Unlocking tenant financial resilience

Building partnerships between housing associations and community finance providers

Introduction

There is a clear opportunity for housing associations and community finance providers to work together in partnership to deliver benefits for tenants, landlords and lenders

This slide deck sets out some of the key benefits of partnerships and indicates how housing associations and community finance providers can work together effectively

This is a summary of the full report on Unlocking tenant financial resilience by Fair4All Finance and Campbell Tickell, which includes

- The full case for partnerships between housing associations and community finance
- More detailed guidance, good practice and case studies to help organisations set up successful partnerships

The case for partnerships

The need for affordable credit

Social renters tend to have lower financial resilience

- 40% of social housing tenants have weekly incomes of £300 or less
- 80% have no savings, compared with 40% of mortgage holders
- For many tenants we interviewed, intermittent borrowing to help them meet needs and deal with unexpected costs is an everyday reality

'When you're desperate, you do what you have to do. I have got seven kids. If you need a tumble dryer, you need a tumble dryer.'

Tenant

Social renters are disproportionately likely to be in debt, particularly to high-cost payday or doorstep lenders. And they are at greater risk of being victims of loan sharks

'You can borrow from friends and family only so many times and then you are stuck, so you end up taking out loans from outside lenders.'

Tenant

- 37% of all high-cost short term loans are made to renters
- 62% of Citizens Advice debt advice clients who owed money to doorstep lenders were in the social rented sector
- 45% of loan shark victims helped by the England Illegal Money Lending Team were social housing tenants

What is community finance?

Community finance providers are a vital resource for people excluded from mainstream financial services

They can save households significant amounts of money compared to payday or doorstep lenders. They offer a holistic, financial wellbeing service, with many offering wrap-around services such as financial guidance, income maximisation or linked savings that build customers' financial resilience

They fall into two main categories

Credit unions

Credit unions are financial co-operatives that offer savings, loans and other financial services. Service users become members, with the members owning and controlling the organisation. Their purpose is to serve members, not to maximise profits

Community Development Finance Institutions (CDFIs)

CDFIs are social enterprises that provide loans and support to those unable to access finance from mainstream sources, who may have an insufficient track record of borrowing, poor credit rating and live in deprived communities. They are purpose-driven organisations with a commitment to supporting their customers' financial wellbeing

Benefits for tenants

Affordable credit allows people to meet unexpected and emergency costs, without taking on unaffordable debt

It can save people hundreds of pounds a year compared to high-cost payday or doorstep lenders

Research into the social impact of Fair For You, an affordable lender that provides credit for household goods and essentials, estimates that

- FFY has helped **71% of its customers move away from high-cost credit**, resulting in financial savings of nearly £9 million for their borrowers
- Customers have also **saved on average £30 per week** in reduced living costs by obtaining appliances through this scheme
- Other benefits resulting from households acquiring essential appliances include **healthier diets, improved mental health and improved self-esteem**

'A lot of other lenders turn their back on you. When they transferred me those funds, that day, they were saying 'let us see how we can help'. What a difference it made. What a relief. They have helped me to progress, to the point now where I can say, 'I've got this.'

Community finance customer

The benefits of affordable credit are not just financial

By providing a viable, sustainable way to navigate financial issues, affordable credit can have positive knock-on effects on borrowers' broader personal wellbeing

Financial benefits for landlords

Fair and affordable credit delivered in a timely way can break the spiral of debt, rent arrears and eviction - saving landlords money down the line

Promoting community finance as an alternative to high-cost credit supports tenants to manage financial shocks sustainably and build their financial resilience

This can generate significant savings in areas such as rent collection, arrears, evictions, void costs, and reletting

Earlier research has also shown that community finance partnerships can have various benefits for housing associations, including

- **Better tenant management of rent payments**
- **Improved tenant satisfaction**
- **Reduced tenant dependency on frontline employees**

During the pandemic housing association rent arrears topped £1 billion for the first time

Negative tenant journey – without partnership

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Life shock

An unexpected event such as reduction in working hours or a broken appliance knocks a tenant's finances

High-cost loan

Unable to meet their expenses and unaware of alternatives, the tenant takes out a high cost loan

Spiralling financial problems

The tenant can't manage to repay their loan and meet their other expenses, so they fall behind on rent

Increasing rent arrears

Without support the tenant falls further into rent arrears

Cost to landlord = Loss of rental income

Intervention

The association employee talks to the tenant, but may not be trained to provide financial wellbeing support and unaware of debt support/affordable credit options

Cost to landlord = Employee time

Eviction

Eventually the tenant's rent arrears build up so far that the housing association decides to proceed with eviction

Cost to landlord = Employee time, court costs, bailiff fees etc

Re-letting

Cost to landlord = Must complete full void checks, any repairs and maintenance required and allocate the property to a new tenant

£8,000

The average cost of an eviction

£209.9m

Housing association void losses in 2020

Positive tenant journey – partnership in place

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Life shock

An unexpected event such as reduction in working hours or a broken appliance knocks a tenant's finances

Getting support

The tenant knows that their housing association offers financial wellbeing support and approaches them for help

Referral to community finance provider

The housing association identifies that the tenant could benefit from an affordable loan. They are referred on for a loan assessment

Affordable borrowing

The community finance provider conducts a brief assessment, taking into consideration the tenant's circumstances, and is able to offer a loan

Improved financial circumstances

With the loan, the tenant can cover the unexpected costs of their life shock. The lender helps them develop a realistic and affordable payment plan

Ongoing support

The lender can offer ongoing support to the tenant, such as budgeting advice and support to save

Improved financial resilience

The tenant is supported to develop their financial resilience, making them less likely to fall into rent arrears in future or borrow from high-cost lenders or loan sharks

60% of affordable lender Fair for You's customers reported they were better able to pay their household bills directly as a result of their loan

Benefits for community finance

Partnerships with housing associations provide a huge opportunity for community finance providers to scale

Expanded customer base

3.5m housing association tenant households in the UK

Proven ability to serve

Significant overlaps between housing association tenants and community finance customers

Half of CDFI customers are social renters

Partnership ready

Housing associations are well-established and experienced in partnership working

91% of housing associations are open to partnerships with community finance

Potential for growth

What is the regulatory position?

Crucially, partnerships between housing associations and community finance providers have clear support from the Financial Conduct Authority (FCA)

The FCA have introduced a specific exclusion which allows social housing providers to refer tenants to credit unions and community development finance institutions without requiring FCA authorisation

The FCA's guidance note FG18/6 Helping tenants find alternatives to high-cost credit and what this means for social housing landlords sets out details of the exclusion

To support social landlords on regulatory issues, the FCA has also set up a specialist team that can provide individual guidance, which can be contacted at RSL@fca.org.uk

The opportunity

Immediate need of social housing tenants

+

Increased resilience of tenants leading to financial benefits for landlords

+

Growth potential for community finance providers

=

A clear opportunity to act

Building successful partnerships

Partnership types

Looking at current examples of partnerships, we've identified eight different types, which show the different approaches organisations can consider

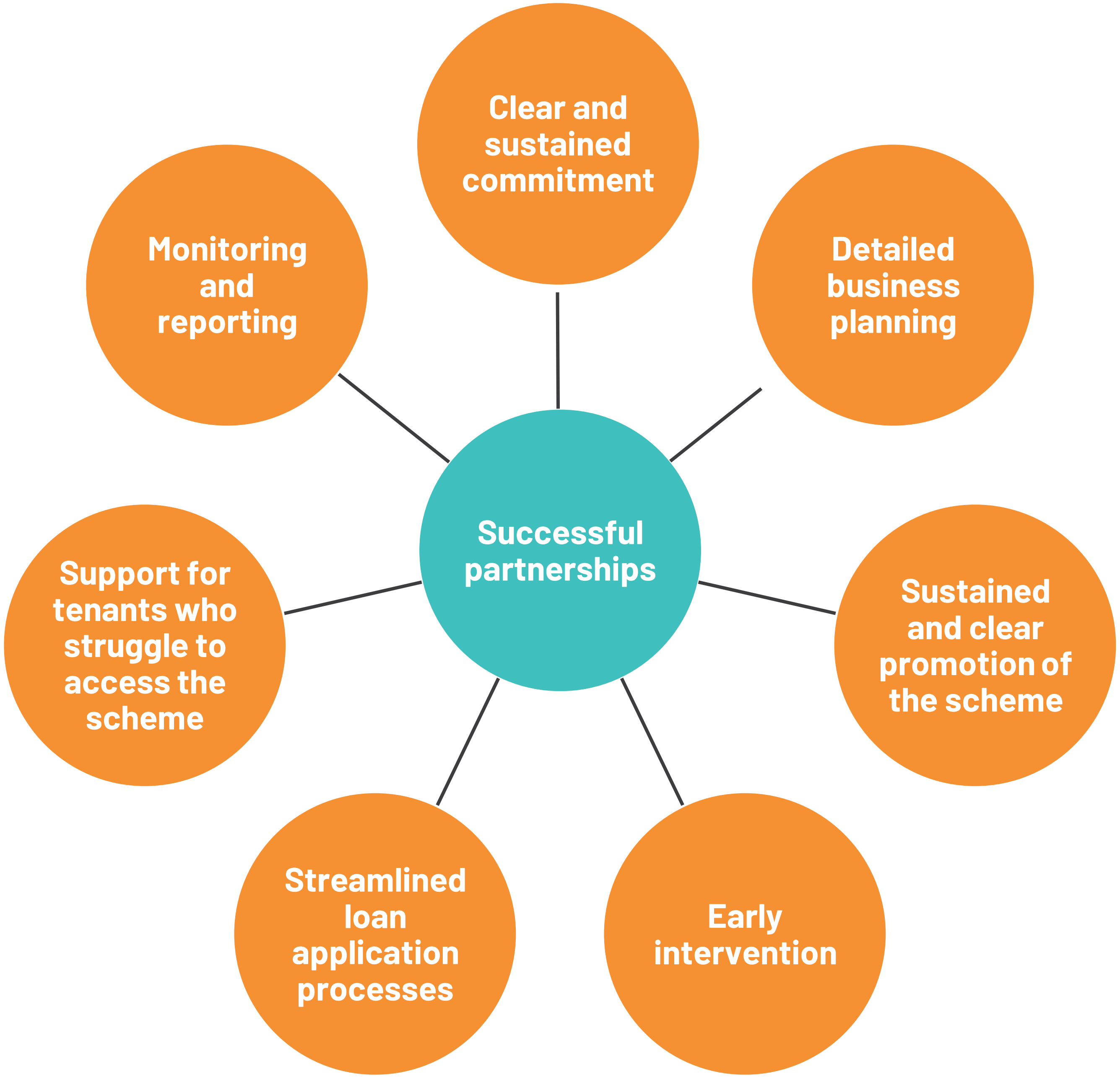
These are not mutually exclusive – different approaches can be combined in one scheme to good effect

Full details including case studies, benefits and drawbacks of each model can be found in the full report

- **Basic signposting and referrals**
- **Referrals targeted by customer segment**
- **Loans underwritten by housing association to widen access to scheme**
- **Affordable credit linked to housing association wider financial support offer**
- **Community lender provides financial support services alongside loans**
- **Affordable loans for white goods and household essentials**
- **Affordable loans available across multiple geographic areas**
- **Partnership focuses on housing association employees as well as tenants**

What makes partnerships work well?

Across different partnership types and case studies there are common features that make for successful partnerships



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Setting up a great partnership

There are various elements which partners need to consider in order to develop a successful partnership proposition

Each proposition will vary depending on the nature of the partnership, objectives and the end user needs

Objectives
- What do you want the partnership to achieve?
- What are your common aims?
- What does success look like?

Targeting
- Which groups of tenants would benefit most ?
- What do they need loans for?

Product offer
- What products will be available?
- What size loans do tenants need?
- Is the scheme open to housing association employees as well?

Roles and responsibilities
- Who is responsible for delivering different parts of the scheme?
- Who is responsible for funding different aspects?

Marketing
- How will tenants know about you?
- What materials will you provide?
- How will you keep engaging tenants?

Wrap around support
- What additional support will be provided to tenants?
- What support is there for people declined for credit?

Underpinned by joint business plan and regular performance reviews

Next steps

Housing associations and community finance providers looking to set up their own partnership can download our report here: www.fair4allfinance.org.uk/news/unlocking-tenant-financial-resilience

It includes

- More detail on different partnership types, including key components of success and benefits and drawbacks of each model
- An overview of good practice and ways to strengthen partnerships
- A short guide to help you setting up a partnership

Housing associations looking for partners in the community finance sector on a national or local level can look for credit unions at https://www.findyourcreditunion.co.uk/ or for CDFIs at https://www.findingfinance.org.uk/