

Community Reinvestment Disclosure

Briefing from meeting on 9 November 1998 which debated:

How far can disclosure promote improved servicing by banks of Britain's poorest neighbourhoods?

Summary

Ed Mayo Director of the New Economics Foundation argued for the disclosure of community reinvestment by banks. In the UK we don't know the true picture about the provision of financial services in the poorest communities because banks are not required to disclose the statistics. In contrast in the USA the Community Reinvestment Act had been a powerful lever for funding into poorer areas.

Lloyds TSB Group Director of UK Retail Banking, Gordon Pell said his bank was doing a lot already for such communities and he did not believe Community Reinvestment Act was the best route for the UK because of the different banking environment. But he did say that perhaps Lloyds TSB should be considering establishing a social enterprise unit.

Debate

Ed Mayo outlined the need for a **Community Reinvestment Act**. He said the best place to start addressing the financial needs of poorer communities was to find out exactly how they are being treated. Evidence on the **financial exclusion** of some poor areas was anecdotal because banks are not currently required to release this information.

In America the Community Reinvestment Act (CRA) has been a significant lever for funds into impoverished areas. CRA has the advantage of **shaming banks** that compared unfavourably to their competitors. There are significant differences between the UK and

USA but **Tony Colman MP's Community Reinvestment Bill** had presented a simplified version that could apply to the UK.

However **Gordon Pell, of Lloyds TSB** was against the suggestion. He said 30% of the USA population is still without a bank account after 30 years of the CRA. In the UK only 4% don't have a bank account and banks in the USA have pursued rapid closure programmes without impinging on the CRA restrictions.

Lloyds TSB identifies **20% of the bank's customers as having incomes below £6,500**. Lloyds TSB is fully behind Economic Secretary Patricia Hewitt's move to encourage banks to look at profitable ways to provide services to poorer communities. Lloyds TSB is working on a **pilot community bank** in Portsmouth run jointly with a housing association.

Gareth Thomas, MP for Harrow West asked Lloyds TSB what the bank could offer one of his constituents working for a development trust who had said it is more difficult and expensive for such groups to **secure a loan** than a blue chip company. Lloyds TSB's view is that the price of borrowing goes down as the risk decreases and therefore a small development trust - being seen as **higher risk** - would have a more expensive loan. He also said that in the case of the Portsmouth Housing Association Lloyds TSB had experienced a considerable delay before the bank received the information it needed for a business plan.

Andy Love MP Edmonton asked if Lloyds TSB had made any contact with the credit union taskforce. He also said that the banking sector has a difficulty in empathising with the **co-operative movement**, which doesn't have the profit motive as its primary objective.

Gordon Pell said the bank was in touch with the credit union taskforce and was also looking at whether some of its budget for charitable activities should go to the credit unions. But he noted the point about cultures and said that he would take away a message from the meeting that his bank should perhaps consider setting up a **specialist retail unit** for the needs of community enterprise.

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