

# Fair4All Finance community finance sector reporting Q1 2023

May 2023

- A snapshot based on 20 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

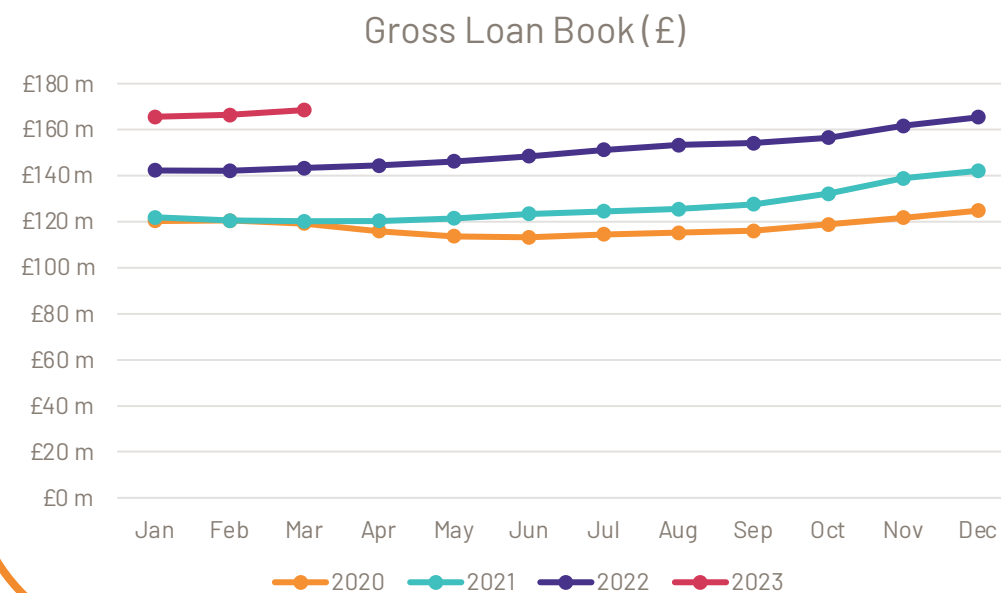
- This pack aims to **share insights** and trends amongst the participating organisations – acting as a **snapshot of the community finance sector**
- For this round of reporting, we received data sets from **20 community finance providers** – this is more than the previous sector reporting and so figures will vary from our last analysis
- This pack only includes data from the organisations who shared their data for Q1 2023
- 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 community finance providers for dedicating their time and data to our reporting process and contributing to this environment of shared learning

# Loan books are continuing to grow in Q1 2023

The accumulated **total of all gross loan books in Q1 2023 is c£167m** and total net loan book is c£143m – this is **up by 17% when compared to this time last year**

The **average gross loan book size across these 20 organisations in Q1 2023 is £8m**, in Q1 2022 this was £7m and £6m in Q1 2021

Accumulated gross and net loan books are **up 4% compared to the last quarter**



From the responses we have received on reasons customers apply for loans, we notice for the **fourth consecutive quarter, debt consolidation loans have increased**

This quarter we also notice an increase in those applying for loans to cover **unexpected bills and expenses**

‘The most common trends for customer applying for loans are unexpected expenses, home repairs & improvement, car expenses & other one off purchases. The most recurrent reason at the moment is **unexpected expenses which may be linked to increase in cost of living**’

‘Members don’t always give the true reason for applying for a loan so we don’t do too much analysis of reasons but we do know that more **members are borrowing to supplement their income**’

‘The **Loan Book grew by 6.6%** in Q1 and we are expecting this growth to continue’

‘Our **loan book is currently up 19.7% year on year**, with new loan issues 19.6% up by number and 24.3% by value’

# Average loan values have increased when compared to last quarter and this time last year

Yearly average loan value across 20 orgs				
	Q1 2020	Q1 2021	Q1 2022	Q1 2023
Credit union with gross loan book ≤ £5m (6 orgs)	£1,085	£1,212	£1,140	£1,359
Credit union with gross loan book > £5m (10 orgs)	£988	£999	£996	£1,119
CDFI (4 orgs)	£598	£555	£615	£601
<b>All (20 orgs)</b>	<b>£939</b>	<b>£974</b>	<b>£963</b>	<b>£1,088</b>

In Q1 2023, within this snapshot of data, **average new loan value was £1,088** with a big range across lenders:

- For credit unions with gross loan book equal to or below £5m, average was £1,359
- For larger credit unions (with gross loan book size above £5m), average was lower at £1,119
- For CDFIs, average was much lower at £601

Average **loan value** has increased 11% since last quarter, and increased by 13% when compared to Q1 2022

For CDFIs, average loan value has decreased slightly by £14 compared to this time last year

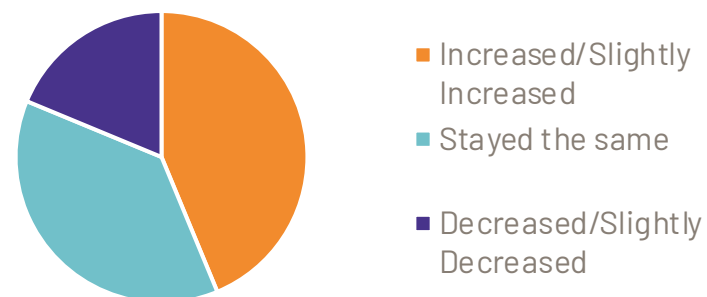
Whilst overall average loan values have increased by 13% when compared to last year, **50% of community finance providers have seen their average loan value decrease** when compared to this time last year

# Community finance providers remain focused on (successfully) controlling their arrears

**Over 80% of respondents indicated their arrears remained steady or increased (mostly 'slightly') in Q1 2023**

All respondents who noted an increase in arrears described this as 'slight' or 'small' and the majority of those who said their arrears had slightly increased said that they were still within budget

How have your arrears and default rates changed in the last quarter?



'Gone up slightly, but **we are within budget**. We are being vigilant and carefully monitoring our arrears but we are managing well'

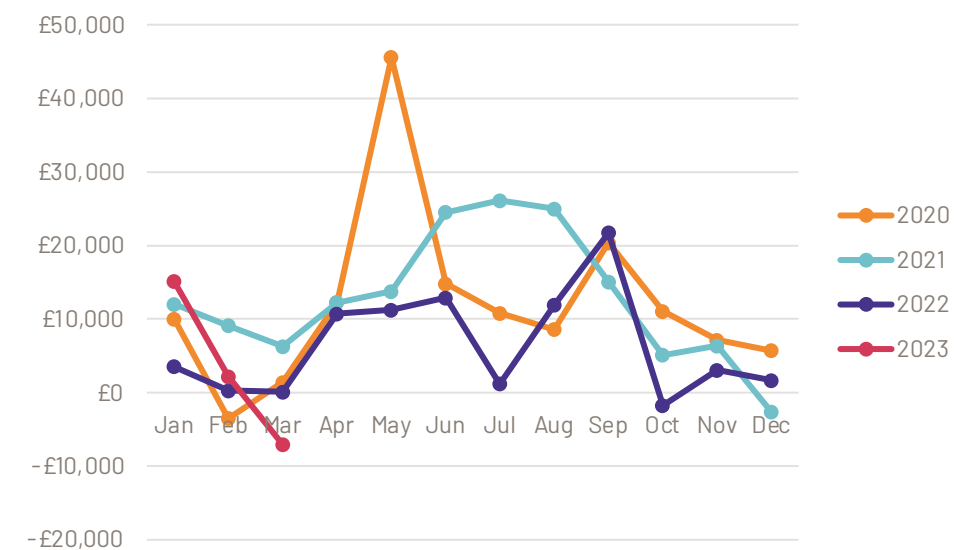
'Bad debt generally improving, with arrears, defaults and provision all **lower than in previous months**'

'Our arrears have **remained pretty stable** despite the current cost of living'

'Our arrears and defaults have remained steady. We introduced a new payment mechanism in September 2022 which has **revolutionised our [Credit Control] process.**'

'Reduced for 4 successive quarters'

CU Surplus/Deficit Average (without CDFIs)



CUs were operating in an average surplus of £3,420 in Q1 2023, compared to a surplus of £1,301 this time last year and a surplus of £992 last quarter

# Lending volumes are up by nearly 50% when compared to Q1 2022

In **Q1 2023**, these 20 community finance providers issued over **62,000** new loans valuing a total of **c£30m**

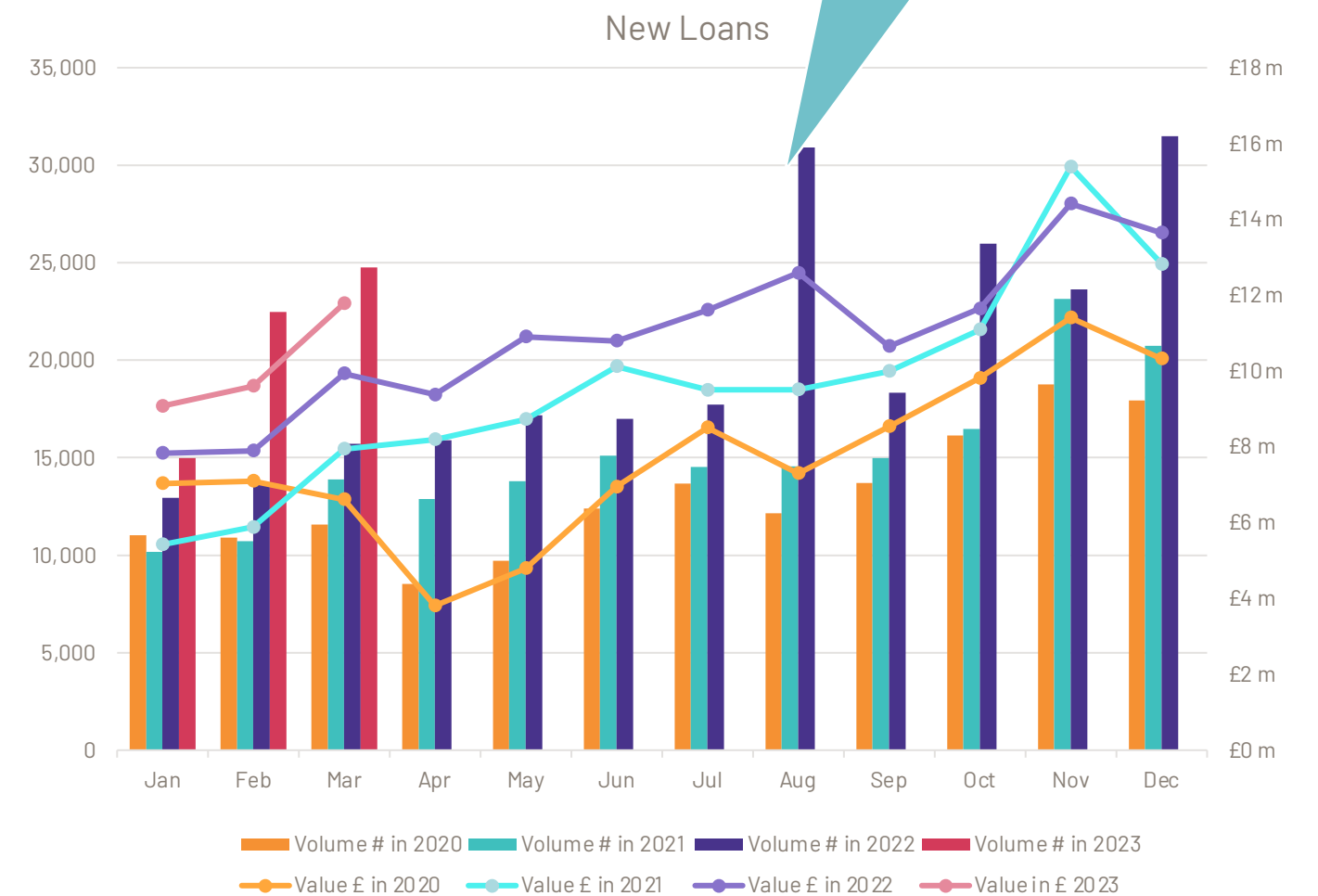
Combined lending **volumes** has **increased by 47% when compared to this time last year** and by 80% when compared to Q1 2021

Combined lending **values** across 20 organisations has **increased by 19% when compared to Q1 2022** and 58% when compared to Q1 2021

In line with seasonal trends, combined lending volumes and values decreased when compared to last quarter by 23%

On average, participating organisations were issuing **over 1000 loans a month in the last quarter**

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

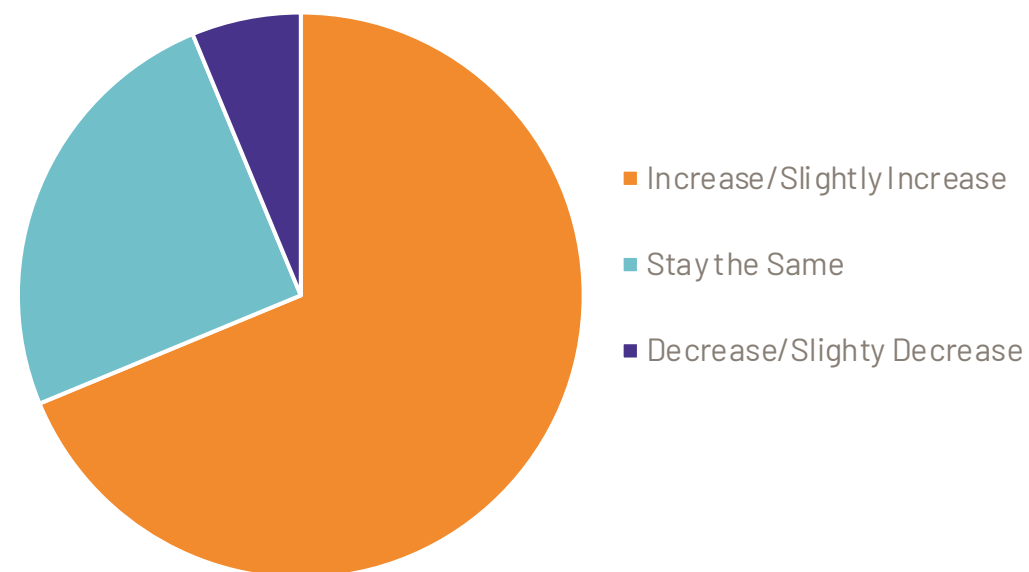


# Lending is expected to continue to increase in Q2

Whilst the majority of organisations anticipate an increase in lending in Q2 2023, most of these **expect lending growth to be modest**

According to respondents, members **affordability continues to affect loan acceptance rates**

In Q2 2023, We expect lending will...



'Lending has slowed, **members affordability has been impacted by the Cost of Living crisis**'

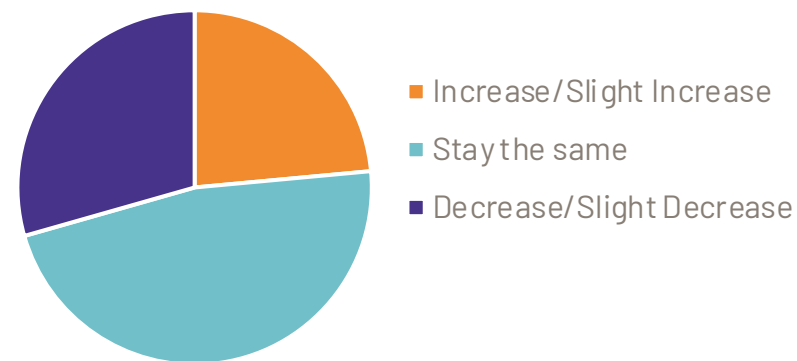
'We're hoping for a good quarter as we head into the Summer months and **lending has picked up again after a dip post Christmas**. We are growing in terms of **attracting a healthy number of new members**. We are still doing more loans that last year but for a smaller value'

'Expected increase in lending in the next quarter, January and February are generally quieter months. In March **we have seen an increase in lending and expect that to continue into Q2**'

'**Loan demand has been growing every month for over a year** and there are no signs that this is waning. The increased loan demand may have a **detrimental impact on lending capital as member saving has declined** in the financial crisis'

# The majority of respondents expect arrears will remain stable or decrease in the next quarter

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



47% of respondents expect their arrears to remain stable in the next quarter

As we have seen in previous quarters, where respondents anticipate an increase in arrears, a key factor has been the Cost of Living crisis and wider economic environment

2 respondents also noted their concern surrounding current spikes in Individual Voluntary Agreements (IVAs)

'We are **cautiously optimistic about arrears holding steady** but are aware that the external environment makes that a challenge'

'We have just implemented a workflow management system which **allows more effective tracking of arrears**. We pass on our 6 months plus arrears to our debt recovery agents which allow our staff to focus on early arrears'

'Still anticipate a rise in arrears - we are seeing **larger IVA's hit and have concerns over how these are sold by an unregulated market**'

'We expect some stability and any increase to be small, **going into Q2 heating bills may start to reduce which could ease the squeeze on peoples finances slightly**'

'I'm optimistic that the **worse months are behind us** and members will be able to pay more towards the debts over the summer'

'Expect arrears to **increase slightly as (higher risk) new lending has been strong in the past quarter**. Underlying risk per customer type has been well managed and is in line with target. Note ongoing pressure from wider economy and cost of living crisis, which could affect payment profiles'



# Continued support for customers in vulnerable financial circumstances

**93% of new loans issued in Q1 2023 were equal to or below £1k and 82% had a repayment period of 52 weeks or less**

Volumes and values of loans equal to and under £1k have increased by 53% and 41% when compared to Q1 2022

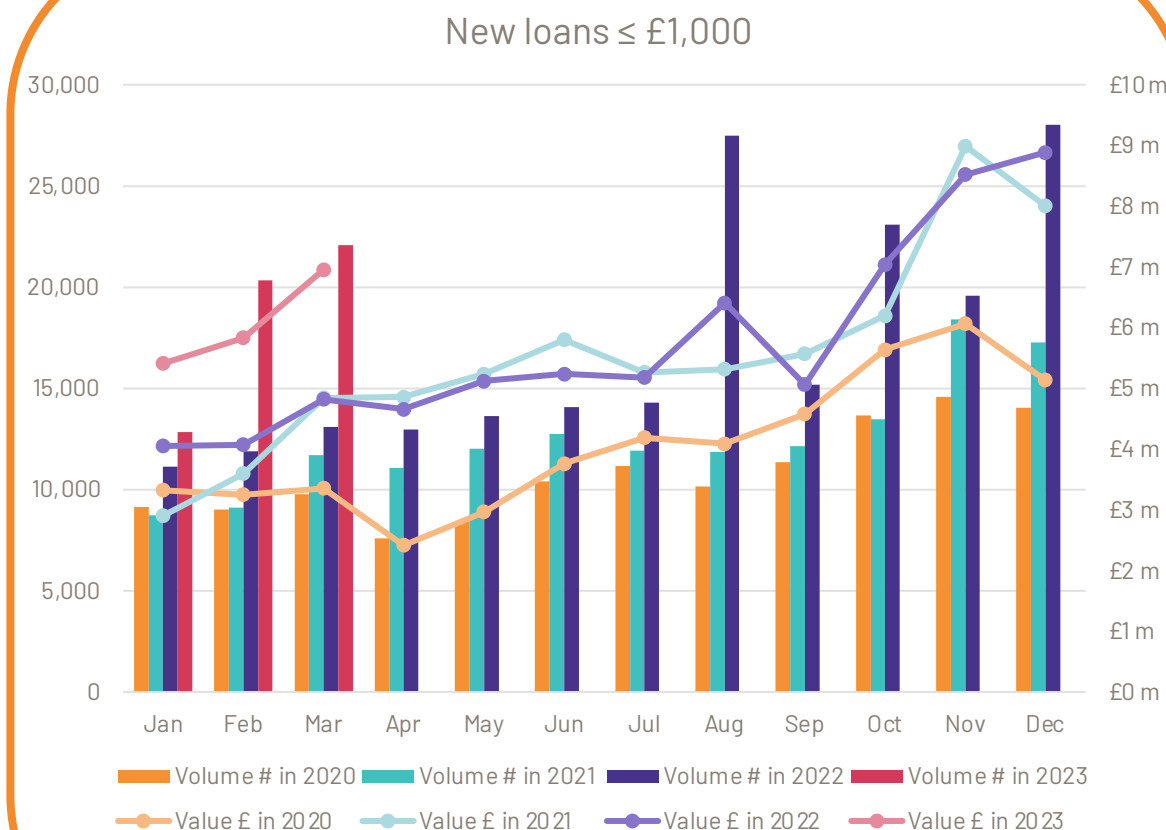
On average **47% of new loans issued were to social housing tenants** in Q1 2023 and **44% were to lone parents with dependent children\***

In Q1 2023, the average loan value to lone parents with dependent children was £768 and for social housing renters it was £862

'We understand anecdotally from brokers that we consider **lending to customers who have no alternative**, giving access to credit that would otherwise not exist'

'We are doing many more smaller loans to help people get by. Jan to March 2023 the **% of loans granted for £500 or less increased from 55% to 69%**'

'We have focused on debt consolidation, trying to **help members free up some cash to help with the cost of living crisis**'



'This company has been a **lifeline for my family when I am currently off work due to ill health**. Very fast and helpful communication. 5 stars all round'

'Every mother's best friend when times are hard or **something out of your control will cost you money** and you find yourself broke. They are there to help, they have **really helped me in some of the darkest times**'

'The company has always been a **good way for me to save** and provides me with extra help when needed'