

Beating the loan sharks

Falling into the poverty trap can be a nasty business. Anatoliy Kurmanaev talks to Mark Hannam of Dalston-based lenders Fair Finance

Having spent 12 years in investment banking, Hackney resident Mark Hannam knows how conservative the industry can be. For example, mainstream banks don't bother with people living in poverty, as the risks are too high and the sums involved too small.

Ignored by the high street, low earners resort to loan sharks, often falling into a downward spiral of anxiety and debt.

After leaving Barclays Global Investors in 2005, Mark decided to fill this gap in the market. He joined the board of Dalston-based Fair Finance, a microfinance company set up by entrepreneur Faisal Rahman, later becoming its chairman.

Whilst working for Nobel Peace Prize winner Muhammad Yunus in Bangladesh, Faisal saw how credit transforms the lives of the poor and decided to apply the ideas of Mr Yunus's Grameen Bank to the East End of London.

Most of Fair Finance's customers are women

Fair Finance has been thriving since, tripling its turnover to over £600,000 in 2009 by providing small personal and business loans, as well as subsidised free debt advice.

"We didn't want it to be a charity," said Mark. When he first joined the board, he said it looked and felt like the voluntary sector.

"A lot of the discussions were about social impact, which is fine. But people didn't want to look at the risk margins." To be sustainable, Fair Finance had to look and feel like a bank, he explains. "But a bank with a conscience."

"That's partly a model of trying to be sustainable. We want to make enough money to remain independent. We don't want to be swallowed and sucked into the mainstream."

To sharpen Fair Finance's business model, Mark and Faisal have brought in high-calibre lawyers, bankers and consultants. "There are a lot of people... in the financial industry, who care about the industry doing better and making a difference," says Mark.

"That's what I find frustrating about the [financial crisis] media coverage. [It's] as if they all took reckless risks and they all wasted their money on yachts.

"But actually the City is full of people who have got professional skills [to



Mark Hannam: 'We didn't want it to be a charity'

Photo: Katalin Farkas

whom] it really matters that they give something back to the community," he continues. "A lot of them live in East London and they see people who didn't have the opportunities they had."

Fair Finance's hard technological edge is balanced by its personal approach to customers. "Building up a relationship is really important," says Mark.

"We spend a lot of money upfront... [but] the benefit of that engagement early on is that we have a low default rate."

As with Grameen, most of Fair Finance's customers are women, who account for 70% of its Hackney clientele. Many are single mothers reliant on benefits.

"Often all the banking is done by the man," says Mark. "When the man leaves, everything is in his name, so the woman has no credit history."

He adds that the need for a loan is usually something to do with children or running the house, like buying school uniform or a fridge. "They are desperate for the money because they

are the carer of the children."

"The other reason [is] death in the family... Someone who was key to providing money is suddenly gone."

The credit crunch has so far had a negligible effect on Fair Finance's business.

"For most of our customers it is a permanent state," says Mark. "Most of [them] aren't in work so they couldn't lose their jobs."

"Our demand has gone up significantly, but we haven't seen a material effect in terms of bad debt," he added.

To Mark, extending credit to those in poverty has big social value. "It is really important that there is a diverse range of people who can participate in the community and feel included... And one of the problems with the welfare state is that it gives people a single track.

"There is a safety net but everyone gets treated in the same way... A lot of these [nets] have stigma attached to them. They don't reflect the choices people have about their lives."

"By extending credit in a responsible way... [you] increase the number of people who have better choices about the way they live, the way they work, the way they look after their lives... It gives people the resources to enter society, but on their own terms."

Mark stresses the word 'responsible', drawing attention to the credit bonanza that contributed to the housing bubble and the subsequent global economic downturn.

Those at the bottom of the ladder, however, have not benefited from cheap mortgages and instant credit cards. Data compiled by a charity based at Toynbee Hall in neighbouring Tower Hamlets shows that while the average debt levels in Hackney are the second lowest in London, financial exclusion is a serious problem.

Many of society's most vulnerable members still feel obliged to turn to loan sharks for a loan. According to the Office of Fair Trading, around 165,000 UK households, many of them woman-led, are currently using unregistered lenders.

Just last month (23 July), a Haggerston man was jailed for a year for illegal lending and money laundering. Vietnamese UK national Tung Tai Ha targeted gamblers, recent migrants and people with poor credit histories, taking their passports, jewellery and bank cards as collateral.

A Hackney Council spokeswoman said one of his victims claims to have paid back almost £9,000 after taking a loan of £1,100. Tung charged his clients up to 240% APR interest. Fair Finance's APR ranges from 15% to 19% for business loans and 32-39% for personal loans.

"Poor people will always need credit but different type of credit," said Tom MacInnes, a senior analyst at social policy think tank New Policy Institute.

He says although the UK does have a highly developed banking system, it serves a different purpose. Credit unions provide another options but they have few branches and are heavily subsidised by the state.

"And that's why you need someone like Fair Finance to step in, and run a more community, trust-based programme, because they know who is good to lend to and who isn't."

At present, Mark believes Fair Finance is the only microfinance company in the UK with a sustainable business model.

"I will be surprised if that is still the case in five years' time," said MacInnes.

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To find out more, Please Contact:

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