fair4all finance

Fair4All Finance community finance sector reporting Q4 2022

February 2022

- A snapshot based on 19 community finance organisations, all of which have been funded by Fair4All Finance so far
- Majority are credit unions
- We expect this sample to be broadly representative of community finance organisations serving predominantly customers in vulnerable financial circumstances, but may not be representative of the wider community finance sector

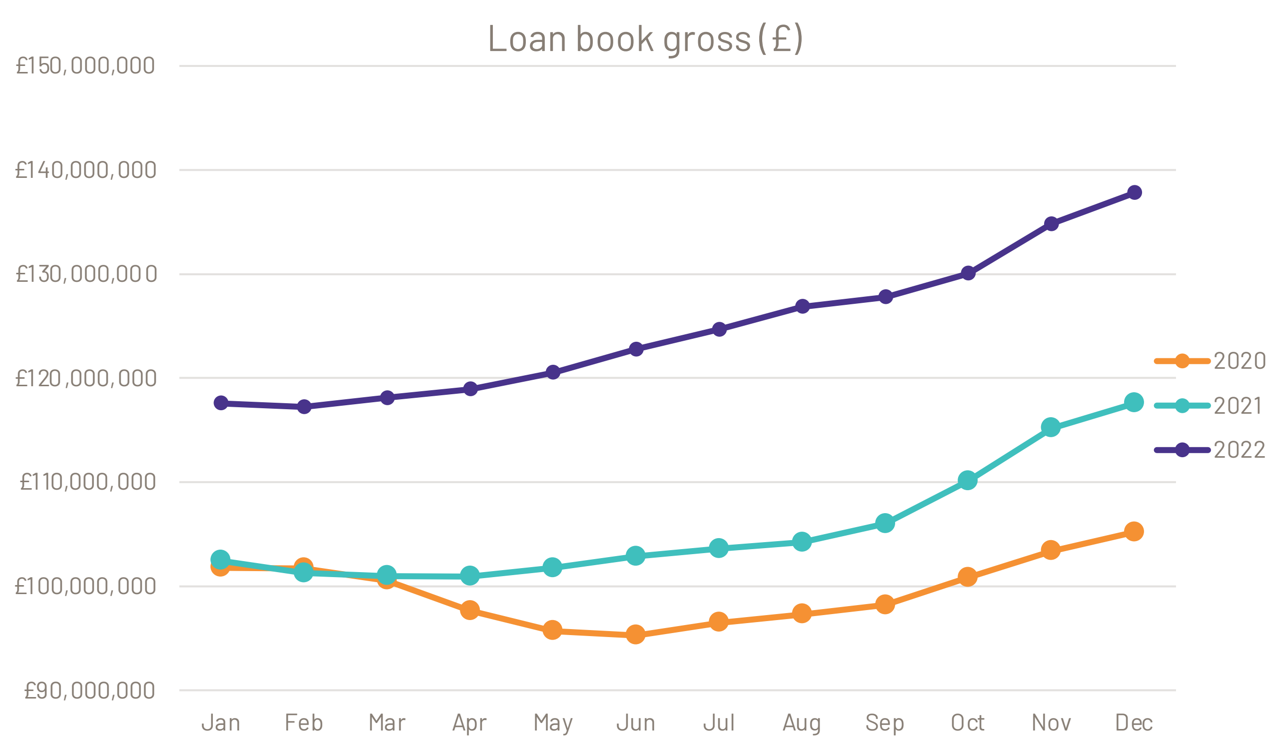
Our analysis

- This pack aims to share insights and trends amongst the participating organisations – acting as a snapshot of the community finance sector
- For this round of reporting, we received completed data sets from 19 organisations. This is less than the previous sector snapshot and therefore figures shown here will differ from our last analysis
- This pack only includes data from the organisations who shared their data for Q4 2022 and does not include organisations who have not shared their complete data set
- Individual slide decks have been prepared per organisation that benchmark your organisation’s performance against your cohort’s average, and the sector average
- Once again, we’d like to thank all of the participating organisations for dedicating their time and data to our reporting process and contributing to this environment of shared learning

Loan books are up by 30% when compared to 2020

Average gross **loan books across 19 organisations increased by 7%** when compared to the last quarter, sitting at c£7.1m in Q4 2022. The average net loan book across these organisations is at £6m

Accumulated gross loan books across all organisations at the end of 2022 was c£138m, up 17% when compared to Q4 last year and up 31% when compared to Q4 2020



Unsurprisingly, the majority of respondents indicated **'Christmas'** as the main reason for loan applications in Q4. As reported last quarter, organisations highlight a **continuing rise in debt consolidation applications** – with over half of respondents noting an increase

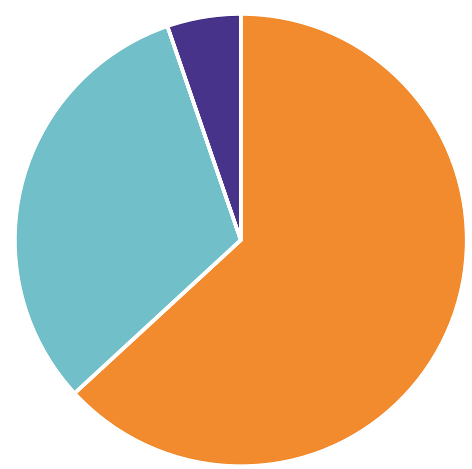
'We are **seeing more applications for urgent bills** including pressure form bailiffs and loan sharks. We are also seeing more members under pressure **from inappropriate IVA products sold as debt solutions'**

'Greater number of: People wanting to **clear large existing debts** to reduce monthly outgoings Applicants needing **help with general living costs and bills'**

'There has been some demand to **clear "buy now pay later" debts** and apart from that the usual demand for uniforms and towards Christmas spending'

Overall, loan values have increased but trends across organisations are inconsistent

Average loan value in 2022 compared to average loan value in 2020



In Q4 2022, within this snapshot of data, **average new loan value was £926**:

- For credit unions with gross loan book equal to or below £5m, average was £1,158
- For credit unions with gross loan book size above £5m, average was £896
- For CDFIs, average was £645

Overall**, loan value has increased by £84 when compared to Q4 2021**, but decreased by £48 when compared to last quarter (Q3 2022)

Yearly average loan value across 19 orgs			
	2020	2021	2022
CU gross loan book ≤ £5m (6 orgs)	£1,030	£1,116	£1,170
CU gross loan book > £5m (9 orgs)	£830	£924	£925
CDFI (4 orgs)	£625	£580	£642
All (19 orgs)	£850	£912	£943

'Since October there has been a slight **increase in the average loan size compared with the same period last year** (£787 compared to £741). This is surprising as the average loan size has been generally falling for 2 years'

'We have seen a **drop in average loan value** reflective of customer reticence to commit to larger lending values and we expect this to continue'

'**Loan size is increasing** and we expect this to continue '

In Q4, the majority of respondents saw their arrears increase

'We have seen improvements in our arrears rates due to **improvements made to our affordability decisioning engine**. Though we have been mindful of the economic climate we are yet to see significant impact against our borrowers ability to pay'

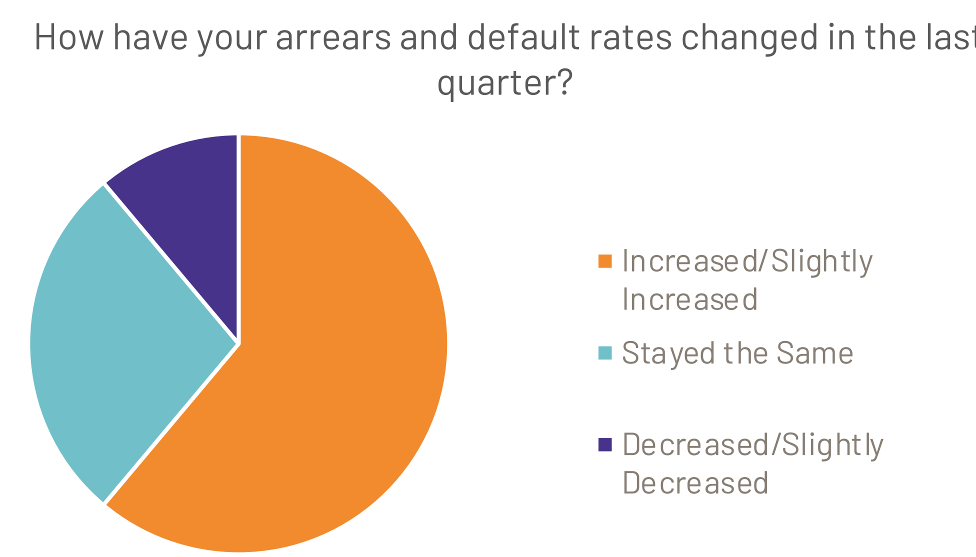
'We have seen **increases within early, mid and late arrears** as expected due to the **cost of living crisis'**

'Default rates are above what we would normally see at this time of the year due to **increase of debt management** - IVA's being the biggest'

60% of respondents saw their arrears and default rates increase in Q4 2022

As with Q3 2022, the **Cost of Living crisis continues to shape the narrative behind increasing arrears** – as well as seasonality factors

Those who indicated their arrears had remained stable or decreased attributed this to **improvements made to affordability decisioning**, allowing **greater flexibility to customers** making payments, focus on **automating reminders for customers** when payment is due and implementation of **workflow management system** which allows more effective tracking of arrears



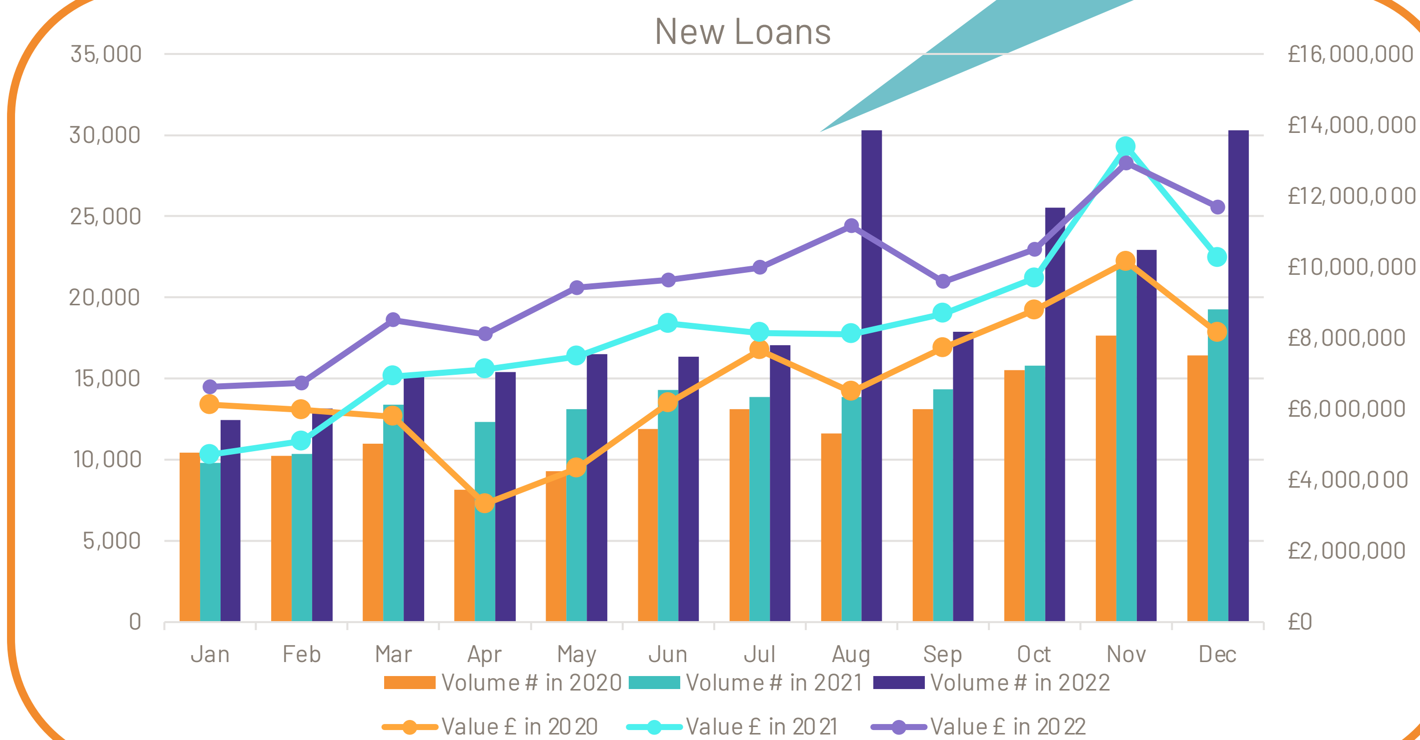
In 2022 organisations doubled their lending compared to 2020

In 2022, these organisations issued **233,000 new loans to customers, totalling just under £115m**. In 2020, the same organisations lent 148,000 loans (£81m) and in 2021 issued 172,000 new loans amounting to 98m

Combined lending across 19 organisations has increased by 57% when compared to 2020

Percentage increase of lending volumes compared to 2020	
CU gross loan book ≤ £5m (6 Orgs)	8%
CU gross loan book > £5m (9 Orgs)	35%
CDFIs (4 Orgs)	100%
All (19 Orgs)	57%

Lending figures in August 2022 are skewed by one organisation's significant increase in loan volumes during this month



In Q4 2022, combined **lending volumes were up by c40%** when compared to Q4 2021 but **over half of our respondents issued a lower amount of loans** when compared to Q4 2021

On average, participating organisations were issuing **c1,381 loans a month** in the last quarter

Demand for credit is rising, but declines are also increasing

The majority of respondents continue to highlight a **rise in loan applications as well as an increase in declines**

When comparing Q4 2021 to Q4 2022 there is only a 3% difference in the average new loans conversion rates across all organisations (58% in 2021 compared to 55% now)*

In addition to this, over half of the organisations still have a higher or similar conversion rate when compared to 2021

Conversion rate	Q4 2021	Q4 2022
CU gross loan book ≤ £5m (5 orgs)**	50%	47%
CU gross loan book > £5m (9 orgs)	79%	76%
CDFI (4 orgs)	22%	18%

'An increase in applications received due to the current cost of living crisis, but a **reduction in payouts due to affordability**'

'Lending is forecasted to tighten but we are seeing **demand remain**'

'We expect to see greater demand for our services as the **cost of living increase continues to impact our members**. We expect the delinquency to remain around the current levels as people tighten their belts during the 1st quarter'

*Figures reported based on analysis of new loans and declines, organisations may have different understandings of this – we expect to address this in the next reporting

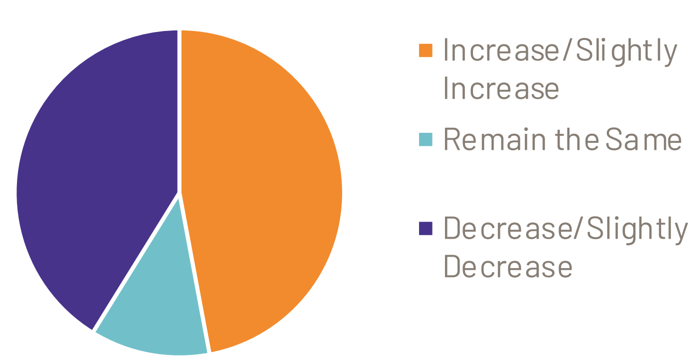
**Dataset: 18 organistaions

Lending expectations for Q1 2023 reflect widespread uncertainty surrounding the wider economic market

Respondents are split on lending expectations for Q1 – with some expecting a **decrease due to seasonality, stricter lending criteria and customers being reluctant to borrow** and others anticipating an **increase due to success of new products and patterns of accepting new members**

Once again we see the majority of respondents reference the **Cost Of Living crisis** in their responses and the prevalent effect this has on lending expectations

The majority of respondents believe demand for credit will continue to persist but decline rates will rise



'Anticipate **new lending will decrease in line with seasonal trend.** We also expect the cost of living crisis to **reduce the number of "larger loan"** applicants as many are nervous about further cost rises and implications on household budgets '

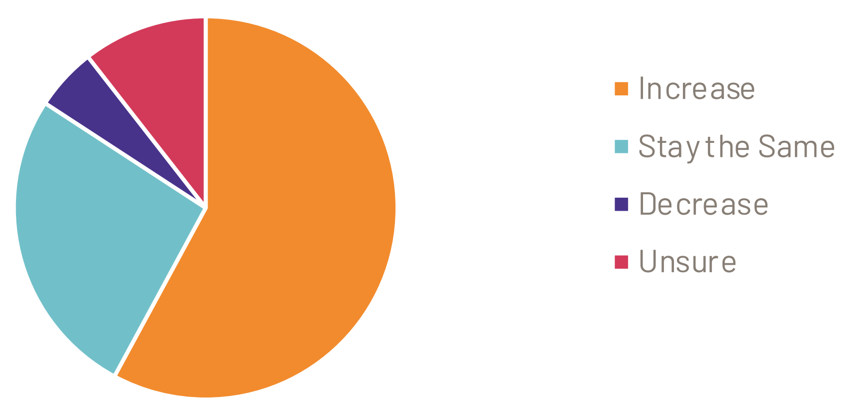
'Lower due to **tighter lending criteria & impact of cost of living on people's disposable incomes'**

'Unsecured lending since the summer has been lower than the last few years, our growth aspirations haven't been met which was unexpected due to the seasonality trend of the credit union. In discussions with our members i feel that they **aren't willing to take on loan repayments at the moment due to inflation,** new cars, home improvements etc have been put on hold'

'We had a good Christmas along with really good membership growth which has continued into January. We will **be launching our debt consolidation loan Campaign soon** and have ringfenced a portion of our excess capital to lend to higher risk members.'

For the majority of respondents, arrears are expected to increase in the next quarter

What do you expect your future arrears to look like in the next quarter



Over half of respondent expect an increase in arrears due to:

- Customers overspending during the **holiday period**
- Disposable **incomes** being at their **lowest**
- Insolvencies in **mis-sold IVA products**
- Mispayments and BNPL **debts** from Christmas **entering repayment period**
- Energy and mortgage **costs sets to rise**

Organisations also note their efforts to keep arrears steady by:

- Recruiting additional loan **support staff**
- Continue improvements to **decisioning tools**
- Regularly updating **underwriting processes**
- **Suspending interest** and saving requirements
- **Reducing repayments**

'If there are **no systemic changes** such as greater unemployment, we would expect to see same level of arrears'

'There will most likely be **further deterioration as the cost of living crisis bites** and the activities of debt agencies, insolvency firms are stepped up further'

'As with previous quarters this is hard to determine but the signs are that **with the economy showing signs of stabilising the pressure on arrears should also start to stabilize'**

'We hope that continued improvements to our **affordability decisioning engine and our rehabilitation process** will alleviate impact from current economic shocks (especially as we leave the coldest winter months and energy bills come down)'

'We expect an **increase in arrears until Q2/3 of 2023**. We consider that more members have extended their credit here through missing payments over Christmas and have also used BNPL and other interest free products that will bite after three months'

Continued support for customers in vulnerable financial circumstances

92% of new loans issued in Q4 2022 were equal to or below £1k compared to 88% in Q4 2021
On average **61% of new loans issued were to social housing tenants** in Q4 2022 and 47% were to lone parents with dependent children*

In 2022, participating organisations have reported issuing 31,000 loans (£21.3m) to lone parents with dependent children and 28,000 loans (£20.6m) to social housing renters

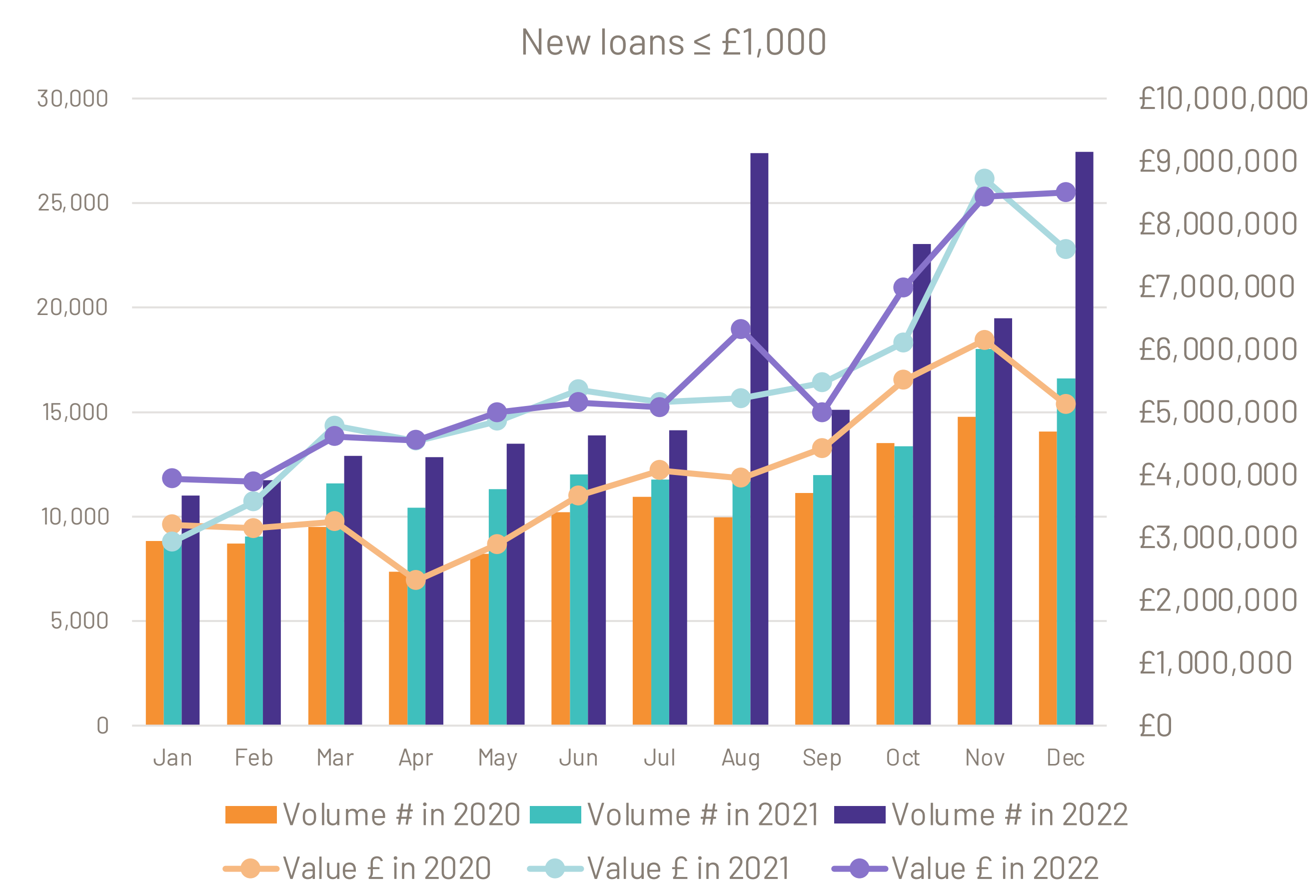
"We have had **multiple success stories with our Debt consolidation work**. Multiple members getting their finances in order and having one, single affordable payment'

'We recently heard from a happy customer… who **used our loan to pay for a course that led her to change her employer and increase her salary by £10k**'

'Since my original loan, that I have now paid, I have **managed to easily save money coming straight out of my child benefit payments** and find everything so smooth and easy'

'A lot of people are living in difficult times currently with the constant cost of living rises - **when I needed help (they) was there**'

'Thank you so much (they) have **saved my Christmas and peace of mind** for next year by opening a savings account brilliant'



*Dataset: Social Housing and LPWDC stats only includes 9 organisations