their accounts five days a week in the central Edinburgh head office and branch, and 24/7 online.

www.capitalcreditunion.com

Core Credit Union

Following the introduction of the Credit Union and Co-Operation with Overseas Regulators Act 2012, Dalkey Credit Union, Sallynoggin / Glenageary Credit Union and Shankill, Ballybrack & District Credit Union amalgamated in September 2014 to form Core Credit Union. In 2015 and 2016, Glasthule – Dún Laoghaire District Credit Union, Carrickbrennan Credit Union and Foxrock & District Credit Union also joined Core.

The credit union now has 34,000 members, assets of €136 million, €44 million of loans, 8,000 active loans and 43 employees. It offers savings, personal loans and a budget account.

Members of Core have access to their accounts six days a week in seven office locations and 24/7 online.

www.corecu.ie

Membership of the Centre for Community Finance Europe

Founding Members provided the initial funding required to launch CFCFE in 2017.

Credit Unions

1st Alliance (Scotland) Bronze
Altura (Ireland) Founding
Bristol (England) Bronze
Capital (Ireland) Founding
Capital (Scotland) Gold
Central Liverpool (England) Founding
Clockwise (England) Silver
Comhar Linn INTO (Ireland) Founding
Commsave (England) Founding
Co-operative Family (England) Bronze
Core (Ireland) Founding
Dubco (Ireland) Founding
Dundalk (Ireland) Founding
Enterprise (England) Founding
First Choice (Ireland) Founding
Health Services Staffs (Ireland) Founding
Heritage Credit Union (Ireland) Bronze
Hoot (England) Silver
Just (England) Silver
Life (Ireland) Founding
London Mutual (England) Founding
Manchester (England) Bronze
Member First (Ireland) Founding
NHS (Scotland) Founding
Number One Police (England) Founding
Plane Saver (England) Founding
Progressive (Ireland) Founding
Savvi (Ireland) Founding
South Manchester (England) Bronze
St. Anthony's & Claddagh (Ireland) Founding
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Centre for Community Finance Europe

CENTRE FOR COMMUNITY FINANCE EUROPE LTD.
Unit 12, 55 Percy Place, Dublin 4, Ireland

Email: info@cfcfe.eu
www.cfcfe.eu