Risks

1.1 Credit unions do offer a way of providing the financially excluded with access to finance facilities but there are risks associated:

1.2 Raising capital can be very difficult and without capital there is no finance for loans. It will be important to engage and involve the private sector such as Kent Reliance early to encourage a collaborative approach.

1.3 In an area like Kent with a well developed financial services industry it could be difficult to recruit the staff with the professional acumen to make this project work.

1.4 The balance on lending policies is very hard to achieve. A relatively generous approach to lending will lead to high levels of default which will financially undermine the credit union. A highly risk averse approach will not actually get the money to clients. It cannot be overestimated how hard it is to address this issue. Default rates are likely to be high and recovery of debts will be difficult. There needs to be a debate as to whether this is how public money should be used and the public criticism that could result.

1.5 Whilst the concept of the credit union is a very sound one there are very significant practical issues which will have to be overcome. KCC needs to be absolutely clear about what governance relationship it will have with the credit union as there are significant reputation risks should the credit unions fail.

1.6 The national credit union association (ABCUL) estimates costs of £50-100k to establish a credit union. If KCC were to invest in setting up a credit union for Kent it would need to be clear on what it will be spent on. For example: project management costs, staff costs, system costs, and to actually fund.