Consolidation Loan Partial Bad Debt Guarantee Fund

Call for expressions of interest from credit unions and community lenders

31 October 2022

Contents

Executive Summary

- Fair4All Finance is launching a £3.5m partial bad debt guarantee 'fund' to enable lenders to increase the amount of consolidation lending they can offer as a pilot
- This is a key response to the cost of living crisis and comes following several months of consultation with lenders and analytics suggesting that consolidating higher cost debt into an affordable loan which ensures a better outcome for the borrower would be transformational for many people
- Our modelling suggests the fund could support lending on an average principal of £6,500 to around 9,000 - 15,000 people across an average 3 year term, where we are projecting a rough bad debt rate of 12% shared between the lender and the fund
- We wish to work with up to 10 lenders who can utilise this fund to do additional consolidation lending beyond their existing risk appetite and who can deliver ideally a minimum of 1000 consolidation loans each, and at an absolute minimum 500 loans
  - Lenders we appoint will need to evidence
- existing consolidation lending experience demonstrating limited and well managed bad debt
  - transparent underwriting rules that can be varied to enable this additional lending
  - appropriate risk based pricing strategies with interest rates varied to reflect risk and where interest rates for this lending are capped on or around the level of the credit union cap of 3% per calendar month/42.6% APR
  - robust ways to set up the consolidation loans with borrowers to ensure as much as possible that the outstanding loans are paid off
- To support lenders to attract prime customers, for whom consolidation lending may also be relevant, we are also prepared to provide some marketing support, although this lending will not be covered by the guarantee funds
- To maximise the use of the fund the guarantee mechanism will:
  - Focus on two groups of customers - those narrowly outside existing underwriting rules to be 80% of additional loans, and those in vulnerable financial circumstances to be 20% of additional loans
  - Offer a partial guarantee where lenders incur the first losses at the level they experience on

the rest of their 'normal' loan portfolio and we will use vintages analyses to understand the relative bad debt rates such that the fund covers bad debt on consolidation loans above that 'normal' level

  - Lend in waves with a finite bad debt budget agreed in £ terms at the outset apportioned across up to three waves, so that we can iterate and learn from the bad debt levels and refine how lending is done meaning that the volume of lending that is undertaken may vary if bad debt levels are higher than anticipated; we assume roughly a six to nine month gap is needed after the lending in the first wave concludes before the second wave can commence
  - Involve profit sharing on a sliding scale so that if the additional consolidation loans underpinned by this guarantee are profitable, a share of the profits will be returned to the fund so we can support additional lending and where lower calls on the guarantee will enable lenders to retain more profit

- This fund is not a substitute for debt advice and we will be appointing lenders who can demonstrate good triaging and referral processes to quality debt advice where that is the appropriate alternative.
- This document sets out the detailed background on this fund and is accompanied by:
  - An expression of interest form
  - A technical note explaining the guarantee and profit share taper set out in the draft Heads of Terms and in the calculation mechanism will work including worked examples
  - The Drafts Heads of Terms
  - A draft calculation mechanism which shows how the guarantee will operate in practice setting out a worked example which interested parties can utilise to test their own assumptions

Purpose and strategy

This section sets out the context and the proposition we want to test through piloting the consolidation loans partial bad debt guarantee fund

What is the problem we are trying to solve?

Impacts of the COVID-19 pandemic were unevenly distributed. Some individuals built up additional savings, but a disproportionate share of people on lower incomes reduced savings and took on an additional £2,300 debt, and for some borrowers that was high-cost credit products. Sources vary but unsecured debt per person is currently estimated at an average of £6,500[1].

The cost of living crisis is being felt by people at most income levels. Living costs have risen and are expected to rise further meaning, some people's debts will become more burdensome for them to service, as their disposable income contracts. We believe more people will be actively looking to reduce the costs of their credit debts.

A consolidation loan at the right time can prevent people still serving their credit debts falling into financial hardship as their day-to-day costs continue to rise and affordability continues to be squeezed. By refinancing their debts onto lower interest terms with lower monthly payments their financial resilience can improve and this reduces the need for formal debt solutions and the consequences that can bring.

We have received feedback that when done well a consolidation loan can improve the financial situation for people on two fronts

1. ease of managing one payment rather than many payments to multiple creditors
2. a total cost of credit over the lifetime of the new consolidation loan and the new balance outstanding which is better than the original position that the borrower was in, even when early repayment fees are paid and the term is extended (where appropriate) such that the borrower makes real savings per month and over the course of the loan

Although consolidation loan products are widely available, including related products like balance transfer credit cards, a large number of people are not able to access effective products to consolidate debt

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[1] Stepchange statistics yearbook 2021 – median unsecured debt £6,372

because of their risk profile to lenders either in terms of the quantum of debt is beyond their risk tolerance or underwriting rules; or because of challenges in the borrower's credit file. Our own customer segmentation research validated that around 17.5m people are in financial hardship to some degree or other, and the three customer segments we focus for this activity represent up to 11m of those.

All the lenders we have spoken to, both commercial mainstream lenders and community finance providers, recognise the potential for consolidation lending to have significantly positive impacts on the borrower, especially where there is a significant differential between the average interest rate a customer is currently paying and the interest rate on the new consolidated loan.

What this solution does not do

We absolutely recognise that there is no substitute for high quality debt advice offered in a timely manner and therefore our consolidation loan product is aimed at borrowers who are not yet in a position where debt products are suitable, and our appointment of lenders will assess their process for identifying customers for whom debt advice is the right alternative.

Our approach

What is the proposition we want to test?

We want to test enabling more consolidation lending to help reduce borrowers debt servicing costs and improve their ongoing financial position during this time of economic stress. To do this we are interested in working with lenders who can offer consolidation loans at a significant differential to the interest rates borrowers are already paying.

We know many credit unions already offer consolidation loans to members at the credit union maximum interest rate (3% per calendar month or 42.6% APR), or below, and recognise the potential to do more of this kind of lending but are constrained by their risk appetite and tight overheads. This is also the case for some commercial lenders[2] who offer comparable rates to credit unions.

To achieve this aim Fair4All Finance is putting in place a partial bad debt guarantee fund of £3.5 million, accompanied by related pilot support and activities.

We want to see if this bad debt guarantee fund:

- delivers benefits to customers, and lenders, which provide an appropriate return on the fund
- can be structured so that profit sharing enables it to be sustained for the longer term, or at least in part

Who is this for?

The intention of the fund is that it will enable credit unions, or comparable lenders, working with us in the pilot to expand their consolidation lending into two specific groups[3] currently outside of their underwriting parameters and to also grow their consolidation lending to a third group – prime customers, many of whom are also looking for new solutions for the first time.

- Population A (Squeezed and Sliding): 80% of the consolidation lending in the pilot to be to borrowers just outside of lenders usual risk appetite where our hypothesis is that bad debt will be either the same or marginally worse
- Population B (primarily Credit crisis families but includes Forgotten families): 20% of the consolidation lending in the pilot to be to borrowers whose credit files/risk profile would usually mean they would not be eligible for a consolidation loan and where bad debt is expected to be

[2] The appointment of commercial lenders to utilise this fund will require additional sign off from our Board

[3] The populations we are targeting are aligned to the Fair4All Finance segmentation model released in October 2022 and it is from this segmentation model that the names for the segments are drawn

worse - we expect this group to closely resemble the priority customers Fair4All Finance is set up to serve

- Population C (Difficult Debts): Additionally, and where agreed, there will be marketing support on offer which will focus on bringing prime customers to the lender to help achieve a broad portfolio of customers and help to drive value across the portfolio. These customers will **not** be covered by the guarantee

The schematic at Appendix 1 – Customers targeted depicts these groups visually and provides more detail.

We are seeking expressions of interest from credit unions, or comparable lenders, wanting to engage with this pilot supported by the partial bad debt guarantee fund.

Funding approach and structure

We have committed £3.5m for the consolidation lending pilot as a partial bad debt guarantee 'fund' [4] focussed on supporting credit unions and other lenders to partner with us. This achieves several aims:

- Enables enough scale of lending in the pilot for learning and refinement as our modelling suggests the fund could support lending on an average principal of £6,500 to around 9,000 - 15,000 people across an average 3 year term, where we are projecting a rough bad debt rate of 12% shared between the lender and the fund
- Enables credit unions, and other lenders, to deploy capital and generate income from it at a comparable level of risk to their current lending whilst retaining the fee structure usually available to lenders - ie lenders earn interest on the loans and we are not paying a fee for them to do this lending
- Achieves a significant interest rate differential between the borrowers' current rate and the consolidation loan interest rate
- The pilot budget set up through a fund enables us to move rapidly through the appointment process and note we are not procuring lenders for this fund but rather seeking expressions of interest for lenders who wish to call on the fund to enable additional lending
- Establishes a shared risk and reward structure:
  - The partial bad debt guarantee applies after lenders absorb the same level of bad debt losses they anticipate incurring/currently incur on their 'normal' lending in the same time period
  - Where consolidation lending underpinned by the partial bad debt guarantee fund is profitable, a portion of those profits are repaid into the fund to enable our contribution to consolidation lending to be as evergreen as possible. This is known as a profit share construct.

[4] The fund is not an investment fund

- We do not expect the profit share returns to match or equal the rate of partial bad debt guarantee usage, but is aimed at being able to increase the lifespan of the guarantee fund
- The profit share construct is designed to taper off as lender bad debt performance improves to encourage collaborative testing and learning. In this way we hope to support lenders to learn with us about what works with this type of lending so that we both share in the upside of more effective lending - the guarantee is used less by a specific lender - helping us to spread the funds further - and that lender retains more of the profit earned.
- The initial guarantee fund size is £3.5m. We will continue to seek partnerships to secure additional bad debt funding. Future funding applications calls will depend on additional funds becoming available and/or the performance of the profit share arrangement

How we plan to implement and deliver the pilot

- To be fair to all participating lenders we have estimated the level of debt that can be supported by our fund and aligned this to a potential volume of lending. To this end each lender that is selected to participate will be offered a quota commensurate with their size and forecasted incremental capacity. This bad debt budget will be set in absolute £ terms.
- We will offer the partial bad debt guarantee in waves (tranches) and as part of the EOI submission form we will ask lenders to give a forecast of the incremental lending they believe the support of the guarantee will allow. We are lending in waves for two reasons

  1. As this is a pilot we will to have an initial lending availability wave that extends through to the end of May 2023 (maybe longer subject to feedback in the EOI process). Using the lending data available at that point and with the lenders support we will evaluate the actual and forecasted debt performance and refine future overall quotas if necessary. We are intending to pilot a minimum of 500 loans in the first wave of lending with each lender so that we get a large enough sample size to test loan performance.
  2. Where lenders may be unable to achieve their forecasted quota and others have the capacity to do more, we can rebalance future wave quotas to ensure as many people in financial need are supported

- The lending performance will need to be reported monthly and there will be regular evaluations of performance and progress including those which contrast the incremental consolidation lending with the lender's normal performance. This will enable us to see the overall progress but also have meaningful progress discussion with lenders during the lending phases.
- Based on the lenders anticipated volumes there will be an agreed partial bad debt budget, which will be split across the lending availability waves. During each wave interim payments will be made where there is a call on the bad debt guarantee. The payments will be capped at 2.5 times the bad debt performance of the underlying baseline 'normal' loan book written in the same period to encourage lenders to continue to collect effectively. The final review of each lending wave will be

where any outstanding balance due is settled, subject to the maximum budget for that wave. This construct reduces the risk of the budget being used up too quickly and gives lenders the opportunity to refine their lending and reduce their need to rely on the guarantee.

- Lenders will need to engage with our appointed credit risk and evaluation partners to enable us to gather evidence of what is working and to share this appropriately and to share a bespoke privacy notice with borrowers to enable appropriate data to be captured.

Lenders we wish to work with

- For the pilot we wish to approve credit unions, or comparable lenders, with existing high performance capability in loan consolidation and the appetite to do more to utilise the fund to deliver more consolidation loans
- We can currently only work with lenders in England, although we are prepared to extend this to Scotland, Wales and Northern Ireland but only where funding is available from the respective devolved nations
- We would like to work with lenders who have the capacity to commit to a forecasted volume of at least 1000 consolidation loans for customer populations A and B (split 80%/20% respectively), this will likely be split across 3 lending waves. However, we recognise this is a big commitment, both in terms of the volume and the capital required. Within your EOI submission we are really interested in your incremental forecasts to help inform us what is a realistic expectation. Whilst the total volume can be split across 3 lending waves, we ideally require a commitment to disperse at least 500 in wave 1, this gives us enough volume to test loan performance for both population A and B. Please indicate in the EOI forecast how long this period needs to be to achieve the 500 volume and what level of lending capital you forecast this needs. Our forecasting has been based around an average loan size of £6,500 but we welcome your views on the range of debt levels you typically see
- We expect to appoint lenders with robust approaches to data management to enable a vintage based analytical comparison of bad debt rates and resilient processes to ensure consistency
- We anticipate appointing up to ten lenders to deliver this lending supported by the bad debt guarantee fund, this is subject to change depending on the nature of the responses we receive and available funds; the portion of the £3.5m guarantee we enable lenders to call on will be dependent on the volume they propose to deliver
- We expect lenders to adopt a risk based pricing strategy for consolidation lending and to utilise an appropriate interest rate spread according to the risk related to each underwriting decision, this means we expect lending to be up to 3% per calendar month, or a roughly equivalent level of cap, where appropriate for the risk

- We are open to working with organisations that are not structured as credit unions where they can provide their own lending capital[5] and a comparable or better interest rate to credit unions to maximise the borrower benefit as well as meeting our approval steps - see page 13
- We are keen to work with lenders who have existing capability to settle borrower debts directly with creditors or will have the capability to do so within 3 months of the pilot commencing. We are also open to working with lenders who go further, and not just settle the borrowers' debts directly with creditors but also arrange for the facilities with those creditors to be closed
- For lenders who currently do not pay the existing borrower debts or who would need more than 3 months to develop this capability we welcome submissions setting out how you would actively mitigate bad debts arising including and not limited to gaining written confirmation from borrowers that they will settle the debts; ongoing monitoring of open banking or payment on receipt of early settlement calculations the borrower has obtained from their existing creditors

[5] Or meet our wider criteria for investment where they seek lending capital from Fair4All Finance including but not limited to delivering on a not for profit basis eg through a not for profit special purpose vehicle

Criteria for funding approval

The following fundamental requirements for credit unions to be considered for the partial bad debt guarantee fund. Due to the limit of £3.5m we have some headline criteria; this will enable us to be fair to all lenders who express an interest in participating and be responsible for making the guarantee support as large a volume of customers as possible.

Assessment criteria

The following criteria will be used to assess EOI's and the selection of the initial lenders:

	Criteria	Reasoning
Lender capability assessment	Demonstrable experience in consolidation lending	Ensure the processes are robust and embedded, including process for settling prior loans
	Bad Debt performance[6]	Maximise the number of customers the bad debt guarantee can support
	Financial Stability	Confidence the lender can fulfil their commitment over time
	Transparent Credit policy	To demonstrate the new lending is incremental and outside existing policy
Customer experience assessment	Ability to identify and access to the right customers, including those in true hardship/vulnerability	To ensure the funding is helping the right people
	Links to debt advice/wraparound services	Ensuring a consolidation loan is the right outcome for the customer
Pilot offer	Volume of loans proposed	Lender proposes reasonable level of volume within the available Fair4All Finance guarantee fund budget and does volume of loans offered meet minimum loan volumes sought within first wave of lending
	Profit share offer	Lender's proposal to Fair4All Finance for share of profit (if any) to be recycled back into fund is reasonable and competitive
Customer Journey considerations	Additionally, we would expect the following to be in place within the end to end customer journey: • Have an existing product suitable for consolidation lending • Must use open banking supporting the lending decision	

[6] We may at our sole discretion vary the approval requirements if co funding is offered by a third party, particularly if that will increase our ability to tolerate historical bad debt performance. We anticipate third parties to share in the profit share mechanism on the same basis as Fair4All Finance, and subject to the performance of the lender they are co-funding for funds to be capable of being reinvested in further lending in their target area matched by a comparable Fair4All Finance contribution.

- Must do at least one CRA check supporting the lending decision
- Full spectrum of risk based pricing using the total extent of the interest rates open to credit unions
- Settle directly to the existing lenders to ensure that the debt is consolidated at outset. If this is not a current capability a commitment to do this for the bad debt guarantee support within three months of contract commencement. We are also open to working with lenders who go further, and not just settle the borrowers' debts directly with creditors but also arrange for the facilities with those creditors to be closed
- Where settling existing borrower debts will not be a capability how you would actively mitigate bad debts arising
- Be able to provide the requisite data to enable a vintages analysis of the incremental consolidation lending and the whole portfolio of 'normal' lending for the same reporting period
- We expect to work with lenders who operate with an asset and mission lock in place, consistent with the Fair4All Finance Affordable Credit Code of Good Practice. For some lenders this may require the creation of a ringfenced Special Purpose Vehicle (SPV) set up on a not for profit basis

Conditions of submitting an expression of interest to utilise the consolidation lending partial bad debt guarantee fund

- Fair4All Finance reserves the right to appoint as many or as few lenders as it sees fit
- Expressions of Interest which are found to be intentionally misleading will be disregarded
- Fair4All Finance commits to treating all information shared by credit unions applying for funding from the partial bad debt guarantee fund in strict confidence and confirms it has appropriate confidentiality arrangements in place with its advisors for the purposes of managing this funding round
- We are issuing with this expression of interest the Heads of Terms we expect to use to form a full contract for services for the guarantee. We are inviting lenders to comment on the specifics of this in the expression of interest form but we do not expect the core principles to change fundamentally. Further detail on how the mechanisms will work is included in the attached note. We welcome comments on the mechanics and the specific terms but do not expect to vary our core principles of the guarantee being partial where lenders take the first losses and where profit on this lending is shared back into the fund

Timetable

Timetable

Stage	Date
Launch of expressions of interest (EOI)	31 October 2022
Recommended date for expressing interest so that documents can be uploaded to secure link for next stage	10 November
Deadline for submissions, including submission of supporting documents - noting we are open to submissions beyond this date but applications received prior to this date will given priority	18 November 2022
Initial shortlisting after EOI submission stage (dependent on number of lenders)	28 November 2022
Shortlisted lenders due diligence period ends (dependent on number of lenders)	9 December 2022
Issuing and executing final Contract for Services incorporating Heads of Terms	Targeting as soon as practically possible subject to Lender readiness
Lending commences	Subject to individual lender readiness, targeting no later than 31 January 2023, ideally sooner

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How to register your expression of interest and the information required

It is our expectation that organisations that are applying for this programme have the information and documentation we need for this process to hand and **do not** have to create any new material.

In some instances, whilst you may not have the documents we require, you may have equivalent analyses or information which meet the requirements in a different way. **It is likely that if the materials needed are not available already then this fund is not appropriate for your organisation.**

Whilst our approach needs to be thorough, we are also keen to move at pace. To this end we are combining the Expression of Interest (EOI) stage and information submission stage, aimed at moving us through the process quicker

EOI Application preparation

This section will enable you to complete your initial EOI submission and explains what additional attachments you will have to provide and how to submit everything.

The EOI process is in two stages:

Stage 1

Download and complete the details in the accompanying EOI submission form and submit to consolidations@fair4allfinance.org.uk. Most of the details needed for this should be readily available and we recommend you submit this as soon as possible, noting the final submission time below.

We recommend this step should be completed no later than 5pm on 10 November 2022.

Stage 2

Within 24 hours of receipt of the EOI submission form a secure link will be sent to the email address given in the EOI submission form. We would like each lender to provide, as a minimum, the following pieces of information, plus any other information they think might be relevant to their application:

Minimum attachments to provide

- The last 3 years of audited accounts
- Management accounts (last four quarters)
- Credit Policy and Underwriting Guidelines
- Risk based pricing strategy for lending illustrating what rates apply to various risk profiles
- Information on debt advice policies and wraparound services
- Board Management Information relating to loan portfolio performance (last three months)
- Credit Management Information (last three months)
- Constitution/Articles of Association

This step should be completed by 6 pm on 18 November. Please note: after this time and date any applications received will receive a lower priority and submissions that remain incomplete will be discounted.

Other points to note

- In addition to the email with the secure link there will also be a supporting email reminding you of the above documents and give some tips on how to label the documents which will help us when reviewing.
- You do not need to upload the documents all at once but note the link expiry date above
- Naturally, the more thorough the detail you provide the quicker we can progress. The information listed above will be mandatory and additional information, whilst helpful, will not be essential
- We do not have a pre-determined number of lenders in mind but estimate up to ten lenders will likely be appointed
- At each stage we will let you know the outcome for your organisation – this may be an invitation to proceed to the next stage, or confirmation that we will not be taking your application further
- If you decide to proceed with your EOI you should be prepared to share the information set out in this document and other documents on request, engage with the Fair4All Finance team and our financial due diligence specialists and with other participating organisations, and if you are successful in continuing to collaborate with us beyond this process

How will the fund work?

Heads of Terms

We have put together a Heads of Terms document which accompanies this EOI process.

Whilst the structure of the Heads of Terms will be the same for each lender selected, we are seeking feedback on the elements that need to be tailored to each lender relative to their current performance, for example:

- Incremental volume commitment (what volume do you propose to lend and at what average principal)
- Profit share commitment and construct
- Current debt levels allied to the incremental guaranteed level
- The minimum data and reporting requirements that will be needed to monitor and eventually evaluate
- How claims against the partial debt guarantee fund will be reviewed and paid

The EOI submission form is designed to capture this feedback so please use that opportunity as you see fit. We are mindful that the activity will run for several years so whilst it needs to be robust it also needs to be straightforward, easy to monitor and not produce a burdensome administrative overhead.

Model for partial bad debt guarantee and profit share

In recognition that a Heads of Terms is not a very straight forward way to understand how a full contract will operate in practice we have also prepared a simple excel file showing how we anticipate the constructs to work and the accompanying technical note on its interpretation. Please note that any references to partial bad debt budgets are purely illustrative. All budgets will be agreed once firm volume estimates are agreed and current debt performance is understood.

Click here for the excel calculator.

Reporting framework

To monitor the progress of the test and learn activity each lender will need to provide a minimum level of information. The information will cover a range of lending related performance and information relating to customers, being able to split the data between populations A and B will be a core requirement.

The Heads of Terms contains a more granular breakdown of the data requirements, but the main headings are as follows:

- Loan application volumes and outcomes
- Loan payment status
- Loan values
- Range of loan terms (including payment frequency)
- Consolidation benefits
- Loan payment type
- Customer demographics applied/approved
- Customer outcome data (post the consolidation loan)
- Full expected credit loss reporting (ECL) reporting details

An important aspect of the monitoring will be the ability to compare the performance of the consolidation loans written with the supporting guarantee against your main loan portfolio of the corresponding date period. We intend to use a vintages process for this which is explained in the accompanying notes.

Appendices

Appendix 1 – Customers targeted

The following hypothetical schematic sets out whom we are targetting with this fund.

We have three target customer groups that sit within our segmentation of 17.5m financially vulnerable people. We estimate the three target groups as we define them make up around 11m of that audience, and whilst the £3.5m partial debt guarantee fund cannot support this volume these three customer groups can all benefit from a debt consolidation loan.

An important consideration for all these segments is they are currently able to service their existing debt but the rising cost of living is making that affordability harder and they are all seeking a more economical solution.

The overall business mix at portfolio level is expected to provide an overall positive return to enable the highest risk customer volume to be served within the volume quota.

A high level summary of the groups is set out here and more detail is shown in Appendix 2 - Customers: Populations A to C.

Population A (Squeezed and Sliding) – 80% of the incremental volume supported by the guarantee

Nearer prime customers, those likely to be marginally outside credit unions' current volume appetite or would mean going to the credit union 3% interest maximum, typically running credit cards, unsecured loans and depleting any savings as previous disposable income becomes squeezed.

Typical characteristics include:

- Household income over £30k
- 2/3rds will have dependent children
- Debt levels near or above £5k in total

Population B (Primarily Credit crisis families but includes Forgotten families) – 20% of the incremental volume supported by the guarantee

Sub prime customers, those who are most vulnerable and closest to missing payments currently.Likely using all means of credit including high cost and on lower incomes, with the cost of living shrinking their already low disposable income.

Typical characteristics include:

- Household income less than £25k
- 2/3rds will have dependent children
- Debt levels near or above £3k in total

More likely to:

- Have more than five sources of debt
- Have been rejected for credit in the last 12 months

Population C (Difficult Debts) - Incremental volume not supported by the guarantee

Prime customers who would be very attractive customers in terms of income and apparent affordability and may well command credit union rates of less than 1%. They will have debts, but with rising costs could be heading towards problem debt. Some may no longer be able to access mainstream lending, but others still can and we are looking to attract them to community finance.

Typical characteristics include:

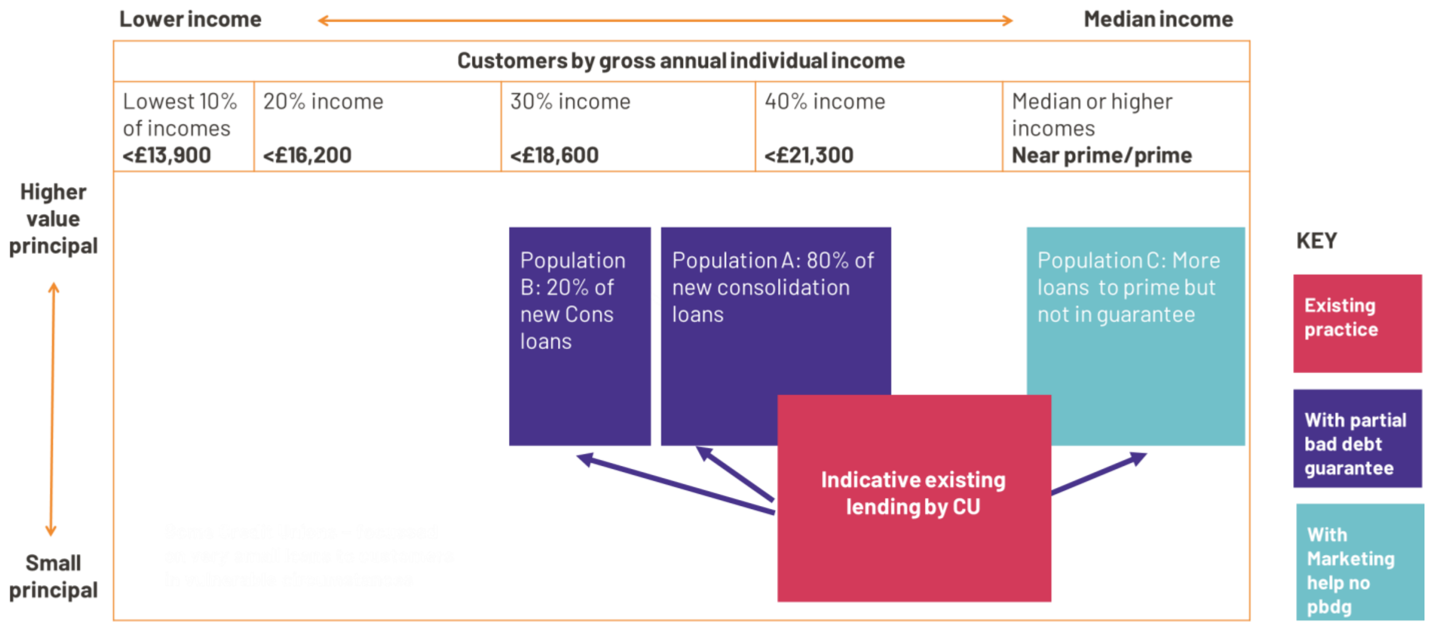
- Household income between £25k but up to £50k plus
- 50-60% will have dependent children
- Debt levels above £5k in total

More likely to:

- Have a mortgage
- Be a mainstream target customer

Who will our Consolidation Loan work help?

This schematic shows where CUs are currently operating and what we hope the partial consolidation loan guarantee fund to achieve. We will help lenders de-risk expanding their lending by balancing the portfolio 20/80 and with marketing help to support them attracting prime customers not covered by the guarantee



Appendix 2 – Customers: Populations A to C

Population A – nearer prime customers

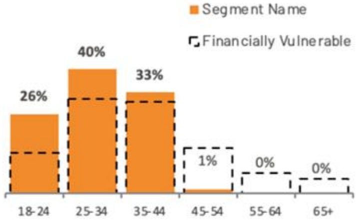
Objective: test consolidation lending for people Fair4All Finance marginally prioritises to help lenders balance their portfolios

Near prime people typically running credit cards, unsecured loans and depleting any savings as previous disposable income becomes squeezed – segment 2 – minimum 3.6m UK estimate

Volume Proposal: 80% of lenders consolidation loans portfolio, 4,000 – 12,000 borrowers
Bad debt guarantee: Covered by the guarantee
Marketing support: medium, need to attract different groups

Demographics

Age range



Gross household income

£30k+

Financially Vulnerable = £29k

Financially dependent children

64%

Financially Vulnerable = 50%

Level of debt

<£1k — £5k+

Low — High

Finance Products & Behaviours

- Consolidation loans
- Short term high cost credit
- Personal loans
- Buy now, pay later contract
- Used credit union in last 6 months
- Car insurance policy

- More likely to **use their overdraft most months** to help **manage their finances**
- More likely to take out a personal loan to for a **one-off large, planned** expense or **home improvements**
- More likely to take out a personal loan to **cover rent or mortgage payments**
- More likely to have made a **personal loan repayment in full**

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Population B – the most vulnerable customers

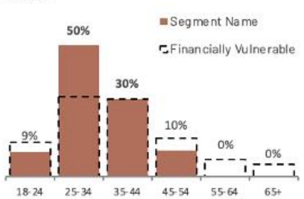
Objective: test consolidation lending for people in Fair4All Finance target segments

Sub-prime People using all means of credit including high cost and on low incomes, with CoL shrinking their already low disposable income – aligned to segment 3 (some of segment 5) minimum 3.5m UK estimate

Volume Proposal: 20% of lenders consolidation loans portfolio 1,000 – 3,000 borrowers
Bad debt guarantee: Covered by the guarantee
Marketing support: medium, awareness raising of option

Demographics

Age range



Gross household income

<£25k

Financially Vulnerable = £28k

Financially dependent children

63%

Financially Vulnerable = 50%

Level of debt

<£1k — £5k+

Low — High

More likely to:

- Have **more than 5 sources** of debt
- Have been **rejected for credit** in the last 12 months
- Be **struggling to pay back** the debt they owe
- Owe money to **friends and family**

Finance Products & Behaviours

- Consolidation loans
- Short term high cost credit
- Personal loans
- Buy now, pay later contract
- Used credit union in last 6 months
- Car insurance policy

- More likely to take a personal loan in order to **pay off other debts or arrears**
- Struggle to **cover everyday expenses**
- More likely to have used **foodbanks** in the last 12 months
- Don't know **where to turn to** for financial help and **worried** they will be **turned down for credit**

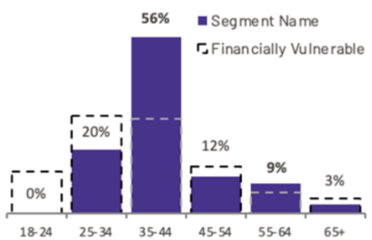
Population C – prime customers/within existing CU risk appetite

Objective: help CUs attract people wanting to switch/new to a CU

Prime customers but with debts, either problem debt or heading towards it. Some may no longer be able to access mainstream lending, but others still can and we are looking to attract them to community finance. Some will sit within our segment 4, others not in our segmentation – minimum 3.9m UK estimate

Demographics

Age range



Gross household income

£25-50k

Financially Vulnerable = £29k

Financially dependent children

56%

Financially Vulnerable = 50%

Level of debt

Finance Products & Behaviours

- Consolidation loans
- Short term high cost credit
- Personal loans
- Buy now, pay later contract
- Used credit union in last 6 months
- Car insurance policy

- More likely to **switch their credit card** when their **current deal ends**
- Feel like they **rarely or never get out of their overdraft**
- More likely to take out a personal loan to for a **one-off large, planned** expense or **home improvements**
- More likely to have **been in debt for the last 12 months**