5. Members' Use of Credit

Although many members thought that the opportunity to save was at least as important as the credit facility, the direct link between savings and loans is the distinctive feature of a credit union. As in the previous chapter, members' activities in the general market place are considered before their use of the credit union.

Credit from other sources

A few years ago, the National Consumer Council commissioned a survey about people's attitudes to and use of credit. An important question from that survey was repeated in the current survey of credit union members. Table 5.1 compares the results of the two surveys,

Table 5.1 Attitude to buying on credit: credit union members compared with general population

Percentage of members

	Credit union members	General population
Never a good thing	16	21
Occasionally necessary	55	47
Convenient way of buying	19	23
Sensible way of buying	8	5
(Don't know)	(2)	(4)
(Sample size)	(205)	(910)

Notes: 1. Figures for general population from NCC survey on *Consumers and Credit*.
2. Both sets of figures confined to respondents below pension age.

and shows that credit union members took broadly the same view as other people – as a group, they were neither particularly pro nor particularly anti credit. (The one exception was among the members of the N. Ireland credit union, where half of those interviewed said that credit was 'never a good thing'.)

The people in the current survey were, however, bound to be different from the rest of the population in one respect: they had access to credit union loans. The fact that the interview was specifically about the credit union would have brought this to the front of their minds. Even so, when they were asked to say what kinds of credit they preferred to use, and what types they would rather not use, credit union loans came out miles ahead of the rest of the field (Table 5.2). Only one other source of credit – the mail order catalogue – was preferred by more people than rejected it. Other sources were viewed with doubt, and others – trading checks, finance company loans, door to door salesmen and money lenders and pawnbrokers – were highly unpopular.

Table 5.2 Attitudes to different sources of credit

Percentage of members

	Prefer to use	Rather not use	Net preference
Credit union loan	86	1	+85
Mail order catalogue	26	15	+11
Electricity/gas board credit	8	15	-7
Bank loan	12	20	-8
Store credit account	11	21	-10
Building society loan	7	18	-11
Access/Barclaycard	17	33	-16
Hire purchase	14	37	-23
Check or voucher trading	1	34	-33
Finance company loan	*	40	-40
Door to door salesman	*	61	-61
Moneylender/pawnbroker	nil	78	-78
(Sample size)	(231)	(231)	

Notes: The third column is calculated by subtracting the second from the first.
* = less than 0.5%.

Even though credit union loans were more popular than other types of credit, the majority of members had used at least one type of alternative source within the past year. This might mean arranging credit at the time of buying something (eg buying in instalments from a mail order catalogue, hire purchase) or arranging credit with a financial institution prior to purchasing goods or services (eg a credit card or a bank loan). Table 5.3 combines both credit purchases and loans to show the extent to which members of different social groups used different sources. People in professional and managerial occupations commonly used credit cards, bank loans or store accounts; the clerical group used mail order, credit cards and bank loans; but manual workers used few sources of credit other than the mail order catalogue; and people without employment appeared to be even more

Table 5.3 Uses of different sources of non-union credit in past year, by occupational group

Percentage of member-families

Occupational group	Total	Professionals/ managers	Clerical	Manual workers	Non-workers
Mail order catalogue	36	11	54	39	35
Credit card	23	63	47	13	3
Bank loan	15	36	24	14	1
Store credit account	13	33	10	13	5
Hire purchase	11	13	2	16	8
Check or voucher trading	8	nil	4	6	16
Elec/gas board credit	7	3	10	9	4
Building society loan	2	8	1	2	nil
Finance company loan	2	2	3	2	nil
Door to door salesman	nil	nil	nil	nil	nil
Moneylender/ pawnbroker	nil	nil	nil	nil	nil
Total of these items	117	169	165	117	72
(Sample size)	(231)	(36)	(37)	(84)	(74)

Note: Items are listed in order of their frequency of use.

restricted to mail order. Some of them had even resorted to check trading, one of the most unpopular methods.

It is important to try to assess how credit union members' behaviour in the 'open market' compares with that of ordinary families who have not joined a union. Table 5.4 makes this comparison for low and high income families, based on a survey carried out for the Office of Fair Trading carried out at about the same time as our own. The comparison is not based on identical questions or exactly equivalent samples, so it is not precise. The signs are that:

- the use of credit cards is slightly lower among union members than among the population at large;
- credit union members have a higher than average use of the other four main credit sources, at least in the middle and upper income ranges.

Table 5.4 Use of non-union sources of credit by gross family income: credit union members compared with all families

Percentages

	at £5,000 per year		at £15,000 per year	
	All families	CU members	All families	CU members
Credit card	20	13	47	43
Loans	10	9	25	34
Store credit	6	7	16	21
Hire purchase etc	7	12	14	23
Mail order instalments	35	39	13	20

Notes: 1. Data for all families based on a question on types of credit 'used nowadays' in PAS *Consumer Credit Survey* 1988.
2. The table shows estimates (using simple regression equations) of the rate of use of each source of credit for families with a gross income of £5,000 or of £15,000 per year.

The evidence is by no means conclusive, but there is little sign that a credit union is a substitute for other types of credit. On the contrary, it looks like a useful expansion of the range of credit sources available to middle income families.

Returning to the survey of union members, the average credit transaction (ie credit purchase or loan, excluding credit union loans) involved £440. But this average covers a very wide range of sums:

Up to £25	10 per cent of transactions
£26 to £50	13 per cent
£50 to £100	18 per cent
£101 to £250	17 per cent
£251 to £500	13 per cent
£501 to £1000	17 per cent
Over £1000	14 per cent

A variety of things had been bought on credit:

Clothes and shoes	27 per cent of transactions
Household equipment	21 per cent
Leisure items	8 per cent
Vehicles	5 per cent
Repairs and decoration	5 per cent
Travel and holidays	5 per cent
Weddings, Christmas etc	3 per cent
Mixed items, other items	25 per cent

But, as might have been expected, large and small purchases were often financed by different sources of credit (Table 5.5). Thus vehicles tended to have been bought with the aid of bank loans or hire purchase agreements; household appliances on HP or on the supplier's own credit scheme; clothing was often bought on a store scheme, or by mail

Table 5.5 Details of non-union credit transactions, by type of credit used[1]

Type of credit	Bank loan	Hire purchase	Credit card	Supplier	Mail order
Average amount	£1150	£910	£340	£160	£90
Main purposes[2]	Vehicles	Appliances Vehicles	Mixed	Clothing Appliances	Clothing

Notes: 1. Types of credit are listed in order of the average amount. 'Supplier' includes store accounts and fuel boards. 33 transactions using a variety of other sources of credit have been omitted from the table.
2. The table specifies all purposes accounting for a quarter or more of the transactions of each type.

order. Credit cards tended to have been used to buy a variety of items, probably from different retailers.

More than two thirds of all families belonging to a credit union reported some non-union credit transactions over the past year. Adding up all such transactions, the average non-union credit user had borrowed £710 over the year. The same figure averaged over all member-families (including those who did not borrow) comes to £500.*

Table 5.6 Extent of use of non-union credit, by occupational group

Percentage of member-families

Occupational group	Total	Professionals/ managers	Clerical	Manual workers	Non-working
Percent use any credit	70%	90%	89%	66%	55%
Average amount (users)	£710	£1,240	£670	£720	£290
Average amount (all)	£500	£1,110	£600	£480	£160
(Sample size)	(231)	(36)	(37)	(84)	(74)

Table 5.3 compared access to and use of different sources of credit of members of different occupational groups. Table 5.6 shows the variation in the total amount borrowed from non-union institutions. Middle class people were most likely to borrow elsewhere, and borrowed more if they did; non-working families were much less likely to use outside credit, and did so on a smaller scale. The combined effect of the frequency and size of credit transactions adds up to a huge difference in the use of non-union sources: the professional/ managerial families were seven times as active in the market as the non-working families.

* The question about non-union credit transactions will tend to understate the annual total of forms of credit (like mail order or credit cards) used regularly. The average of £500 per family will therefore be an underestimate.

The NCC survey of the use of credit already referred to suggested that non-working families (other than pensioners) were just as likely to have used credit as middle class families were, although they did so on a smaller scale. Among credit union members, manual workers and non-workers were relatively unlikely to operate in the wider market. This might mean that the credit union has succeeded in replacing outside sources of credit for the lower-ranking occupational groups, to a greater extent than among those at the top of the hierarchy.

Other important influences on union members' use of credit also

Table 5.7 Extent of use of non-union credit by family structure and age

Member-families

Family structure	With children	Without children	Non-householder
Average amount (all)	£660	£350	£380
Age	Up to 34	35 to 49	50 or over
Average amount (all)	£570	£590	£350

reflected the national picture shown by the NCC survey: families with children and young people used more credit than people without children or older people (Table 5.7).

Loans from the credit union

Size and purpose of loans

More than half (58 per cent) of the families in the sample had borrowed from their credit union during the past year. This is far more than had used any other particular type of credit – the next most common, mail order, had been used by about one third. If we consider all other types of credit together, however, rather more had borrowed outside the union than had used the union itself.

Three-quarters of members (or their spouses) had taken out a credit union loan at some time (if not in the past year, then previously). Analysis of the last loan reported by each member of the sample gave

Table 5.8 Sizes of credit union and non-CU advances

Percentages of transactions

	Credit union loans	Other loans	Credit purchases
Up to £25	2	nil	11
£26 to £50	3	2	15
£51 to £100	6	9	21
£101 to £250	31	15	20
£251 to £500	25	13	23
£501 to £1,000	19	16	6
More than £1,000	14	45	4
Average	£440	£1,080	£260
(Sample size)	(179)	(57)	(204)

an average amount borrowed of £440. Credit union loans therefore

Table 5.9 Purpose of credit union and non-CU advances

Percentages of transactions

	Credit union loans	Other loans	Credit purchases
Travel and holidays	17	6	5
Vehicles	14	16	3
Weddings, Christmas etc	11	11	2
To pay bills	11	4	nil
Repairs and decoration	9	16	1
Household goods	8	3	26
Clothes and shoes	8	10	31
To repay other loans or debts	6	16	nil
Leisure items	4	3	10
Mixed items, other items	17	14	23
(Sample size)	(179)	(57)	(204)

tended to be smaller than the bank loans and hire purchase transactions reported by union members, but larger than credit card accounts, credit arranged at the point of sale or mail order transactions (Table 5.8).

Table 5.9 shows that 'credit purchases' were concentrated on clothing and household goods, both of which are commonly sold on credit terms at the point of sale or by mail order. But non-union loans covered a much wider range. Credit union loans were similar to non-union cash loans in the variety of expenses they were used to pay for.

One difference between a credit union and other financial institutions is that it is quite normal for a member to have both savings and a loan at the same time. People are not expected to withdraw their savings if they need cash – indeed they are encouraged not to. They take out a loan instead. It is therefore appropriate to compare members' loans with their savings to get an impression of their net balance. The information available does not provide this very precisely: we know the level of savings of the member (and his or her spouse) at the time of the interview, and compare this with the size of the last loan taken out by the member (or his/her spouse) within the past year (Table 5.10).

As a broad rule, member-families with high levels of savings tended to take out larger loans than those with lower savings. There is a whole series of reasons why this should happen. First, unions whose members have collectively built up large pools of savings were in a

Table 5.10 Comparison of credit union loans with credit union savings

Percentage of member families

Family savings	Up to £50	£51 to £500	£501 or more
Last loan			
Up to £100	40	5	4
£101 to £500	58	68	32
£501 or more	2	27	64
Average	£160	£380	£750
(Sample size)	(24)	(93)	(46)

position to offer large loans. Second, individuals with large savings would be seen both as loyal members and as good risks, and loan committees would encourage them to make use of the union's credit services. Third, families with high incomes would tend both to build up savings more quickly than than their poorer fellow members, and would also want to borrow in larger amounts. For all these reasons, there is a natural tendency for credit unions' capital to be recycled as loans to broadly the same people as provided it in the first place.

There was no real difference between better-off and worse-off families, in the number of loans they drew from their unions. The average for all income groups was about one loan every 41 weeks. But the size of each loan was directly related to the family income, so that

Table 5.11 Size of credit union loans, by available family income

Percentage of member - families

Available family income	Less than £10 pw	£10 to £49	£50 to £109	£110 or more
Up to £100	24	14	6	nil
£101 to £250	41	47	22	19
£251 to £500	23	17	37	22
£501 to £1,000	12	14	19	29
£1,001 or more	nil	8	16	30
Average	£220	£330	£490	£680
(Sample size)	(43)	(40)	(51)	(46)

Note: 'Available income' is calculated as the difference between the family's net income and the supplementary benefit scale rate.

the top income group tended to borrow three times as much as the bottom group (Table 5.11). This might be either because low-income families tended to prefer relatively modest sums, or because either they or the credit union leaders felt that they ought not to overstretch their commitments beyond their ability to repay.

Table 5.12 compares the use of credit union loans with access to money from non-union sources. It can be seen that the difference between income groups is similar for both types of credit. Credit

Table 5.12 Union and non-union credit, by available family income

Member - families

Available family income	Less than £10 pw	£10 to £49	£50 to £109	£110 or more
Credit union loans per year	£160	£230	£390	£440
Non-union credit last year	£260	£310	£530	£890
Total	£420	£540	£920	£1320
Credit union as % of total	38%	43%	42%	33%
(Sample size)	(55)	(59)	(59)	(59)

Note: 'Available income' is calculated as the difference between the family's net income and the supplementary benefitscale rate.

unions therefore appear to reflect the pattern of credit use available to people in different circumstances, rather than transform it.

Procedure for obtaining credit union loans

When people who had taken out a credit union loan were asked how they had gone about applying for it, there were enormous differences between the unions in the aspects of the procedure which members were most conscious of. At some unions, they thought about the place they went to to discuss a loan. At others they tended to think about the paperwork. At some unions, borrowers talked about the people through which the application was processed. We can draw no conclusion about the pattern of variations between unions, other than that members' view of the procedure is highly localised.

A third (35 per cent) of members who had taken out a loan said that they had been interviewed in person by the loan committee. This happened nearly nine times out of ten for loans provided by the two poorest unions. All the other unions' loan committees appeared to interview some applicants in person, but this was only a minority. Those who had been interviewed were asked to comment on the experience: most did so in favourable or neutral terms, and only a few felt that it had been intrusive or embarrassing.

Other procedures were adopted in particular by different unions. The N. Ireland credit union had a staff of full-time workers, and about half of its loans were cleared in the office. All the other unions had relied on officers to deal with a minority of their transactions. Members of the Yorkshire union commonly mentioned friends or relatives as the people who had dealt with their application, and this suggests a grapevine of negotiations.

Only a handful of union members said they had ever applied for a loan and been turned down – except at N. Ireland, where a quarter of all members had been rejected at one stage or another of their (long) period of membership. Only a handful of those who succeeded in obtaining a loan were lent less than they had asked to borrow. Only a handful were asked to obtain the consent of another member of the union to guarantee repayment – except at Yorkshire, where a third of all loans had to be backed by a guarantor. The great majority of people said they were 'very' happy with the way their loan application had been dealt with. There were two exceptions: the few who had been rejected were naturally unhappy about it; and members of the Borough credit union mostly said that they were only 'fairly' happy about the loans procedure. It was seen in Chapter 3 that members of this work-based union showed evidence of relatively poor morale, and this grudging appreciation of the loans system is further evidence of it.

One way of finding out what role credit union loans played in their members' budget management was to ask people what they would have done if they had not obtained their latest loan:

Would have borrowed money elsewhere	32 per cent
Would not have bought items	26 per cent
Would have drawn out CU savings	17 per cent
Would have drawn out other savings	12 per cent
Would have paid cash	7 per cent
Would have bought on credit	4 per cent

Repayment arrangements

Once a member had taken out a loan, it was repaid in instalments by the same method as was used for paying in savings contributions: most often paid in person to the union, usually at a weekly collection session; for the work-based union, by deduction from earnings.

Table 5.13 Repayment instalments, by size of loan

Size of loan	Up to £100	£101 to £250	£251 to £500	£501 to £1000	£1001 or more
Up to £2.00	25	3	nil	nil	nil
£2.01 - £5.00	45	44	8	7	4
£5.01 - £10.00	21	36	53	36	nil
£10.01 - £15.00	8	13	32	21	30
£15.01 or more	nil	4	8	46	65
Average	£3.30	£5.40	£8.20	£12.80	£18.80
Sample size	(19)	(55)	(38)	(32)	(23)

Note: Table confined to loans whose repayment details were known.

The great majority of loan repayment instalments were in the range between £2 and £15 per week (or monthly equivalents). The average was £9.10. This varied between about £3 per week at Northern and nearly £12 per week at Suburb, Borough and N. Ireland. The principal influence on the size of repayment instalments, however, was the size of the loan (Table 5.13) and there was little difference between unions once the variations in the average size of loan is taken into account.

There was a big gap between the repayment instalments paid by people with relatively high or low incomes: those with an available income of less than £10 per week paid only £5.30 for their loans on average, while those with more than £110 of available income paid £12.40. But this difference was almost entirely due to the fact that better-off people tended to take out larger loans. We calculate that if a member of the richest group and of the poorest group both took out the same loans, the difference in their instalments would be only about £1.50 per week. It is commonly said that credit unions ask their members to repay loans at a rate linked to what they can afford. This is true only to the extent that the loans themselves are related to what members can afford to pay back; the rate of repayment of any particular loan is only weakly influenced by the borrower's circumstances.

Union leaders and the analysis of annual accounts in Chapter 1 have told us that interest on credit union loans is almost always charged at a rate of 1 per cent per month. It was notable that three-fifths of those who had borrowed from the union were unable to provide any indication of the rate of interest they paid. Even among those who gave an answer, there was confusion, including some wrong answers and others stated in terms of pence per week. But 60 per cent could not even guess, and cannot have 'shopped around' for the best interest rate available. As one might have expected, members of professional and managerial occupations commonly had some idea about this (68 per cent), but manual workers and non-workers did not (32 per cent).

Assuming 1 per cent per month, the average loan of £440 repaid

Table 5.14 Average repayment programmes for loans of different sizes

Size of loan	£100	£500	£1000
Available income £10			
Weekly rate	£4.80	£9.50	£15.30
No. of weeks	21	56	71
Available income £110			
Weekly rate	£5.60	£10.30	£16.10
No. of weeks	18	51	67

Note: Estimates derived from regression equation:
Weekly payments = 0.0117 x Size of loan
+ 0.00825 x Available income
+ 3.51

at £9.10 per week would take just under a year to clear – 51 weeks. Comparison between loans of different sizes showed a compromise between the rate of repayment and the duration of the loan: larger loans were scheduled both to have larger instalments and to take longer to repay. This is best illustrated by showing how some typical loans would be repaid (Table 5.14).