

# Deduction lending

Does it add up for low income borrowers?

March 2023

# **What are we covering today?**

- **Welcome and introduction**
- **What we found**
- **A lender's perspective**
- **What we are recommending**
- **Panel Q&A**

# Fair4All Finance

## Our vision

Is a society where the long term financial wellbeing of all people is supported by a fair and accessible financial services sector



### Increase the availability of affordable credit ten times

to sustainably meet customer needs

Over **£30m** committed to community finance providers, backing plans to increase availability to **£500m** by 2025. **51%** growth in lending from our Scale Up Programme.



### Partner with banks and financial services providers

to increase access to products and services

**17.5m** people in the UK in financially vulnerable circumstances. **Underserved by financial services – a big opportunity to do well and do good.**



### Develop the market to consistently provide products

that meet the needs of all customers

No Interest Loan pilot **helping people get back on their feet.** Consolidation loan pilot to enable **£50m of lending** and save people **£21.5m in interest payments.**

# Collaboration

A huge **thank you** to the participating credit unions and our research partners



SWOBODA RESEARCH CENTRE



Promoting fair, inclusive  
financial services

# A customer's story – Natalie\*

Case Study 3 (page 54 Main Report)

# Key findings

# Methodology

## Our research

Research into the **effectiveness of deduction lending**. Is it delivering good outcomes for borrowers, lenders and employers?



Over **7,500** borrowers surveyed



Across **7** participating credit unions



**20** follow up interviews with borrowers



**26** stakeholder interviews with industry experts

# What we found

## Is it **good for borrowers?**

**97%** of borrowers are satisfied with their loan



**91%** comfortable about transferring their Child  
Benefit to their credit union



**7/10** said it helped them save more regularly



**6/10** felt less stressed, anxious or depressed  
after taking out their loan





# What we found

## Is it **good for lenders?**

**4x** more standard loans are written off than family loans



**2x** more standard loans are written off than payroll loans



**93%** acceptance rate for family loans (vs 45% for standard loans)



# What we found

## Is it **good for employers?**

**82%** of borrowers reported no change with the employer relationship



**7%** of borrowers said they had struggled with household finances since loan started



**86%** confident that employer did not know too much about personal finances



# A customer's story – Rachel

Case Study 6 (Page 72 Main Report)

# A lender's perspective

Karen Bennett, Enterprise Credit Union

## Enterprise Credit Union (ECU)/CHB

- ECU are based in Huyton, Liverpool
- We have assets of £39.5 million pounds
- Our loans - £31.7 million pounds
- Our shares- £31.4 million pounds
- Our membership is an active 22,457
- Our capital to asset ratio is 19.60%
- Our maximum interest rate charged is 26%
- 93% of loans are at an interest rate of 14% or below
- Our Bad debt rate is 1.83%
- ECU launched its first Child Benefit loan in 2007
- Through the DWP Growth Fund we received our first loan capital/revenue grant of £165k, accumulating over a four year period to just under **£1 million** pounds
- Since 2007 we have used this payment method for thousands of our loans, Starter, Standard and the Loyalty Plus loans we offer.
- ECU receive child benefit as a payment method for over 11,000 of our members

We have issued over 140 million pounds worth of loans over this period

## Sandra

Twelve years ago, **Sandra, a 36-year-old mother of three**, found herself living in a hostel, desperately seeking a loan to secure a permanent home. At the time, she applied for an initial loan of £500 with an interest of £64.23. With her weekly child benefit of £47.10, she managed to repay the loan by allocating £12.10 for the loan, £10 for shares, and withdrawing the remaining £25 per week.

Since then, Sandra has undergone a remarkable transformation - she has accrued her own savings of over £2000 and thanks to the financial assistance she received Sandra has borrowed and repaid over £24,000. She has furnished her new home, been on multiple holidays, and put her children through college and university. Her daughter, who is now a trainee solicitor, is a testament to Sandra's commitment to her family's success, which was made possible by her improved financial situation.

Sandra no longer receives child benefit and pays via standing order. She now uses the credit union to save and withdraws twice per year. She is building a long term savings pot for the future





## Jenny

**Jenny, a 29-year-old mother of two**, joined Enterprise Credit Union in 2012 in a poor financial situation. Her first loan was £500, with a weekly repayment of £8.00 and total interest of £39.12. She paid it through her child benefit and chose to save the remaining £23.15

Over the years she has borrowed and repaid over £41,200 . Jenny has worked hard to improve her credit score and now has access to access mainstream credit options. She has also taken advantage of switching gas and electricity providers, which has enabled her to receive bills instead of paying the higher cost of prepayment meters, as she had always done in the past.

Despite the improvements in her financial situation, Jenny still chooses Enterprise Credit Union as her preferred lender. She values the flexibility of being able to repay loans early without penalties and finds the rates very competitive.



## Karen

Karen, a 23-year-old mother of one joined ECU in 2020. She applied for a starter loan of £500 to pay for Christmas and home improvements, which she repaid at £9.15 a week. Karen saved £2 every week, leaving her with £10 a week to withdraw. Karen has since borrowed five times , small affordable amounts that have helped with Christmas and clothing her child etc. Karen is now working full time and also pays in via her payroll deduction with her employer. She is savings towards a deposit for her own home and is determined to do so

Since Karen joined ECU her credit score has increased by 85 points. Something she is convinced wouldn't have happened otherwise





# Recommendations

# Recommendations

1

More employers should partner with credit unions to deliver payroll deduction schemes to their employees.

2

Payroll deduction should become a policy priority for business organisations, trade bodies, funders, central and local government, and civil society.

3

Stakeholders working with financially excluded people like local authorities, social housing providers & DWP, to work with credit unions to promote access to benefit lending.

4

Debt advice and credit union trade bodies should find out more about each other's work and agree productive ways to work together.

5

HMRC should work with credit union trade bodies to formalise and streamline the notification process to reduce waiting times for Child Benefit loans.

6

Credit unions and trade bodies should make use of the good practice highlighted by this research in delivering deduction loans.