

## **Banks must be forced to serve poorer communities**

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Residents of the vast plains of Britain that are without a single bank branch can see the loan sharks circling and hear the cries of the high cost lenders

Thamesmead, a sprawling area of mainly social housing in south-east London, has approximately 40,000 households – but not one bank branch. There is evidence of high-cost lenders in the area and, according to Trading Standards, about 1,500 people are regularly using loan sharks.

Community leaders claim they have been unable to convince any bank to open a branch there because it is a poor area.

Places such as Thamesmead were highlighted last week by the Better Banking Campaign as part of a problem that saw nearly 60,000 businesses denied access to finance last year, and around 2 million people without a bank account. So far, nearly 200 organisations – community and antipoverty groups, ethical investment funds, thinktanks, activists, and alternative finance organisations, including Fair Finance – have signed up to the campaign, which is trying to highlight the growing impact of the loss of financial services in some of our poorer communities.

The campaign argues for a new settlement between the finance sector and society that recognises an obligation on the banking sector to serve the finance needs of all communities, and to reduce exclusion. It believes that banks should disclose their lending – broken down by postcode, gender and ethnicity – and that average loan rates should be disclosed. Without disclosure, it is difficult to know where best to direct our energies to reduce exclusion, and to understand who is paying more and why.

Disclosure offers a baseline against which public policy can be measured, with a view to engaging with banks to reduce problems. Every retail bank in the US does this. Five years ago, I sat in on a community meeting in New York where a bank official had to explain why African Americans were being charged twice the average rate for a mortgage.

Better Banking argues that people outside the mainstream financial system should not have to borrow at penury-inducing rates of interest from payday and doorstep lenders. The Office of Fair Trading is currently looking at this market, and the campaign argues for a rate cap based on the total cost of credit, rather than the APR, as this is a more relevant way of reflecting that short-term loans do cost more. This will help put some of the companies charging eye-watering interest rates out of business.

A recent interest cap in Canada was actually supported by some of the leading payday lenders, who were concerned that some of the smaller payday lenders were charging astronomical rates and behaving irresponsibly.

Currently, banks have little incentive to serve poor and low-income communities, which are seen as high risk and high cost. The campaign argues that the social cost of this exclusion should be taken into account when monitoring the performance of banks. The government could offer tax advantages and some regulatory freedoms where banks invest in citizens advice bureaux, credit unions, community development finance organisations, and microfinance agencies in poor areas. Banks may even find that working with communities and local organisations helps them to open up new markets, find new clients, and develop new products. Failure to serve poor communities would result in penalties being imposed, such as a levy on profits, or less freedom in banking activities.

The connection between society and the banking sector has been lost, says the campaign. There are evident failures of transparency, public accountability and responsibility in the financial system that are making people very angry and frustrated. The action that the campaign proposes would go some way to reducing exclusion, and perhaps remind us that banks play an important and valuable part of society and the economy.

The campaign has met with advisers from Downing Street, and with opposition MPs, to put its case. All recognise that rebuilding trust between bankers and the public is important. The bigger goal, however, is the opportunity to create a financially included country.

- Faisel Rahman is director of Fair Finance, a financial inclusion social enterprise. To join the Better Banking Campaign, go to [betterbanking.org.uk](http://betterbanking.org.uk)