Community finance in the UK: a snapshot

Introduction

Community finance plays a small but vital role in the UK's financial system. It exists to serve people and communities who are poorly served by mainstream banks, or excluded from credit altogether. While the sector represents only a fraction of total consumer and small business lending, its social and economic impact is disproportionate to its size.

This snapshot provides a practical overview of community finance in the UK. It explains what community finance is, who provides it, who it serves, and why it matters. It is intended for policymakers, journalists, funders, local authorities, employers, advice services and others seeking a clear, grounded understanding of the sector.

What is community finance?

Community finance is a collective term used to describe a group of mission-led financial organisations that provide affordable finance to specific groups or places. In the UK, it primarily refers to credit unions and Community Development Finance Institutions, commonly known as CDFIs.

These organisations exist to address gaps left by mainstream financial services. They typically operate on a not-for-profit or social enterprise basis, reinvesting surplus into their services or communities rather than distributing profits to shareholders. Pricing is usually constrained by regulation or mission, and services are designed around accessibility rather than scale.

Community finance providers are distinct from high-cost credit firms and from mainstream banks. Their purpose is not to maximise growth or returns, but to provide fair, transparent and responsible financial services where they are most needed.

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Credit unions

Credit unions are member-owned financial cooperatives. They exist to serve people who share a common bond, such as living in a particular area, working for a specific employer, or belonging to an organisation or association.

Members of a credit union are both customers and owners. This structure shapes how credit unions operate. Profits are either reinvested to improve services or returned to members, typically through dividends on savings. Lending rates are capped by law, which limits risk-based pricing but helps ensure affordability.

Most UK credit unions focus on personal savings and loans. Many also offer payroll deduction schemes, which allow employees to save or repay loans directly from their wages. Some provide junior savings accounts and basic financial education initiatives. A small number offer more advanced services, but most remain deliberately simple.

Credit unions are regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The majority are members of the Association of British Credit Unions Limited, which provides representation, support and shared services across the sector.

Community Development Finance Institutions (CDFIs)

CDFIs are specialist lenders that provide finance to individuals, small businesses and social enterprises that struggle to access mainstream credit. Unlike credit unions, CDFIs are not membership-based and do not rely on common bonds. Instead, they typically operate within defined geographic areas or serve specific customer groups.

Personal-lending CDFIs often work with people who have been declined by banks or other lenders, but who can afford repayments when assessed holistically. Business-lending CDFIs support small enterprises that lack the trading history, security or scale required by traditional banks.

CDFIs usually rely on a blend of funding sources. These may include wholesale lending, government programmes, philanthropic capital and retained surpluses. Many are members of Responsible Finance, the sector's trade body, which promotes best practice and represents the interests of CDFIs at a national level.

Who community finance serves

Community finance serves a wide range of people and organisations, though there is significant overlap between groups. Individuals using community finance are often on low or insecure incomes, have limited or impaired credit histories, or need smaller loan amounts than mainstream lenders are willing to provide.

For businesses and social enterprises, community finance is often used when bank finance is unavailable or unsuitable. This may be due to the size of the loan required, the nature of the business, or the absence of collateral.

In many cases, community finance is not a preferred option but the only viable one. Demand for affordable, ethical finance consistently exceeds supply across the UK.

Why community finance matters

The UK credit market has changed significantly over the past decade. While digital lenders and fintech firms have expanded choice for some consumers, access to affordable credit has narrowed for others. Bank branch closures, tighter risk models and the decline of face-to-face banking have left gaps, particularly in lower-income and rural communities.

At the same time, high-cost credit has continued to fill these gaps, often with poor long-term outcomes for borrowers. Community finance provides an alternative. It offers lower-cost lending, encourages saving, and keeps financial services rooted in local communities.

Evidence consistently shows that community finance delivers strong social value relative to the capital it deploys. It supports financial resilience, reduces reliance on harmful credit, and contributes to local economic stability.

Scale & limitations

Despite its importance, community finance remains small in absolute terms. Credit unions and CDFIs serve hundreds of thousands of users across the UK, not millions. Loan books are modest, and many organisations operate with limited staff and infrastructure.

This limited scale reflects structural challenges rather than a lack of need. Demand for affordable credit, particularly among financially vulnerable groups, far exceeds the sector's capacity to supply it.

Sustainability & funding pressures

Achieving financial sustainability while maintaining a social mission is a persistent challenge for community finance providers. Rising operating costs, limited access to low-cost capital, regulatory compliance requirements and legacy technology all place pressure on organisations.

Many providers rely on blended funding models, combining lending income with grants or wholesale funding. While this can support stability, it also introduces complexity and uncertainty. Long-term sustainability remains one of the sector's most pressing issues.

Regulation & oversight

Community finance providers are regulated by the Financial Conduct Authority, with credit unions also subject to prudential oversight by the Prudential Regulation Authority. Regulation provides important consumer protections, but compliance costs can be disproportionately high for smaller organisations.

Balancing consumer protection with the viability of small, mission-led lenders remains an ongoing policy challenge.

Visibility & discoverability

One of the sector's most persistent problems is visibility. Community finance providers are often hard to find at the point of need. Information about eligibility, coverage and services is frequently fragmented, outdated or difficult to interpret.

This lack of discoverability limits uptake, even where suitable provision exists. Improving how community finance is presented and accessed is a necessary step in improving outcomes.

The role of Comuno

Comuno exists to make community finance easier to find, understand and use. By aggregating provider data, standardising information and offering simple search tools, Comuno aims to reduce friction between people who need fair finance and the organisations that provide it. This snapshot and the wider Community Search platform form part of that effort.

Community finance is not a substitute for a well-functioning mainstream banking system. But it is an essential complement. As pressures on household finances continue, the role of credit unions and CDFIs is likely to become more important, not less.

Ensuring that these organisations are visible, understood and supported is firmly in the public interest.