

A close-up photograph of a blue document, likely a financial statement or pay slip, showing various categories and numerical values. The categories visible include 'Pension', 'AVC's', 'Taxable Pay', 'Tax', 'NI', 'SSP', and 'mp'. The values shown are 388.27, 0.00, 0.00, 388.27, and 0.00. A diagonal blue band with the text 'This Pay' and 'Year' is also visible.

	This Pay	Year
Pension	388.27	
AVC's	0.00	
Taxable Pay	0.00	
Tax	388.27	
NI	0.00	
SSP		
mp		

# Housing association innovation in delivering affordable credit

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by Yvette Hartfree, Danny Friedman, James Ronicle, Sharon Collard and Kate Smith

This report looks at what housing associations are doing to help their tenants access affordable credit, and how effective these schemes are. The research draws on a literature review and 13 in-depth case studies of affordable credit schemes.

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What are housing associations doing to help their tenants access affordable credit, and how effective are these schemes? The research draws on a literature review and 13 in-depth case studies of affordable credit schemes.

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## The report shows that:

- a main benefit reported for tenants who received an affordable loan was the ability to meet essential needs. Other benefits were improved financial inclusion and money saved in lower interest payments (compared to using high-cost credit);
- the evidence was limited regarding whether the take-up of affordable loans replaced tenants' use of high-cost credit;
- low take-up of schemes by tenants was a commonly reported problem;
- affordable credit schemes can help some tenants to meet essential needs, but not those who lack the spare disposable income to afford loan repayments; and
- a strength of the case study schemes was that they were part of wider financial inclusion and anti-poverty strategies.

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# Executive summary

## Introduction

The aim of this study was to learn from UK and international evidence where housing associations had been innovative and effective in improving the financial inclusion of their residents, particularly in relation to the provision of affordable credit.

High-cost credit, while representing only a minority of all credit use, is most likely to be used by those on the lowest incomes, such as social housing tenants. Helping low-income households access affordable credit can (in theory) reduce their use of high-cost credit, and thereby help to increase their disposable income and improve their financial well-being. The squeeze on household budgets in the years following the recession, alongside welfare reform changes including the roll-out of Universal Credit, has heightened concerns around financial inclusion, well-being and the capability of social housing tenants to manage their rent payments.

This research study provides in-depth insights into the strengths and limitations of affordable credit schemes as delivered by housing associations, and provides valuable learning that can inform the future development of such schemes by housing associations and others. There were three main elements to the research: a literature review, a scoping study to identify schemes involving social housing providers, and detailed case study research with 13 schemes.

## Literature review of affordable credit schemes

The aim of the literature review was to review evaluations of affordable credit schemes delivered by, or involving, housing associations from both the UK and abroad, to complement the case study research and put it into a wider context. The review identified 13 affordable credit schemes, including four in the UK, three elsewhere in Europe, two in the US and four in Australia.

These studies identified a number of benefits for loan scheme recipients that enabled them to improve their personal living conditions and enhance their quality of life. Benefits included being able to meet essential needs, which in turn helped to raise living standards and facilitate greater social participation. There was also evidence of financial savings to loan recipients, such as paying back loans at lower interest rates and day-to-day cost savings through replacing old (faulty) household appliances with new, more energy efficient ones. Some studies also reported wider well-being benefits that arose from receiving an affordable loan, including reduced anxiety and money worries. However, evidence as to the success of affordable credit schemes in diverting loan recipients from using high-cost credit was limited.

In relation to how schemes were delivered, online application processes and a focus on offering a quick service was a key feature of some schemes, and was viewed positively by loan recipients. Some schemes reported high rates of loan refusals, particularly where applicants could not afford to repay a loan.

The review identified three models of financial sustainability for affordable credit schemes: a subsidy model, where there is grant aid; a cross-subsidy model, where the affordable credit scheme did not have to cover its costs because it was delivered as a part of portfolio of products or a wider strategy; and a model comprising schemes that were not yet financially sustainable, but aimed to be.

## Scoping study

An online survey of UK housing associations sought to establish an overview of their financial inclusion activities and whether they would be interested in taking a further role in the project as a case study.

A shortlist of UK housing association projects was drawn up from those currently providing affordable credit, which aimed to select a diverse range of housing associations and schemes. Ten UK case studies and two international case studies were selected. In addition to this, documentation was found for a past UK affordable credit project – CHANGE – and this was also included as a case study. With regard to the

international case studies, only one country – Australia – was identified where social housing providers (Community Housing Providers) are involved in the delivery of affordable loans to their residents. The Australian credit market is also very comparable to that of the UK.

## **Delivery of affordable credit schemes by the case studies**

All of the case studies, to varying extents, saw their affordable credit initiative as part of a wider financial inclusion framework, and in some cases as part of longer-term, anti-poverty and social inclusion strategies. Housing associations became involved in delivering affordable credit schemes to provide an alternative to high-cost credit, to help combat rent arrears in the context of welfare reform, and to promote tenants' financial capability, independence, quality of life and well-being.

There was a mixed picture of how thoroughly associations gathered evidence of the need for an affordable credit scheme. Where business cases were developed for such schemes, they tended to be based on fairly limited empirical evidence.

All of the UK schemes involved working with delivery partners, credit unions being the delivery partner for most. Associations felt they lacked the expertise to run affordable credit schemes on their own, or were reluctant to mix their landlord role with the role of lender.

In terms of who carried the financial risk of the scheme, some associations guaranteed loans or provided the loan capital, while in other cases the credit providers carried all of the loan default risk. A number of associations also funded incentives to encourage tenants to save. A few linked positive financial behaviours such as saving to the suspension of court action against tenants. Similarly, in relation to their administration, some housing associations were closely involved (particularly where they had taken on more financial risk), while others were fairly 'hands off' and left the administration of the scheme to the credit union.

Most schemes were open to all tenants (subject to affordability checks). Some specifically targeted excluded tenants with poor credit histories and rent arrears, whereas others restricted entry to 'good' tenants with healthy rent accounts and unblemished tenancies.

Findings on what made the delivery of schemes successful showed that an already-established relationship between the association and the loan provider was an important success factor, as were strong staff relationships. The ability to compromise and 'flex' products encouraged success between partners that were culturally and organisationally different.

None of the UK schemes could be regarded as financially self-sustaining, but this was not necessarily a primary aim or motivation. Wider social benefits were believed to be as important, if not more so.

## **Outcomes of the case study schemes**

Overall there was very little monitoring or formal evidence-gathering by case study housing associations on the impacts of their affordable credit schemes on tenants. However, a main benefit reported for tenants who received an affordable loan was the ability to meet essential needs. Other benefits were improved financial inclusion, and money saved in lower interest payments (compared to using high-cost credit). In terms of whether the take-up of affordable loans replaced tenants' use of high-cost credit, the evidence was limited.

Reported benefits for housing associations (although not formally assessed) included: better tenant management of rent payments, improved tenant satisfaction, reduced tenant dependency on frontline staff, and a raised awareness among housing association staff of financial exclusion issues.

Low take-up of schemes by tenants was a commonly reported problem. Reasons for this included: unrealistic expectations by housing associations of take-up, and loan schemes not meeting tenants' needs in terms of the size of loans available; the speed of loan processing; or the requirement for tenants

to save before borrowing. Scheme eligibility criteria, including tenants' lack of ability to afford loan repayments, was also a barrier to take-up.

## Conclusions

Key lessons gained from this research were that getting the design of schemes right is crucial in ensuring that they meet tenants' needs, and close working between housing associations and credit unions aided successful implementation and scheme delivery.

A key limitation of affordable credit schemes is that they are not appropriate for low-income households that fail affordability checks. Thus affordable credit schemes do not address the issue of enabling those on the lowest incomes, without spare disposable income, to meet essential needs. However, a strength of the case study schemes was that they were part of wider financial inclusion and anti-poverty strategies, whereby they were able to refer the lowest-income tenants to more appropriate sources of help. We conclude that at a time when housing associations are under increased financial pressure, investing in financial inclusion initiatives is important in helping tenants to stay financially healthy.

# 1 Introduction

This research study appraises evidence on the activities and innovations of social housing providers in providing tenants with access to affordable credit. It aims to disseminate practice learning for the future development of such schemes by housing associations and others, including the Joseph Rowntree Housing Trust's own affordable credit pilot scheme.

## Background

The exclusion of low-income households from mainstream financial products such as bank accounts and low cost loans emerged as a policy concern in the late 1990s, and under the Labour Government financial inclusion was one of its policy priorities. In 2006 it launched the Growth Fund for credit unions and community development finance institutions (CDFIs), to raise levels of access to affordable credit by building the capacity of third-sector lenders to serve financially excluded households.

Post-2010, with a new Coalition Government in place, continuing economic recession, and the cessation of the Financial Inclusion Task Force in 2011, financial inclusion largely fell from the political agenda – except for a strong focus on the issue of payday lending, due to concern over the rapid growth in that market (growing from £330 million in 2006 to £3.7 billion in 2012; FIC, 2015). As well as tougher regulation of the payday loan industry, the government invested £38 million in credit unions to enable them to provide financial services (including personal loans) to people on low incomes.<sup>1</sup>

More recently, for housing associations and others, the focus has switched to preparing people for the introduction of Universal Credit (UC), in particular ensuring that social housing tenants pay their rent once they can no longer have their Housing Benefit (HB) paid direct to their landlord. The squeeze on household budgets in the years following the recession has helped to reignite interest in improving financial inclusion and financial capability, and addressing debt problems where these occur. October 2014 saw the launch of a new independent body, the Financial Inclusion Commission, in an effort to make financial inclusion a national priority ahead of the 2015 general election. Its report, published in March 2015, included a number of recommendations around access to affordable consumer credit.

## Research aims

The overall purpose of the research was to understand what works or doesn't work in the delivery of affordable credit schemes by social housing providers, both in the UK and internationally. The research sought to identify schemes being delivered by housing associations, and through studying 13 of these, aimed to understand:

- the reasons behind different delivery models;
- the strengths and limitations of schemes;
- what factors made schemes succeed or fail; and
- the wider lessons that can be drawn to identify best practice and promising innovations.

As a result, the research provides a valuable learning resource to inform the practice of housing associations currently delivering affordable credit schemes, as well as housing providers that might be interested in doing so. The research also provides a wider context and evidence base for the Joseph Rowntree Housing Trust's own affordable credit scheme, in terms of learning about what works.

## Methodology

There were three main elements to the research methodology.

## Scoping study

The purpose of the scoping study was to identify affordable credit schemes being delivered by housing associations, and to select potential case studies from these. The scoping study included an online survey of UK housing associations and networking with a range of professional international networks (including the European Financial Inclusion Network and the European Housing Research Network), and individual researchers and practitioners (including those thanked in the Acknowledgements at the end of this report). The survey was distributed to housing associations in November 2014 with the assistance of the four UK housing association federations.

## Literature review

The literature review had two purposes: to contribute to the scoping study in identifying affordable credit schemes; and to identify and review evaluations of affordable credit schemes operating in both the UK and abroad, to assess the evidence on their impacts, success factors and delivery challenges, to put the case study research into a wider context.

The literature search focused on evaluation and research reports related to affordable credit and financial inclusion initiatives. It targeted the websites and publication lists of professional organisations, UK and international research centres, and UK and international financial inclusion networks.

## Case studies

Based on information gathered in the scoping study, a shortlist of potential case studies was compiled. The aim was to include diverse and innovative case studies from both the UK and abroad, including some schemes that were no longer running. For each case study, written information and data was requested from the participating organisations: management information data, proposal documents, annual reports, user satisfaction surveys and evaluation studies. Telephone interviews were conducted with project managers/directors and frontline staff at each housing association and their partner organisations.

## Report outline

The findings from the literature review are presented in Chapter 2.

Chapter 3 reports on the findings from the scoping study regarding the activities of UK housing associations in delivering financial inclusion, and provides an overview of the 13 case studies.

Chapters 4 and 5 present the authors' analysis of the case study findings, exploring common issues and differences across the case studies to provide an understanding of the challenges and successes of different affordable credit delivery models.

Finally, Chapter 6 draws together overarching lessons on what works and doesn't work in the delivery of affordable credit schemes, and makes recommendations for best practice. Detailed information on each of the 13 case studies is provided in a separate report (Hartfree *et al.*, 2016 – this is available at: <http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1606-jrf-hai-the-case-studies.pdf>).



# 2 Literature review of affordable credit schemes

## Summary

- The literature review identified 13 evaluated affordable credit schemes, including four in the UK, three from elsewhere in Europe, two in the US and four in Australia. In only two of the 13 schemes were housing providers the major delivery partners.
- Positive benefits for people on low incomes who were able to access affordable credit schemes included being able to meet essential needs, which in turn helped to raise living standards and facilitate greater social participation. There was also evidence of financial savings to loan recipients. However, evidence as to the success of affordable credit schemes in diverting loan recipients from using high-cost credit was limited.
- Online application processes and a focus on offering a quick service were key features of some of the schemes reviewed, and were viewed positively by loan recipients.
- While the affordable credit schemes reviewed may have been popular in attracting applicants, they did not always fit the eligibility criteria for loan schemes; some schemes reported high rates of loan refusals, particularly where applicants could not afford to repay a loan.
- The review identified three basic financial models for affordable credit schemes: a subsidy model, where there is grant aid; a cross-subsidy model, where the affordable credit scheme did not have to cover its costs because it was delivered as a part of portfolio of products or a wider strategy; and a model comprising schemes that were not yet financially sustainable, but aimed to be. Across the models, many schemes appeared to be successful in minimising loan defaults through responsible lending, credit management, and the development of strong and ongoing relationships between the borrower and scheme staff.

The aim of the literature review was to assess evaluation studies of affordable credit schemes delivered by, or involving, housing associations from both the UK and abroad. For inclusion in the literature review, schemes needed to have been evaluated with findings that commented upon their design, delivery or impact, to provide an understanding of some of the challenges and success factors in delivering affordable credit schemes.<sup>2</sup>

While there has been widespread activity among UK housing associations in helping their tenants access affordable credit, the literature search found only two evaluations of affordable credit schemes where housing associations were significant delivery partners, and that also met the criteria outlined above. In the review that follows we also report on another 11 evaluations of schemes that did not involve housing associations, as they still provide useful learning for the delivery of affordable credit. Most of the evaluation evidence in these reports was of a descriptive nature, with relatively little robust quantitative evidence on the impacts of affordable credit schemes.

## Overview of schemes

The 13 evaluations included in this evidence review comprised the following.

### **UK affordable credit schemes where housing associations were significant delivery partners**

- Scotcash, a CDFI partnership developed by Glasgow Housing Association, Glasgow City Council and Royal Bank of Scotland in 2007, to deliver fair-priced credit (average loan APR of 43%) to low-income people in Glasgow who were excluded from mainstream credit, and to provide an alternative to high-cost credit lenders (Alexander, 2015; Mosley, 2010).

- The Store, an affordable rent-to-own scheme developed by Derwentside Homes housing association in partnership with Prince Bishops Community Bank in 2012, to provide local people with an affordable alternative (APR of 24%) to stores such as BrightHouse (Alexander and Grimes, 2013).

## **UK and US affordable credit schemes not involving housing associations**

- A pilot scheme delivered by London Mutual Credit Union in 2012 to offer a payday loan alternative providing low-cost, short-term credit (APR 27%) to existing and new members as a means of diverting people away from payday loan companies, and to increase awareness and uptake of credit union membership (Evans and McAteer, 2013).
- A payday loan alternative delivered in San Francisco – Payday Plus SF – delivered by the San Francisco Office of Financial Empowerment, in partnership with a number of credit unions (re-launched in 2011), which aimed to provide affordable credit (APR 18%) and promote financial inclusion through encouraging take-up of credit union products (Wimer and Bass, 2013).
- A US-based pilot developed by the Federal Deposit Insurance Corporation and delivered by banks, offering affordable, small loans (APR of 36% or lower, with an average APR of 16%) as alternatives to payday loans and fee-based overdrafts that, if successful, could be replicated by other banks (FDIC, 2010).
- A pilot scheme in Northern Ireland involving a range of community organisations, including housing associations and credit unions, to deliver financial capability information and training to local people, and improve access to affordable credit through promoting credit union services (Consumer Council Northern Ireland, 2013).

## **Australian affordable credit schemes not involving housing associations**

The review identified evaluations of four Australian loan schemes. These were nationwide schemes led by not-for-profit organisations in partnership with national banks, national and state governments, and community groups:

- No Interest Loans Scheme (NILS) developed by Good Shepherd Sisters in 1981, in partnership with National Australia Bank (NAB), to enable people who meet low-income eligibility criteria to access interest free loans (up to A\$1,200) for purchasing essential items such as white goods, furniture and computers, and meet medical and educational costs (Mouy, 2010; Ayres-Wearne and Palafox, 2005).
- StepUP Low Interest Loans, developed by Good Shepherd Youth and Family Service in partnership with NAB, also target low-income people, but provide access to larger amounts of credit (A\$800–3,000) at low rates of interest (5.99% APR) for purchasing essential goods and services. They aim to assist the transition to mainstream banking (Centre for Social Impact, 2013; Mouy, 2010).
- Progress Loans, delivered by the Brotherhood of St Laurence in partnership with ANZ Bank from 2006 to 2012,<sup>3</sup> provided low-cost loans of A\$500–3,000 (APR 14%) to low-income people for purchasing essential household goods and services, vehicles, education and medical care. The scheme also enabled borrowers to develop a credit history with a mainstream financial institution (Vawser and Associates, 2011).
- The NAB Small Loans Pilot offered small loans between A\$1,000 and A\$5,000 over a 12-month term at an APR of 28% (NAB, 2010).

## **European affordable credit schemes not involving housing associations**

In relation to affordable credit schemes in Europe, the literature review found only a few schemes, none of which involved social housing providers. A possible reason for this may be tighter regulatory control over credit markets, including interest rate caps (a number of European countries have these), and restrictions on who can hold a credit licence (which excludes housing organisations). Another likely reason is that some European countries have national schemes for the provision of affordable credit to low-income households. For example, in France the government provides a programme of loan

guarantees to banks via the Social Cohesion Fund, and in Germany Sparkassen national savings bank is the main source of credit for low-income households. The literature search identified three European schemes:

- An example of the delivery of the national Social Cohesion Fund in France where: the Caisse des Dépôts, a state owned financial institution, oversees the fund that guarantees up to 50% of microcredit loans; the National Federation of Savings Banks and other financial institutions provide the loans; and the not-for-profit organisation Secours Catholique (one of several social partners) acts as a credit intermediary, identifying and supporting potential borrowers. The scheme provides loans up to €3,000, at low rates of interest below the interest rate cap set by the Bank of France (Réseau Financement Alternatif, 2012a).
- A scheme in Belgium delivered by a partnership between the Walloon regional government, a philanthropic organisation (Belfius Fondation) and a credit cooperative (Credal). It targets those on low incomes excluded from mainstream credit and provides low-interest loans (APR 5%) up to €10,000 (Réseau Financement Alternatif, 2012b).
- A scheme in Tuscany, Italy, delivered by a number of organisations, including not-for-profit organisation A Raggio di Luce, the Savings Bank of Pistoia, and the Pistoia public authority. Loans of between €1,000 and €7,000 are available at low interest rates. The banks take on 50% of the credit risk, with the remainder covered by a loan guarantee fund (Réseau Financement Alternatif, 2012c).

## Review findings

This section draws out key and common findings from across the studies reviewed.

### Benefits for loan recipients

It is important to first note that the data reported in these studies are self-reported impacts from qualitative interviews and surveys conducted with loan recipients. Only one study used a methodology involving a control group (Scotcash; Mosley, 2010),<sup>4</sup> but due to small sample sizes the authors were unable to conclusively confirm that differences between the sample and control groups were the result of the loans scheme, and not some other factor or factors.

A main outcome reported was the direct benefit that recipients got from being able to meet essential needs for household furniture and appliances, pay bills, and purchase cars and IT equipment. Studies also reported how meeting these essential needs helped improve borrowers' social inclusion and participation (Alexander, 2015; Vawser and Associates, 2011; Centre for Social Impact, 2013; Ayres-Wearne and Palafox, 2005; Mouy, 2010; Réseau Financement Alternatif, 2012a).

Evaluations of Scotcash and London Mutual Credit Union's payday loan alternative calculated the amount of money that affordable loan recipients saved in interest payments (hundreds of pounds) through taking out a Scotcash or London Mutual Credit Union loan, compared to borrowing the same amount of money from a high-cost lender (Mosley, 2010; Alexander, 2015; Evans and McAteer, 2013). Among Scotcash borrowers, eight who exited poverty over the study period attributed this to a reduction in their dependence on doorstep lenders through paying off or reducing their outstanding debt (although only some of these clients received a Scotcash loan – others had just received advice; Mosley, 2010). Evaluations of the Australian NILS also reported on the day-to-day cost savings the recipients made through replacing old (faulty) household appliances and cars with new ones that saved money on energy bills and repairs (Ayres-Wearne and Palafox, 2005; Centre for Social Impact, 2014).

Schemes that provided money advice as part of their loan services also reported improvements in recipients' financial capabilities. In the Australian NILS and StepUP loans schemes, the application process involved a face-to-face meeting with a microfinance worker who helped applicants to work out a household budget, review their money management behaviour, and explain repayment responsibilities. Evaluation of these schemes showed that for NILS, 47% of survey respondents reported an improvement in their money management skills (Vawser and Associates, 2011). For StepUP loans, 36% of survey respondents reported an improvement in their financial literacy, and 47% an improvement in their financial confidence and money management (Centre for Social Impact, 2013).<sup>5</sup> The financial

conversation that applicants had with the microfinance worker was seen as a key learning opportunity for gaining financial knowledge and building financial capability. Similarly, the evaluation of Scotcash (Mosley, 2010) showed that seeing a loans advisor could be a catalyst in changing attitudes to financial management and encouraging saving.

Some studies also reported on wider well-being benefits that can arise from receiving an affordable loan. These included: reduced anxiety and money worries, due to repayments being more affordable and borrowers knowing that there is somewhere they can go in a financial emergency; and improvements to self-esteem and self-confidence from knowing that someone will lend to them, and from a sense of achievement when a loan is repaid (Alexander, 2015; Mosley, 2010; Wimer and Bass, 2013; Ayres-Wearne and Palafox, 2005; Vawser and Associates, 2011; Centre for Social Impact, 2013; Centre for Social Impact, 2014). A return on investment analysis of the StepUP loan program calculated that for every A\$1 invested in the program, A\$2.86 was created in social and economic value. These economic benefits derived from reductions in the use of emergency credit and payday lending, and the savings made by not using high-cost credit. Social benefits included reductions in anxiety/stress, and improvements in financial capability, living conditions and self-esteem (Centre for Social Impact, 2013).

## **Competing with high-cost lenders**

Three schemes – Scotcash, London Mutual Credit Union and Payday Plus SF – aimed to offer a direct alternative to high-cost credit. Evidence from these studies showed some success in diverting borrowers from using high-cost credit.

Among Scotcash clients, borrowing from doorstep lenders fell from 34% to 20%, a statistically significant fall that was not mirrored in the control group (Mosley, 2010). A survey of users of the London Mutual Credit Union payday loan alternative found that 68% said they would be unlikely to use other payday lenders (Evans and McAteer, 2013). A follow-up with 30 users of the Payday Plus SF scheme showed that it had diverted a few people from using payday loans (Wimer and Bass, 2013). With the Australian NILS and StepUP loan schemes, although not designed to be direct alternatives to high-cost loans, surveys of clients found that 42% of NILS users had stopped or reduced their use of fringe lenders, as had 15% of StepUP loan recipients (Centre for Social Impact, 2014; Centre for Social Impact, 2013).<sup>6</sup>

## **The application process**

The loan application process is a crucial part of risk management. Increasingly, consumer credit applications in the financial services industry are completed online. This offers speed and convenience for the borrower, but raises concerns about responsible lending. The schemes covered in our literature review varied in the design and speed of their application process.

For schemes aiming to provide a payday loan alternative (London Mutual Credit Union and Payday Plus SF), replicating the online application and assessment processes of payday lenders was a key part of their design. Evaluations of these schemes generally reported positive feedback regarding the ease and speed of the application process (Evans and McAteer, 2013; Wimer and Bass, 2013). The NAB Small Loans Pilot that aimed to replicate the operating conditions of payday lenders (although offering a different type of product) found that although they had an online application process, they had a high dropout rate (70–75%) because applicants found supplying the required documentation, such as bank statements, too onerous (NAB, 2010). To address this, the pilot was looking to automate more of the application process to speed it up and ask applicants for less documentation.

In contrast, the Australian NILS and StepUP loan schemes that were not designed to directly compete with payday lenders, had lengthy application processes. Applicants had to attend a face-to-face interview and have a ‘financial conversation’ with a microfinance worker, with the loan approval process taking up to several weeks (Centre for Social Impact, 2014). Evaluations of these schemes did not, however, make any comment on how this affected take-up or borrower satisfaction. The Belgian affordable credit scheme, which also was not designed to meet emergency needs, involved an application process taking around four weeks (and included a face-to-face interview). Perhaps unsurprisingly, it reported a high dropout rate between first contact and first interview (67%), although did not explain the reasons for this (Réseau Financement Alternatif, 2012b).

## Take-up and loan approvals

While anticipated demand for more affordable credit may be high (e.g. as measured by the number of people using high-cost lenders), this does not always translate into high levels of take-up. Put simply, people who want to borrow may not fit the eligibility criteria for loan schemes; even if they are eligible, they may not be able to afford to repay a loan, or they may want the money for purposes that are not covered by a scheme.

Some schemes reported that a high proportion of applications for affordable loans were unsuccessful. In one of the Northern Ireland affordable credit pilot areas, no loans were made because applicants failed affordability checks (Consumer Council Northern Ireland, 2013). The London Mutual Credit Union payday loan scheme, while being popular, only approved 48% of loan applications. Reasons for turning down applications included applicants failing credit checks, incomplete applications, and already having an outstanding London Mutual Credit Union loan (Evans and McAteer, 2013). The Store rent-to-own scheme approved only a third of applications, as it automatically turned down applicants who had County Court Judgements or defaults on other payment arrangements in order to manage bad debts (Alexander and Grimes, 2013).

Evaluations of the Australian affordable loan schemes calculated that only a very small proportion of people who met the eligibility criteria were accessing them: for StepUP loans, less than 2% of eligible Australians were using the scheme (Centre for Social Impact, 2013); and for NILS, only 6% of potential demand was being met (Centre for Social Impact, 2014). Reasons why there was significant unmet demand included restrictions on what loans could be used for, and because some eligible applicants did not have surplus income to meet repayments. In addition, not all of those eligible may have wanted or needed to use the schemes.

## Loan defaults

Responsible lending and good credit management help reduce the risk that borrowers default on their loans. For not-for-profit lenders in the UK, loan default rates of 10% or below are generally considered desirable (Centre for Social Justice, 2014).

Most of the schemes covered in our literature review were successful in having low loan default rates of 10% or less. For the Scotcash scheme (default rate of 4.8%) this was attributed to responsible and cautious lending (Mosley, 2010). Other schemes attributed low default rates to using automatic repayment methods. In the Australian NILS and Progress Loans schemes (default rates of around 3% and 2%, respectively), almost all repayments were made by direct debit or by direct deductions from Centrepay, the social security payment system (Ayres-Wearne and Palafox, 2005; Vawser and Associates, 2011; Centre for Social Impact, 2014). In contrast, The Store scheme was yet to introduce repayment by direct debit, but was hoping that this would reduce future arrears (15% of customers were in arrears of 13 weeks or more; Alexander and Grimes, 2013).

Evaluations of NILS and the NAB Small Loans Pilot also attributed low default rates to a strong relationship between the loan recipient and the microfinance worker, who explained at the outset applicants' repayment responsibilities and followed up with borrowers when repayments were missed (Ayres-Wearne and Palafox, 2005; NAB, 2010). The Belgian scheme (Réseau Financement Alternatif, 2012b) also included follow-up support for recipients with repayment difficulties, to renegotiate a repayment plan and avoid defaults (delinquency rate of 8–10%).

The experience of banks participating in the US FDIC small-dollar loan pilot (delinquency rate of around 10%) also thought that automatic repayments improved loan performance (FDIC, 2010). The evaluation also suggested that informal financial education and counselling (as part of the loan closing process)<sup>7</sup> was an important 'teachable moment' in explaining the importance of repaying the loan.

## Financial sustainability

Across the studies we reviewed, three financial models were identified. In the first, affordable loans were delivered at a loss, but were seen as part of a wider portfolio of products. This applied to the US FDIC small-dollar loan pilot, where although the costs of the loans were similar to other loans offered by



banks, their small size and lower interest rates made them unprofitable in the short term. They were, however, seen as a useful business strategy for attracting and retaining customers, and generating long-term profits through the cross-selling of other products (FDIC, 2010). Similar views were taken by the London Mutual Credit Union scheme and Payday Plus SF, where the loss-making payday loan could be used to encourage new members into taking out other loan products, build up savings and become long-term credit union members (Evans and McAteer, 2013; Wimer and Bass, 2013).

The second model covered not-for-profit schemes that were not yet financially sustainable, but aimed to be. Schemes that fell under this category included Scotcash, The Store rent-to-own scheme and the Australian NAB Small Loans Pilot. Issues for The Store in meeting its aim of becoming sustainable were the need for better management of arrears, and the need to increase the volume of sales (Alexander and Grimes, 2013).

The purpose of the NAB Small Loans Pilot was to determine what a financially sustainable lending model looked like. The conclusion was that small loans, of between A\$1,000 and A\$5,000 could be delivered, but required an APR of 30–35%, a minimum volume of 3,000 loans per year, and an average loan size of A\$2,900. The evaluation also concluded that even large lenders would struggle to lend small loans of below A\$700 under the Australian interest rate cap of 48% APR (NAB, 2010).

The third category of schemes comprised those that were not intended to be financially sustainable and operated through a subsidy model. These included the Australian NILS and StepUP loan schemes (Centre for Social Impact, 2013; Ayres-Wearne and Palafox, 2005; Mouy, 2010) subsidised by National Bank of Australia and Federal and State Governments; the French Social Cohesion Fund; and the Belgian and Italian schemes where the costs were shared by the scheme partners.

# 3 Scoping study

This chapter presents the findings from the survey of UK housing associations on their financial inclusion activities, and outlines the criteria used for selecting a shortlist of housing associations to take part in the case study research.

## Survey of UK housing associations

An online survey of UK housing associations sought to establish an outline of housing associations' financial inclusion activities, and whether they would be interested in taking a further role in the project as a case study.

Across the housing associations contacted to take part in the survey, an overall response rate of 27% was achieved, representing a total of 209 housing associations (Table 1). While the England response rate was particularly low, the survey data was considered to comprise a reasonable basis from which to generate an outline of financial inclusion activity among housing associations in the UK, and to select housing associations to participate in the case studies – especially as it would be likely that those who responded to the survey would be more active and interested in financial inclusion.

**Table 1: Survey response**

Federation	Members mailed	Returns	Response rate
England	560	92	16%
Northern Ireland	26	12	46%
Scotland	148	58	39%
Wales	38	21	55%
Not known		26	
TOTAL	772	209	27%

## Provision of affordable credit and debt consolidation services

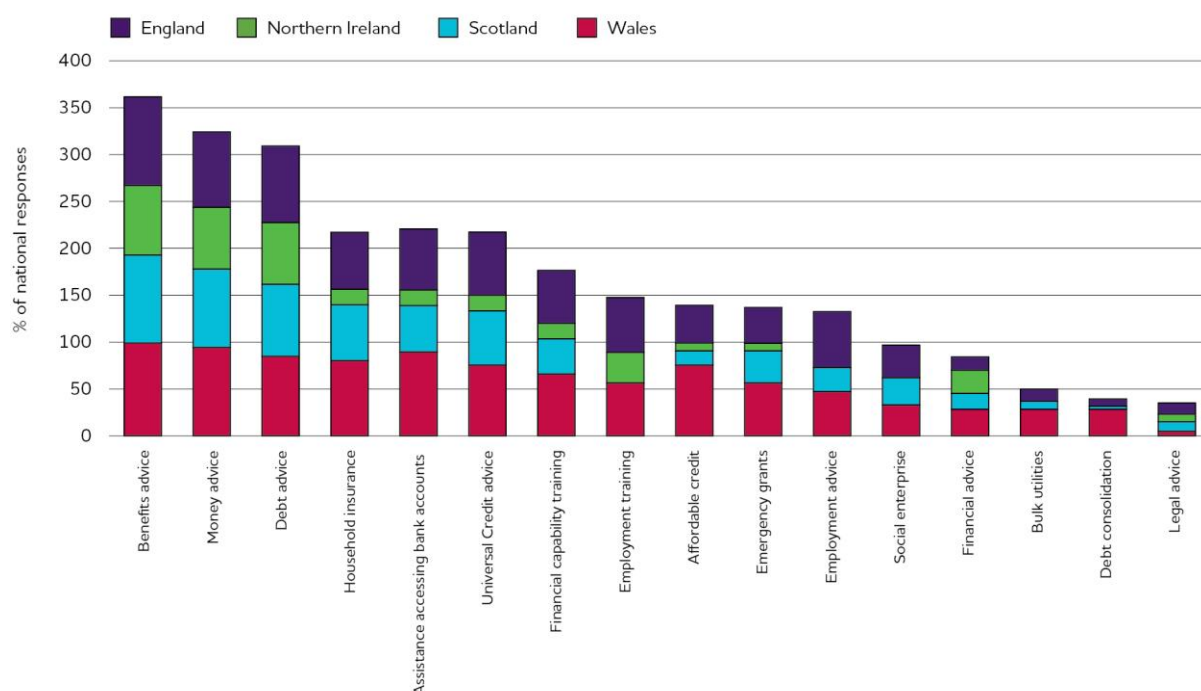
Nearly a third of respondents to the survey (67 of the 209) indicated that they currently offer affordable credit services. Proportionately, the highest percentage was in Wales (74% respondents), followed by England (41%), Scotland (17%) and Northern Ireland (8%). Fewer offered debt consolidation – just 16 housing associations in total.

Of those that offered affordable credit, the majority delivered services in partnership with other agencies or consortia (95%). A few associations worked with multiple types of provider. Very few, just three housing associations, provided their own in-house service. Only one housing association said it directly provided a debt consolidation service, with another eight using agencies. In terms of who services were provided to, 64% of housing associations said the service was offered to all their tenants, 8% to some of their tenants, and 28% to the wider community as well as their tenants.

## The broader financial inclusion picture in the UK

As can be seen from the chart (Figure 1), benefits, money and debt advice were the dominant activities, undertaken by between 67% and 100% of respondents across the different nations. In terms of overall coverage and range of services, Welsh associations provided the greatest range, and Northern Ireland associations the most limited. The vertical axis (totalling 400%) indicates the percentage of each nation's respondents that provided the service.

**Figure 1: Service provision by country**



Note: Base = 182 responses (excludes 23 where nation unknown).

Affordable credit was the ninth most popular service out of 16; debt consolidation was fifteenth, with only legal advice being offered by fewer associations. Previous research with social landlords similarly showed that around three quarters provided advice on benefits and grants, debt and budgeting to their tenants (Clarke *et al.*, 2015).

## Shortlisting of projects for case studies

The research sought to undertake a total of 12 case studies, nine from organisations based in the UK and three from international community housing associations. For the reasons discussed below, it was not possible to find three suitable international case studies and, therefore, it was decided to select ten UK case studies and two international case studies. In addition to this, documentation was found for a past affordable credit project – CHANGE – and this was also included as a case study.

### UK case studies

Based on the survey, the literature review and discussions with networking contacts, a shortlist of housing association projects was drawn up from those currently providing affordable credit and/or debt consolidation services, and who had also expressed a willingness to participate in further research. The shortlist aimed to select a diverse range of housing associations and schemes across the following criteria:

- a spread across the nations;
- a spread of areas within nations;
- different sizes of housing association;
- type of provider (and where partner agencies were involved, a variety of them);
- target client group; and



- availability of wider information provided by housing associations about their financial inclusion activities.

Other factors that were taken into consideration when selecting potential case studies included:

- housing associations who had formerly offered the services, but were no longer doing so;
- associations operating in rural and urban areas; and
- if possible, including a supported housing/specialist association.

## International case studies

The findings from the literature review and from networking with international contacts were that, with one exception, there appeared to be no other nations in which housing associations or similar social housing providers played a role in providing affordable credit or debt consolidation to their residents.

The principle reasons for this appeared to be:

- the absence of a comparable social housing sector with a comparable resident population (e.g. the United States, where social housing provision is effectively provided through individual vouchers and subsidies rather than through social housing providers);
- tighter regulatory control on who is able to provide credit or arrange credit provision, which excludes housing organisations from holding a credit licence (which seemed to be the case in Europe);
- the absence of a highly developed sub-prime credit market, likely to be related to tighter regulatory control over credit markets, including interest rate caps applied in a number of European countries such as France, Belgium, Germany and Italy; and
- the existence of large-scale institutional alternatives, for example, the Social Cohesion Fund in France and the Sparkassen national savings bank in Germany.

The exception to this was Australia, where a number of community housing providers offered low- or no interest loans to their residents. Many of these appeared to be franchises of the national NILS scheme, which is Australia's largest microcredit program, or were very similar to it. Australia's consumer credit market is similar to the UK's (House of Commons Committee of Public Accounts, 2013) and the inclusion of two Australian case studies would, therefore, provide findings that were transferable to the UK context.

## Overview of the selected case studies

The following table provides an overview of all 13 case studies. More detailed information about the case studies is provided in a separate report (Hartfree *et al.*, 2016 – to view this visit: <http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1606-jrf-hai-the-case-studies.pdf>).

**Table 2: Case studies overview**

Association and area	What does the scheme involve?	Who is targeted?
<b>Affinity Sutton</b> National, 120 local authority areas. Schemes set up in 2012 and 2013.	Affinity Sutton have two separate loan schemes, one via a community finance organisation – Places for People, set up in 2012 – and one via a credit union – Leeds City Credit Union, set up in 2013. Loans are for any purpose except for paying rent. Interest rates vary between the two schemes, one charging 29.9% APR and one charging up to 42.8%. Average loans are around £600, and are limited to under £2,500 for the first 18 months.	All residents and staff, with eligibility based on an affordability and credit check. Cannot get a loan if in rent arrears and without a repayment arrangement.
<b>Bolton at Home</b> Bolton, Greater Manchester. Scheme set up in 2013.	Bolton at Home loans are supplied via Hoot credit union, with the association putting up a loan guarantee fund. Loans of up to £500 are available and can be used for any purpose. Loan recipients are required to save a minimum of £1/week over the loan period.	The scheme targets financially excluded Bolton at Home tenants with a poor credit rating who would not otherwise be offered a credit union loan.
<b>CHANGE</b> London – Southwark. Pilot scheme that ran between 2003 and 2004, but was not rolled out.	The scheme was run by two associations and a local credit union. It underwent considerable change during its lifetime. Originally, to access a loan required 12 weeks' prior savings, with maximum borrowing of 2.5 times savings. The associations gave a £10 incentive to start saving. Loans ranged from £100 to £1500. In the later stages, the savings requirement was relaxed and criteria based on ability to repay were used instead. Some 75% of the loans made were to repay rent arrears.	2,500 residents of two housing associations in Southwark; no specific targets within these.
<b>Clanmil</b> The five counties of Northern Ireland, but concentrated in Belfast. Scheme set up in January 2015.	The scheme is currently run through two credit unions. Tenants must save before they can borrow. Clanmil incentivises savings by paying the credit union membership fee, an opening fee, and a £20 bonus after 12 weeks' savings. Loans range from £600 to £3,000 and average APR is 12.68%. Loan can be for any purpose, though borrowing to pay rent arrears is discouraged.	Ultimately open to all, but at the moment restricted to the credit union common bond area. Clanmil wants to prioritise low-income and younger households.
<b>Clwyd Alyn</b> North Wales.	A standard credit union loans service is offered via North Wales Credit Union. The association pays the £2 credit union membership fee. The possibility of expanding into 'jam jar' accounts was being explored.	Open to all; no specific targeting.
<b>Evolve Housing</b> Australia: Sydney and New South Wales suburbs. Scheme set up in 2009.	Evolve's in-house scheme supplies loans to assist residents purchase white goods such as fridges, freezers, washing machines and microwaves. The minimum loan is A\$500 and maximum is A\$1,200. Loans are interest free. No cash is given; Evolve pays the retailer directly, and repayments are deducted from the resident's bank account. Evolve works with a supplier that gives them a discount so they can source appliances at a cheaper rate for residents.	Tenants who are up to date with their rent, have low levels of non-rent debt, and must be able to afford to repay the loan within a year.
<b>Grampian</b> North East Scotland. Scheme set up in 2013.	A partnership between North East Scotland Credit Union and four housing associations provides loans for furniture, flooring and white goods. The scheme is backed by a loan guarantee from Grampian. Loans can be made for up to £1,250, repayable over a maximum of two years at 12.6% APR.	Open to all.
<b>Hillcrest</b> Dundee, Edinburgh, Angus, Perthshire, Fife. Scheme ran from 2004–2009.	In association with Dunfermline Building Society, cash loans of £50–£500 were made, primarily for household goods. Hillcrest and other participating associations put up a loan guarantee fund. Loan terms were up to two years at the Bank of England base rate + 0.95%.	Tenants who could demonstrate they could afford to repay the loan, without rent arrears, and save with the Building Society.

Association and area	What does the scheme involve?	Who is targeted?
<b>Inquilab</b> West and North West London. Scheme set up in September 2014.	<p>Savings and loan scheme in association with Hillingdon Credit Union, including Child Benefit Loans (based on child benefit being paid into a savings account), which can be £500 over 12 months at 2–3% interest per month, and larger loans of up to £3,000 available to working households. Saving was incentivised by a £5 per month payment for 12 months for the first 50 joiners. Loans are available for all purposes including bills/arrears, but must be sensible.</p> <p>For tenants in over £500 arrears, the offer is that if they join the credit union and open a 'jam jar' rent account with them, legal possession/eviction action will be suspended.</p>	All tenants, but a focus on new tenants with poor credit ratings and tenants with arrears of £500 or more.
<b>Monmouthshire</b> Monmouth, Abergavenny, Raglan, Usk, Caldiot, Chepstow. Scheme set up in 2009–2010.	Scheme primarily focused on encouraging saving with Gateway Credit Union. Once a member, tenants can access standard credit union products including loans of £50–£5,000 with interest rates between 2% and 3% per month. The association pays the £1 credit union membership fee, and a £10 incentive after three saving deposits.	All tenants.
<b>SGCH</b> Sydney, New South Wales, Australia. Scheme has been running for at least 10 years.	The in-house Essential Loans Scheme comprises two products. One is for an IT package (computer, laptop, internet). The other is for white goods/furniture and health/medical equipment. Loans can be up to A\$1,200. No interest is charged. The normal expectation is that a loan will be repaid over 12 months. Loans are not available for any other purpose.	Open to all tenants, but the eligibility criteria exclude those in uncontrolled arrears, with poor tenancy records, and those judged not to be able to safely make repayments.
<b>Southway Housing Trust</b> South Manchester. Scheme set up in June 2014 as a one-year pilot.	There are two products both run through South Manchester Credit Union. Southway Solutions Loan is for emergencies (e.g. to replace broken white goods or car repairs) and can be £100–£300 repayable over 3 months to 3 years. The other product is the 'Right Track' loan to help buy out tenants from high-interest borrowing (i.e. debt consolidation), and to stop escalation of debt. Sums range from £300 to £1,000. For both products, Southway provides the credit union with the capital for the loans up front (and therefore ultimately carries the risk of loan defaults).	All residents, but particularly targeted at those excluded from credit union loans or not able to borrow enough. Excludes those with an eviction authorised, an anti-social behaviour injunction, or an overdue gas check, and is subject to affordability checks.
<b>St Mungo's Broadway</b> London (and the South West). Scheme set up in March 2015.	There are two loan products delivered through Your Credit Union. Credit union membership and savings accounts are both incentivised. Ordinary loans can be from £50–£7,500 with repayment over up to 60 months. Rates vary between 17% and 43% APR depending on loan size. Tenants need to join the credit union and deposit £10 to have a loan, but do not necessarily need to save regularly. The second scheme was specifically designed to provide rent deposits to help service users enter the private rented sector. The loan is made by the credit union, with the association guaranteeing to cover repayments if the tenant defaults.	The initial vision was to encourage all clients into savings schemes, to take responsibility for their own financial affairs and encourage them into 'the real world'. The private rented sector scheme targets hostel residents about to move into private renting, who have lower support needs than most other St Mungo's Broadway service users.

# 4 Delivering affordable credit schemes

## Summary

- Housing associations got involved in delivering affordable credit schemes to provide an alternative to high-cost credit, to help combat rent arrears in the context of welfare reform, and to promote financial capability, independence, quality of life and well-being.
- Where business cases were developed for affordable credit schemes, they tended to be based on fairly limited empirical evidence.
- Credit unions were the delivery partner in most schemes. Associations felt they lacked the expertise to run affordable credit schemes, or were reluctant to mix the landlord role with the role of lender.
- Some associations guaranteed loans or provided loan capital. In other cases, the credit providers carried the loan default risk. A number of associations funded incentives to encourage tenants to save. A few linked positive financial behaviours, such as saving, to the suspension of court action against tenants.
- Most schemes were open to all tenants (subject to affordability checks). Some targeted tenants with poor credit histories or rent arrears; others restricted entry to tenants with healthy rent accounts and unblemished tenancies.
- An already-established relationship between the association and the loan provider was an important success factor, as were strong staff relationships. The ability to compromise and 'flex' products encouraged success between partners that were culturally and organisationally different.
- None of the UK schemes could be regarded as financially self-sustaining, but this was not necessarily a primary aim or motivation. Wider social benefits were believed to be as important, if not more so.

This chapter analyses the findings across the case studies to draw out common experiences, as well as highlight the differences in how schemes were set up and delivered. In doing so, it aims to understand what works or doesn't work in the delivery of affordable credit schemes and the reasons why. While the findings are based on information collected from the case studies, the analysis is that of the authors and may not therefore reflect the views and opinions of individual case study housing associations and their partner organisations.

## Motivations for delivering affordable credit schemes

All case studies, to varying extents, saw their affordable credit initiative as part of a wider financial inclusion framework, and in some cases as part of longer-term anti-poverty and social inclusion strategies. The drivers for the initiatives ranged from higher-level objectives of supporting tenant well-being and self-reliance, to a more pragmatic focus on reducing rent arrears and voids, and encouraging tenancy sustainment.

More specifically, the drivers for affordable credit schemes can be placed into three broad groups, described below.

### To provide an alternative source of credit that was affordable

Housing association decisions to provide an affordable source of borrowing for their tenants was in the context of concerns about tenants accessing high-cost credit such as doorstep, BrightHouse and payday loans. Housing associations reasoned that because tenants could not access low-cost credit quickly from available sources, they were channelled into the path of unaffordable loans. This was exacerbated by tenants' poor or non-existent credit ratings, lack of appropriate identification documents, exclusion from



mainstream banking, and the inappropriateness of other affordable loans (because, for example, the maximum loan amounts were too low to meet tenants' needs).

Many of the case study schemes involved partnering with a credit union. One issue encountered by some associations was that existing, standard credit union loan products were not really appropriate or attractive to tenants. This was because standard credit union loans require members to save first before they can borrow. In addition, the loan application process could be lengthy, which meant that borrowers might have to wait a week or more to access the money. A specific motivation, highlighted by Bolton at Home and Southway for setting up their loan schemes, was to enable those with a poor credit history to access affordable loans.

Several case studies saw their role as building a bridge over which tenants could join the banking and financial services mainstream. Hillcrest highlighted that part of their original project's aim was to enable tenants to access basic bank accounts, as was Affinity Sutton's alliance with Leeds City Credit Union.

For both Bolton at Home and Southway, a driver of their schemes was to get tenants onto the first steps of the credit rating system through membership of the credit union.

#### **Box 1: Building bridges**

Your Credit Union offered St Mungo's Broadway residents a 'banking buddies' service. The service helped residents to open savings accounts at a local Barclays bank, including taking them there, acting as an adviser during the application process, and helping them with the paperwork.

## **To tackle rent arrears and as a response to changes being brought about by welfare reform**

While none of the case study schemes were specifically set up to generate loans to pay rent or meet rent arrears (indeed, some excluded loans for this purpose, such as SGCH), underlying concerns about lower-income and benefit-claiming households' ability to pay the rent underpinned the motivations of some associations.

For a number of associations (Clwyd Alyn, Inquilab, CHANGE), rent arrears and welfare reform were prime motivators for setting up an affordable credit scheme. These associations partly (though not necessarily exclusively) viewed affordable credit as a resource to help tenants make ends meet and avoid getting into arrears; as well as being a means to pay off other debts that may otherwise take precedence over rent arrears. Clwyd Alyn were particularly worried about the payment of Housing Benefit (HB) direct to tenants under Universal Credit (UC); the move to monthly payments; and the five week 'gap' between UC payments. Inquilab's approach was also very much focused on reducing current rent arrears, as well as concerns about avoiding or minimising future arrears. The CHANGE scheme was interested in (among other things) assessing whether tenants who were credit union members had lower levels of rent arrears than non-members.

Associations made a direct link between rent arrears, other forms of debt, and access to affordable credit. Affinity Sutton, for example, were concerned that tightened household budgets as a result of welfare reform would lead residents to turn to payday loans to make ends meet, and so wanted to provide a more affordable source of borrowing. Clanmil also noted a correlation between high rent arrears and high-cost credit use. Serving a client group with significant support needs, St Mungo's Broadway was particularly exercised about the potential impact on its clients of benefit sanctions imposed by the Department for Work and Pensions, and the knock-on effect this had on tenants' ability to pay the rent (or access the private rented sector). It saw affordable credit as part of a toolkit to access or retain tenancies.

An emphasis on digital inclusion, in parallel with financial inclusion and access to affordable credit, was a feature of several schemes, especially given the original assumption that UC access would be 'digital by default'. Several case studies made the point that opportunities to access online services, bank accounts (current accounts and savings accounts) and affordable credit were intrinsically linked – you needed one if you wanted the others.

## **To improve financial capability, independence, quality of life and well-being**

Most affordable credit schemes in the case study research were part of a broader financial inclusion strategy to combat ingrained disadvantage among residents. In fact, affordable credit often formed a relatively minor element of the overall package. Access to affordable loans was strongly associated in housing associations' minds with the idea of creating a 'cultural change' around savings behaviour. If tenants developed a savings habit, they would have at least some money to fall back on in times of crisis, it may help improve their credit rating (which would facilitate access to credit union and other loans), and the scheme could act as a 'halfway house' towards mainstream financial services. For St Mungo's Broadway, it was considered that access to loans could be an important part of a process to help their clients move into the private rented sector, sustain tenancies, and overcome barriers to accessing independent accommodation.

Access to high-quality white goods and IT products at reasonable cost featured not only in the two Australian schemes that were specifically focused on this area, but also for Clwyd Alyn and Grampian. For Evolve (Australia), access to essential goods was seen as a basic requirement, and higher quality, more efficient white goods also reduced tenants' energy and water bills.

Although not elaborated on in great detail, several associations mentioned health and well-being motivations, including stress reduction.

## **Evidence of need**

Some assessment of need and interest among tenants in taking up an affordable credit scheme's 'offer' will clearly underpin the success or otherwise of the initiative.

There was a mixed picture of how thoroughly associations gathered evidence of the need for an affordable credit scheme, and leading on from that, how robustly the business case was developed. As we go on to discuss, financial sustainability was not automatically a prerequisite for the development of a scheme, and therefore the business case may have been regarded as a second order consideration by some associations. There was not a great deal of evidence that associations had a 'theory of change' in relation to affordable credit schemes (for example, working out in advance how affordable credit would be a good way of reducing rent arrears). Rather, most associations seemed to work on assumptions about how tenants would behave when offered an affordable credit product.

## **Primary research among tenants**

Half of the case studies indicated they had undertaken (or regularly undertook) primary, survey-based research with their residents that included information about their history of engagement with credit agencies, and their interest in taking up affordable credit and loans. For example, Affinity Sutton's annual 'SuperSurvey' indicated growing use of high-cost credit among tenants and catalogue debt. Some case study associations had undertaken qualitative research such as tenant forums, representative councils and focus groups. As we lack detailed information about the research undertaken by associations (such as sample design, sample sizes and response rates), we cannot comment on its robustness.

## **Secondary and academic research**

There was no single model or methodology used by (or indeed available to) associations to help them research either the need for, or the costs of, different types of affordable credit scheme.

Several case study associations had either used existing research (such as local demographic data, HB data, Indices of Deprivation) or commissioned additional work to help them assess the potential need for an affordable credit scheme.

Examples include Affinity Sutton, who commissioned new research into the most appropriate affordable credit model for their tenants. CHANGE used existing research that explored the demographics of financial exclusion among housing association tenants (including incomes and employment rate) to scope the likely demand for loan products. Southway analysed data on default rates and interest repayments

among Community Development Finance Institutions (CDFIs), and also scoped the difference in costs to tenants of accessing such funds and payday loans. Bolton at Home analysed data from a previous credit union support project to identify the sorts of people who had been denied access to credit union loans.

Several associations effectively relied on judgement calls taken on the basis of belief, existing knowledge, and assumptions about tenant needs and preferences, and the potential impact of schemes; or the initiative was pushed forward by an enthusiastic staff member or Chief Executive. With hindsight, some associations concluded that resident surveys had been misinterpreted, or found that assumptions based on survey results were not borne out in practice. Hillcrest was one example, where survey data seemed to show that tenants wanted to save, but were prevented due to lack of access. Once the scheme was up and running, it became clear that the underlying problem was a lack of disposable income to save, rather than access to savings accounts. In another case, evidence that tenants wanted savings facilities was unrealistically extended to the assumption that they also wanted loan facilities.

## Building the business case

A standard business case for a project or initiative involves an assessment of the cost of inputs, and the value of outputs or outcomes resulting from a scheme. It seems clear from the information gathered in the case studies that generally there was no consistent and robust development of a business case. In a sense this is not surprising. Although there is beginning to be an established literature on both the value for money and cost/benefit of financial inclusion initiatives delivered by the voluntary and community sector, summarising and estimating the savings made is fraught with difficulty. Perhaps the most difficult element is appraising causality, in an environment where associations are bringing in a host of measures and programmes to tackle, among everything else, the impact of welfare reform. Even more difficult is assessing and monetarising more qualitative elements such as improvements to mental and physical health, confidence and social inclusion.

Internally, a number of case study housing associations brought papers to boards or management teams making the case for an affordable credit scheme and setting out budgets. Budgets sometimes depended on external funding, but in other instances, the business case for schemes was subsumed within a wider financial inclusion or welfare reform programme, and expenditure on staff and overheads represented a small extension to mainstream financial inclusion activity already underway. One case study relied on evidence of the success of an earlier project (the Grampian furniture scheme) in justifying a new, similar project. It appeared that schemes where most of the risk (especially default risk) lay with the credit provider were the least concerned with the development of a financially based business case.

## Delivery models – in-house or out-sourced?

With the exception of the two Australian case studies,<sup>8</sup> all initiatives involved working with delivery partners. The main reasons for choosing to outsource in this way were:

- **Recognition of a lack of in-house skills to deliver affordable credit schemes.** The key factors here were first, the complexity of becoming an approved credit agency (including the associated expense, time-consuming process, and onerous compliance conditions); and second, the level of investment required, both to set up a scheme and in carrying loan risk. Several case study associations considered this option, but rejected it on these grounds.
- **A desire not to have to deal with additional debt chasing.** Some case study associations considered there was a tension between, on the one hand, supporting tenants by offering affordable loans, and on the other, pursuing them for repayments, especially if loans had been used to pay rent. It was felt by some associations that there were already tensions internally between their pastoral and care roles towards tenants, and their housing management and income recovery functions, without complicating this further.
- **A desire to build bridges for tenants into the ‘real world’ of rights and responsibilities** as regards personal financial matters. Engaging with credit unions and the like was regarded as a ‘soft introduction’ for tenants to financial services.

- **Existing relationships with credit unions and, in several cases, established trust-based personal relationships between staff.** A number of housing associations already had good, long-term relationships with credit unions, and the affordable credit scheme was a way of moving them on to a broader footing. For example, associations providing resources to credit unions to make loans and guarantees seemed a natural step, and a way of supporting the development and expansion of the credit union.

With the exception of Hillcrest and Affinity Sutton, all the delivery partners chosen by the case study housing associations were credit unions. Hillcrest chose a building society because first, they already had a strong partnership with them, and second, credit union activity was only very small scale in the area. Although Affinity Sutton also went down the credit union route, they moved away from a multi-credit union partnership to a relationship with just one credit union and a CDFI. Southway considered partnering with a CDFI, but concluded that the interest rate of 70% APR that tenants would be charged was too high, compared to credit union rates of 42.6% APR or lower.

As regards the two Australian schemes (run by Evolve Housing and SGCH), because they charged no interest, they were able to operate in a less heavily regulated framework. They provided very simple and easy to manage products, and thus were not reliant on buying in specialist skills and licences, and were able to manage their schemes in-house relatively easily.

#### **Box 2: Bigger ambitions**

After a pilot scheme involving two housing associations and one borough, an initial ambition of the CHANGE project was to develop a multi-housing association CDFI offering loans to a much wider audience, backed by charges to housing associations and guaranteed by banking partners and grants. However, this ambitious vision was never realised.

## **Typology of delivery models**

From our examination of the 13 case studies, we can see a considerable range in delivery models. There are also a number of facets to the models that we explore in the following sections:

- the type of service the beneficiary receives;
- who carries the financial risk; and
- how the schemes are administered.

### **Type of service the beneficiary receives**

Housing associations were asked whether the relationship with the service provider simply gave access to existing standard loans, savings and other products, or whether products had a degree of tailoring to meet the perceived needs of the housing association's residents. With the exception of Clwyd Alyn, all schemes involved a 'bespoke' element, ranging from financial incentives to take up credit union savings accounts, to funding or guaranteeing loans made by the credit provider. Some schemes were prescriptive in terms of how loans could be used – for example, the St Mungo's Broadway loan scheme to provide deposits and rent in advance to enable service users to enter the private rented sector; and the two Australian schemes that focused primarily on the provision of household appliances.

Several schemes changed the orientation of their service during their lifetime, to better suit tenants. For example, CHANGE initially only offered a standard credit union loan service, a condition of which was an element of savings. This savings element was later removed when take-up was found to be low. It was replaced with an affordability test rather than a savings requirement.

Where credit unions were asked to deliver services they were not familiar with, or which (it became apparent) were beyond their capacity, this led to problems.



### Box 3: Getting the right fit

When it came to designing affordable credit schemes for tenants, while a bespoke element was important, it was also essential that the service meshed with the credit union's existing way of working as far as possible. As Southway found, to ensure the scheme got underway quickly and ran efficiently, it needed to be designed to reflect what the credit union was already doing, rather than setting things up from scratch. In practice, this meant 'piggy-backing' on existing systems for credit checking, approving applications, making payments, etc.

## Who pays for the scheme?

The prime financial risk was the security of the loan capital. The secondary financial risk was the resourcing of incentivisation.

As regards the loan capital, there were three models:

- **Loan provider takes all the risk:** this was the case with most of the relationships between housing associations and credit providers. It was also the case in the Australian case studies, where the loan provider was the housing association itself.
- **Loan guarantee fund committed to by housing association:** a number of case study schemes had arrangements in place to reimburse the credit provider in the event of default (after collection mechanisms had failed). For example, St Mungo's Broadway gave its credit union partner a three-month window for debt recovery and arrears collection. After that time, the association would step in and clear the debt if necessary.
- **Housing association provides loan capital up front:** only one case study – Southway – provided loan capital up front to its credit union partner. The scheme was careful to ensure that, from the recipients' perspective, the loan capital appeared to come from the credit union. This was to avoid the risk of higher default levels that might occur if borrowers were aware that their landlord was also providing loans.

Where the housing association offered an incentive to tenants to either join or save with a credit union and to maintain a savings habit, some paid the incentive in arrears once they had evidence that tenants were saving regularly. This was to mitigate the risk of tenants accepting the incentive, but not continuing to save. In all cases, risk was minimised through fixed budgets for incentives or limits to the number and/or value of the incentives that would be payable.

## Scheme administration models

There were a variety of ways in which the schemes were administered, ranging at one end from the housing association being responsible for all the scheme administration, loan eligibility assessment, loan repayment processing and arrears chasing, to simply being a referral agent at the other end.

- **Housing association led:** perhaps unsurprisingly, the greater the financial risk and exposure to the association, the more involvement it took in vetting and processing applicants. Bolton at Home brought their loan processing in-house and tightened up their loans criteria after the first year, to address the scheme's initial high default rate.
- **Middle ground:** most schemes fell into a middle ground, where the housing association did some initial sifting of potential beneficiaries, or helped tenants to apply. This could involve carrying out budgeting checks, checking rent arrears histories and help with form filling.
- **Agency led:** in contrast, several associations were fairly 'hands off' in terms of administering the scheme. Clwyd Alyn's role was simply to refer residents to the credit union. Inquilab would help residents complete application forms, but further eligibility assessment then was the responsibility of Hillingdon Credit Union.

#### Box 4: High risk, high engagement

Southway had potentially the greatest exposure of all the case studies, because it provided all of the loan capital. However, it had reduced this exposure by limiting their 'Solutions' loan to a maximum loan amount of £300. It carried out its own eligibility checks and then passed approved applicants on to South Manchester Credit Union. From the point of loans being granted, the credit union was responsible for arrears chasing. When defaulters hit a three-month threshold, more formal sanctions and debt collection services would be used, for which Southway provided the credit union with an additional administration fee.

## Targeting and conditions

This section examines the different types and groups of tenants targeted for affordable credit schemes, and some of the conditions that are applied to such access. While entry into savings schemes was widely encouraged, where loans were concerned all the schemes carried out some form of affordability check (as required by consumer credit regulation). There were three main approaches to targeting:

- **Open to all tenants:** but subject to affordability criteria and sometimes credit checks.
- **Open to 'good' tenants:** this was particularly apparent in the Australian schemes, where tenants had to meet the following criteria in order to be eligible to apply: clean rent accounts (or arrangements), no non-rent arrears, no history of anti-social behaviour (ASB), and all other terms of the tenancy agreement met for at least three months. These sort of criteria were not exclusive to the Australian model: Southway's loan scheme also excluded those with ASB injunctions, and those in breach of gas safety requirements; and Hillcrest's and Affinity Sutton's Places for People scheme (a scheme run by the Places for People housing association that Affinity Sutton used) excluded tenants in rent arrears.
- **Targeted at excluded tenants:** in contrast, some schemes specifically focused on those who were in arrears or had poor credit histories. Affordability checks were carried out to prevent tenants getting into unrepayable debt, but arrears were not necessarily a barrier. For example, Clanmil targeted tenants with high arrears, particularly low-income, young families, and one of Inquilab's savings schemes targeted those with more than £500 arrears. Bolton at Home and Southway targeted higher-risk borrowers with a poor credit history. And of course all St Mungo's Broadway clients had support needs, some with multiple and complex needs.

Assuming an applicant passed the first hurdle of meeting the scheme's eligibility requirements, there could be a number of other requirements (or incentives) that lay ahead:

- **Conditionality:** participation in some schemes was conditional on tenants agreeing to save; some had other conditions attached:
  - **Savings:** the most common condition was a requirement to save regularly with the relevant credit union, at a certain level, for a certain period either before the loan was made and/or during the lifetime of the loan. The Clanmil philosophy was that if a household could not afford to save, they could not afford to borrow. Clanmil built in a minimum savings commitment of £2 per week as a condition of loan.
  - **Other conditions** focused on repaying arrears or other tenancy breaches. For example, Southway only considered someone for a loan once they had given the association's contractors access to their home to do a gas safety check.
- **Compulsion:** a number of associations used their schemes to compel tenants into making positive behaviour changes as a condition of halting arrears, court proceedings and eviction processes. These included: joining a credit union and starting to save; attending money management classes; and engaging with debt advice teams.

#### Box 5: Ensuring rent payments

At Inquilab, tenants on HB or UC with over £500 rent arrears, who wanted to halt eviction action against them, were required to open a ring-fenced 'jam jar' rent account with Hillingdon Credit Union, authorise the DWP to pay the rent element directly into the account, and authorise the Credit Union to pay the rent to Inquilab. These instructions could only be changed or cancelled if the tenant gave 60 days' notice.

In the case of SGCH (Australia), if tenants were turned down for a loan on the grounds of arrears, this was used as 'a teachable moment' to set up a repayment arrangement. Tenants were invited to reapply for a loan once a repayment arrangement was in place.

- **Incentives:** as already noted, incentives featured in a number of schemes. They were designed to not only bring the tenant into the scheme, but to keep them there. This included paying the incentive 'in arrears', not upfront (a tactic adopted by St Mungo's Broadway, working with clients whose behaviours may be more chaotic than most). Clanmil looked to behavioural economics ('nudge' theory) in designing its incentives programme, to assess the most appropriate small-scale intervention that would encourage people to make positive changes to their saving and borrowing behaviour. Easing entry into credit union membership by waiving or paying the membership fee featured in a number of case studies.

## Delivery challenges

The main challenges of delivering affordable credit schemes were:

1. getting the scheme up and running;
2. building and managing relationships between scheme partners; and
3. scheme promotion.

## Setting up schemes

In the main, the initial ideas for affordable credit schemes were taken forward with support and enthusiasm from within the housing associations. Most respondents commented that boards and senior management teams were fully behind the schemes. There were some discussions about the funding of schemes. Clanmil, for instance, had to wait until they secured a £15,000 grant from Danske Bank to resource the incentive element of its scheme. At Evolve (Australia), the Resident Council Committee had to convince the board of directors to set up the scheme.

There were some challenges in cementing the practicalities of working with the credit union or other credit provider. In several instances in the case study interviews, the credit union's view was that the association had approached them with the scheme 'fully formed' and did not fully appreciate the way the credit union operated. Sometimes these issues could be resolved with discussion and 'tweaking' of the model. There were also issues about capacity, with some credit unions considering that associations asked for more than the credit union was able to offer. Having said that, capacity-building among the credit union sector was a specific aim of several schemes.

## Relationships

In this section we examine the relationships between and within the housing association and credit-providing agent, once schemes were up and running.

### Relationships between housing associations and loan providers

Several housing associations indicated fairly clearly that they were the lead agent in determining how they wanted the scheme delivered – there were references to boards and directors making the key decisions. Others considered that decisions were made in a more consensual way, with each partner playing to the others' strengths. In the case of CHANGE, there was a degree of mismatch at least initially in what each partner expected of the relationship, which resulted in the product having to be changed. Only one association – Affinity Sutton – had formally tendered their loans service, though several had developed contracts or service-level agreements subsequently.

The principle lesson from the case studies was that the most successful schemes had close, one-to-one relationships between the housing association and credit union lead members of staff (who were not necessarily the senior officers). Many of the schemes were new and experimental, and considerable trust and tolerance was required between partners. Long-term relationships and previous partnerships on

other services helped with this. However, there were some cultural barriers between the worlds of the housing association and credit providers. There was some frustration among associations at the slow pace (it was perceived) that credit unions operated. For their part, some credit unions (as noted above) reported difficulties with associations trying to push ahead with fully formed schemes without first negotiating and discussing the details with them. Some of the cultural barriers were simply products of disparate size, with associations generally being far larger and better resourced than loan providers.

## Relationships within housing associations

In terms of relationships within housing associations, in most cases senior management and boards had been supportive. However, the teams delivering and championing the affordable credit scheme within housing associations could be very small and under-resourced. They were often reliant on other staff (or volunteers) to promote the scheme, and this support was not always satisfactorily forthcoming. Where organisations had restructured, some internal dissonance in approach was noted.

## Scheme promotion

Several case studies talked about the significant time and effort required to promote affordable credit schemes and encourage take-up by tenants. This was true both of newer schemes that were still getting off the ground, as well as more established schemes that reported the need for ongoing promotion, in some cases to address low take-up.

Housing associations carried out direct advertising to tenants in a number of ways: tenant newsletters, the association's website, tenant information packs, leaflets at community venues, posters, mail shots/flyers, and promotion at tenant forums and events. Staff within money advice teams or support teams that had a direct role in delivering the affordable credit scheme played a key role in promoting it to tenants through the face-to-face contact they had with them. Internal promotion and briefing for other staff who came into contact with tenants (such as rent officers) was also felt by some housing associations to be important in promoting the scheme by word-of-mouth, and sometimes was considered to not be a high enough priority.

Face-to-face promotion to tenants was more difficult where housing associations had a dispersed housing stock. It was also more difficult where tenant support projects were not delivered directly by housing association staff; engaging and embedding the affordable credit scheme message with project workers, such as volunteers or local authority staff, who may have other priorities, was challenging. A few housing associations commented that it was very hard to compete with the marketing professionalism and resources of payday lenders and firms such as BrightHouse. One of the credit unions working with Clanmil also noted that doorstep lenders had established themselves as part of the community fabric, through their long-term presence in the area.

## Funding and financial sustainability of schemes

As noted in the literature review, nationally and internationally, there is limited evidence that affordable credit can be delivered on a profitable basis. Three models were identified in the literature review: schemes delivered at a loss as part of a wider portfolio; schemes seeking to become sustainable, but not yet having achieved this; and schemes not designed to be sustainable and operating through subsidy. All these featured in the case studies, though the typology that has emerged is slightly different.

## Schemes that were not planned to be sustainable

Some schemes (such as SGCH in Australia) made the point that their objective was to provide mainstream services for residents, as part of the 'more than a landlord' role. Costs for the affordable credit scheme were budgeted for in a similar way to other housing association management and social inclusion activities. And, like these, they were not expected to turn a profit, at least in monetary terms. Most associations already had some form of money advice function, and staff costs were already committed to this type of activity. Affordable credit-related promotional and processing activities were very much embedded in mainstream activities. Others used it as an opportunity to try a new initiative, or to expand credit union capacity.

## Schemes viable only with grants

A number of schemes were resourced on a one-off basis, either as an experiment or a pilot. The administration, incentive and loan elements of the scheme were funded on this basis. 'Grants' in this case could be from external or internal sources. For example, Clanmil needed a grant from Danske Bank to resource its incentive scheme, and Monmouthshire received a grant from the DWP Financial Inclusion Fund to help cover staff costs.

Other schemes were funded with internal grants and resources. CHANGE, for example, received £35,000 from housing associations for promotion and staff. All the schemes that provided either loan guarantees (e.g. Bolton at Home), up-front loan capital (e.g. Southway), or incentive payments (e.g. Inquilab and Monmouthshire) were internally resourced by associations.

## Schemes intended to be sustainable

As noted earlier, some initiatives were re-designed in order to increase the chance of becoming sustainable (i.e. they would be able to cover their costs from the income they generated, without additional money). Generally, the main problem undermining sustainability was low demand. This was noted by most case studies.

In several instances, schemes were not financially sustainable for the credit provider, and some were cross-subsidising the costs of the scheme from their other activities. For example, Hoot Credit Union (the partner of Bolton at Home) considered that administration costs per loan were very onerous, though as the scale of loans being made was low, they continued to cross-subsidise the Bolton at Home scheme from other business activities. The Affinity Sutton Places for People scheme was loss-making for the lender, who needed to review the administration fee and interest charges. Similarly NESCU, the credit union that Grampian worked with on the furniture project, considered it was cross-subsidising the scheme from its other activities. But while it cost NESCU money to administer the furniture loan scheme, it had the opportunity to benefit from the scheme financially in other ways – for example, borrowers taking other loans, and word of mouth attracting new customers.

## Schemes that were sustainable

The only schemes that seemed to be sustainable were the two Australian ones (Evolve Housing and SGCH).<sup>9</sup>

### Box 6: The sustainable Australian model

How was it possible for the schemes run by Evolve Housing and SGCH to be sustainable? At the time of this research, both schemes were well established and had therefore had time to straighten out any initial problems. Second, they were low-maintenance in terms of administration, being small-scale schemes requiring limited internal resources. Third, their schemes were tightly focused and controlled, both in terms of criteria for accessing loans, and what loans could be used for. There was thus very little 'leakage', with most loan repayments able to be recycled into new loans for other applicants.

It could be argued that even these two schemes are not truly sustainable, as there is no 'profit' element to cover administration costs. Evolve Housing and SGCH counter this by arguing that they helped meet wider corporate objectives, and provided added value for residents.

# 5 Outcomes of the case study schemes

## Summary

- The main reported benefits for tenants who received an affordable loan were: the ability to meet essential needs, improved financial inclusion, and money saved in lower interest payments (compared to using high-cost credit).
- Evidence was limited on whether affordable credit schemes diverted tenants from using high-cost credit.
- Evidence on the benefits of affordable credit schemes for housing associations was harder to discern, partly because many schemes were not set up with the aim of benefiting housing associations directly, and were often part of a wider financial inclusion or anti-poverty strategy.
- Reported benefits for housing associations (but not in the form of quantitative evidence) included: better tenant management of rent payments, improved tenant satisfaction, reduced tenant dependency on frontline staff, and a raised awareness among housing association staff of financial exclusion issues.
- Low take-up of schemes by tenants was a commonly reported problem. Reasons for this included: unrealistic expectations of take-up, loan schemes not meeting tenants' needs in terms of the size of loans available, the speed of loan processing, or requiring tenants to save before borrowing. Scheme eligibility criteria, including tenants' lack of ability to afford loan repayments, also limited take-up.
- Where affordable credit was part of wider money and debt advice service, tenants turned down for a loan could be referred for charitable grants or debt advice.

This chapter describes the outcomes of affordable credit schemes as reported by the staff involved in delivering them at both housing associations and credit unions. The analysis describes the perceived benefits of affordable credit schemes, and raises a number of issues in relation to the take-up of affordable loan schemes by tenants.

## Benefits for tenants

Overall there was very little monitoring or formal evidence-gathering by case study housing associations on the impacts of their affordable credit schemes on tenants. For schemes where the housing association's main role was to promote and refer tenants to a credit union partner, they were not part of an automatic feedback loop where they got to hear what the outcome of the referral was, and may indeed not know which tenants had taken out an affordable loan. Some of the newer UK schemes were planning to conduct a review and collect feedback from tenants once they had become more established; in the meantime, it was felt to be too early to say what the benefits for tenants were. Both of the Australian case studies were in the process of, or planning to, commission independent impact assessments to better understand how the schemes were impacting tenants, and to inform their future development. Thus the benefits reported below are based on the experiences and views of housing association and credit union respondents, rather than any formal collection of evidence.

A main benefit reported by respondents was that affordable loans enabled tenants to meet essential needs for things like household appliances, furniture and car repairs, as well as activities such as holidays. The Australian schemes (which focused mainly on loans for household appliances and IT equipment) also emphasised the wider financial benefits of buying new appliances, including reduced energy bills as a result of more energy efficient appliances, not paying for repairs, and not paying to use the launderette.

For schemes such as Bolton at Home and Evolve (Australia) that did not carry out credit checks as part of the loan application process, it enabled tenants with a poor credit history, who would not otherwise be



able to get a credit union loan or affordable loan from another lender, to access affordable credit and thereby increase their financial inclusion. For Bolton at Home tenants, it also meant that those who successfully repaid their loan built up a positive credit rating with the credit union, with examples known of tenants who had gone on to be approved for a standard credit union loan as a result. Building a good credit history was also the intention of the Southway Solutions loan scheme, although it was too early to tell whether or not the scheme had been successful in achieving this.

Some housing associations estimated the financial savings that tenants may have made in lower interest payments, by getting an affordable loan as compared to using a high-cost credit provider. For example, one housing association estimated that an average loan of £486 borrowed over 12 months saved tenants £800 in interest payments, compared to borrowing the same amount from a doorstep lender. However, these estimates assume that tenants who received an affordable credit loan would otherwise have used high-cost credit, which may not be the case for all tenants.

Schemes that promoted loans for particular uses reported benefits relating to these specific aims. For example, SGHC (Australia) reported that their digital inclusion loans had improved residents' employment and educational opportunities, although these benefits had yet to be formally assessed. Under the CHANGE scheme, where a number of affordable loans had been used to pay rent arrears, positive impacts were reported in helping tenants avoid eviction. Similarly, although only two Inquilab tenants in rent arrears had opened a credit union 'jam jar' account for paying their rent, the housing association had suspended eviction proceedings as a result.

In terms of whether the take-up of affordable loans had replaced tenants' use of high-cost credit, some of the case studies did not have sufficient evidence to be able to comment on this. Among others, views (based on anecdotal evidence) were mixed: some reported that schemes had diverted tenants from using high-cost credit; others were aware of only a few cases where receiving an affordable loan had prevented tenants from using high-cost credit.

## Benefits for housing associations

As noted earlier, most associations operated wider financial inclusion or anti-poverty strategies, of which affordable credit was one element (and sometimes a relatively minor one at that), and not all set up their affordable credit schemes with the aim of bringing benefits to the organisation.

For some housing associations, reducing rent arrears was not a key scheme aim, although it was thought that the wider impacts of schemes might see a reduction in rent arrears as a result of: reducing tenants' dependency on high cost credit; encouraging saving; or supporting tenants with debt problems. There was no quantitative evidence from housing associations that improving tenants' access to affordable credit had had any noticeable impact on rent arrears, although there was some qualitative evidence reported, including: the view that recipients of affordable loans had been able to manage their rent payments better; and an awareness that some tenants had used their loan money to repay rent arrears. Where affordable loans were delivered as part of a wider money and benefits advice service, the advice service as a whole had contributed to reducing rent arrears (for example, where advisors had been able to get housing benefit claims backdated, or increase tenants' income through identifying other benefit entitlements). For Clanmil and Inquilab, where reducing rent arrears was a specific aim of their schemes, both reported that it was too early to fully assess the impact on rent arrears.

Other benefits reported by some housing associations (but not quantified) included:

- improved tenant satisfaction and improved relationships between the housing association and tenants;
- increased financial capability, meaning that tenants became more self-reliant and reduced their dependency on frontline staff; and
- increased awareness among senior housing association staff of financial exclusion problems faced by both tenants and low-waged staff.

## Scheme take-up

Low take-up was a common issue reported by many of the cases studies, although not all. As discussed, one reason for low take-up was the challenge of raising tenant awareness and promoting affordable credit schemes, especially in the face of pervasive marketing by for-profit lenders. We explore below a range of other reasons for low take-up of affordable credit schemes.

### Expectations

As noted earlier, the absence in some cases of adequate market research and business planning contributed to unrealistic expectations about scheme take-up.

In some sense, take-up is a subjective outcome, a measure of what actually happened compared to what was expected to happen. It is clear that some of the cases studies were over-ambitious with their targets and in comparison to these, take-up was low. For example, Affinity Sutton had a target of over 1,000 loans approved in the first two years of the Leeds City Credit Union scheme (acknowledged as being an aspirational, rather than a realistic target). It achieved a take-up of 374 loans over that period. Similarly Clanmil had a target of 400 credit union members per year, but after six months had achieved 35. This compares to the Australian case studies that did not report any issues with low take-up, but delivered less than 50 loans per year; and Bolton at Home, where take-up in the first year was reported to have been good, with 117 loans approved, but with no expectations or targets against which this figure was compared.

### Schemes did not match tenants' needs or wants

There were various examples where low take-up could be attributed to the scheme not meeting tenants' needs or wants. With both the St Mungo's Broadway private rented sector (PRS) loan and the Southway Right Track loan, the maximum loan amount was not high enough compared to the amount that tenants actually needed. The maximum Southway Right Track loan amount was £1,000 to buy tenants out of their other debts, but in reality tenants had much higher levels of debt than this. The St Mungo's Broadway PRS loan was available for amounts between £400 and £600, but rent deposits and rent in advance required of PRS tenants in London was more than this. For both case studies, providing a loan guarantee for these significant amounts was considered too much of a risk. It also highlights the importance of collecting robust evidence of need at the outset, to feed into the design of schemes.

Schemes where tenants had to save for a period of time before being eligible to apply for a loan were not necessarily attractive to tenants. Take-up of the CHANGE scheme improved after the savings requirement was removed. As reported by Hillcrest, tenants said that they could not afford to save and it was difficult to persuade them otherwise, even if a budgeting check showed that they could afford to save a few pounds per week. Both Monmouthshire and Clanmil had schemes that were primarily focused on encouraging tenants to save. They found that tenants who were interested in saving were typically older and better off, and were less interested in taking out loans. For Clanmil, who wanted to target lower-income, young families, it was felt that the scheme was in some instances attracting the 'wrong' type of tenant.

The unattractiveness of the savings requirement also related to the waiting time involved; some tenants were not prepared to, or were unable to, wait several weeks for a loan while they built up a savings record. More generally, some case studies without a savings requirement also reported that tenants did not want to have to wait a few days or weeks for an affordable loan when they could get a loan from a high-cost credit provider much more quickly. This is in contrast to the Southway Solutions loan scheme that was able to process loan applications the same day (if all the paperwork was in place), and had a very high take-up.

Another factor that could result in low take-up was that tenants could be put off if they had to attend a branch office of the partner organisation to apply for a credit union account or loan, particularly if it was not close by. For example, Grampian reported a high dropout rate among tenants it referred to the credit union to complete a loan application form. However, this was not raised as a difficulty by schemes such as the Southway Solutions loan that had a high take-up – which was probably down to the availability of



same-day loans. In other words, where the loan product was attractive to tenants, they were prepared to invest time and effort to apply.

## Eligibility criteria

Take-up was also dependent on the eligibility criteria operated by different schemes. Perhaps not surprisingly, it appeared that the tighter the criteria, the lower the take-up. Eligibility criteria included: not awarding loans to tenants with rent arrears or other debts, and passing credit checks and affordability assessments. Even the Australian case studies that did not report problems with take-up turned down a few applicants because of rent arrears. In some of the case studies, eligibility criteria had a major impact on take-up. Monmouthshire housing association reported that many of the tenants they referred to the credit union for a loan were refused because of a poor credit history, even though the housing association had assessed them as being able to afford a loan. Affinity Sutton also reported that around one quarter to a third of applicants to their loan schemes were being turned down for failing eligibility checks.

The impact of eligibility criteria on take-up is perhaps best illustrated by Bolton at Home. Their scheme targeted higher-risk borrowers who, due to having a poor credit history, would not be able to access a credit union loan. The credit union did not conduct credit checks, only affordability checks. Take-up of the scheme was reported to be good, with over 100 loans approved in 18 months. However, the downside of lending to higher risk tenants was that 50% of loans fell into arrears, and were eventually written off. When the scheme was reviewed and brought under the management of the Debt and Money Advice Team, partly to address the arrears issue, loan take-up fell dramatically. This was because tenants had to be in contact with the Debt and Money Advice Team to be referred, and with the introduction of tighter affordability checks (using the Common Financial Statement), very few tenants were identified as being able to afford a loan.

Where affordable loan schemes were operated by housing associations as part of a broader money and debt advice service, staff also looked at other lower-cost options for tenants, such as charitable grants, local welfare support schemes and interest-free Department for Work and Pensions budgeting loans. Even where tenants could afford loan repayments, these options were considered first because they were financially beneficial for tenants, compared to getting an affordable loan. This was mentioned as a particular reason for low take-up by Clwyd Alyn, which found that very few tenants had enough disposable income to afford loan repayments. As a result, staff more commonly applied for grants on behalf of tenants, as well as helping them to apply for debt relief solutions.

# 6 Conclusions

At a time when UK households continue to face financial pressure, and the consumer credit industry is regaining momentum after the financial crisis, this research study provides in-depth insights into the strengths and limitations of affordable credit schemes delivered by housing associations in partnership with others. This final chapter draws together the main conclusions from the research.

## Lessons learned

### Design

- Getting the design of schemes right is crucial. For schemes that are aiming to compete with high-cost lenders, they need to be easy to access, with quick loan approval times.
- Schemes that required tenants to save first were not popular with tenants: this related to both the delay that this caused in being able to get a loan, and affordability issues. In designing and targeting schemes, tenants who are interested in and able to save are not necessarily the same people who are interested in taking out loans. However, schemes that required borrowers to save by paying an extra pound or two per week on top of their loan repayments did not appear to put tenants off.
- Housing associations can benefit from the expertise and input of credit unions in the design stage of schemes.
- A lack of evidence of demand for an affordable credit scheme in some cases led to schemes that did not match tenants' needs, and unrealistic expectations about take-up. Evidence of increasing use of high-cost credit among tenants does not necessarily mean they want to stop using them.

### Implementation

- Housing associations valued the expertise of credit unions in delivering affordable credit schemes, and their reasons for partnering with them included both push and pull factors. Good (regular) communication and close partnership working between housing associations and credit unions was important throughout, and could help to manage any differences in expectations and cultural differences between organisations.
- Promotion of schemes can be challenging and resource intensive, particularly when housing stock and staff are dispersed. A common finding from across the case studies and literature review was that take-up was often slower and lower than expected. The evidence suggests that it takes time to build up a customer base, and for word of mouth promotion to develop.
- Where schemes encountered problems or were not meeting tenants' needs, the design of schemes were often changed, indicating that housing associations (and their partners) need to be flexible in their design and implementation.

## Benefits of affordable credit schemes

Overall, there was limited empirical evidence on the impacts of affordable credit schemes, due to a lack of data collection and evaluation. However, self-reported qualitative feedback from housing associations and credit providers indicated that receiving a loan had a positive impact on loan recipients. The main benefit for loan recipients was being able to meet essential needs without using expensive, high-cost credit. This in turn had wider positive effects on quality of life and social inclusion, and could also reduce household bills for running costs and repairs. Despite low take-up being a common issue, many applicants to affordable loan schemes were successful, and as such these schemes are helping lots of people (even if not in the numbers anticipated).

While affordable loans can save borrowers hundreds of pounds in interest repayments compared to using high-cost lenders, there was limited evidence that affordable credit schemes replaced all use of high-cost credit in people's money management strategies. Where evidence was available, it suggested that the

proportion of loan recipients who had stopped or reduced their use of high-cost credit was small. Where loans did replace high-cost credit, it was reported to have increased households' disposable income and improved financial circumstances. The limited extent to which affordable loans schemes were able to deter use of high-cost credit may in part be because small schemes cannot compete against the marketing resources of high-cost lenders. It might also reflect that some tenants use affordable credit schemes as a source of additional borrowing, rather than a substitute for high-cost credit. It also suggests that changing the behaviour of users of high-cost credit is more difficult than simply providing a lower-cost alternative, for example if users have a long-standing relationship with a local high-cost credit provider whom they trust, or if speed and convenience are more important than cost.

There was little evidence to show that affordable credit schemes on their own benefited housing associations by (noticeably) reducing rent arrears, but delivering a wider debt and money advice service did seem to make a difference. Affordable credit schemes as a component of a wider (financial inclusion) strategy to support tenants' well-being was important to housing associations, and contributed to improved tenant relationships.

## Financial sustainability

Of the schemes covered by this research, in both the literature review and case studies, none were fully financially sustainable in terms of covering all of their costs: the two Australian case studies appeared to come closest to financial sustainability, but even here the costs of administering the scheme were subsidised by the housing association. For credit providers covered in the literature review (and also reported by some of the case study credit union partners), affordable loans were delivered at a loss and were cross-subsidised by other profit-making activities, or were delivered on a grant subsidy model.

The case study housing associations funded their schemes either through specific project grants, or were internally subsidised from staff resources already committed to delivering related functions such as debt and money advice. Additional costs arose where housing associations were providing either a loan guarantee fund or the loan capital. Under these circumstances, the loan default rate could be a key factor in the financial viability of the scheme. While this proved to be the case with the original Bolton at Home scheme, for other case studies the loan take-up rate was too low for any defaults to have made a significant impact, or the scheme was too new to know yet what the default rate was. The restrictions on rental income, introduced in the May 2015 budget, may make it more difficult for housing associations to fund schemes from revenue budgets in the future.

The two Australian case studies that funded and delivered their schemes in-house appeared to come closest to covering their costs. This was because the staff input necessary to administer the schemes was low, the size of the schemes was small, and with low default rates the loan capital was recirculated to make new loans. At Evolve, and also some of the schemes covered in the literature review, low default rates were attributed to using automatic repayment methods.

## Reflections on the delivery of affordable credit schemes by housing associations

The housing associations who participated in the case study research were all concerned about tenants' use of high-cost credit, their lack of access to mainstream financial services, and their general financial well-being, particularly in the face of welfare reform changes including the rollout of UC, benefit sanctions and cuts to welfare benefits.

A key limitation of the success of affordable credit schemes is that they are not appropriate for all tenants or low-income households. Some schemes (in both the case studies and literature review) had high refusal rates because applicants failed affordability checks. Thus affordable credit schemes do not address the issue of enabling those on the lowest incomes, without spare disposable income, to meet essential needs. In this context, one strength of the case study schemes was that they were part of wider financial inclusion and anti-poverty strategies. When delivered as part of wider money and debt advice services, tenants could be referred to more appropriate sources of help such as charitable grants and local welfare support schemes, or supported with benefits and debt advice.

A feature of some of the schemes reviewed (particularly in the literature review) was where the loan application process provided the opportunity for a financial conversation with applicants. This could act as a 'teachable moment' to review household budgeting, explain repayment responsibilities and improve financial capability. Although evidence of the impact of this was lacking, it is a model that would sit well within the delivery of a wider money and benefit advice service. There is a potential tension here, however, that having a face-to-face financial conversation may not meet tenants' needs for a quick loan approval process.

A further limitation of affordable credit schemes delivered through credit union partnerships is that, in general, credit unions have not traditionally lent to people with a poor credit history, and who have no history of saving with the credit union. The case studies included two schemes that had been innovative in designing schemes to address this issue. In both cases – Bolton at Home and Southway – the loans were underwritten or provided by the housing association, which enabled them to lend to riskier clients than the credit union would usually accept. The evidence as to the success of these schemes was mixed: both had high loan take-up, but as experienced by Bolton at Home, one outcome of lending to riskier clients was a high loan default rate.

Other examples of innovative schemes delivered by housing associations included: the St Mungo's Broadway PRS loans scheme, helping residents access cash for deposits and rent in advance; and the Southway Right Track loan, to buy tenants out of their debts. The difficulty for both schemes was that the size of loans required was higher than the housing associations were able to fund. Another innovative scheme was Inquilab's credit union partnership that sought to encourage tenants with rent arrears to join the credit union and open a 'jam jar' rent account as a means of halting eviction proceedings. Although not focused on affordable credit, it provides an example of how housing associations can partner with credit unions to help address tenants' financial well-being.

The findings from this research show that affordable credit schemes can help some tenants to meet essential needs, but not those who lack the spare disposable income to afford loan repayments. With responsible lending practices, credit unions (as well as other lenders) are limited in terms of who they can offer loans to. Therefore, affordable credit needs to be delivered alongside other forms of help and support, including grant-based schemes, and money and benefits advice, to maximise incomes and resolve debt problems (as was seen in many of the case studies covered by this research).

## Reflections on the future

During the lifetime of this research, a number of public policy developments have (or are) being implemented that impact on the environment for the delivery of affordable credit schemes by housing associations. The continued rollout of the welfare reform agenda, with the piloting and extension of UC and its built-in benefit caps, is central. The forthcoming further reduction of the caps, and the removal of younger, single people from the HB framework will be equally important. For housing associations, the progressive reduction in rental income for at least the next four years, brought in by the May 2015 budget, and the likely stock attrition resulting from the 'voluntary' Right to Buy scheme (thereby reducing rental income), will both significantly affect associations' appetite for affordable credit, or indeed other financial capability and inclusion initiatives. Bringing associations' rent caps into the private sector local Housing Allowance framework is also of great concern, especially for tenants aged under 35, the majority of whom will only be eligible for the shared accommodation rate, which will generally be below the rent levels for one-bedroom homes.

Given their reduced income stream, the temptation undoubtedly will be for housing associations to withdraw from any activities that are not central to their core purpose of providing and maintaining homes. However, we would suggest that, if the welfare reform agenda is not to penalise some of those most vulnerable to financial hardship, associations cannot afford to turn away from financial inclusion. If nothing else, it is in associations' own interests that they have 'financially fit' tenants, able to keep themselves in financial equilibrium and pay their rent.

# Notes

1. 'Credit union £38 million expansion deal signed'. UK Government press release from the Department for Work and Pensions, the Rt Hon Lord Freud and HM Treasury (16 April 2013).
2. The review excluded a number of reports that were either discussion papers on affordable credit expansion, or provided only an overview of affordable credit lending models.
3. Progress Loans were discontinued as they were not financially sustainable without ongoing support from ANZ, although we were unable to find any documentation as to the reasons behind this.
4. The control group comprised individuals who were not customers of Scotcash, but came from areas of Glasgow known to have large populations of Scotcash clients and had similar socio-demographic characteristics to Scotcash clients.
5. These improvements were self-reported by loan recipients after receiving the loan, with no baseline (or 'before') measures of financial capabilities taken.
6. Again, these improvements were self-reported by loan recipients after receiving the loan, with no baseline (or 'before') measure of their use of fringe lenders.
7. 'Loan closing' describes the end of the application process when the loan documents are reviewed and signed.
8. In fact SGCH did use an external supplier for the DigiConnect project.
9. It could also be argued that the Clwyd Alyn scheme is more or less sustainable, as it only involves an outlay of £2 per tenant. But it has not proved popular, and joint plans between the association and credit union to develop additional products have not yet materialised.

## Appendix

Detailed findings from the case study research conducted as part of this study area are available in a separate Appendix. 'Housing Association Innovation in Delivering Affordable Credit - The Case Studies' can be downloaded at:

<http://www.bristol.ac.uk/media-library/sites/geography/pfrc/pfrc1606-jrf-hai-the-case-studies.pdf>

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