

# **Building better financial resilience for tenants and customers**

## **Community finance, housing associations and local authorities**

28 September 2023

# What we are covering today

- 12.30 Introducing Fair4All Finance
- 12.35 The market and community finance
- 12.40 The case for partnership
  - 12.50 Perspective from the FCA
  - 1.00 Perspective from community finance
- 1.10 Fair4All Finance pilot initiatives
- 1.15 Summary and next steps
- 1.20 Q&A

## Housekeeping

- We are recording the session
- Any questions please do add them to the Q&A and we'll come back to them at the end



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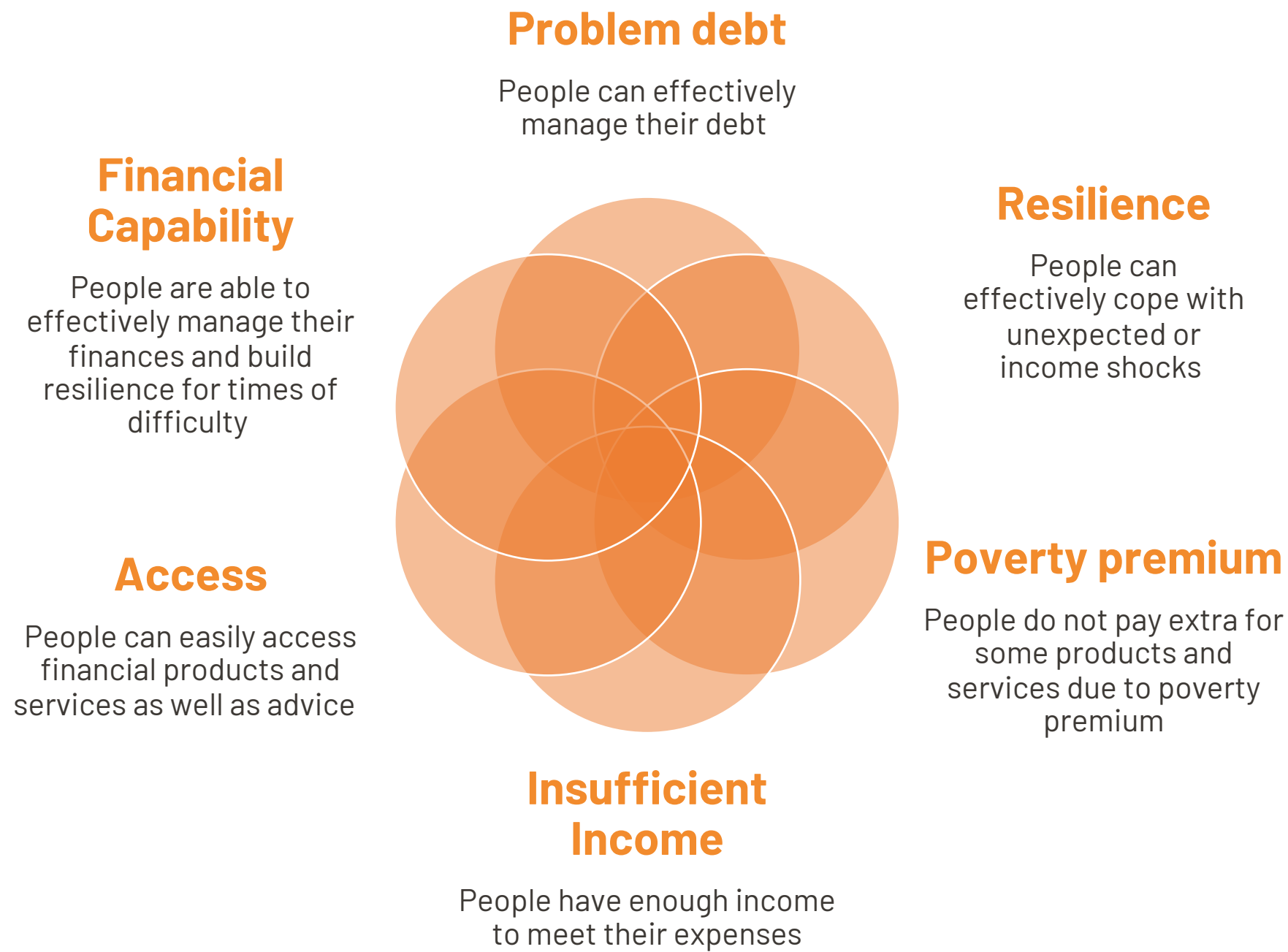
COO, NEfirst  
Credit Union

# Hello!

## Why we exist

**There are 17.5m adults  
in the UK with low  
financial resilience**

# Financial inclusion **defining the underlying issues**



**Financial Inclusion** means that individuals regardless of their background, income or personal circumstances are aware of and have timely access to appropriate and affordable financial products and services which enable them to manage their finances day to day, build their long-term financial resilience and wellbeing and participate in society

# Our mission: **Increasing financial inclusion**

We're a not for profit funded by the Dormant Assets Scheme, set up to **increase the financial resilience and wellbeing of people in vulnerable circumstances** by increasing the availability of fair and accessible financial products and services - in three main ways:



**Expand the provision of affordable credit**



**Partner with banks and financial services providers to increase provision of services**



**Develop new products and services to address market gaps**

# The market and community finance

# Social renters **have lower financial resilience**

**83%** have no savings,  
compared with 45% of the  
rest of the UK

**73%** cannot meet the  
cost of an unexpected bill

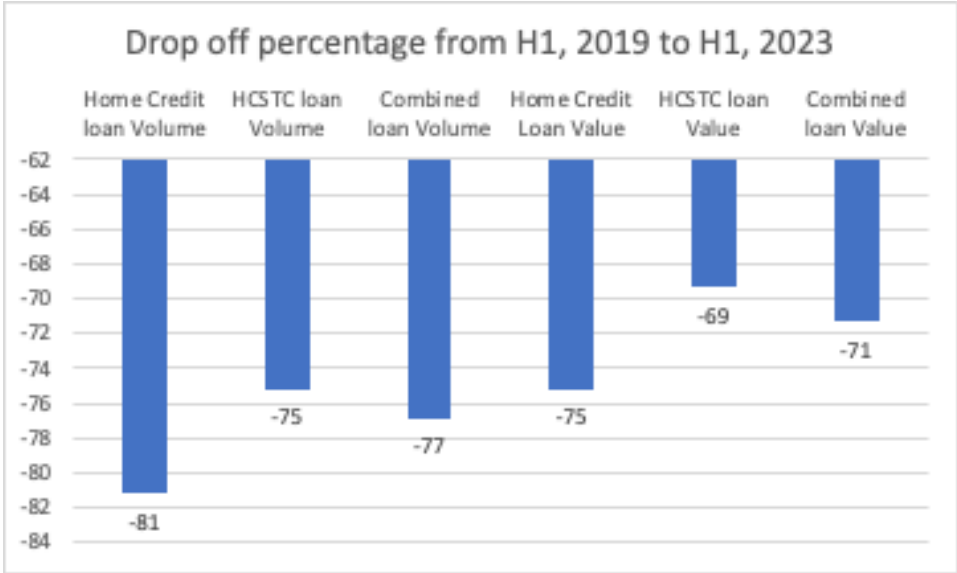
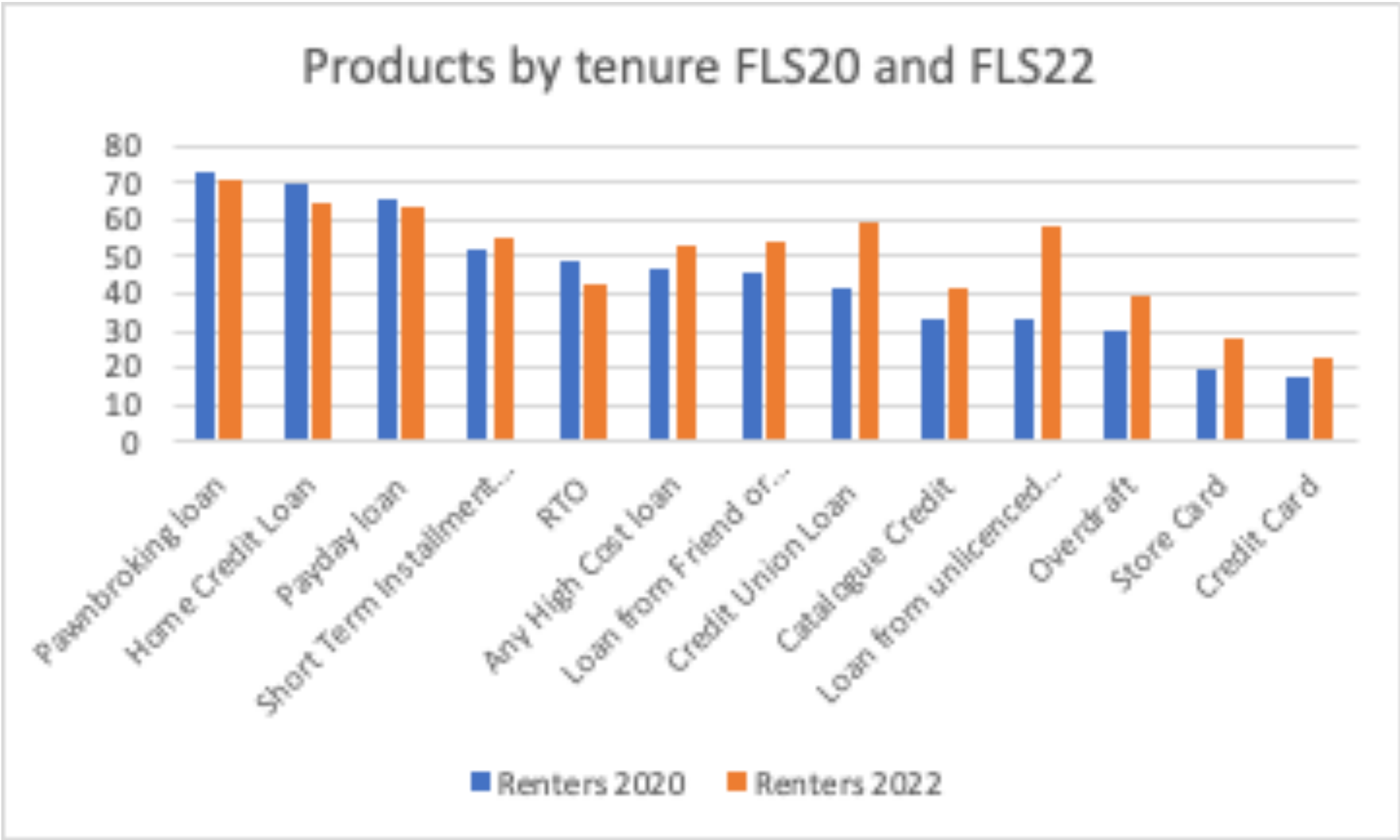
**22%** of people live in  
poverty in UK, 46% of  
social renters do

**Social Renters more likely  
to be refused credit**

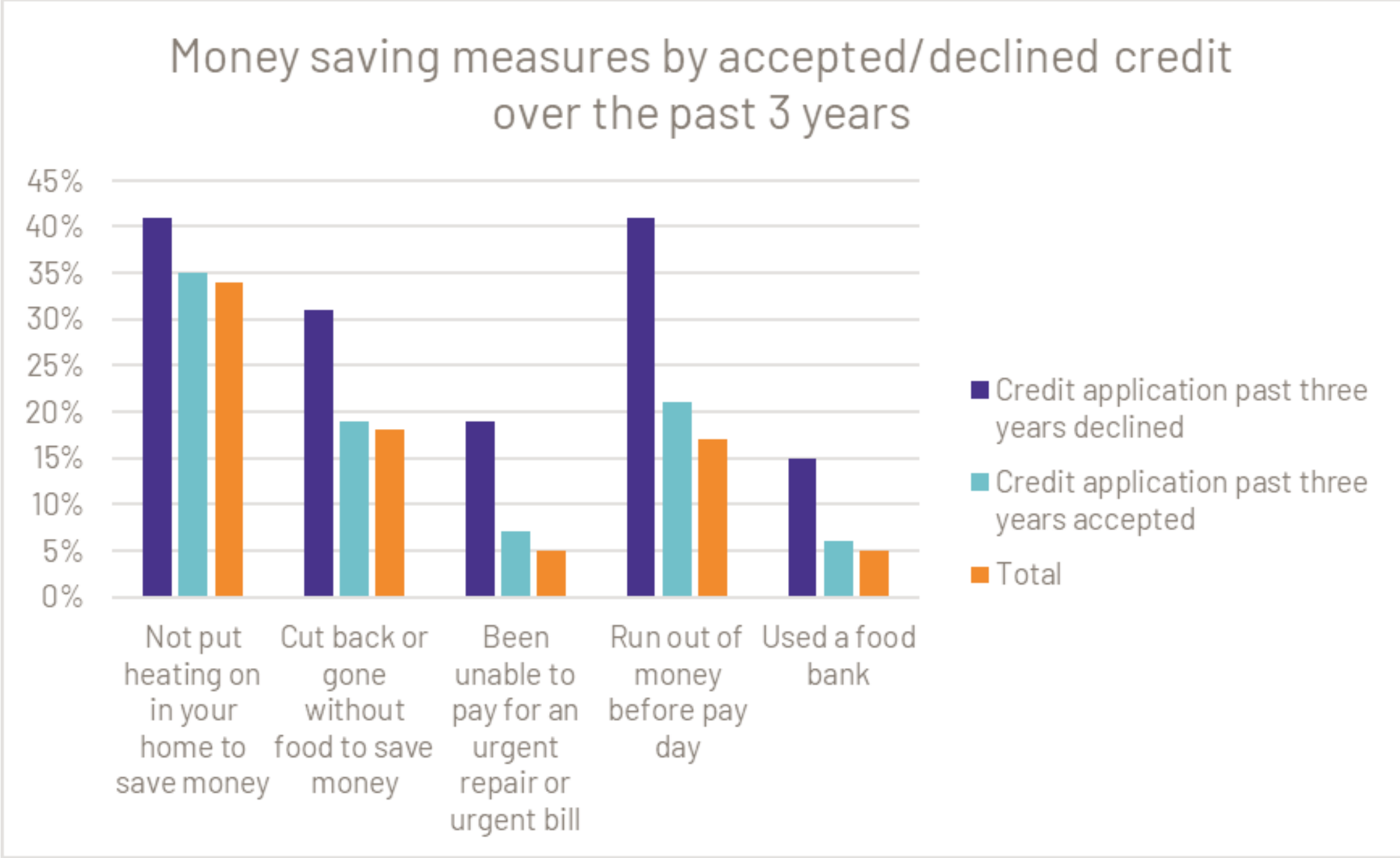


# Doors closing on renters' ability to borrow legally

Home Credit and HCSTC down by nearly 2 million loans, over £500million comparing H1, 2019 with H1, 2023



# Being declined from credit has increased negative impacts relating to the cost of living



- People will still need access to credit
- In P3Y only 14% of credit approved were social housing tenants\*

Source: Ipsos MORI for Policis January 2023. Base: Adults 18 - 75. Total: 2547

Source: IPSOS Jan 2023 survey for Fair4All Finance, unpublished

# Community finance **responsible and affordable** providers of financial products, services and support

## Credit Unions

- 1.9 million adult members in UK **(Eng. 900,000)\***
- Savings deposits held of £3.8bn in UK **(Eng. £1.3bn)\***
- £1.9bn loans to members in UK **(Eng. £900m)\***
- Common bond and **price capped**

## CDFIs

- 20 enterprise lenders and **handful personal lenders**
- Core activity is **loans. Cannot hold deposits**
- Mostly **small sum, short term** to low income h/holds
- **No common bond, not price capped**

## Social Fintechs

- New providers such as payroll lending, salary advance and other affordable lending **enabled by technology**
- **No common bond, not price capped**

All ethical community finance lenders whose aim is to **serve their customers** and deliver **positive social impact**

# Community finance - responsible and affordable providers of financial products, services and support



**Community finance organisations currently deliver around £400m affordable credit to customers in vulnerable financial circumstances**

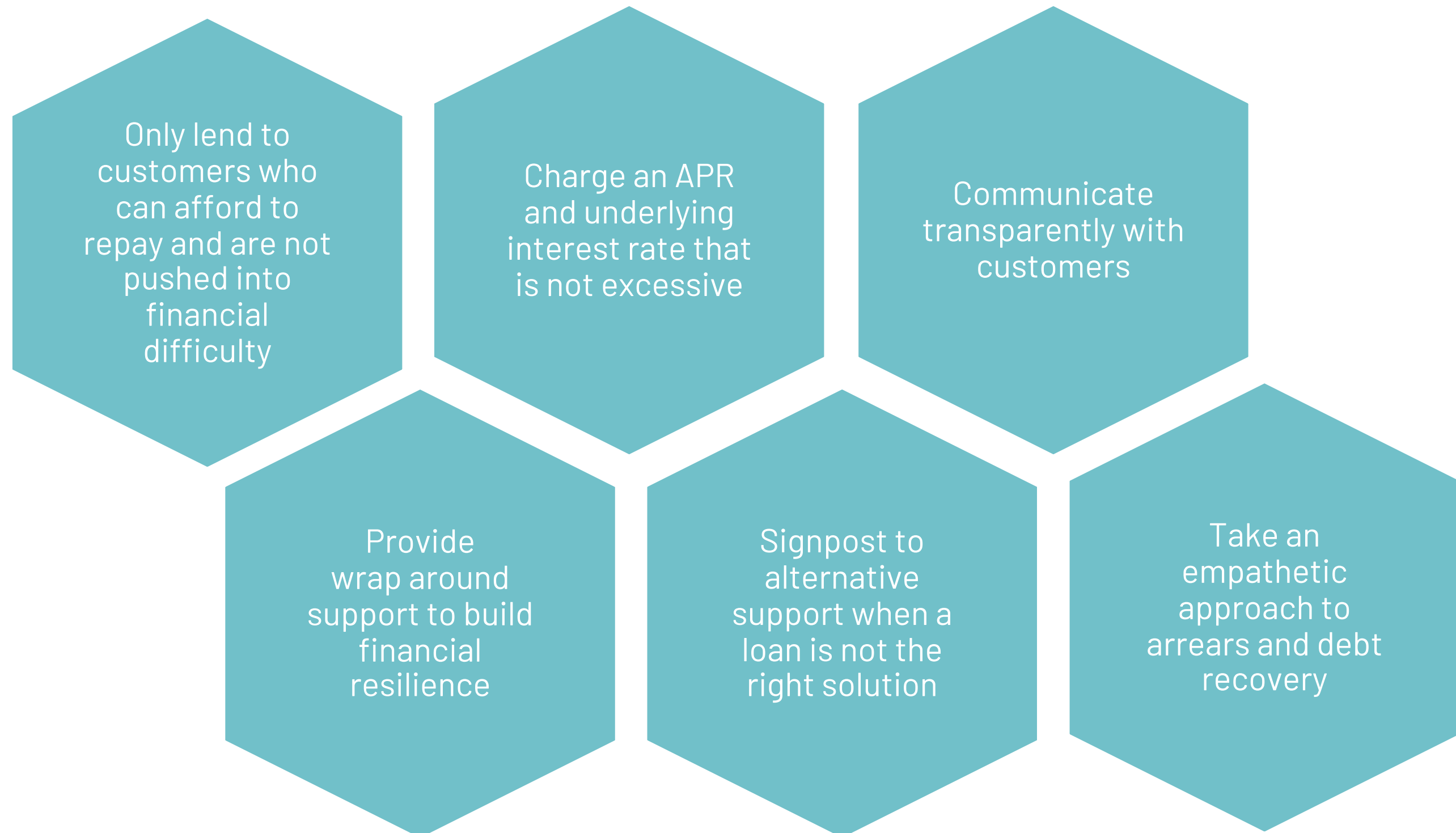
## Credit Unions

Delivering c£300-350m in England through c160 organisations

## CDFIs

Delivering £45m through 5 organisations

# Affordable lending and responsible practices

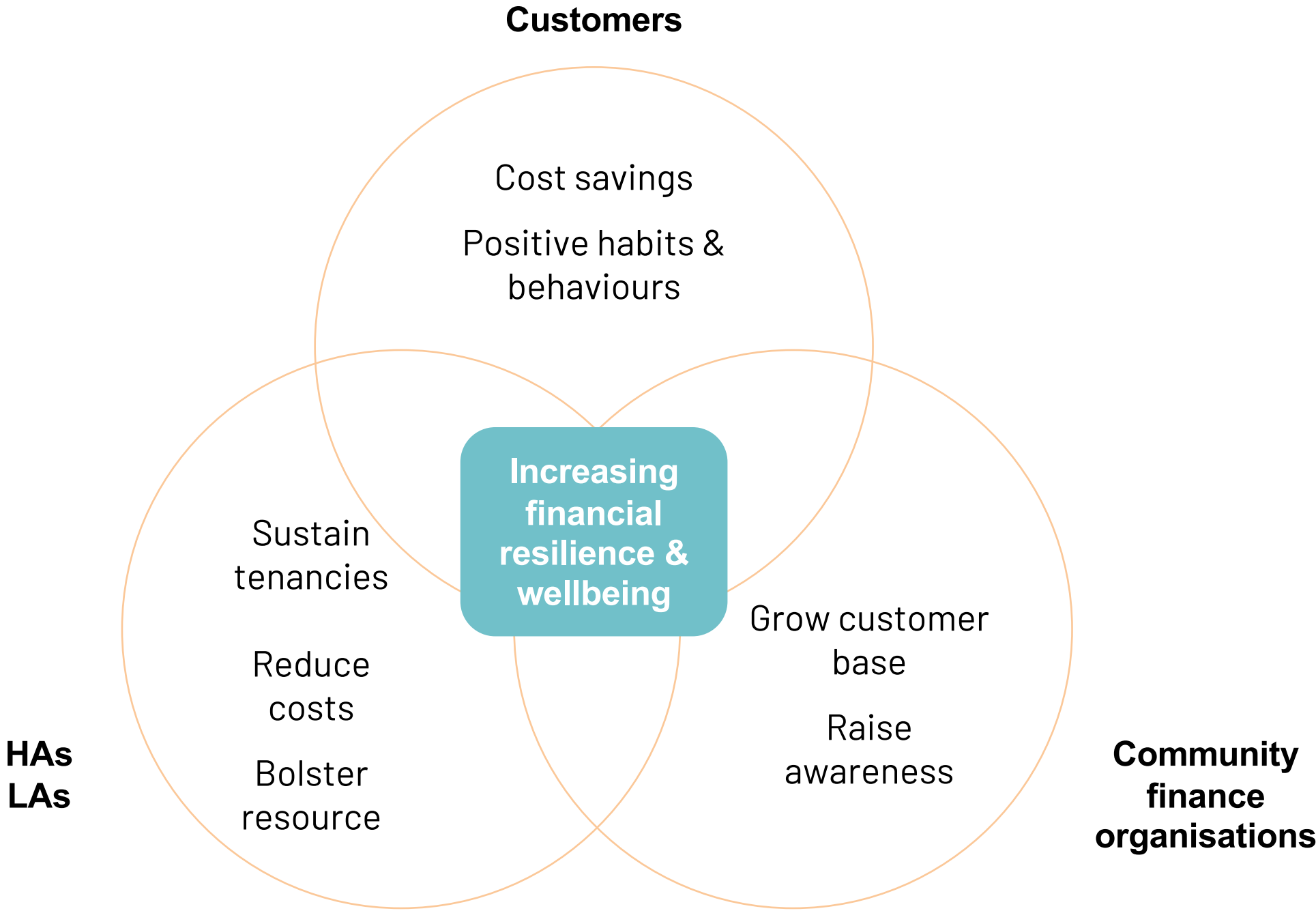


# The case for partnership

# A natural alignment of customers and a shared social purpose to support their wellbeing

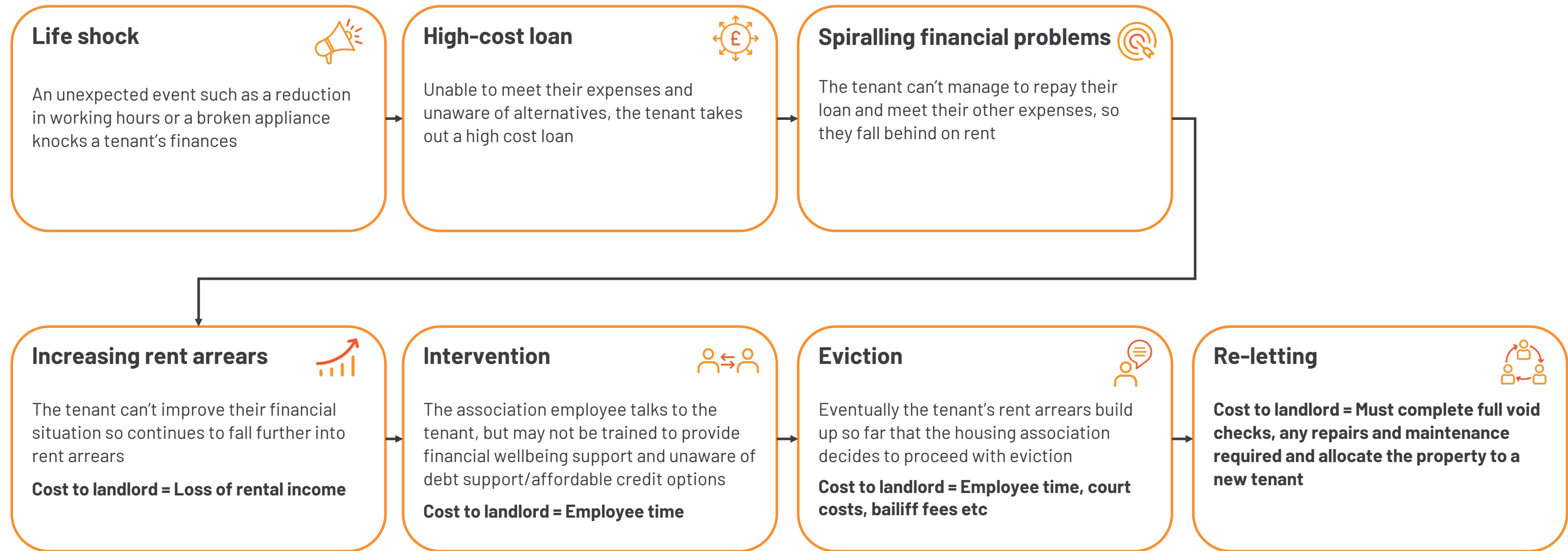


# Referral partnerships also offer individual benefits for all sides

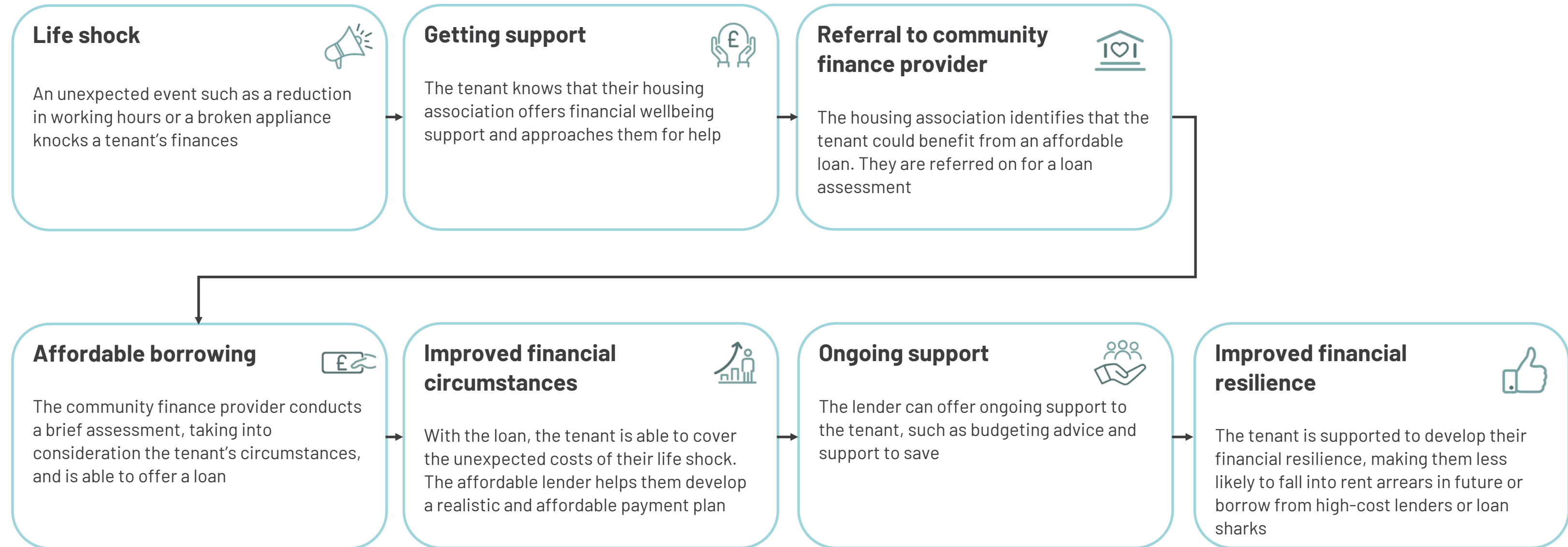




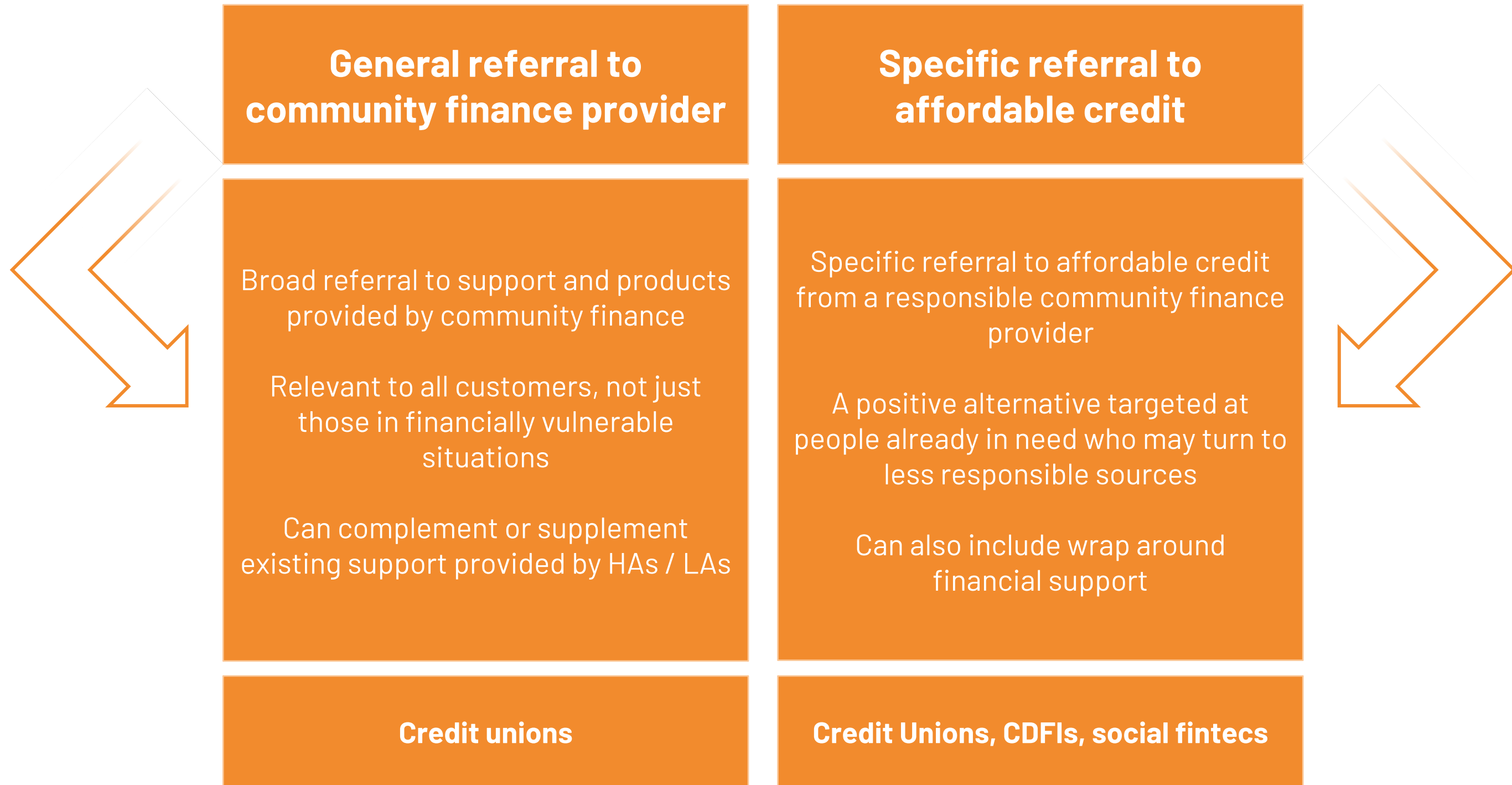
# Illustrative tenant journey negative outcome



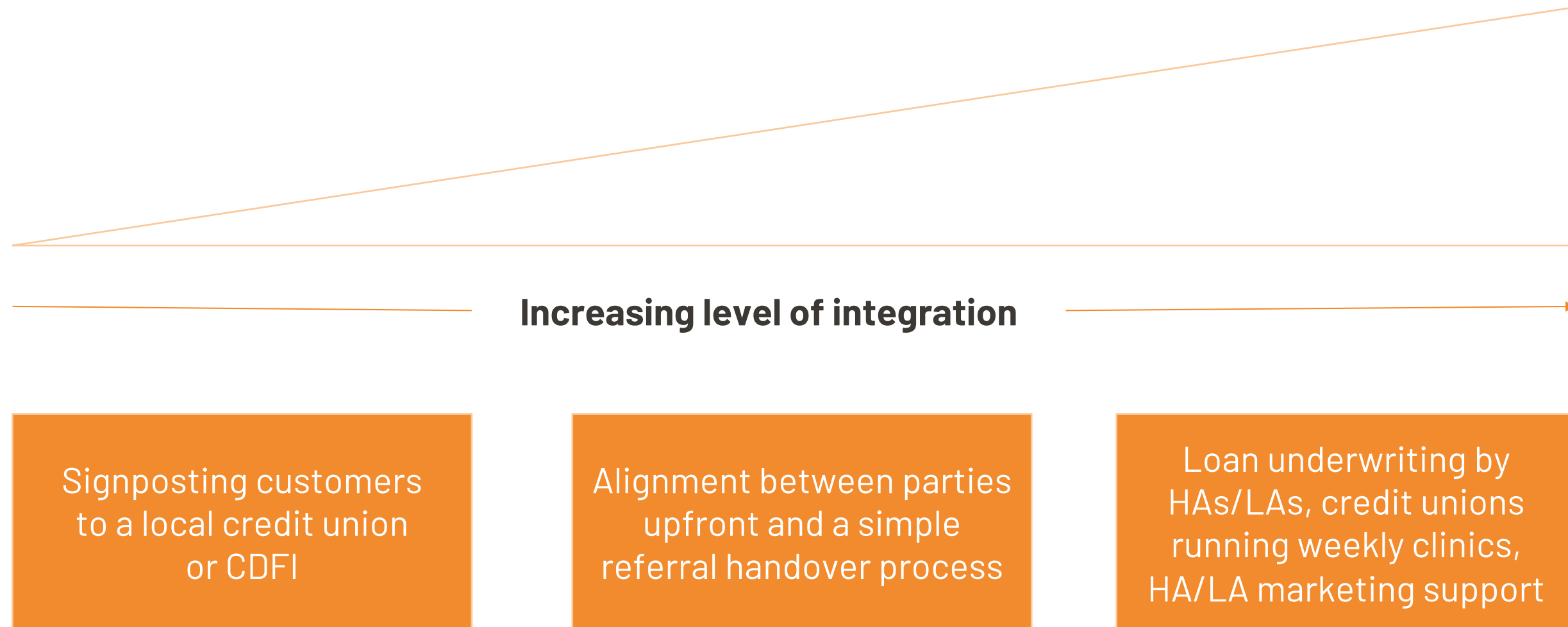
# Illustrative tenant journey positive outcome



# Two categories of referral partnership



# You can choose the level of integration and involvement



# The perspective from the FCA



Terry Denness

FCA

# Credit Broking as defined by legislation

Legislation captures six types of activities as credit broking.

3 activities can be credit broking, regardless of whether the broker received a fee or other form of financial consideration	3 further activities are credit broking <u>if the broker receives a fee</u>
Effecting an introduction of an individual who wishes to enter into a credit agreement to another person, with a view to that person entering as lender into a credit agreement by way of business	Presenting or offering an agreement which would (if entered into) be a credit agreement
Effecting an introduction of an individual who wishes to enter into a consumer hire agreement to another person, with a view to that person entering as owner into a consumer hire agreement by way of business	Assisting an individual by undertaking preparatory work with a view to that person entering into a credit agreement
Effecting an introduction of an individual who wishes to enter into a credit or a consumer hire agreement to a person who carries on activity in either of the aforementioned activities by way of business (in other words, to another credit broker)	Entering into a credit agreement on behalf of a lender

# Example referral activities

When referral activities are <u>NOT</u> credit broking:	When referral activities are <u>LIKELY</u> to be credit broking:
<p>Providing general information on your website about services available from credit providers such as credit unions or CDFIs <b>but without (expressly or by implication) identifying or recommending a specific provider or giving any contact details</b></p>	<p>Referring a tenant to or recommending a specific credit provider such as a local credit union or CDFI <u>for a fee</u></p>
<p>Referring a tenant to a local charity or community organisation that gives <b>free household goods</b> to people <b>(and does not also act as a credit provider, credit broker, or provider of goods on hire)</b></p>	<p>Referring a tenant to or recommending a specific credit broker</p>
<p>Referring a tenant to a seller of goods <b>(who does not also act as a credit provider, credit broker, or provider of goods on hire)</b>, e.g. a second-hand furniture shop</p>	<p>Providing details to the tenant for contacting a credit provider or broker</p>
	<p>Taking the lead in calling a credit provider or setting up a meeting on the tenant's behalf</p>
	<p>Referring a tenant to or recommending a provider of goods on hire</p>

# Referral activities that are exempt from FCA authorisation

Since changes to Regulated Activities Order 2001 (RAO) came into effect in July 2019, registered social landlords (RSLs) can refer tenants, or potential tenants, to some credit activities without requiring authorisation from the FCA.

RSLs can only refer without FCA authorisation where:

1. the activity concerned is effecting an introduction of an individual **who wishes to enter into a credit agreement**
2. the introduction is to a **credit union, community benefit society, registered charity (or subsidiary of a registered charity), community interest company limited by guarantee or subsidiary of an RSL**, and
3. the introduction is provided **fee-free**, i.e. the RSL receives no fee

If you are unsure of if you are engaged in credit broking activity, you can contact the FCA's specialist team at [RSL@fca.org.uk](mailto:RSL@fca.org.uk) who can provide individual guidance.



# PERG 2.9.23G – Exclusion for local authorities

Per our Perimeter Guidance in [PERG 2.9.23G](#), local authorities are excluded from the legal requirement to be authorised for most credit-related regulated activities, including credit broking.

## Local authorities that qualify for exemptions include:

County Councils	London borough councils	the Council of the Isles of Scilly
District Councils	The Greater London Authority	in Scotland, a local authority within the meaning of the Local Government (Scotland) Act 1973
Unitary Councils	the Common Council of the City of London	in Northern Ireland, a district council within the meaning of the Local Government Act (Northern Ireland) 1972

Firms owned by a local authority carrying on consumer credit activities will need full authorisation.

# Further guidance

Whether or not an activity involves credit broking depends on the specific circumstances of the case

- Today's examples are intended to give an overview of what constitutes credit broking
- For further guidance we have set up a specialist team which you can contact at [RSL@fca.org.uk](mailto:RSL@fca.org.uk)
- We may be able to provide individual guidance through this channel, if you are able to provide details of the activities you plan to undertake
- You may wish to consider whether you wish to become the appointed representative of a credit union or CDFI.

# A perspective from community finance



Joanne Angus

NEfirst Credit Union



NEfirst Credit Union operates across the North East of England providing communities with accessible, ethical and affordable savings and loan products.

## Partnerships

We appreciate the importance of partnerships and have created an ecosystem of partnerships with many Local Authorities, Housing associations, local charities and businesses.

### Partner organisation “No interest referral loan schemes”.

- Durham County Council
- Believe Housing
- Livin Housing
- Fair4All Finance





### **Partnership Loan Schemes in practice**

Simple referral from an officer within the partner organisation or a Credit union decline can be referred to one of the partner schemes if appropriate.

Benefits are huge for all parties concerned.

### **Advice to anyone thinking about a Partnership**

- Ensure the benefits of an affordable loan are communicated to front line partner officers and regular communications are diarised
- Keep it simple we attempted an online Portal referral system however this takes time to implement and can have issues with password expiration etc. What has worked for us is a simple referral form emailed to the credit union

We have successfully granted loans of approx. £170,000 with zero interest. If we were to apply a rate of 79.9 APR (Rates can be much higher for our members) the interest would amount to just over £82,000.

We can therefore say that we have probably saved members in excess of £100,000 in interest payments. More money in their pockets and more money in the local economy.

# Fair4All Finance pilot initiatives

# No Interest Loan Scheme (NILS) pilot

# No Interest Loan Scheme (NILS) pilot

A government backed scheme, NILS loans are helping people who otherwise couldn't access affordable credit to overcome temporary hurdles, manage unexpected life events and get back on their feet

## NILS loan product

- £500 average, £2000 maximum
- Available to people who are not eligible for the lender's standard interest bearing loans but can afford to repay small sums
- Income maximisation (benefits and grants checks) included in journey

## Emerging themes

- Return to work
- Building / repairing credit files
- School uniforms
- Debt consolidation
- Domestic abuse survivors
- White goods / essential items



# NILS pilot example use cases

## Support towards family member's funeral costs

**Lisa, single parent, recently bereaved**, raised most of the funds to pay for her brother's funeral from friends, but needed a £300 loan to pay for the rest

## Essential car repairs for travelling to work

**Craig, nurse, single parent**, needed a £1,000 loan for car repairs, which were essential for getting to his work in the NHS

## Upfront nursery fees to enable a return into employment

**Safia, single parent, two young kids**, was eligible for nursery fees to be reimbursed but needed a £350 loan to cover the upfront deposit required by the nursery



Hear Lisa tell her story on BBC Radio 4's Money Box

[www.bbc.co.uk/programmes/b006qjnv](http://www.bbc.co.uk/programmes/b006qjnv)

## Early NLS pilot **customer data**

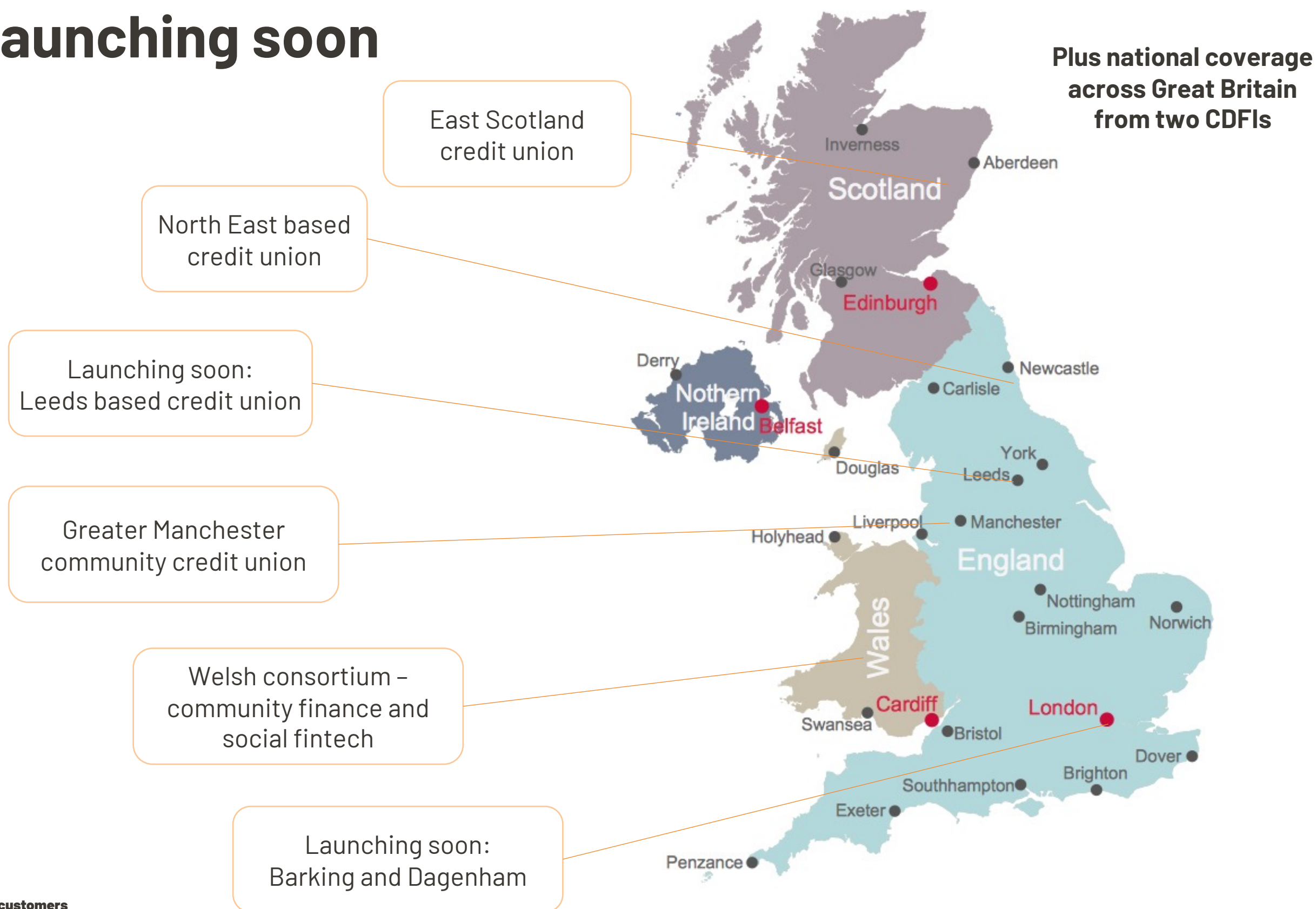
**53%** live in  
social housing and  
**32%** are private renters

**67%** are  
female

**78%** are  
under 45

**69%** are single  
and **55%** have  
dependents

# Six NILS pilot lenders live nationwide and two more launching soon



# Consolidation Loan Pilot

## Debt consolidation – an ongoing need

For some, debt repayments are a significant monthly expense. Where lending is affordable, consolidating and reprofiling debts over a longer term and/or moving to a lower interest loan can make a huge difference.

“Every month is a nightmare trying to work out how to pay everyone, feed my kids and still be able to afford to run my car and buy petrol to get to work”

**Leanne, divorced with two teenage children,** works full time for the DWP.

A messy divorce and ill health left her in a difficult financial position.

She had several high-cost loans with APR's ranging up to 1,333%

# Consolidation lending could **save borrowers significant amounts per month**

A total debt of £6,500  
(UK average) at 55%\* APR  
costs £681 per month  
over 12 months

**£681**

The same debt spread  
over 36 months  
would cost £331 per month

**£331**

The same debt at 12.7% APR  
spread over 36 months  
costs £216 per month.  
At 42.6% APR it costs £298

**£216-£298**

\* Based on Credit Union feedback for a borrowers wishing to consolidate loans with APRs that vary between 40%-69%

# Summary and next steps

# Summary **the case for collaboration**

## A customer need

17.5 people in financial vulnerable circumstances

Access to credit that allows them to navigate financial shocks and life events

Lack of mainstream options forcing people to borrow from friends, family or illegal money lenders

## A potential solution

Referrals partnerships that give people another option and potential access to:

Responsible and affordable credit

New products that could be transformative – NILs, Consolidation Loan

Wrap around financial support and products

## An encouraging environment

FCA exemption

Alignment of organisational values and objectives

Additional individual benefits for all involved



# What next?

Talk to us about setting up referral partnerships

[temi@fair4allfinance.org.uk](mailto:temi@fair4allfinance.org.uk)

Ask us about the No Interest Loans Scheme and Consolidation Loans pilots

[georgia@fair4allfinance.org.uk](mailto:georgia@fair4allfinance.org.uk)

Read our reports

[Unlocking tenant financial resilience](#)

[As one door closes – Experiences of illegal moneylending](#)

[Financial Inclusion Action Plan](#)

Use our resources

[17.5m customers in financially vulnerable circumstances segmentation](#)

Find your local [credit union](#) or [CDFI](#) and start a conversion

Watch out for the [next in the series](#) webinar – we would like to hear from you about what you need to practically setup a partnership

# Q&A

# Thank you