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# Covid-19
# Resilience Fund

**Supporting community finance providers through the pandemic**

February 2022

# Contents

# Executive summary

**As the first Covid-19 lockdown approached in early 2020 it quickly became clear people in vulnerable circumstances and the providers that serve them would need emergency support**

## Moving quickly

Following input from key stakeholders across the sector we were able to provide this support swiftly and effectively through our Covid-19 Resilience Fund.

With **£3.9m in grants to 31 community finance providers**, most of which were deployed within 6 weeks of identifying a need, the Fund helped preserve **c50% of lending capacity** targeted at people in vulnerable circumstances – a key objective from the start.

## How the Fund performed

Another key objective of the Fund was to help the community finance sector in England come out of the pandemic in **a resilient position and capable of growth**.

An independent evaluation of the Fund by the Centre for Responsible Credit has found our grants played an important part in helping this happen and that **the Fund met its two key objectives**.

The evaluation also highlighted things we could have done differently, giving us valuable insight for our future work and programmes.

## Supporting community finance

The community finance sector has fantastic expertise in serving customers sustainably and ethically. Our grantees have shown tremendous resilience, agility and real innovation throughout the pandemic.

While loans books are slowly recovering, profitability remains inconsistent and arrears are still a concern for many providers.

Covid-19 is still with us and we know parts of the sector are facing the same challenges they were at the start of the pandemic.

Providers remain committed to serving customers in vulnerable circumstances though. And we remain committed to supporting the sector to sustainably grow the provision of affordable credit as part of our wider mission.

We continue to provide programmes and support aimed at delivering capital and developing growth capability in the sector.

And we encourage **other funders and stakeholders** to join us in providing long term investment to scale up this crucial lifeline for people in vulnerable financial circumstances.

# Introduction

**The Covid-19 pandemic has had a significant impact on people's health and wellbeing, as well as their ability to earn. It's more important than ever that people have access to fair and affordable financial products and services that support their financial wellbeing**

## Our Covid-19 Resilience Fund

We know the least financially resilient in society were hit hardest by the pandemic – 'debt vulnerable' groups such as women, younger age groups and renters.

These groups are often excluded from mainstream credit. Community finance lenders such as credit unions and community finance development institutions (CDFIs) provide an important safety net.

As the pandemic hit we launched a £5m emergency Covid-19 Resilience Fund in April 2020, with input from providers, consumer groups, charities, foundations and trade bodies.

We moved at speed to provide targeted grant funding to preserve much needed lending capacity to customers in vulnerable financial circumstances and to put the community finance sector in a position where it can continue to grow.

In this report we look at how the funding was spent and what the outcomes and impacts were for community finance providers and customers in vulnerable circumstances. We also consider lessons learned along the way and next steps.

## Our fund objectives

We had two key objectives for the fund, in line with our mission to increase the financial resilience and wellbeing of people in vulnerable circumstances by improving the availability of fair and accessible financial products and services:

1. Help the community finance sector in England **come out of the pandemic in a resilient position and capable of growth**
2. Enable organisations to **support customers in vulnerable circumstances through the crisis**, including by providing forbearance and continuing lending where appropriate

## Our support

Our grants provided a mixture of financial support:

- to help organisations manage the impact of lost income and additional forbearance costs caused by the crisis on their organisational strength
- funding for technical support needed to adapt models to serve customers during this period

# Headline performance

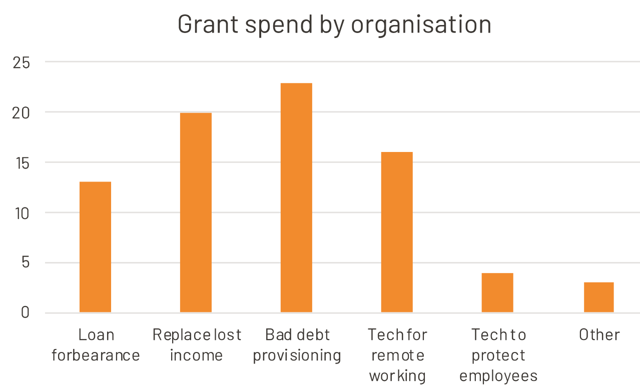
## Key stats

- We committed **£3.9m** to **31** community finance organisations
- These organisations collectively lent over **£138m** in the last year before Covid-19 and serve **136,000** customers
- Fund was open for applications just 3 weeks after the announcement of the first lockdown – **most grants deployed within 6 weeks of identifying need**

## Impact

- Our grants helped preserve **c50% of lending capacity** targeted at people in vulnerable circumstances
- From April 2020 to April 2021 **cumulative surpluses** for grant recipients were **£1.5m**. Without the Fund **cumulative losses** would have been **£2.3m** over the same period
- Several indicators show that lending to customers in vulnerable circumstances **recovered swiftly after an initial shock** and that this lending has since been sustained

## How the grants were used




'Other' includes maintaining capital ratios, bespoke marketing to customers in vulnerable circumstances and covering branch operating costs.

Two organisations also received grants for feasibility studies for merger and consolidation activity.

## Independent evaluation findings

An independent evaluation by the Centre for Responsible Credit found that the Fund has been used effectively and met its key objectives:

'The Fund enabled lenders to swiftly pivot their business models to incorporate digital and telephony into their delivery.

'Without this funding there would likely have been very significant disruptions to lending.

'In addition, it appears that the Fund was also used to provide considerable forbearance to customers, which was likely concentrated amongst the target groups.'

# Innovations and improvements

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**Grantees reported that the Fund supported the development of several product and service innovations designed to meet the needs of customers in vulnerable circumstances through the pandemic and beyond**

## Innovations

Several grantees developed low or no interest loans for keyworkers and other groups experiencing financial pressure.

For example, Lewisham Plus Credit Union created a new **Covid Support Loan** with an interest rate of 1% per month rather than the usual 3% per month for new members.

West Country Savings and Loans introduced a **low interest keyworker loan** and Bradford District Credit Union launched a new **£500 Family Loan** product, supported by the delivery of around 80,000 family activity packs promoting good financial health.

## Remote working

Over half of our grantees received a technical support component. The majority of this spend was focused on remote working and business continuity.

All grantees who received this technical support agreed it enabled some or all of their teams to work from home and serve customers more effectively:

'The technical grant provided essential practical support to enable us to continue to serve our members effectively, communicate with them regularly and run our organisation safely.'

## Service improvements

Many grantees have used the grants to bring about permanent technical improvements or be a stepping stone for a wider technological transformation:

'Colleagues have been able to work from home effectively while self-isolating. We can sense that we are transforming our organisation, step by step, which gives the team a sense of hope and excitement for the future.'

**Over 60% of technical support grantees can now offer an improved mobile or online experience for customers**

# Customer impact

The community finance sector has fantastic expertise in serving customers sustainably and ethically. We're pleased our support helped them continue to be a lifeline for customers in vulnerable circumstances

## Quotes from lenders

'We have found **many people unable to get credit** because of reduced income (furlough or job loss). Often the sum needed is small and we are now able to help.'

'Our loans have **helped customers with a number of purposes throughout Covid**. We have helped members buy technology for home schooling, pay essential bills, white goods (more home cooking), financial hardship, moving costs and sadly funeral expenses to name a few reasons'

'We have continued **to enable people to fund essential goods, rent, debt consolidation etc** and we have frequently been the sole **alternative to loan sharks** and high interest lenders'

## Quotes from customers

'The shopping card **helped me when I was struggling to feed my family** during covid.'

'I work on the front line and **having a washing machine has helped me keep my family safe** from Covid 19. Thank you.'

'I have had **no stress, no pressure**, the staff are very helpful and during Covid 19 gave me peace of mind.'

'I have to say **these guys are amazing**...due to Covid and not being able to work (as my son has to isolate) the credit union did their best to **help me in every way they possibly could** ... couldn't be more grateful... thank you 🙏'

**'All our loans help some of the most vulnerable in society. We have helped members with utilities, food, school uniform, travel and many other essential expenses.'**

# Lessons learned

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**We're pleased the independent evaluation of the Fund showed it was used effectively and met its two key objectives. We also welcome and take on board the learnings identified in the evaluation**

## What went well

The design of the Fund demonstrated considerable best practice:

- **Rapid and effective consultation** with key stakeholders helped identify the risks of the pandemic to providers and people in vulnerable circumstances
- The board gave **full and proper consideration** to this when setting Fund objectives and maintained focus on our long term mission when doing so
- Providing grants for **both financial and technical support** was appropriate to the problems identified by the community finance sector
- Our use of **external expertise and resource** helped enormously with the successful set up and implementation of the fund and we took steps to make the application process easier

In terms of effectiveness, the Fund met its objectives both with respect to organisational resilience and by ensuring continued lending to customers in vulnerable circumstances during the pandemic.

In addition, it appears the Fund was also used to provide considerable forbearance to customers, which was likely concentrated among our target group.

## What we could do better

- The eligibility criteria and requirements may have dissuaded some lenders from applying and the level of financial forecasting and demographic information required may have led to rejections. The £2m loan book threshold wasn't used as a hard cut off and a pragmatic approach was taken
- No precise definitions of 'sustainable operations' or an 'acceptable reach into vulnerable customer groups' were provided. This more nuanced approach to assessing sustainability and reach resulted in a more resource intensive decision making process

## Fund size

We allocated £5m to the Fund and awarded £3.9m. While there are likely to be several reasons for this shortfall, some of which are explored in evaluation, we believe there are two key factors linked to our mission to increase support for people in vulnerable circumstances at a systemic level:

- We didn't provide funding to organisations with sufficient reserves themselves to withstand the pressures
- Or to those with a business model we believed to be unsustainable without significant future grant funding

# Market snapshot

**We're grateful for the continued reporting our grantees have provided. It has allowed us to take regular snapshots of the community finance sector, which weren't otherwise readily or quickly available**

## Loan books slowly recovering

And are starting to return to pre-pandemic levels:

- Accumulated gross and net loan books have reached their highest since the start of the pandemic and are c£500k higher than they were when compared to 2020 and higher than pre-pandemic levels[1]

## Organisations remaincommitted to serving customers in vulnerable circumstances

- 86% of new loans issued across all organisations were equal to or under £1k in Q3 2021

## Profitability is inconsistent

Profitability varies significantly across organisations:

- Overall, profitability is lower in 2021 than in 2020 with CDFIs running year to date deficits on average and credit unions running at slight year to date surpluses – though with significant variation between organisations
- We believe that the emergency grant funding received in 2020 is one reason for the relatively stronger financial position in 2020. There was very little emergency grant funding available in 2021, while loan books, income and arrears all continue to be negatively impacted by Covid

## Arrears still a concern

Arrears remain a consistent concern:

- Organisations noted an expected rise in arrears in the last quarter due to bank holidays and the ending of summer holidays, however still report issues relating to the pandemic as reasoning for high arrears rates overall, such as ending of lockdown, changes in restrictions, increased and unexpected unemployment

**This market snapshot was taken from the sector reporting we received from 20 of our grantees for Q2 and Q3 2021**

[1] From Sep 2020/2021 so doesn't include Q4 seasonal lending or impacts of the omicron wave in December 2021

# Next steps

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**Unfortunately, Covid-19 is still with us. We know many providers are still facing the same challenges they were at the start of the pandemic.**

## Our mission

We're here to increase the financial resilience and wellbeing of people in vulnerable circumstances through improving availability of fair and accessible financial products and services.

We remain committed to supporting the community finance sector to sustain and grow the provision of affordable credit as part of our wider mission. Organisational resilience continues to be key.

## Response to recommendations

- We'll publish a Sustainability Toolkit for credit unions early this year, which will consider the input from the evaluation in response to the need to define 'sustainability' further
- We'll consider further work to support mergers between community finance organisations, particularly where we can be catalytic. We've seen some positive merger activity among credit unions without our input and we would encourage this to continue where appropriate to build sustainability in the sector
- We'll consider the use of 'hard stop' eligibility criteria in favour of longer term direction of travel indicators in future programmes

## Additional support

We recognise the ongoing challenges for parts of the community finance sector caused by Covid-19. We're committed to supporting long term resilience, innovation and growth, in the context of our finite funding and noting we were not set up to be a 'lender of last resort'.

We have no plans to re-open the Fund currently. We have several ongoing or new programmes aimed at delivering capital and developing growth capability in the community finance sector:

- **Affordable Credit Scale Up Programme** - £22m+ of investment and support into 11 community finance providers so far
- **Investing to transform technology** within the community finance sector with an initial focus on Loan Management Systems
- **No Interest Loan Scheme pilot** this year
- **Piloting other innovative affordable credit solutions** including consolidation loans
- Launching an **Affordable Credit Debt Fund**
- **Customer insights and brand research** including customer segmentation which can be used across the community finance sector
- **Research and best practice sharing** on declines management and benefits deduction lending

More broadly we're also conducting research into illegal money lending, and the greater financial exclusion of certain minority ethnic groups. And we have lots of other work planned that we'll announce later this year.

# Final words

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**The huge social impact of community finance – particularly in left behind communities – needs to be more widely recognised.**

## The case for more support

Affordable credit delivered in a fair and responsible way can be a lifeline for people who are excluded from mainstream providers, helping them weather income shocks and buy essential items.

Credit unions and CDFIs have fantastic expertise in serving customers sustainably and ethically. They are supportive at every step of the borrowing journey and invest any profits back into the communities they serve.

More funding is needed to enable providers to meet the growing customer need for fair and affordable credit.

The new Dormant Assets legislation is an opportunity to direct more funding to the community finance sector.

We also encourage other funders and stakeholders to join us in providing or supporting long term funding and investment to scale up this important work.

## Reflections from the community finance sector

At the end of the grant period in April 2021, we asked grantees for their learnings over the last year. Key highlights were:

- Ability to **work from anywhere**/remotely
- Importance of **communications and engagement** with members and its rewards: 'Members stay loyal and appreciate our efforts'
- **Resilience** of the sector: 'We can handle change'

'In the most uncertain of times it was reassuring to have the backup of the Fund to help our members who were experiencing difficulties with forbearance and payment holidays. The award also funded a new telephone system to enable home working. The information, workshops and meetings have been informative and helpful, and we're very grateful to have received the Covid-19 Resilience Fund.'